



REPORT

LEGISLATIVE REFERENCE BUREAU

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1. Capital Improvement Overview, 2015

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1. Capital Improvement Overview

I. Project Highlights.

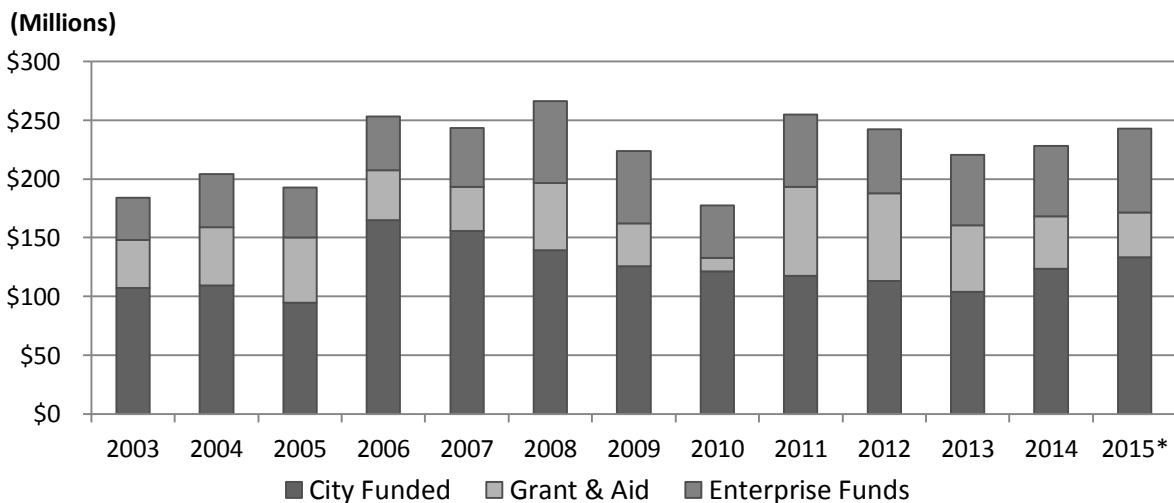
The 2015 Proposed Budget provides \$247.9 million for the Total Capital Plan, an increase of \$13.9 million (6.0%) from the 2014 Budget. The Total Capital Plan includes capital projects in all departments. It includes the capital programs of the enterprise funds, Parking, Sewer and Water. The increase is driven primarily by an \$11.1 million increase in the capital budget of the Milwaukee Water Works (MWW). Eight million dollars of that increase will be directed toward replacing water distribution mains.

Several departments have significant capital projects beginning or continuing in 2015. The Proposed Budget provides \$8.75 million for the Library, an increase of \$5.4 million. The increase will be used to reconstruct and renovate neighborhood libraries. Funding of \$2.9 million was provided in the Fire Department to begin the construction of a new repair facility. The cost of the facility will be partially offset in 2015 by a \$1.8 million reduction in the Fire Department’s budget for fire engines and ladder trucks.

The Police Administration Building project is continuing in 2015. Adjustments to the construction schedule have reduced the amount needed in 2015 from nearly \$7 million to \$860,000. Funding is expected to return to previously-planned levels in 2016.

Funding is included (\$3.1 million) to continue the renovation of the 8th floor of City Hall. Projects to replace major IT systems in both the Assessor’s and the Treasurer’s offices are proposed for 2015. Both projects are expected to take 2 years. The Election Commission received \$1.5 million for the purchase of new voting equipment. Further information regarding these and other projects and programs can be found in the capital section of the departmental budget briefings.

Table 1.1. Capital Funding Trends, 2003 to 2015.



*Proposed funding.

II. Sources of Funds for Capital Improvements.

The City's capital program is divided into 2 sections, City-Funded and Enterprise Funds.

A. City-Funded (non-enterprise).

The City-Funded (non-enterprise) portion of the capital program has several funding sources. The largest source is tax-levy-supported debt (70.32%). Other sources include the tax levy (0.9%), cash revenues (14.6%), special assessments (1.8%), and the increments from tax incremental districts (12.4%). In addition to these sources, the City also receives grant and aid funding from the state, primarily for surface transportation projects. Grant funding in 2015 for capital related projects is expected to be \$37.6 million.

