

PORT OF MILWAUKEE 2009 PROPOSED BUDGET

Executive Summary

1. The 2009 Proposed Budget for the Port of Milwaukee is \$4,795,011, an increase of \$466,952 (or 10.8%) from the 2008 Budget. (page 1)
2. The 2009 Proposed Budget provides funding for 35 positions at the Port of Milwaukee, the same number as 2008. FTEs are also unchanged, at 22.0. (page 3)
3. The 2009 Proposed Budget provides \$1,198,950 for the Port's Operating Expenditures, a 24.6% increase from 2008. This change comes primarily from a \$120,000 increase in the Infrastructure Services category and a \$63,000 increase for Other Operating Supplies. (page 4)
4. The Port's budget contains 10 special funds totaling \$1,778,500, including 3 funds that are new for 2009: Energy Efficiency Upgrade (\$100,000), Leasehold Demolition (\$83,500) and Sewer System Upgrade (\$75,000). (pages 5 and 6)
5. The 2009 Proposed Budget includes funding for 5 Port capital improvement projects totaling \$1,400,000, up from \$500,000 in the 2008 Budget. New capital projects include major repairs to Crane 15 (\$500,000), dockwall rehabilitation (\$150,000) and security improvements, namely the purchase of a replacement security patrol boat (\$300,000). (pages 6 and 7)
6. The Port anticipates receiving 2 grants in 2009 -- \$800,000 from the Wisconsin DOT to support the Port's ongoing pier, berth and channel improvements program and \$650,000 from the U.S. Department of Homeland Security for purchase of the replacement patrol vessel. (pages 7 and 8)
7. The Port of Milwaukee handled a record amount of cargo in 2007, but tonnage was down 11.4% in the first 7 months of 2008. (page 8)
8. Salt accounts for the largest share -- and a growing share -- of cargo handled by the Port. In 2007, 38% of all cargo that passed through the Port was salt, up from 25% 5 years earlier. (page 9)
9. The Port's revenues have exceeded its expenditures each year since 2001. Surplus revenues, including \$1.1 million in 2007, are transferred to the City's General Fund. (page 11)

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2009 PROPOSED BUDGET – PORT OF MILWAUKEE

Summary by Legislative Reference Bureau – Research & Analysis Section

Expense Category	2007 Actual	2008 Budget	% Change	2009 Proposed	% Change
Personnel Costs	\$1,505,740	\$1,732,557	15.1%	\$1,817,561	4.9%
Operating Expend.	\$1,239,837	\$962,019	-22.4%	\$1,198,950	24.6%
Equipment Purch.	\$0	\$0	0.0%	\$0	0.0%
Special Funds	\$1,406,686	\$1,633,483	16.1%	\$1,778,500	8.9%
TOTAL	\$4,152,263	\$4,328,059	4.2%	\$4,795,011	10.8%
Capital	\$250,024	\$500,000	100.0%	\$1,400,000	180.0%
Positions*	31	35	+4	35	0

* Authorized positions – includes funded/permanent positions, unfunded/auxiliary positions and Board of Harbor Commissioners members.

Department Function

The Port of Milwaukee carries out the day-to-day activities of managing and operating the City's port facilities on behalf of the Board of Harbor Commissioners. In doing so, the Port:

- Maintains 16 deep-water vessel berths and 2 barge berths.
- Provides over 330,000 square feet of covered warehouse space for cargo storage.
- Establishes rates for the use of the Port and its facilities.
- Maintains over 13 miles of its own railroad track; this track connects with two Class I railroads at the edge of Port property.
- Maintains a 10-acre rail/truck intermodal freight container transfer facility.
- Offers heavy-lift, crane and distributive services for shippers using Port facilities.
- Provides over 50 acres of land for the storage and handling of dry bulk commodities.
- Maintains approximately 300,000 barrels of liquid cargo storage capacity, as well as liquid cargo loading and unloading facilities.
- Markets the Port's facilities and services to existing and potential customers.
- Assists vessel owners, freight forwarders and cargo interests in developing high-quality, cost-effective programs for transporting and distributing cargo.
- Oversees the leasing of land and facilities in the 467 acres controlled by the Board, including both recreational facilities in the North Harbor Tract (e.g., the Henry Maier Festival Grounds) and industrial/transportation uses on Jones Island.
- Plans, designs, constructs and maintains harbor improvements.

