

PORT OF MILWAUKEE 2010 PROPOSED BUDGET

Executive Summary

1. The 2010 Proposed Budget adds a new Graduate Intern (0.5 FTE) position for the Port of Milwaukee. This position will provide assistance to Port marketing and finance staff in such areas as marketing/promotion, website development/maintenance, media relations and compilation of statistical reports. (page 1)
2. Funding for 2 of the Port's 6 Port Maintenance Technician positions is eliminated. Both positions, along with one other Port Maintenance Technician position, are currently vacant. The Port has indicated that extension of maintenance schedules and relatively low activity levels at the Port make this staff reduction possible. (pages 1 and 2)
3. The appropriation for the Port's Professional Services operating expenditure line item is being increased from \$160,000 in 2009 to \$210,000 for 2010. It is anticipated that the additional funding will be used to hire a consultant to prepare a forecast of the Port's capital budget needs and revenues over the next 5-10 years. (page 2)
4. The Port's Dockwall and Breakwater Rehabilitation special fund, which received an appropriation of \$100,000 in the 2009 Budget, is not funded for 2010. However, the Port will continue to do the work supported by this fund using the remaining balance in the fund, as well as existing capital funding and grant funding for dockwall and breakwater repairs. (page 3)
5. The overall 8.7% increase in the appropriation for the Port's special funds is wholly attributable to an increase in the Summerfest Revenue Transfer to the General Fund, which is simply an accounting mechanism and does not represent actual expenditures by the Port. Not including the Summerfest Revenue fund, appropriations for the Port's special funds are actually decreasing for 2010. (page 3)
6. No new capital funding is provided for the Port of Milwaukee, compared to \$1.5 million in new borrowing authority for 5 capital projects in the 2009 Budget. However, the Port will continue to carry out its capital projects using carryover funds available. (page 4)
7. The Port will be seeking Wisconsin DOT grant funding for 3 projects in 2010 -- \$400,000 to support the Port's ongoing pier, berth and channel improvements program, \$4 million for the purchase of a new crane to replace the Port's heavy-lift crawler crane and \$500,000 to reconfigure the Port's on-ramp to Interstate 794 to make it usable for trucks carrying oversize loads. (page 4)
8. Because of the downturn in the economy, the Port's actual 2008 revenues were significantly lower than budgeted revenues in most categories, a trend which has continued in 2009. (page 7)

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2010 PROPOSED BUDGET – PORT OF MILWAUKEE

Summary by Legislative Reference Bureau – Research & Analysis Section

Expense Category	2008 Actual	2009 Budget	% Change	2010 Proposed	% Change
Personnel Costs	\$1,667,305	\$1,817,561	9.0%	\$1,687,778	-7.1%
Operating Expend.	\$794,314	\$1,198,950	50.9%	\$1,210,000	0.9%
Equipment Purch.	\$0	\$0	0.0%	\$0	0.0%
Special Funds	\$1,396,271	\$1,778,500	27.4%	\$1,934,000	8.7%
TOTAL	\$3,857,890	\$4,795,011	24.3%	\$4,831,778	0.8%
Capital	\$669,750	\$1,500,000	124.0%	\$0	-100.0%
Positions*	35	35	0	36	+1

