

To: John Barrett
Scott Manske
Other interested parties
From: Dave Ehlinger
Date: May 29, 2015 
Re: Court receivables in relation to funding for new sports arena

It is our understanding that the proposed funding package for building a new sports arena in Milwaukee is to be partially funded by the Wisconsin Department of Revenue collecting a portion of the past due court related receivables of Milwaukee County.

An article in the Milwaukee Journal-Sentinel dated 05-28-2015 stated *"In the most unusual feature of the deal, Milwaukee County would "certify" tens of millions of dollars in uncollected county debt. The county, in effect, would then count on the state to recover at least \$4 million of that debt a year for 20 years, a total of another \$80 million that would then be funneled to the arena project."*¹

The intent of this document is to analyze the extent of available funds within the Courts for this purpose.

EXECUTIVE SUMMARY

Making the assumptions that (A) Milwaukee County turns over 100% of all receivables to the Wisconsin Department of Revenue, and (B) that the Wisconsin Department of Revenue collects 100% of all receivable balances due, then approximately \$1.8 million **IN TOTAL** will be provided to fund the new arena. This is only about 2.2% of the \$80 million required.

Assumption A is not realistic, as the County recognizes revenue each year from the collection of receivables. This loss of revenue would have to be added to the tax levy, or additional revenue sources would have to be found. Assumption B is not realistic, as the chances of collecting a debt decrease as the debt becomes older.

¹ <http://www.jsonline.com/news/statepolitics/scott-walker-backs-arena-funding-proposal-b99508931z1-305326501.html>

Total Receivables

As of April 30, 2015, December 31, 2014, the total receivables were \$76.8 million (not included DOC Collects). Included in this amount is \$3.9 million for restitution receivables with a future due date. In other words, the debtor does not owe the County at this point in time.² The chart on a subsequent page recaps the historical TOTAL receivables for Milwaukee County Circuit Court at year-end for calendar years 2009 through 2014, along with data as of 4-30-2015. The next chart then details out the receivables on an aging basis.

It is important to note that Wisconsin Statute §973.20(12)(b) requires that payments received shall first be applied toward restitution so that victims of crimes are paid before the State and County receive any fines, surcharges, costs, and fees. Since the restitution funds go directly to crime victims, these restitution receivables cannot be included in any amounts that can potentially pay for the arena project.

The reader will note that accounts receivable spiked beginning in 2013. This is because Milwaukee County Clerk of Circuit Court worked with our current collection agency who agreed to accept a zero percent (0%) commission on restitutions. This allowed victims to be fully reimbursed for their costs as well as ensuring that payment priorities as dictated in the Wisconsin Statutes were followed. The receivables were adjusted beginning in 2013 to reflect those restitution receivables. As of April 30, 2015, the currently-due restitution amounts are \$43.2 million.³ This amount also needs to be deducted from the \$76.8 million total receivable.

Receivables classified as DOC (Department of Corrections) Collects are also not included in the totals. This is because the DOC, rather than Milwaukee County, is legally obligated to collect the debt. In addition, because the DOC does not update the Clerk of Circuit Court about payments made until the debt has been released from incarceration and/or probation, we have no reliable way to determine the true outstanding balance for these items.

From this net amount of \$29.7 million, we now look have to look at the split between State and County.

² CCAP-1175, Receivables Audit Report

³ CCAP, Financial Application, view assessments, Code RE & RHT

State v. County split

As per the various Wisconsin Statutes, portions of various charges, fines, surcharges, costs, and fees are split between the State of Wisconsin and the County. These split allocations are often adjusted with each biennium State budget. Based upon an analysis of the monthly ST-83 Monthly Treasurer reports provided to the State of Wisconsin, the percentage of County revenue has been decreasing.⁴

Description	2009	2010	2011	2012	2013	2014
County revenue, civil & criminal/traffic	4,537,689	4,650,646	4,564,145	4,308,117	3,685,679	2,874,217
State revenue, civil & criminal/traffic	15,330,780	15,487,161	14,438,494	13,948,947	12,739,751	11,739,410
Total revenue	19,868,449	20,137,807	19,002,639	18,252,064	16,425,430	14,613,627
County revenue as % of total revenue	22.8%	23.1%	24.0%	23.6%	22.4%	19.7%
Rolling 3 year average			23.3%	23.6%	23.3%	21.9%
Rolling 5 year average					23.2%	22.6%
State, Criminal Division revenues	8,502,598	8,744,886	8,111,010	7,738,388	7,052,565	6,526,098
County, Criminal Division revenues	688,777	703,087	696,311	649,611	531,043	418,862
Total Criminal Division revenues	9,196,375	9,447,973	8,807,321	8,387,999	7,583,608	6,944,960
County revenue as % of total revenue	7.5%	7.4%	7.9%	7.7%	7.0%	6.0%
Rolling 3 year average			7.6%	7.7%	7.6%	6.9%
Rolling 5 year average					7.5%	7.2%
Memo: Criminal Division also includes Traffic related activities						