The Port of Milwaukee operates as a City department. However, in terms of the department's finances, it is treated as an enterprise fund: the Port's own revenues, rather than the general tax levy, are used to fund the department's operations, with any surplus revenues being transferred to the General Fund.

Departmental Mission Statement

The mission of the Port of Milwaukee is to enhance the overall economic and social environment of the Milwaukee region by stimulating trade, business and employment. Consistent with the Port's water-related location, the Port shall strive to be a premier provider of transportation and distribution services for its commercial customers and support public recreation, leisure and other uses the Port deems to be in the public interest.

Historical Information

1. Since the September 11, 2001, terrorist attacks and the subsequent establishment of the U.S. Department of Homeland Security, the Port has been working, in conjunction with the U.S. Coast Guard, the Milwaukee Police Department and other agencies, to enhance security at its facilities and within its waterways. Security measures have included the installation of new lighting and fencing. Grant funds have been used to cover the costs of these security enhancements.
2. In 2002, river barges resumed operations to the Port of Milwaukee. These barges travel between Milwaukee and Chicago, where they can connect with major inland waterway systems, including the Mississippi and Ohio rivers. This allows commodities to be shipped between Milwaukee and ports in the southern United States and has increased the Port's total cargo tonnage.
3. On June 1, 2004, the Lake Express ferry began the first cross-lake ferry service between Milwaukee and Michigan in nearly 25 years. The ferry travels between Milwaukee and Muskegon in 2½ hours and can accommodate up to 46 automobiles and 250 passengers. The ferry's Milwaukee terminal is located on Port of Milwaukee property on South Lincoln Memorial Drive.
4. In 2006, the Pier Wisconsin building was completed and, along with it, a new cruise ship berth became available for passenger vessels using the Port of Milwaukee. The new berth affords cruise ship passengers direct walking access to Downtown Milwaukee.
5. Port of Milwaukee revenues exceeded operating expenditures each year from 2001 through 2007. This was in part attributable to renewal of the Maier Festival Grounds lease in 2001; the new lease guarantees payments to the Port of more than \$1 million annually. The Port's surplus funds are transferred to the City's General Fund, thereby easing the property tax burden for Milwaukee taxpayers.
6. In July, 2007, the Common Council approved a 10-year lease with North American Biodiesel, LLC (since transferred to Innovation Fuels, Inc.), for 2.6 acres of Port land. The tenant will build a biodiesel fuel production facility with 15 employees and an initial output of 20 million gallons annually. This will be the first biodiesel refinery in the Milwaukee area. Innovation Fuels will be using the Port's liquid cargo pier and existing excess liquid cargo storage capacity on Jones Island.

7. The 2008 Budget created 4 new Port of Milwaukee positions -- one permanent, full-time position of Engineer Technician II and 3 unfunded, auxiliary engineering and operations positions – to assist the Port in implementing a staff succession plan. It is anticipated that at least 8 of the Port’s management staff will be eligible for retirement by mid-2009.

2009 BUDGET HIGHLIGHTS AND ISSUES

Personnel

1. The 2009 Proposed Budget provides \$1,817,561 in funding for the Port’s personnel costs, an increase of \$85,004 (4.9%) from the 2008 Adopted Budget.
2. Under the Proposed Budget, the number of positions at the Port of Milwaukee will remain at 35. Full-time equivalent positions are also unchanged, at 22.00. In addition to the 22 O&M-funded, full-time positions, the Port’s budget also includes position authority for 7 Harbor Commissioners and 6 unfunded auxiliary positions.
3. As previously mentioned, the 2008 Budget created 4 new Port of Milwaukee positions to help the Port implement a staff succession plan. To date, none of these positions have been filled. However, the Port is now interviewing candidates for the Engineer Technician II and believes that, because of the potential for significant staff turnover in the near future, it is important to retain position authority for the other 3 positions as well.