1. Tax Levy and General Obligation Debt.

The portion of the capital program financed by the tax levy has decreased significantly since 2005, reflecting a suspension of the Infrastructure Cash Conversion (ICC) policy. Between 2000 and 2005, an average of 13.5% of the capital program was financed with cash from the tax levy. Excluding 2014, the average since 2010 has been 0.86%.

As the percentage of cash in the capital program has decreased, the percentage of tax levy-supported debt has increased. In 2007, it was 39.3%. It appears to have stabilized near 70%.

2. Grant Funding.

The most variable portion of the capital program from year to year is the grant and aid funding which is received for the Major Bridge and Major Street programs. Funding is received from both the state and the federal government. Grant funding for Major Streets has been trending upward offsetting a significant decline in the availability grant funding for bridges. The decline in bridge funding will put considerable pressure on the Local Bridge Program in the coming years.

3. Revenues.

Because of their mitigating effects on storm water, certain infrastructure improvements are financed with transfers from the Sewer Maintenance Fund. Most of the capital programs that receive such transfers are in Forestry. They include the Tree Planting and Production program (\$1,200,000), the Emerald Ash Borer Readiness and Response program (\$1,000,000), and Stump Removal (\$360,000). The Sewer Maintenance Fund will also provide \$50,000 for DPW's Environmental Remediation Program.

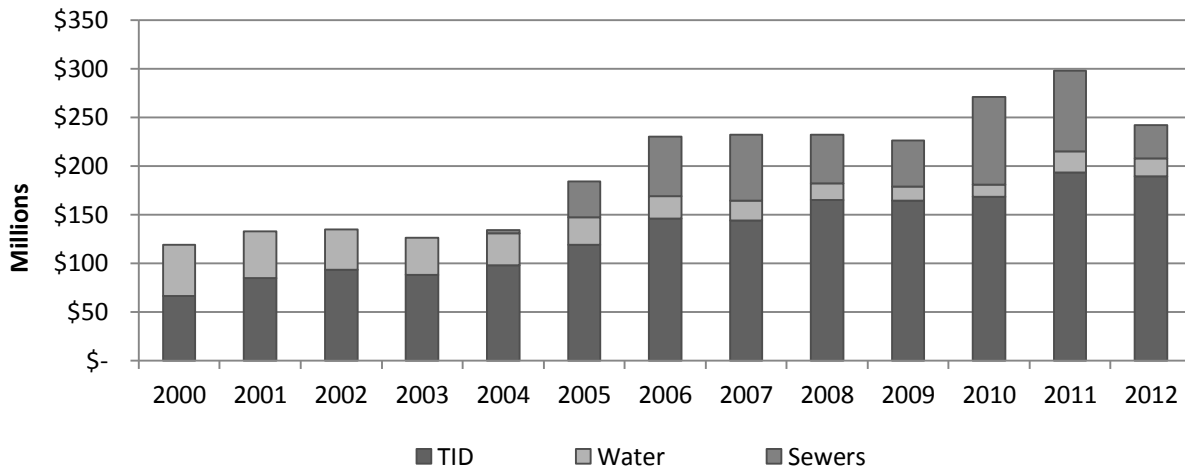
4. Motor Vehicle Registration Fee.

In 2008, the City implemented a Motor Vehicle Registration (MVR) fee of \$20 per vehicle (Common Council File Number 080034). The fee was expected to generate \$6.6 million annually in revenue for street repairs. The 2015 Proposed Budget anticipates receiving \$6.3 million in revenue in 2015. Actual receipts in 2013 were \$6,333,316.

When the fee was implemented, a provision was included that prohibited the fee from being raised until April, 2012. The fee has not been raised since it was implemented. When the fee was created, most of the special assessments related to paving projects were eliminated. This reduced the amount of additional revenue available for paving projects by approximately half. There are approximately 300,000 vehicles registered in the city.