⁴ G:\FISCAL\ST-83 Monthly Treasurer Recaps\ST-83 analysis.xlsx

Because Civil activity is paid at the time of filing cases, there are no receivables to speak of relating to Civil activity. As such, all the receivables relate to Criminal activity. Each revenue activity code within CCAP was looked at to determine how the revenues are allocated between the State and County. In the case of CCFP, CFP, CSS, and JINFO codes, these revenues can be both Civil and Criminal. The revenue was allocated for each year based upon total cases opened each year.

It is reasonable to assume that we should use the most recent year (2014) as the revenue split between the State and the County. It is also reasonable to assume that the proposed State budget for July 2015 through June 2017 will not lower the amount of State revenue. As such, we need to apply the 6.0% rate against the non-restitution receivable amounts to further reduce the maximum amount of receivables that can be used to pay for the arena project.

Total receivable as per CCAP report, 04/30/2015	76,834,158			
Less restitution receivables included above, future due date	(3,887,763)			
Less restitution receivables, codes RE and RHT	(43,249,274)			
Net non-restitution receivables	29,697,121			
Clerk of Circuit Court criminal revenue retention rate	6.0%			
Maximum revenue available for arena funding project	1,781,827			
Goal as per newspaper article	80,000,000			
Percentage of goal attained (assuming 100% collection rate)	2.2%			

From this figure, we now have to look at collection rates.

Collection rates

The chart below the next page details out the historical aging of non-restitution receivables as per the CCAP software. As you can see, the software only has aging categories through 60 months.

Our best indicator regarding how we collect on receivables as they age comes from the analysis of TRIP (Tax Refund Intercept Program) payments received.⁵ The majority of collections through TRIP occur January through May because income tax returns must be filed with the Wisconsin Department of Revenue by April 15th of each year. As such, it is reasonable to include calendar year 2015 collection data when calculating the most recent three-year average collection rates.

Since TRIP provides more “aging” data on payments than CCAP does, it is reasonable to apply TRIP collection rates against the County portion of non-restitution receivables. The chart below details the three-year average collection rate on a cumulative basis.

Case Year	Percent	Cumulative Percent	Reverse Cumulative	County Portion of Non-Restitution Debt	Resulting Maximum	Cumulative Maximum	Reversed Maximum
Current case year	0.4%	0.4%	100.0%	1,781,827	7,127	7,127	1,781,827
Current case year plus 1	15.8%	16.2%	99.6%	1,781,827	281,529	288,656	1,774,700
Current case year plus 2	13.9%	30.1%	83.8%	1,781,827	247,674	536,330	1,493,171
Current case year plus 3	11.5%	41.6%	69.9%	1,781,827	204,910	741,240	1,245,497
Current case year plus 4	9.4%	51.0%	58.4%	1,781,827	167,492	908,732	1,040,587
Current case year plus 5	7.7%	58.7%	49.0%	1,781,827	137,201	1,045,932	873,085
Current case year plus 6 to 10	25.3%	84.0%	41.3%	1,781,827	450,802	1,496,735	735,885
Current case year plus 11 to 15	13.1%	97.1%	16.0%	1,781,827	233,419	1,730,154	285,092
Current case year plus 16 to 20	2.2%	99.3%	2.9%	1,781,827	39,200	1,769,354	51,673
Current case year plus 21 to 25	0.3%	99.6%	0.7%	1,781,827	5,346	1,774,700	12,473
Other	0.4%	100.0%	0.4%	1,781,827	7,127	1,781,827	7,127

⁵ G:\FISCAL\Tax intercept files\2015\Tax Intercept Recap 2015.xlsx

The CUMULATIVE MAXIMUM column details the maximum amount of revenue that could be applied to the arena project funding. However, it is important to note that every County revenue dollar that the State of Wisconsin retains for the arena funding means that same dollar amount is no longer available as Milwaukee County revenue. Given the current levy limits under Wisconsin Statute §66.0602, it is reasonable to assume that Milwaukee County CANNOT absorb this lost revenue.

As such, the column highlighted in yellow shows the effect of the project funding as the oldest receivables are applied to the arena funding project. It will be up to the elected officials of Milwaukee County to determine the amount they are comfortable with potentially increasing budgetary needs of the various departments of Milwaukee County.

Past and Continuing Efforts

Multiple efforts have been taken in recent years to help increase collections, and thus revenues for Milwaukee County. As a result of these efforts, TRIP collections dollars increased by 13.1% from 2013 to 2014.