By the end of 2009, at least 8 of the Port’s management staff will be eligible for retirement. While it is not known at this time how many of these individuals will actually retire upon attaining eligibility, the ability to fill auxiliary positions would ensure a smooth transition and continued efficient operation of the Port as retirements occur. In particular, maintaining these auxiliary positions will allow for the Port to hire new employees quickly, thereby enabling the Port to transmit institutional knowledge from retiring employees to new employees before the retirements occur.

4. Currently, 4 of the Port’s 22 permanent, funded positions are vacant:

Engineer Technician II (PR 602)	vacant since 01/01/08
Port Maintenance Technician (PR 276)	vacant since 07/17/06
Port Maintenance Technician (PR 276)	vacant since 10/22/07
Port Maintenance Technician (PR 276)	vacant since 07/25/08

5. The Port has not used its auxiliary position authority to supplement regular personnel in at least 8 years.

Operating Expenditures

1. The 2009 Proposed Budget provides \$1,198,950 for the Port's Operating Expenditures, an increase of \$236,931 (+24.6%) from the \$962,019 budgeted for 2008.
2. The Port's biggest Operating Expenditures are in the following categories:
 - Other Operating Services (namely equipment repairs, travel expenses and wage payments for temporary crane operators) \$351,750
 - Infrastructure Services (includes railroad track maintenance, water distribution system maintenance and sewer maintenance) \$200,000
 - Property Services (e.g., security, water/sewer, grounds maintenance) \$175,000
 - Professional Services (funds memberships in trade/professional organizations, attendance at trade shows and professional seminars and consultant studies of the Port's land and equipment use) \$160,000
3. The rise in Port Operating Expenditures for 2009 is primarily attributable to increased funding for three categories:
 - Infrastructure Services (increasing 150%, from \$80,000 in 2008 to \$200,000 in 2009) – Increase is due to rising dockwall maintenance costs. Low water levels as well as recent flooding have increased the frequency of dockwall failures. The funding increase also brings this line item closer to actual 2007 expenditures (\$180,839).
 - Other Operating Supplies (up 286%, from \$22,000 to \$85,000) – Increase is primarily attributable to rising expenditures on replacement cables for the Port's cranes, which are old and require ongoing maintenance to keep them operational. Also, the funding increase again brings the funding level more in line with actual 2007 expenditures (\$112,161).
 - Professional Services (up 33%, from \$120,000 to \$160,000) – The Port's Trade Development Representative position was filled in 2008. As a result, the Port now has three employees who are members of various professional organizations and attend seminars and trade shows; the need for funding for these activities has increased accordingly.
4. The 2009 Proposed Budget calls for a \$50,000 reduction in funding for the Port's Property Services line item, from \$225,000 to \$175,000 (-22%). This decrease is possible because the Port has changed its security services requirements from 24 hours per day, 7 days a week, to after-hours usage only. The 2009 funding level is also consistent with actual 2007 expenditures (\$163,621).

Equipment Purchases

The 2009 Proposed Budget makes no provisions for equipment purchases by the Port of Milwaukee.

Special Funds

The 2009 Proposed Budget contains 10 Port of Milwaukee Special Funds totaling \$1,778,500. This is an increase of 8.9% from the \$1,633,483 budgeted for 2008. Seven of the special funds were also part of the 2008 Budget; the other three are new for 2009. The 2009 Special Funds are:

1. Summerfest Revenue Transfer to the General Fund (\$1,110,000; up from \$1,108,483 in 2008 Budget) – The City’s lease agreement with Milwaukee World Festivals, Inc., provides for rent payments to be deposited in the City’s General Fund. This Special Fund provides the accounting mechanism necessary to accomplish that deposit.
2. Major Maintenance-Terminals and Piers (\$75,000; same as 2008) – This fund supports routine repair and maintenance of roofs, HVAC systems, overhead doors, electrical equipment, and fire-protection, utility, structural-support, railroad, roadway and security systems on the buildings and grounds of the Port.
3. Major Rehabilitation and Upgrades-Equipment (\$50,000; \$65,000 in 2008) – This account is used to purchase new equipment, including computers, office furniture and motor vehicles. The decrease from the 2008 funding level reflects actual 2007 expenditures.
4. Environmental Cleanup Fund (\$35,000; same as 2008) – This Special Fund pays for testing and plan preparation related to DNR-required environmental remediation of Port-controlled properties.
5. Harbor Maintenance Dredging (\$50,000; same as 2008) – Periodic dredging of boat slips and side channels in the harbor is supported by this Special Fund. (Dredging of the main navigation channels is the responsibility of the U.S. Army Corps of Engineers.)
6. Equipment Rehabilitation and Upgrade (\$100,000; \$150,000 in 2008) – This special fund provides funding for major repairs to cranes, kalmars (fork lifts) and other operating equipment. It is also used to fund the purchase of replacement cargo-handling equipment, such as new crane spreader bars. The Port expects the reduced level of funding to be sufficient to meet its needs in 2009.
7. Dockwall and Breakwater Rehabilitation (\$100,000; \$150,000 in 2008) – This special fund supports the Port’s ongoing program to maintain its dockwalls in an appropriate condition to meet the needs of modern cargo-handling activity and to prevent costly emergency repairs. The funding reduction for 2009 is possible because earlier this year the Port received a \$480,000 grant from the Wisconsin Department of Transportation for dockwall repair work at the Port’s Grand Trunk site.

8. Energy Efficiency Upgrade (\$100,000; new for 2009) – This project was funded in 2008 as a \$100,000 capital project known as “Port Facility Systems.” For 2009, it will be supported with a special fund allocation in the same amount. The purpose of this fund is to improve the energy efficiency of Port terminal buildings by replacing their roofs with aluminum-coated roofs. The 2008 capital funding was intended to fund the replacement of roofs on 2 terminal buildings. The 2009 special fund allocation will allow this work to continue in 2009.
9. Leasehold Demolition (\$83,500; new for 2009) – The Port has jurisdiction over several buildings which are currently vacant or for which leases will expire over the next several years. These buildings may not be suitable for future tenants. Also, the City Attorney has informed the Port that it may be responsible for removing any structures erected on Port property by tenants. This special fund provides money for the Port to begin demolishing buildings on its leased properties.
10. Sewer System Upgrade (\$75,000; new for 2009) – This special fund will allow the Port to inspect the 10-mile sewer system that serves the Port area to determine if the loading/unloading of heavy or corrosive cargoes has reduced the capacity of the system. The findings of this analysis may indicate that the sewer system needs to be upgraded, both for safety reasons and to meet federal and state regulations.

Special Purpose Accounts

The 2009 Proposed Budget contains no special purpose accounts administered by the Port of Milwaukee.

Capital Projects

The 2009 Proposed Budget includes new borrowing authority for five Port of Milwaukee capital improvement projects totaling \$1,400,000, including three that are new for 2009. This is nearly triple the \$500,000 budgeted for 2008. The Port’s 2009 capital projects are:

1. Cargo Handling Equipment – The 2009 Proposed Budget allocates \$500,000 in capital funding for major repairs to Crane 15, the Port’s stiff-leg derrick. This is a stationary crane with heavy-lifting capabilities that are important to certain Port customers. Earlier this year, the Port applied for a \$400,000 Wisconsin Department of Transportation Harbor Assistance Grant to fund rehabilitation of Crane 15; as of this writing, the Port still has not heard if it will be successful in securing these grant funds. This is a new capital project for 2009. Supplemental funding for crane repairs is provided by the previously-described Equipment Rehabilitation and Upgrade special fund.