A \$5 increase to the fee would generate nearly \$1.5 million in additional revenue. Because the special assessments associated with paving projects would not be reduced further, each dollar increase in the fee will allow proportionally more paving-related work to be done.

Table 1.2. Self-Supporting General Obligation Debt, 2001 to 2012.



Source: Office of the Comptroller – Report of Debt & Debt Service

B. Enterprise Funds.

Capital improvements in the Enterprise Funds (Sewer Maintenance, Milwaukee Water Works and Parking) are funded by a combination of charges for products and services, fees, and the proceeds from borrowing.

1. Sewer Maintenance Fund.

Approximately 90% of the Sewer Maintenance program is funded with debt. The SMF uses a combination of general obligation debt, Clean Water funds from the state, and revenue bonds. In 2015, the SMF anticipates using \$39.7 million in debt financing; \$30.8 million for sewer relays, \$5 million for the Inflow & Infiltration program, \$1 million for water quality projects and \$2.75 million for flood mitigation. The SMF also anticipates receiving \$1.65 million in grants from MMSD for projects that will reduce the amount of clear water that enters the sewer system through private laterals.

2. Milwaukee Water Works.

Milwaukee Water Works, which is traditionally funded with cash, borrowed \$5.3 million in 2013 to offset a revenue shortfall caused by a delay in the settlement of its rate case. In 2014, MWW anticipated borrowing an additional \$4 million for its capital program. A recent ruling by the PSC requires the MWW to increase its water main replacement program

significantly. The current rate structure will not support the amount of capital investment that the PSC is requiring. In 2015, MWW anticipates borrowing just over \$10.7 million to comply with the PSC ruling. (For more information regarding the rate case and the PSC ruling, see the departmental budget briefing).

3. Parking Fund.

Capital improvements for the Parking fund are relatively modest (\$2.3 million) compared to the Sewer Maintenance Fund and the Milwaukee Water Works and are typically debt-financed.

III. Debt.

It is generally the City's policy to finance operations with cash and to finance the City's portion of capital improvements with general obligation borrowing. Debt service on general obligation bonds is paid by the Debt Service Fund which in turn is funded directly through the tax levy.

1. General Obligation.

As proposed, the City-Funded capital program will be financed with \$93.6 million of general obligation debt, an increase of \$8.1 million (9.5%) from the 2014 Budget. This amount does not include \$16.5 million of debt which will be used to fund Tax Incremental Districts. The TID debt is considered self-supporting because the debt service is not paid directly by the tax levy. TID debt is included when calculating the City's use of its debt limit.

2. Debt for Enterprise Funds.

Additional borrowing will support the capital programs of the Sewer Maintenance Fund (\$39.7 million), the Milwaukee Water Works (\$10.7 million) and the Parking Fund (\$2.3 million). Borrowing for enterprise fund activities is also considered self-supporting because debt service is paid using revenues received by the respective funds – not the tax levy. Debt for the enterprise funds can be issued as general obligation bonds or revenue bonds. Revenue bonds are not included when calculating the City's use of its debt limit.

3. Repayment Policy.

The City has a fairly aggressive repayment policy. The "10-Year Debt Payout" measures the percentage of total general obligation debt that will be repaid or retired with the next 10 years. The industry benchmark is 50%. From 2007 through 2011, the City's 10-Year Debt Payout ranged between 82% and 87%. It is projected to stay around 85% through 2016.

IV. Debt Limit & Funding Constraints.

The City is facing unique challenges in maintaining its capital program. The value of the City's allocation of Shared Revenue from the state has declined by \$95.8 million (29.7%) since 2003. At the same time, strict limits on levy increases imposed by the state prevent the City from raising additional revenues to pay for services or infrastructure improvements.

1. Utilization.

The City is also facing a higher utilization rate of its debt limit. The amount of general obligation debt the City may issue is limited by the state constitution to no more than 5% of the City's equalized value. The Report of Debt and Debt Service issued by the Comptroller on August 5, 2013, estimated that at the end of 2013, the City will have used approximately 66% of its debt limit.