- A large reconciliation project began in August 2013 to ensure that all receivables in CCAP equaled the receivables at our collection agency.
- Internal controls were put in place at Milwaukee County to confirm that daily submissions to the collection agency were acknowledged for the same amount.
- Internal controls were put in place at our collection agency to ensure that all receivables were entered in the TRIP system with the Wisconsin Department of Revenue.
- In April 2015, a random reconciliation review between CCAP data and collection agency data revealed that adjustments were needed for internal controls related to those receivables with bankruptcy stays.

Prospective Additional Costs

Should Milwaukee County decide to transfer any portion of the receivables to the Wisconsin Department of Revenue (DOR) for collection, it is anticipated a number of additional costs will be incurred.

- Programming the CCAP system to separate revenue assigned to the arena funding project versus normal monthly revenue for collection of prospective activity on the ST-83 report (monthly report to the County Treasurer).
- Programming the interface for claim submission from CCAP to DOR.
- Programming the required two (2) notification letters sent to each potential debtor before debts are certified to the DOR. (Note—This cost is currently borne by our collection agency as per the contract with them.)

- Postage for sending the required two (2) notification letters sent to each potential before debts are certified to the DOR.
- Staff time to reconcile receivable records between CCAP and DOR after the bulk transfer of receivables has been made.

Multiple documentation and graphs are included as supporting information for this analysis.

If you have any problems or questions regarding this analysis, please feel free to contact me.