2. Dockwall Rehabilitation -- This project also receives new borrowing authority for 2009, in the amount of \$150,000. The Port plans to have an on-going dockwall rehabilitation program, and anticipates that an additional \$1.15 million will be needed for this activity over the next 5 years. Such a program helps the Port avoid costly emergency repairs to dockwalls and keeps dockwalls in a useable condition for cargo-handling operations. The Port's lease agreements with tenants often require the Port to maintain the dockwalls on behalf of the tenants; the Port (and, ultimately, the City) will lose revenue if the dockwalls are not maintained.
3. Pier, Berth and Channel Improvements -- This is an ongoing Port of Milwaukee capital program. For 2009, \$200,000 in capital funding will be provided for various infrastructure improvements in the mooring basin and the Outer Harbor, as well as at the Port's Heavy Lift Dock. This is double the level of capital funding provided for this project in the 2008 Budget. The Port anticipates that another \$1.4 million will be needed over the next 5 years. City capital funding augments, and actually provides the 20% local match for, annual Wisconsin Department of Transportation grants that fund this program. As discussed later in this analysis, the Port anticipates receiving an \$800,000 grant for this activity in 2009.
4. Port Security -- The 2009 Proposed Budget provides \$300,000 in new borrowing authority for security improvements at the Port. No capital funding for this purpose was provided by the 2008 Budget. In 2008, the Port received U.S. Department of Homeland Security grant funds that enabled it to purchase new security equipment for its security patrol boat. However, the Port's current patrol boat is not large enough to accommodate the new equipment. A new or used vessel will be purchased to house the new equipment. Purchase of this vessel will be funded with \$650,000 from a federal Homeland Security grant. This grant requires a 25% local match (\$216,667) that will come from the Port Security capital account. The remaining \$83,337 of this capital allocation (\$300,000 minus \$216,667) is requested by the Port to outfit the new boat and to provide additional grant-match money if necessary.
5. Terminal Resurfacing -- The 2009 Proposed Budget includes \$250,000 in capital funding for a project to resurface paved areas at the Port's terminals. Because of subsurface conditions, paved areas at several terminals have settled and become uneven. Restoring these surfaces to a useable condition is necessary to meet safety standards and to comply with the terms of leases that the Port has with terminal users. The 2008 Budget provided \$100,000 in capital funding for this item.

Port of Milwaukee Grants

The Port's budget documents indicate that it will administer two grant-funded projects in 2009. First, the Port anticipates receiving an \$800,000 grant from the Wisconsin Department of Transportation Harbor Assistance Program to support the Port's ongoing pier, berth and channel improvements program. This will fund various infrastructure improvements in the mooring basin and the Outer Harbor, as well as at the Port's Heavy Lift Dock. As indicated in the above

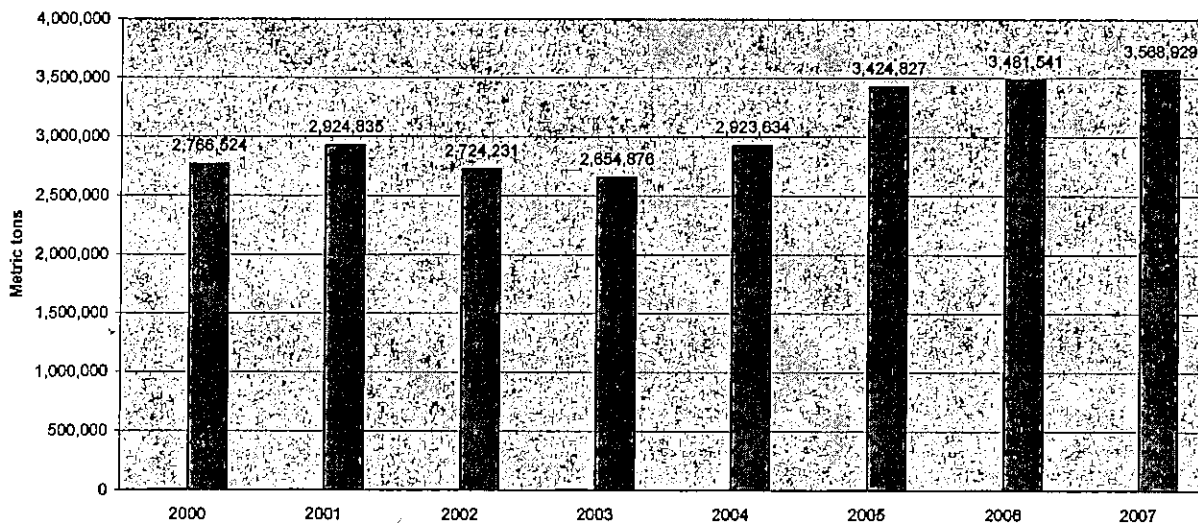
discussion of the Port's capital projects, the Port's Pier, Berth and Channel Improvements capital account will provide the 20% local match (\$200,000) for this grant-funded project.