At the end of 2009, debt limit utilization was just over 50%. The City's utilization of the debt limit as calculated on the preliminary Official Statement for a May 2014 bond issue, including Extendable Municipal Commercial Paper and excluding general obligation cash flow notes was 67.6%.

2. Equalized Property Value.

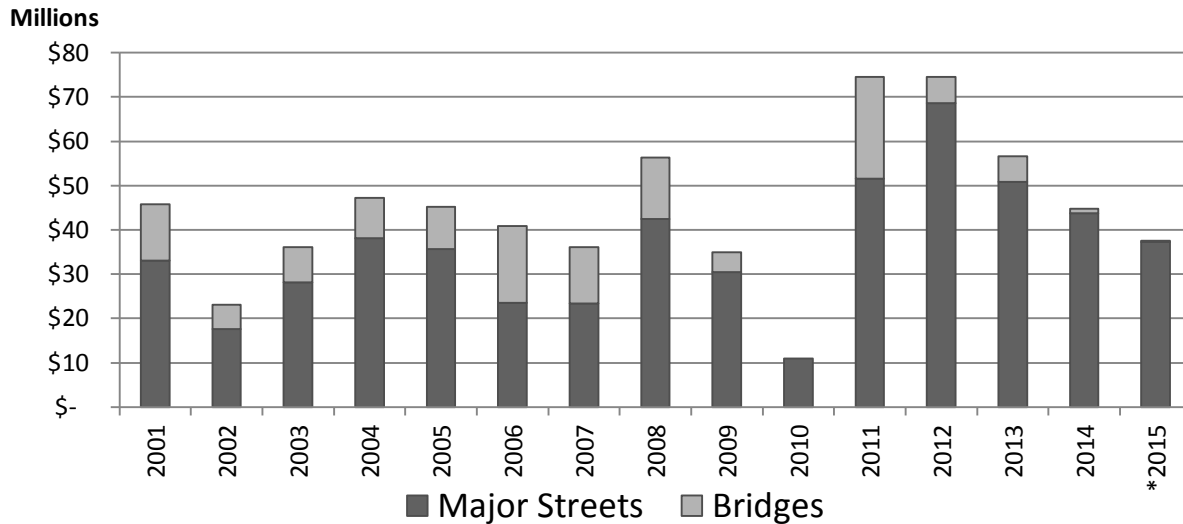
To address the declining condition of its infrastructure, the City has been issuing slightly more debt than it is retiring. Until 2008, increases in the City's equalized value helped to keep debt limit utilization at an acceptable level. The City of Milwaukee's equalized value for 2014 is \$26.1 billion, an increase of 0.19% from 2013. Equalized values have declined in each of the 5 previous years with a total decline of nearly 19% since 2008.

3. Bond Ratings.

Managing debt utilization is critical to maintaining high bond ratings. As the utilization of the debt limit rises, the City faces the risk of bond rating downgrades which could have a significant, adverse effect on the City's borrowing costs.

In April, 2012, Moody's downgraded the City's credit rating from Aa1 with a negative outlook to Aa2 with a stable outlook. The downgrade was primarily driven by concerns about the stability of the City's property tax base and cuts in state shared revenue. The change from a negative outlook to a stable one indicated that Moody's did not anticipate dropping the rating further in the near future.

In April 2014, Moody's again downgraded the City's bond rating, setting it at Aa3 with a stable outlook. The Moody's report stated, "The Aa3 rating on Milwaukee's GO debt reflects the city's weakened socio-economic indices, elevated unemployment rate and trend of tax base declines: additionally, it reflects the interest rate risks and refinancing risks associated with certain of the city's debt instruments."

Table 1.3. Grant and Aid Funding, 2000 to 2015.

*Projected.

V. Core Infrastructure Programs.

For detailed information regarding core infrastructure programs, please refer to the LRB Budget Briefings for individual departments.