Respectfully submitted,



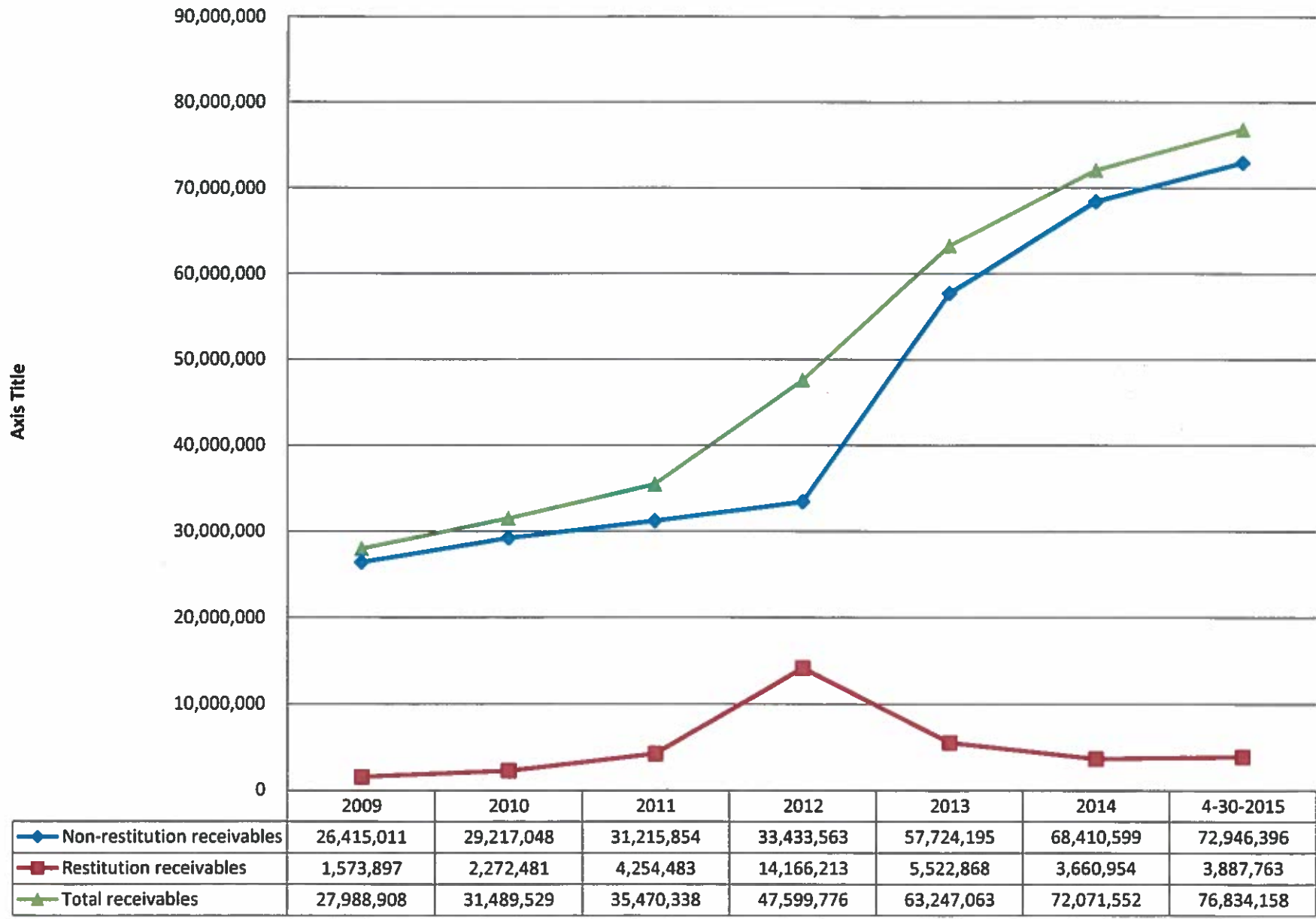
David P. Ehlinger, CPA

Fiscal Operations Administrator – Courts

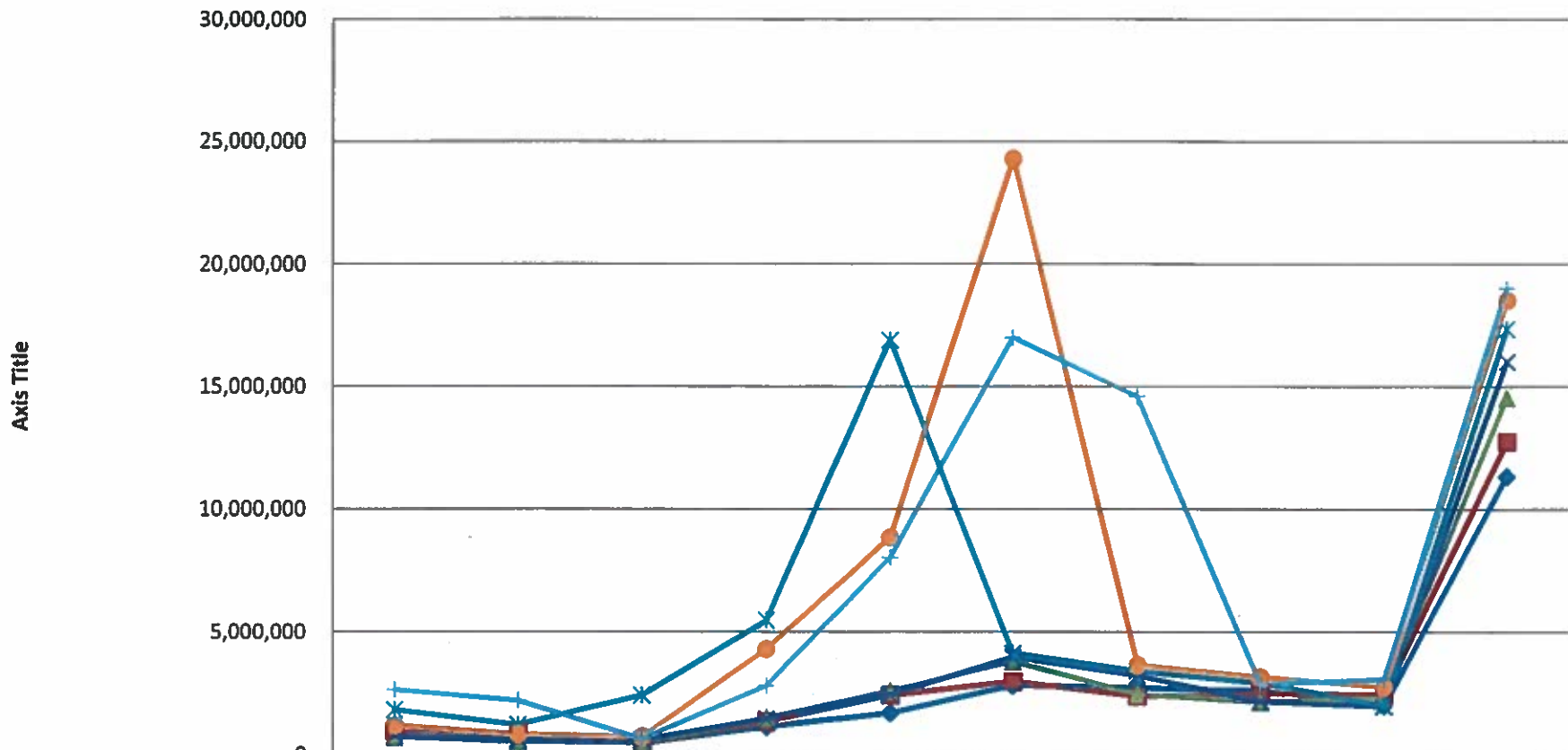
414-278-4635

Dave.Ehlinger@wicourts.gov

Milwaukee County -- Receivables by Year

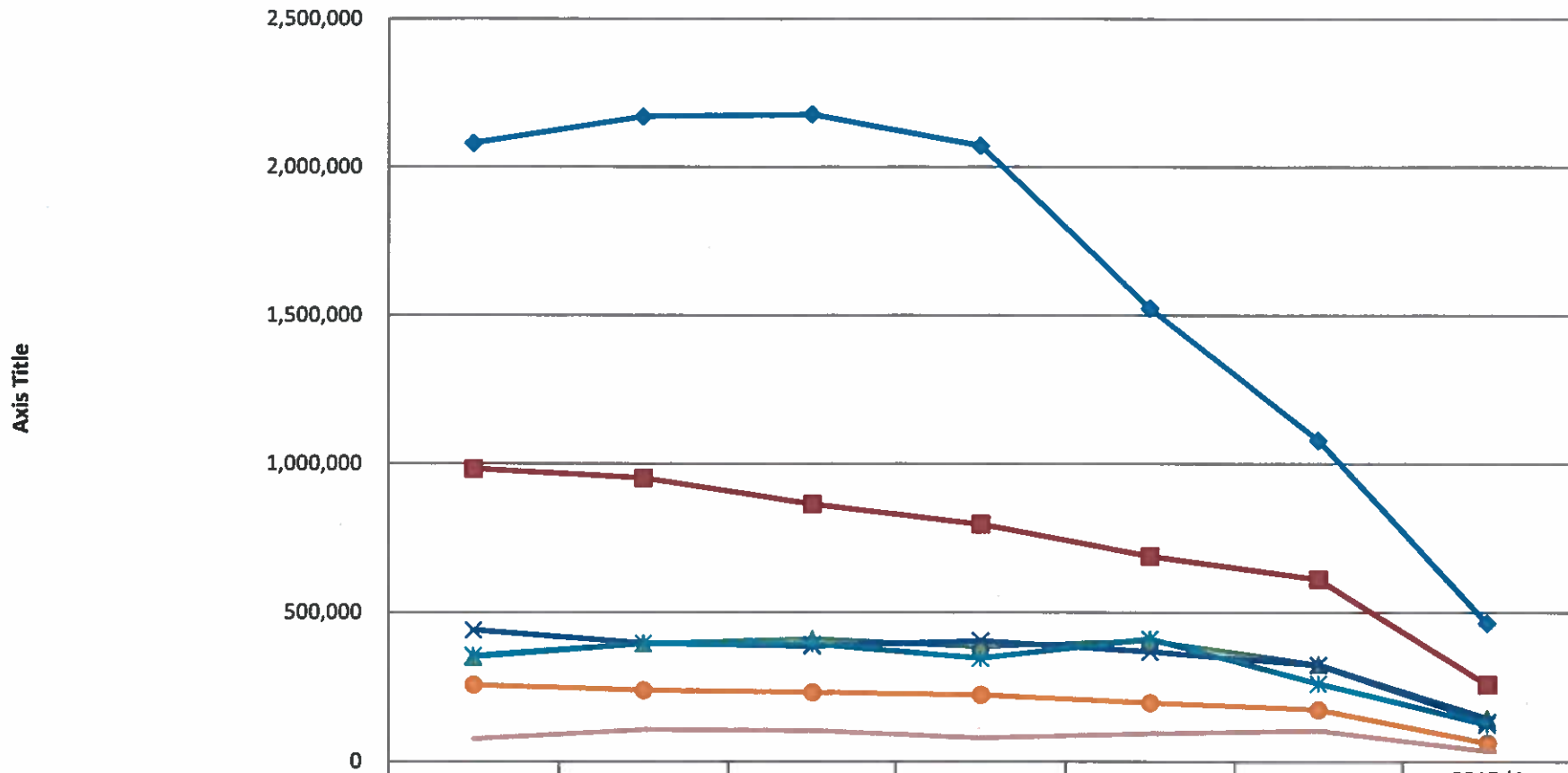


Milwaukee County -- Aged non-restitution receivables



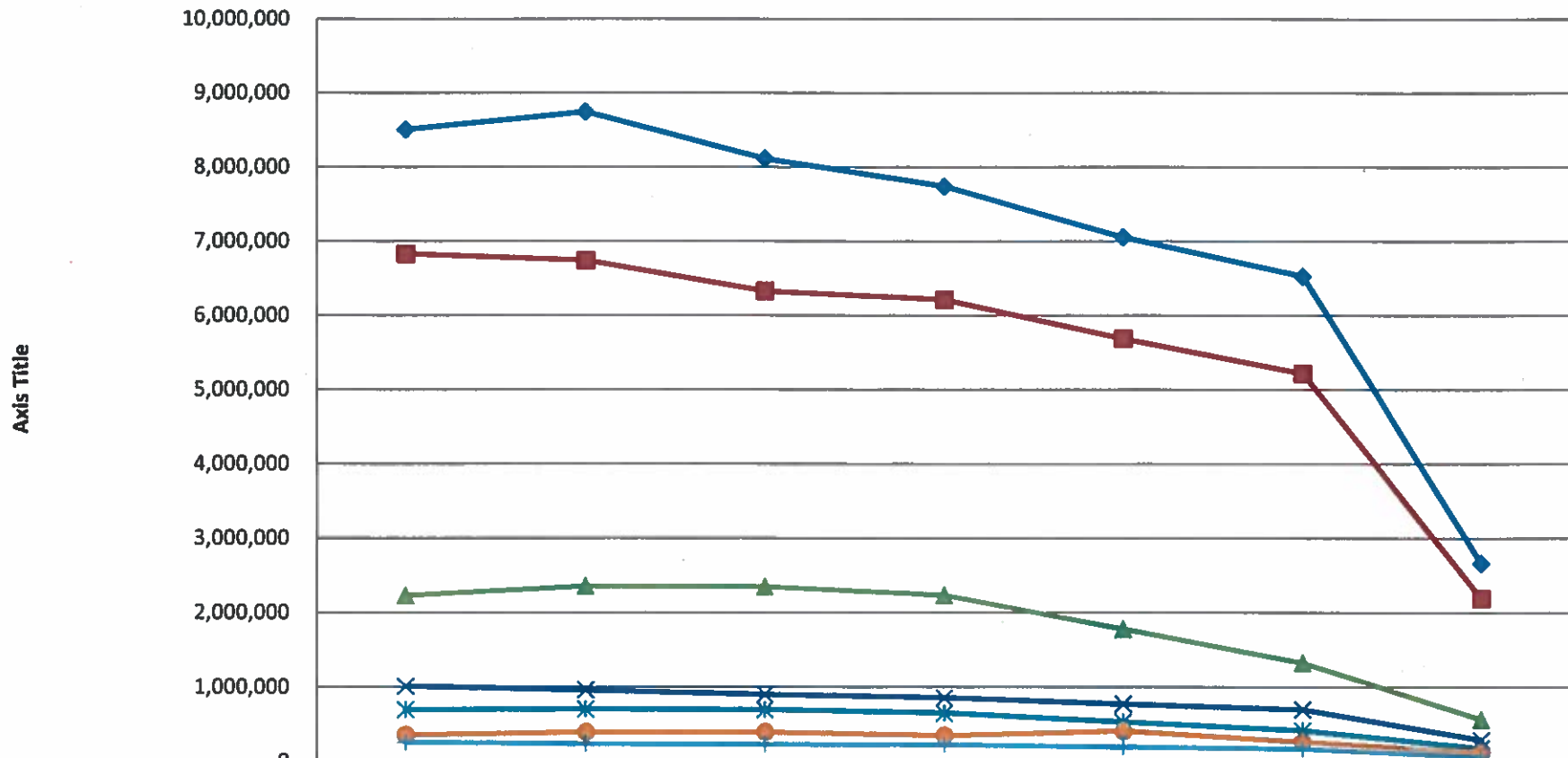