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

2010 BUDGET HIGHLIGHTS AND ISSUES

Personnel

1. The 2010 Proposed Budget provides \$1,687,778 in funding for the Port's personnel costs, a decrease of \$129,783 (-7.1%) from the 2009 Adopted Budget.
2. Under the Proposed Budget, the number of positions at the Port of Milwaukee will increase by one to 36. The new position is a Graduate Intern (0.5 FTE) in the department's Marketing Section. The Graduate Intern will provide assistance to Port marketing and finance staff in the areas of marketing/promotion, website maintenance/development, media relations and compilation of statistical reports. The Graduate Intern may also be assigned the tasks of monitoring changes in federal legislation affecting the Port and activating the Port's Foreign Trade Zone status.
3. Despite the addition of the Graduate Intern position, total full-time equivalent positions are actually being reduced from 22.0 to 20.5. This is because the Proposed Budget eliminates funding – but not position authority -- for 2 of the Port's 6 Port Maintenance Technician positions. The elimination of funding for these positions is largely responsible for the reduction in the department's personnel costs for 2010. (Note: In addition to the 22 full-time positions and one half-time position, the Port's budget also includes position authority for 7 Harbor Commissioners and 6 unfunded auxiliary positions, for a total of 36 positions.)
4. Three of the Port's 6 Port Maintenance Technician positions are currently vacant and have been for over a year (vacancies effective 8/1/07, 10/22/07 and 8/6/08). Thus, the elimination of funding for 2 positions will not impact any current employees. However, the Port will need to continue to operate with a significantly reduced staff of workers responsible for maintaining its facilities. Port management staff have indicated that this can be accomplished by stretching out maintenance schedules and because business has

been slow at the Port. However, if business and shipping activity at the Port increase, creating more demand for the services performed by Port Maintenance Technicians (e.g., railroad maintenance and snow removal), it may be necessary to fund one of these positions in the future.

5. Although it has not used its auxiliary position authority to supplement regular personnel in at least 9 years, the Port's budget will again include position authority for 6 auxiliary personnel in 2010. 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 (and, in fact, none have announced their retirement), 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.

Operating Expenditures

1. The 2010 Proposed Budget provides \$1,210,000 for the Port's Operating Expenditures, an increase of \$11,050 (+0.9%) from the \$1,198,950 budgeted for 2009.
2. The 2010 budgeted amounts for most Operating Expenditure line items are similar or identical to the 2009 Budget figures. Two line items with notable decreases in funding are Energy and Other Operating Supplies. In the case of Energy, the Proposed Budget reduces funding from \$90,000 to \$75,000, a reflection of both anticipated 2010 energy prices and actual 2008 expenditures (\$73,089). As far as Other Operating Supplies, which funds such items as replacement cables for the Port's cranes, other crane parts, hardware and employee uniforms, the decrease from \$85,000 in 2009 to \$65,000 in 2010 has been proposed to bring funding for this line item more in line with actual expenditures (e.g., \$41,268 in 2008).
3. The reduction in funding for Energy and Other Operating Supplies is offset by a proposed increase in funding for the Professional Services line item, from \$160,000 to \$210,000 (+31.3%). The Professional Services account funds memberships in trade/professional organizations, attendance at trade shows and professional seminars, and consultant studies of the Port's land and equipment use. The increase in funding for this item is attributable to a proposal to hire a consultant to prepare a forecast of the Port's capital budget needs and revenues over the next 5-10 years. The Port's infrastructure (e.g., cranes, dockwalls and breakwaters) is aging and will need major repair or replacement in the near future. At the same time, the Port is witnessing a number of new business initiatives (e.g., biodiesel fuel production/shipment, wood pelletization facility, possible return of wind energy generation equipment) that may increase its revenues significantly. The department believes a study that thoroughly documents both anticipated capital expenditures and Port revenues could be useful for developing future budgets.

Equipment Purchases

The 2010 Proposed Budget makes no provisions for equipment purchases by the Port of Milwaukee.

Special Funds

The 2010 Proposed Budget contains 9 Port of Milwaukee Special Funds totaling \$1,934,000. This is an increase of 8.7% from the \$1,778,500 budgeted for 2009