1. Bridge Program (Major and Local).

The combined City funding for the Major and Local Bridge programs is \$9.3 million, a decrease of \$1.8 million (16.2%) from the 2014 Budget. Anticipated grant funding is \$400,000, a decrease of \$640,000 (61.5%) from the 2014 Budget. Grant funding for bridges has decreased almost 93% from 2013.

Because of the decreased level of grant funding, the City's investment in bridges has increased significantly since 2007. Including the proposed funding for 2015, the City has budgeted \$50 million in the Local Bridge program since 2007. Although the City's efforts have improved the condition of many bridges, the system overall continues to age, with many bridges being at or near the end of their projected useful lives.

Unless structural changes in transportation funding are made at the state and federal levels, grant and aid funding will likely remain difficult to obtain and the bridge program will require significant local funding.

2. Major Streets.

Federal stimulus funding in recent years has supported significant progress in the Major Street program. Grant funding in this program has decreased by \$6.6 million from 2014 and City funding has increased by \$1.6 million, leaving a net decrease of \$5 million (10%). Total available funding for major streets is \$44.0 million.

Although grant funding has decreased by \$31.3 million from 2012, the 15-year trend in major street grant funding has been upward. In inflation-adjusted dollars, grant funding for major streets in 2015 is \$27.1 million (41.7%) greater than in 2000.

3. Local Streets.

Funding in the Local Street Program remains the same as in the 2014 Budget at \$13.5 million. This represents a decrease in available funds from 2014 because in even-numbered years the state provides Local Road Improvement Program (LRIP) funds. The LRIP funds and the required City matching funds are budgeted in the Major Street Program. DPW plans to use a preservation strategy instead of a conventional reconstruction strategy to improve more miles of local streets despite having fewer funds available. The 2015 Proposed Budget also provides \$2 million for a High Impact paving program. The High Impact program will target high-volume streets in commercial corridors which may be eligible for state or federal funding but for which funding is not available. \$350,000 of the High Impact Street program will be funded with cash.

4. Sewer Maintenance Program.

Funding for the Sewer Relief and Relay program has increased significantly in recent years, resulting in a replacement cycle that closely approximates the currently-recommended cycle. In addition to replacing and relining sewer mains, the City is using a more diversified approach to improving the performance of the sewer system. Strategies include reducing the amount of clear water that enters the sewer system, constructing bio-swales to help manage storm water runoff and restoring capacity to various channels and drainage ditches. The 2014 Proposed Budget provides \$1,100,000 in funding for water quality projects.

The City anticipates issuing \$30.8 million of debt for the Sewer Relief and Relay program, \$56 million for the infiltration and inflow (I&I) program, \$1.1 million for water quality programs and \$2.75 million for a flood mitigation project in the Dineen Park neighborhood. The remainder will be funded with revenues collected from the Sewer Maintenance Fee and the Storm water Management Fee. The City also anticipates receiving \$1.65 million in grant funding from the Milwaukee Metropolitan Sewerage District to line private sewer laterals as part of the I&I program.

5. Milwaukee Water Works.

The delay in the settlement of the 2009 rate case depleted the utility's cash reserves. Anticipating the cash flow concerns, MWW began, in 2010, to delay many capital projects and in 2012, began to finance capital programs with borrowing. In 2013, MWW borrowed \$5.3 million and anticipated borrowing \$4 million in 2014. The utility also chose, in 2012, to focus on other components of the water system instead of water mains because water mains have a longer life, more redundancy in the system and are less prone to catastrophic failure than other components of the system.

MWW was able to continue replacing a small number of mains in 2012 using spending authority from 2011. Funding proposed for 2013 returned much of the emphasis to the replacement of water mains, and in 2014, nearly 86% of the budgeted funding for MWW capital projects was allocated to water mains. It was MWW's intention to make incremental increases to the capital program each year until it returned to historic spending levels.

Proposed spending has been accelerated in response to a Public Service Commission ruling which establishes minimum levels of water main replacement. Proposed capital funding in 2015 increases by \$11.1 million (80%) from the 2014 Budget. Eight million dollars of that amount is related to an increase in the water main program. MWW anticipates borrowing \$10.7 million in 2015 to comply with the PSC ruling.