	0 - 1 Months	1 - 2 Months	2 - 3 Months	3 - 6 Months	6 - 12 Months	13 - 24 Months	25 - 36 Months	37 - 48 Months	49 - 60 Months	Over 60 Months
◆ Non-restitution 2009	862,594	580,691	496,622	1,163,012	1,716,528	2,842,335	2,744,743	2,653,049	2,020,273	11,335,165
■ Non-restitution 2010	958,594	883,910	460,067	1,350,817	2,434,474	2,994,095	2,407,790	2,503,696	2,465,285	12,758,319
▲ Non-restitution 2011	717,910	551,881	497,452	1,517,476	2,595,350	3,802,495	2,483,038	2,167,666	2,343,736	14,538,851
✕ Non-restitution 2012	795,897	653,922	631,234	1,466,878	2,443,778	3,974,760	3,240,878	2,207,381	1,999,485	16,019,350
✱ Non-restitution 2013	1,834,454	1,230,136	2,432,484	5,472,284	16,882,184	4,135,810	3,430,188	2,945,769	2,017,869	17,343,017
● Non-restitution 2014	1,212,738	861,769	759,905	4,299,804	8,844,823	24,307,540	3,660,428	3,166,996	2,765,462	18,531,134
+ Non-restitution 4-30-2015	2,652,693	2,219,081	659,113	2,818,232	8,027,164	16,988,306	14,596,302	2,881,533	3,088,371	19,015,600