1. All 9 special funds were also funded in 2009. One other special fund in the 2009 Budget – Dockwall and Breakwater Rehabilitation – is not funded for 2010. This special fund supports an ongoing program to maintain the Port's dockwalls in an appropriate condition to meet the needs of modern cargo-handling activity and to prevent costly emergency repairs. While no new funding is appropriated for 2010, the Port intends to continue with this work by using the remaining balance in this fund, as well as existing capital funding and grant funding for this purpose.
2. The level of funding for the Port's Energy Efficiency Upgrade special fund is being cut in half, from \$100,000 to \$50,000. The purpose of this fund is to improve the energy efficiency of Port terminal buildings by replacing their roofs with aluminum-coated roofs. The Port has not replaced any roofs with this fund in 2009; rather, it has collected field data from several sites and performed other research in anticipation of contracts for roof replacement being let in 2010. Thus, 2009 funding in this account remains available and, when combined with the 2010 appropriation, will be sufficient to pay for replacement roofs on at least 2 of the large warehouse buildings at the Port in 2010.
3. The increase in funding for the Port's special funds is entirely attributable to an increase in the Summerfest Revenue Transfer to the General Fund special fund (from \$1,110,000 in 2009 to \$1,400,000 in 2010), which is not a fund from which the Port can make expenditures, but simply an accounting mechanism to provide for the pass-through of Milwaukee World Festival Inc. rental payments to the City. The rent payment schedule that is part of the 2001 lease agreement between the City and Milwaukee World Festival Inc. provides for an extra payment to the City every 5th year, and 2010 is one of those years.

Special Purpose Accounts

The 2010 Proposed Budget contains no special purpose accounts administered by the Port of Milwaukee.

Capital Projects

The 2010 Proposed Budget differs from previous adopted budgets in that it provides no new capital improvement funding for the Port of Milwaukee. In contrast, the 2009 Adopted Budget provided \$1.5 million in new borrowing authority for 5 Port capital improvement projects.

While no new capital funding is provided, the 2010 Proposed Budget indicates that the Port will have over \$3.5 million in carryover borrowing authority available to undertake, continue or finish various capital projects (the carryover amount may be substantially reduced after the Port submits invoices for all of this year's capital-funded work for reimbursement). The Port has indicated that all of its 2009 capital-funded projects -- Cargo Handling Equipment, Dockwall Rehabilitation, Pier/Berth/Channel Improvements, Port Security and Terminal Resurfacing -- will be active in 2010, even though no additional funding is being provided in the 2010 Budget. It will proceed with these projects as conditions warrant, making use of the fund balances available.

Port of Milwaukee Grants

The Port's budget documents indicate that the department plans to administer 3 grant-funded projects in 2010. First, the Port anticipates receiving a \$400,000 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. Carryover borrowing authority in the Port's Pier, Berth and Channel Improvements capital account will provide the 20% local match (\$100,000) for this grant-funded project. The Port sought grant funds from this program in 2009 as well, but was not successful in obtaining a grant.

The Port is also pursuing a second WisDOT Harbor Assistance Program grant for 2010 -- a grant in the amount of \$4 million to fund the purchase of a new crane (specifically, a replacement for the Port's heavy lift Lima crawler crane). The Port reports that it last purchased a new crane in 1992 and that it is experiencing substantial repair costs and difficulty in finding replacement parts for its aging fleet of cranes. The availability of crane service helps the Port of Milwaukee differentiate itself from other Great Lakes ports. As indicated later in this analysis, crane service generates significant revenue for the Port, in the form of both crane rental revenues and income from billable labor charges. The Port has not yet identified the funding source for the 20% local match (\$1 million) for this grant project.