VI. Special Capital Projects.

The 2015 Proposed Budget includes funding for 5 on-going special capital improvement items.

1. Grant and Aid, \$8,000,000.

This account provides budget authority for unanticipated capital grants that the City receives. Budgeted funding in this account has been at least \$8,000,000 since 2006. In 2014, additional authority was added to this account to accommodate grants received.

2. Municipal Art Fund, \$25,000.

This is the City's annual contribution to the Municipal Art Fund, a pool of money set aside for the acquisition of works of art to be incorporated in City buildings and other public facilities. The Milwaukee Arts Board determines how money in the Municipal Art Fund is expended on various works of art for City construction projects. The Municipal Art Fund has received \$25,000 per year (on average) since at least 2000. The Municipal Art Fund is not supported by general obligation debt.

3. Capital Improvements Committee, \$87,000.

The 2015 Proposed Budget includes \$87,000 in capital funding for the salary and fringe benefits for a Fiscal Planning Specialist position. This position will be in the City Clerk's Office and will serve as staff to the Capital Improvements Committee and provide budget analysis for the Finance and Personnel Committee.

4. Housing Trust Fund, \$600,000.

The 2015 Proposed Budget includes \$600,000 for the Housing Trust Fund, the same amount that was provided in the 2014 Budget. Created in 2006, this fund primarily supports developers in the acquisition, construction, rehabilitation and modification of affordable and accessible housing for low-income households. It also finances support services that assist low-income households in obtaining and maintaining affordable housing. Priority is given to projects that can leverage investments from other sources. Although other funding sources have been investigated, funding comes primarily from the City tax levy.

Funding is used to support 3 main objectives: housing for the homeless, rental housing and homeownership. Since 2006, \$5.1 million has been budgeted for this program. Over 500 units of housing have been created or rehabilitated through this program. Actual expenditures have totaled \$3.5 million through the end of 2013. These expenditure have leveraged over \$60 million in private investment.

5. Land Management System, \$850,000.

The 2015 Proposed Budget provides \$850,000 in funding for an additional phase of the Land Management System which will migrate licensing information from the LIRA system that is currently used by the City Clerk.

The Land Management System received \$2,512,000 in the 2012 Budget. The project was requested by the Department of Neighborhood Services to replace the existing legacy code enforcement Neighborhood Services System (NSS) and the DCD permit and plan tracking system. Because the LMS is used by multiple departments, it is budgeted as a special capital project. The new system, which will be administered by ITMD, will support land management, plan review and permitting, construction and trades inspections, and code enforcement across departmental lines.

The City issued an RFI for the proposed system in April 2011 and an RFP in spring 2012. A contract was signed with Accela in June 2013. The implementation of the LMS is proceeding. A test environment has been deployed, the initial configuration is complete, GIS has been defined, interface specifications have been written and a review of legacy data migration needs is underway. Subject matter experts are reviewing the initial configuration, and modifications are being discussed.

VII. Unfunded Capital Programs.

1. Better Buildings Challenge Fund.

The 2015 Proposed Budget contains new funding for the Energy Challenge Fund.

The City is currently participating in the Better Building Challenge, with the goal of cutting energy-use in City facilities by 20% by 2020 from a 2009 baseline. This goal was included in the Refresh Milwaukee plan which was approved by the Common Council in Resolution File Number 131035. Through 2012, the City has reduced energy use by over 10%. Office lighting projects typically have a “payback” period of 4 to 7 years. Therefore, 2015 projects will allow for approximately \$30,000 in avoided costs in the operating budget. The program will leverage incentives from the Focus on Energy program. Projects will be implemented across departments as identified by the interdepartmental Energy Reduction Team chaired by OES.

Although this program did not receive funding, other capital programs provide funding to make energy-related improvements, most notably in DPW Facilities. Between 2005 and 2012, energy use has been reduced by over 25% at DPW-managed facilities. Energy savings were somewhat reduced in 2013 and probably in 2014 because of the severity of the winter, but the trend is positive.