Milwaukee County -- ST 83 Monthly Reports -- County Revenues



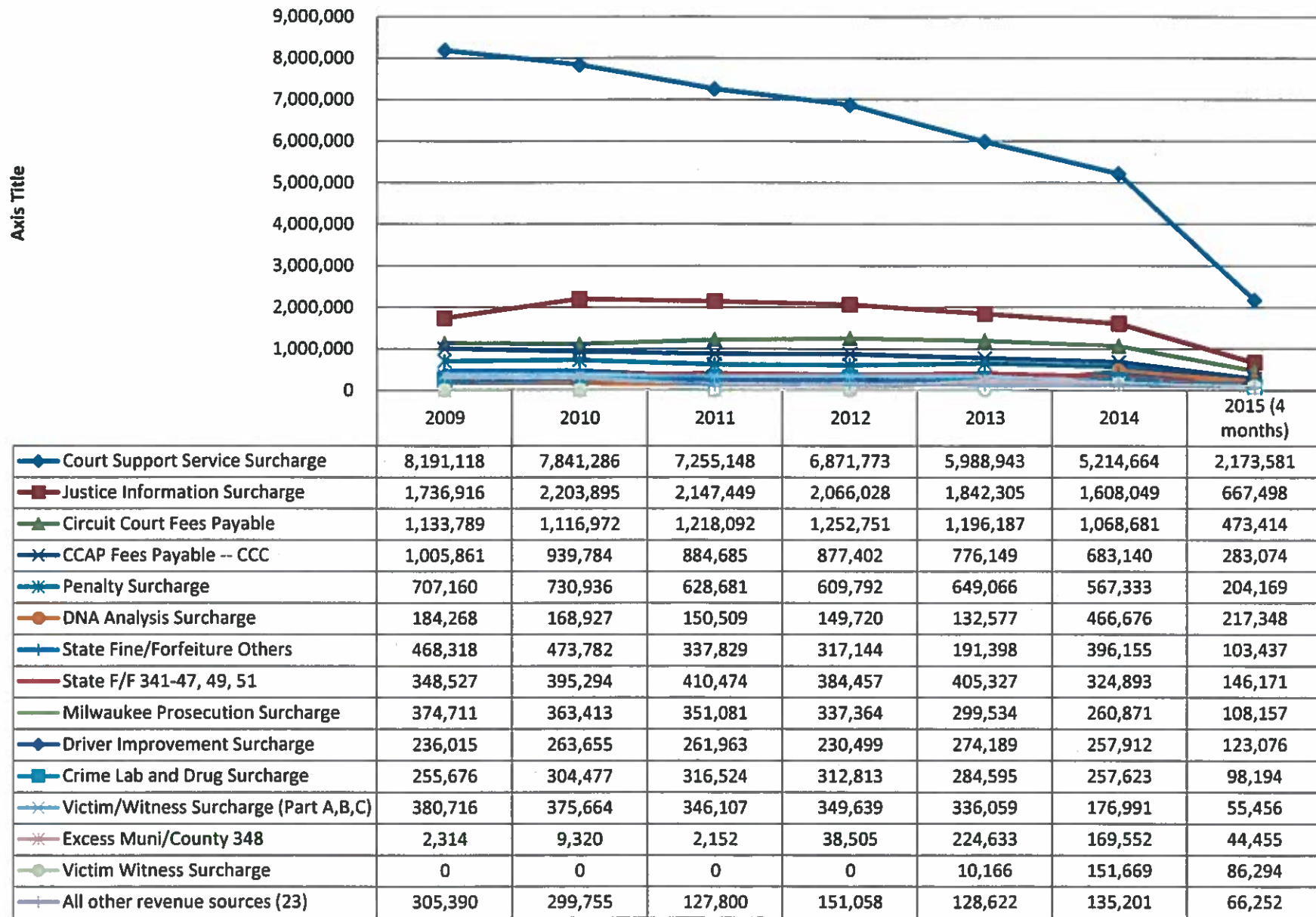
	2009	2010	2011	2012	2013	2014	2015 (4 months)
◆ County of Milwaukee Forfeiture	2,079,369	2,169,395	2,176,604	2,070,982	1,522,919	1,078,561	464,717
■ Circuit Court Fees Payable	982,866	951,160	863,400	796,101	688,556	610,722	257,559
▲ State F/F 341-47, 49, 51	348,527	395,294	410,473	384,457	405,327	324,893	146,171
× Small Claims County Share	440,330	395,831	386,994	404,042	368,029	323,090	133,695
* Driver Improvement Surcharge	354,023	395,482	392,944	345,749	411,283	261,025	124,562
● Jail Surcharge -- County	256,660	237,716	230,925	222,905	196,218	173,158	62,515
— All other revenue accounts (6)	75,894	105,769	102,804	78,882	93,345	102,768	35,020