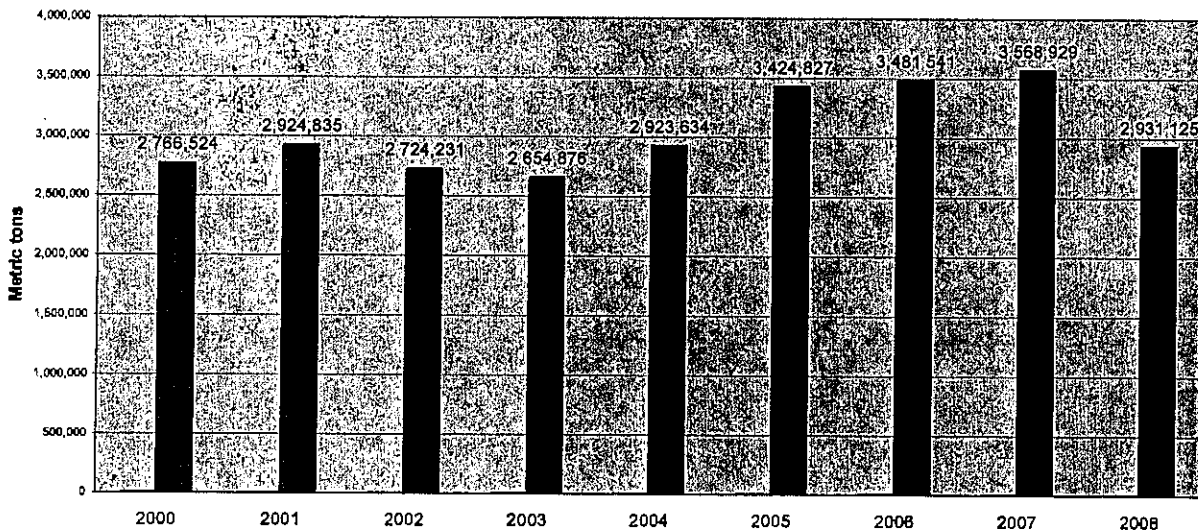
Finally, the Port is working with DPW to secure approximately \$500,000 in grant funding from WisDOT to reconfigure the on-ramp to Interstate 794 that is closest to Port facilities. This ramp is located just south of Lincoln Avenue. The tight turning radius of the current ramp limits the utility of the ramp for large trucks, sometimes necessitating the use of city streets and much more distant on-ramps by trucks hauling oversized loads (e.g., wind power generation equipment). Once the on-ramp is reconfigured, the Port will become a more attractive trans-shipment location for businesses that ship large equipment into or out of southeastern Wisconsin. This is a new grant-funded project for 2010. DPW will be spearheading the actual work on this project and will also provide the local match using 2009 City capital funding.

The \$4.9 million in grant funding the Port is seeking for 2010 represents a substantial increase in grant activity at the Port. In 2009, the Port sought 2 grants totaling about \$1.4 million – the Harbor Assistance Grant for pier, berth and channel improvements (which was not awarded to the Port) and a 3-year, \$600,000 Federal Port Security Grant for the purchase of a replacement vessel for the Port’s security patrol boat.

Port Activity Levels

After handling a record amount of cargo in 2007, the Port experienced a 17.9% decrease in tonnage in 2008. As the following table shows, the 2008 drop was in contrast to 4 years of steady growth in shipments through the Port. Nevertheless, 2008 tonnage was comparable to the level of Port activity in the first half of the decade.