2. Energy Challenge Fund.

The 2015 Proposed Budget contains no new funding for the Energy Challenge Fund. This fund was created in 2008 to support the goal of helping City departments reduce energy consumption by 15% from 2008 to 2012, using 2005 City energy consumption as a baseline. The fund has not received funding since 2009 and has no carryover borrowing authority.

A total of \$1 million has been budgeted in this fund. Actual expenditures through December 2013 total \$610,766; \$133,250 (2008), \$200,216 (2009), \$226,668 (2010), \$7,456 (2011) and \$43,176 (2012).

Capital projects that result in energy efficiencies or that use renewable energy or alternative fuel sources were considered for funding. Funding was awarded based on projected reductions in energy use, changes in energy demand and the demonstration of project payback within a reasonable period of time. The Office of Environmental Sustainability managed the Energy Challenge Fund.

Table 1.4. Capital Budget by Department, 2010 to 2014 Adopted, 2015 Proposed.

	2010	2011	2012	2013	2014	2015	% Change
	Adopted	Adopted	Adopted	Adopted	Adopted	Proposed	(from 2014)
City-Funded							
Special Projects	\$16,335,000	\$15,135,000	\$11,022,000	\$8,510,000	\$8,710,000	\$9,562,000	9.8%
Administration, Dept. of	949,400	2,035,000	600,000	1,875,000	1,060,000	3,260,000	307.5%
Assessor						555,000	
City Attorney					1,758,000	3,120,000	77.5%
City Development, Dept. of	39,402,543	30,661,257	29,176,000	17,585,000	23,550,000	24,900,000	6.0%
Common Council City Clerk			40,000	117,500	175,000	588,000	236.0%
Election Commission						1,530,000	
Employee Relations, Dept. of							
Fire & Police Commission					150,000		-100%
Fire Dept.	4,056,000	3,064,000	3,424,000	3,403,000	4,437,000	4,798,000	8.1%
Health Dept.	100,000	110,000	450,000	435,000	425,000	366,000	-13.9%
Library	4,075,000	2,526,000	2,577,000	3,743,000	3,383,000	8,750,000	158.6%
Neighborhood Services, Dept. of	76,141				2,320,000	2,244,000	-3.3%
Municipal Court	334,000				144,000	504,000	250.0%
Police Dept.	4,188,000	4,987,931	1,502,000	7,375,700	9,177,000	8,200,000	-10.6%
Port of Milwaukee			225,000	1,075,000	750,000	1,000,000	33.3%
Public Works, Dept. of	51,827,944	59,443,409	64,440,700	60,061,700	67,395,000	63,764,000	-5.4%
Total City-Funded	\$121,344,028	\$117,962,597	\$113,456,700	\$104,180,900	\$123,384,000	133,141,000	7.9%
Grant & Aid							
Library							
Police Department							
Port of Milwaukee	400,000	800,000				800,000	
Public Works, Dept. of	10,936,200	74,621,230	74,591,800	56,555,000	44,818,000	37,607,907	-16.1%
Total Grant & Aid	\$11,336,200	\$75,421,230	\$74,591,800	\$56,555,000	\$44,818,000	38,407,907	-14.3%
City-Funded and Grant & Aid	\$132,680,228	\$193,049,618	\$190,713,500	\$160,485,900	168,104,000	171,548,907	2.0%
Enterprise Funds							
Parking	950,000	1,175,000	790,000	1,441,000	1,715,000	2,292,000	33.6%
Sewer Maintenance	23,937,000	39,833,000	43,950,000	44,510,000	44,550,000	44,200,000	-0.8%
Water	20,030,000	20,645,000	9,320,000	13,850,000	13,825,000	24,950,000	80.5%
Total Enterprise Funds	44,917,000	61,653,000	\$54,060,000	\$59,801,000	\$60,090,000	71,442,000	18.9%
TOTAL CAPITAL PLAN	\$177,597,228	\$254,702,618	\$242,108,500	\$220,536,900	\$228,194,000	242,990,907	6.4%

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