Milwaukee County -- ST-83 Monthly Reports -- Revenue by Class

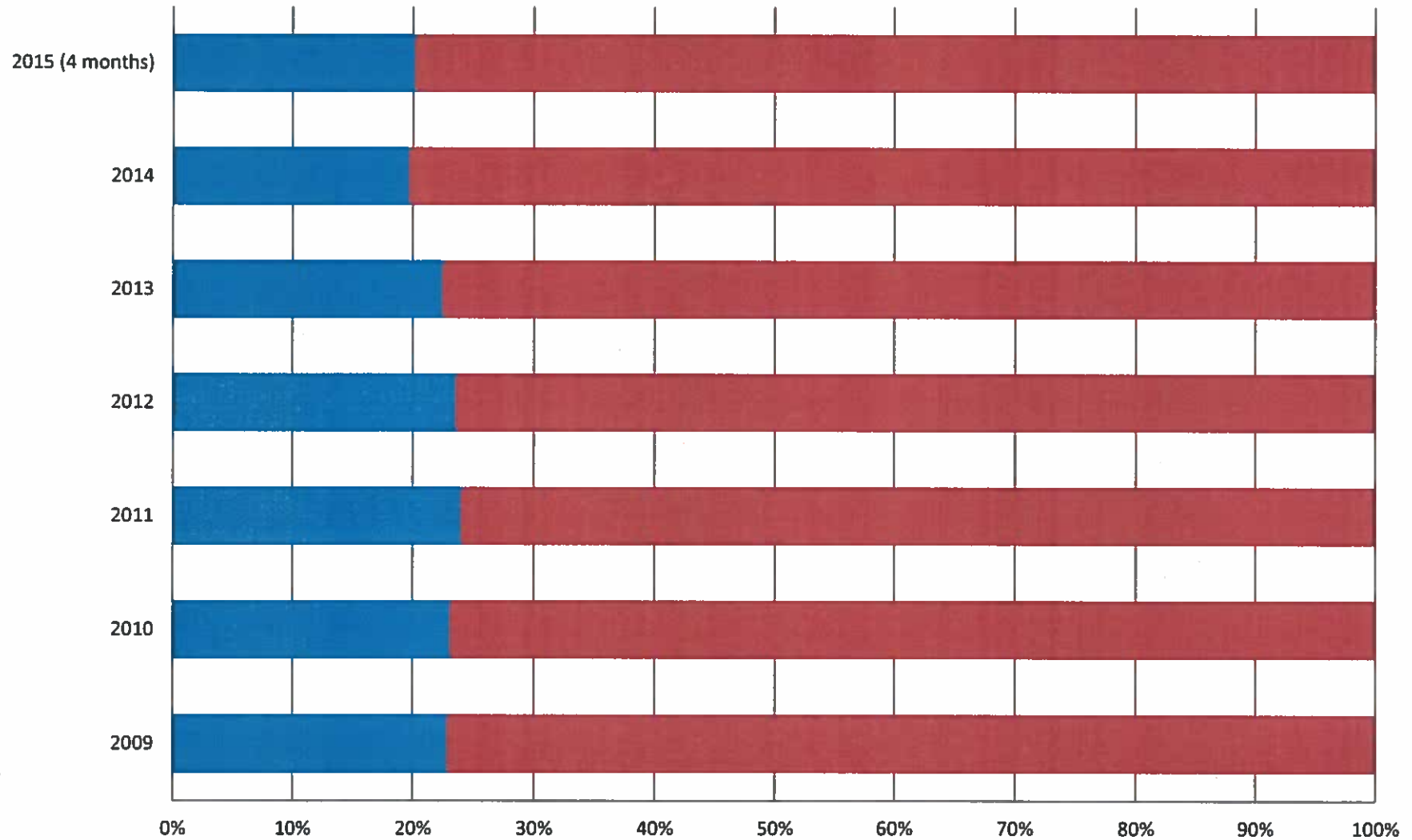


	2009	2010	2011	2012	2013	2014	2015 (4 months)
State, Criminal Division	8,502,598	8,744,886	8,111,010	7,738,388	7,052,565	6,526,093	2,662,181
State, Civil Division	6,828,182	6,742,275	6,327,484	6,210,559	5,687,186	5,213,317	2,188,396
Sheriff	2,224,417	2,353,649	2,345,855	2,229,996	1,776,239	1,323,976	565,595
Courts, Civil Division	1,008,792	960,712	898,110	854,856	770,895	697,196	291,364
Courts, Criminal Division	693,777	703,087	696,311	649,611	531,043	418,862	180,203
DHHS Behavior Health	354,023	395,482	392,944	345,749	411,283	261,025	124,562
Debt Service	256,660	237,716	230,925	222,905	196,218	173,158	62,515

Milwaukee County -- ST 83 Monthly Reports -- State Revenue



Milwaukee County -- ST 83 Monthly Reports -- Revenue Compare



	2009	2010	2011	2012	2013	2014	2015 (4 months)
■ County Revenue	4,537,669	4,650,646	4,564,145	4,303,117	3,685,679	2,874,217	1,224,238
■ State Revenue	15,330,780	15,487,161	14,438,494	13,948,947	12,739,751	11,739,410	4,850,577