The Port also expects to receive a U.S. Department of Homeland Security Port Security Grant in the amount of approximately \$650,000. This grant will be used to purchase a replacement vessel (new or used) for the Port's security patrol. The required 25% local match for this grant will come from the Port Security capital account.

Port Activity Levels

The Port of Milwaukee handled a record amount of cargo in 2007. As the following table shows, the 2007 increase continued a pattern of growth at the Port in recent years.

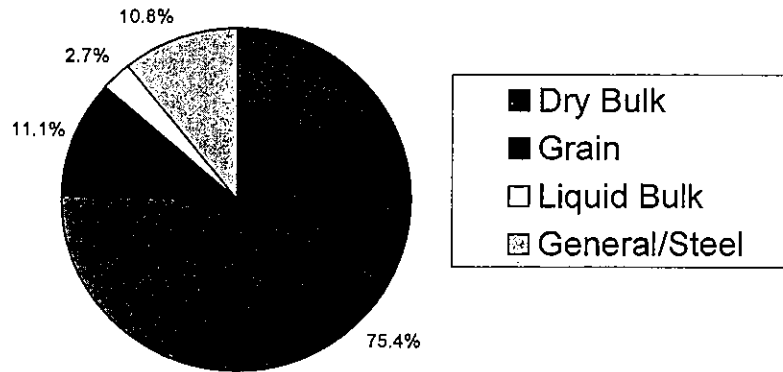
PORT OF MILWAUKEE ANNUAL TONNAGE, 2000-2007



However, consistent with recent trends in the international, national and local economies, Port tonnage is down so far in 2008. Through July, the Port handled 1,667,295 tons of cargo, an 11.4% decrease from the same period last year. Tonnage has declined in most major cargo categories, the one notable exception being salt, shipments of which increased 4.1% in the first 7 months of this year. The decline in tonnage has been particularly steep for grain (-69.9%), which has suffered from both high commodity prices and high shipping costs on all modes of transportation.

The Port of Milwaukee handles a wide variety of cargo types, including dry bulk cargo (coal, salt, cement, etc.), grain, general cargo (steel, machinery, etc.) and liquid bulk cargo (asphalt, oil, etc.). The cargo mix varies significantly from year to year, depending on shipping patterns and fluctuations in the economy. The following chart shows that, over the past 5 years, dry bulk commodities have accounted for roughly three-fourths of all cargo shipped through the Port of Milwaukee.

**BREAKDOWN OF TOTAL PORT TONNAGE
BY COMMODITY TYPE, 2003-2007**



In terms of specific commodities, the Port has experienced fairly constant shipments of coal (up 6% over the past 5 years, but down 26% between 2006 and 2007) and cement (up 14% in 5 years, down 13% in past year). Grain shipments have decreased significantly, down 14% from 2002 and 27% from 2006. On the positive side, shipments of salt through the Port have increased dramatically: the 1.34 million tons shipped in 2007 was 98% higher than 2002 tonnage and 60% higher than just a year before. In 2007, salt accounted for 48% of all dry bulk cargo and 38% of all cargo handled by the Port, up from 34% and 25%, respectively, 5 years earlier.

Another measure of activity at the Port is the number of vessels that call on it. In 2007, 311 vessels visited the Port of Milwaukee – 138 domestic ships, 75 Canadian ships, 58 ships from other nations and 40 Mississippi River grain barges. This is a decrease of 4 vessels (-1.3%) from the 315 vessels that used the Port in 2006. The downward trend has accelerated this year: through the end of August, 138 vessels came to the Port, a decrease of 61 vessel passages (-30.7 %) from the same period in 2007.

The Port of Milwaukee accommodates passenger vessels as well as cargo ships. All passenger ships now dock at the Pier Wisconsin cruise ship berth unless the ship's draft exceeds 17 feet or a scheduling conflict exists. In 2007, 6 passenger ships docked in Milwaukee, bringing with them approximately 450 passengers. This is a decrease of one cruise ship from 2006. So far in 2008, 4 cruise ships have used the Port of Milwaukee.

In addition to cruise ships, the Port of Milwaukee is also served by the Lake Express high-speed ferry, which provides service to Muskegon, Michigan. In 2007, the Lake Express made 997 departures from Milwaukee, an 8.5% increase over the 919 departures in 2006. However, this year, a modest decline in Lake Express crossings is expected given that the 2-trips-per-day spring sailing season started about 2 weeks later than 2007 and the 3-trips-per-day summer schedule started 6 weeks later.

Revenues

The Comptroller's Office projects that the Port of Milwaukee will receive \$4,795,011 in revenues in 2009, all in the category of "charges for services" (not including \$1.1 million from the lease with Milwaukee World Festivals, Inc.). This represents an increase of 10.8% from the estimated 2008 revenues. (Since the Port is an enterprise-fund agency, its projected revenues are budgeted to match its expenditures). The Port's 2009 Revenue Estimation Worksheets indicate that its largest revenue sources are as follows:

Revenue	2007 Actual	2008 Budget	Change	2009 Proposed	Change
1. Facility Rent*	\$2,187,100	\$1,965,000	-10.2%	\$2,005,000	+2.0%
2. Wharfage Charges	\$655,100	\$812,000	+24.0%	\$655,100	-19.3.0%
3. Dockage Charges	\$371,200	\$370,100	-0.3%	\$371,200	+0.3%
4. Crane Rental	\$484,800	\$256,800	-47.0%	\$275,000	+7.1%
5. Billable Labor Charges	\$670,200	\$251,200	-62.5%	\$245,000	-2.5%

* Includes rental revenue from all 30 leases of Port land or buildings, including the Harbor 550 restaurant property and the Lake Express ferry terminal, but not rent payments for Maier Festival Park. Also includes certain variable facility-related charges based on tonnage or volume (e.g., number of rail cars using the intermodal facility, tons of coal shipped for We Energies, etc.).

The 2007-08 revenue declines for crane rental and billable labor charges suggest that a large drop in business at the Port is expected for 2008. However, as the previously presented tonnage figures indicate, the cargo volume decline this year has been rather modest. What these large percentage declines really reflect is much higher than expected revenues from crane rental and billable labor charges in 2007 (the budgeted figures for that year were much closer to the 2008 Budget figures). The 2009 revenue projections are based on a combination of 2007 actual figures and a realization that 2007 was a banner year for Port traffic that resulted in atypical revenues in certain revenue categories. It should be noted that the Port's 2009 revenue estimates include rent payments, but not through-put charges (minimum of \$10,000 annually, per lease agreement), from the Innovation Fuels biodiesel fuel production facility that is expected to begin operation next year.

Revenue Transfers to General Fund

The Port of Milwaukee operates as a self-supporting “enterprise fund”. When the department’s revenues exceed its expenditures, the surplus revenue is transferred to the City’s General Fund. Since 2001, the Port’s revenues have exceeded its operating expenses (excluding depreciation), resulting in the following amounts being transferred to the General Fund:

2001	\$167,000
2002	\$1,021,000
2003	\$565,000
2004	\$1,105,000
2005	\$1,707,000
2006	\$939,000
2007	\$1,095,000

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