PORT OF MILWAUKEE ANNUAL TONNAGE, 2000-2008

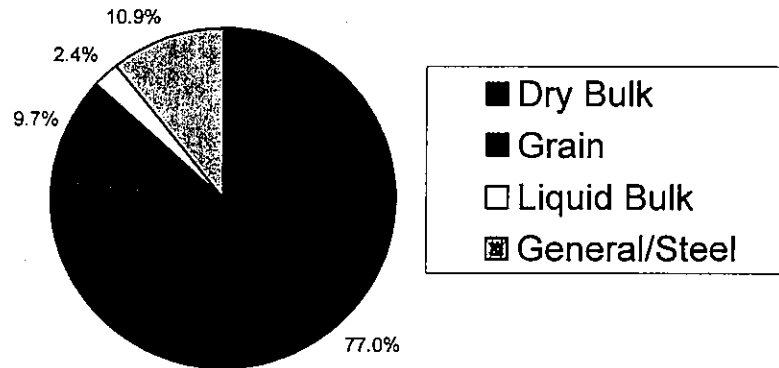


The current economic recession is responsible not only for the 2008 decrease in Port tonnage, but a continuation of that decline in 2009 as well. In the first 6 months of this year, the Port handled 1,153,225 tons of cargo, an 18.1% decrease from the same period last year. Tonnage has declined in most major cargo categories, the one notable exception being grain, shipments of which increased 322% in the first 6 months of this year as a result of lower shipping rates. The decline in tonnage has been particularly steep for construction-related commodities, including cement (-30%) and asphalt (-90%). In addition, a cooler-than-normal summer has resulted in a 30% reduction in coal shipments.

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, 2004-2008**



In terms of specific commodities, notwithstanding the recent tonnage drops associated with the economic downturn, the Port has experienced sizeable increases in shipments of salt and coal (up 62% and 21%, respectively, between 2003 and 2008), as well as fairly stable levels of cement shipments (essentially unchanged from 2003 to 2008). Grain shipments, on the other hand, have decreased significantly, falling by 66% between 2003 and 2008. While grain accounted for 12.3% of the Port’s total tonnage in 2003, it represented only 4.4% of the total in 2008. This rather dramatic drop in grain shipments can be attributed to a spike in freight rates in 2007 and 2008 that priced the Port of Milwaukee (and other Great Lakes ports) out of the grain-shipping market. As noted earlier, recent favorable changes in freight rates have led to a reversal of this trend in 2009.

Another measure of activity at the Port is the number of vessels that call on it. In 2008, 225 vessels visited the Port of Milwaukee – 118 domestic ships, 60 Canadian ships, 34 ships from other nations and 13 lake and Mississippi River barges. This is a decrease of 86 vessels (-27.7%) from the 311 vessels that used the Port in 2007. The downward trend has continued this year: through August 15, 111 vessels came to the Port, a decrease of 20 vessel passages (-15.3 %) from the same period in 2008.

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 2008, 6 passenger ships docked in Milwaukee, bringing with them approximately 500 passengers. This is same number of passenger ships as visited Milwaukee in 2007. So far in 2009, 3 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. The Lake Express will make

approximately 800 crossings in 2009. The annual economic impact of this ferry service on the Milwaukee area is estimated to be \$25-\$30 million.

Revenues

The Comptroller's Office projects that the Port of Milwaukee will receive \$4,831,778 in revenues in 2010, all in the category of "charges for services" (not including \$1,472,000 from the lease with Milwaukee World Festivals, Inc.). This represents an increase of 0.8% from the estimated 2009 revenues. (Since the Port is an enterprise-fund agency, its projected revenues are budgeted to match its expenditures). The Port's 2010 Revenue Estimation Worksheets indicate that its largest revenue sources are as follows:

Revenue	2008 Budget	2008 Actual	Difference Actual v. Budget	2009 Budget	2010 Proposed	Change
1. Facility Rent*	\$1,965,000	\$2,203,100	+12.1%	\$2,005,000	\$2,247,200	+12.1%
2. Wharfage Charges	\$812,000	\$528,600	-34.9%	\$655,100	\$650,000	-0.8%
3. Dockage Charges	\$370,100	\$308,800	-16.6%	\$371,200	\$350,000	-5.7%
5. Billable Labor Charges	\$251,200	\$198,600	-20.9%	\$245,000	\$240,000	-2.0%
4. Crane Rental	\$256,800	\$185,000	-28.0%	\$275,000	\$175,000	-36.4%

* Includes rental revenue from all 30 leases of Port land or buildings, including the Specialty Restaurants 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.).

This table indicates that, in all major revenue categories except facility rent (which is based on long-term contracts, not short-term economic fluctuations), 2008 revenues fell well short of projections. Once again, this is the result of the unanticipated, severe downturn in economic conditions that began in 2008.

The continued weakness of the economy, as reflected in the volume of traffic at the Port of Milwaukee, is also taking its toll on Port revenues in 2009. As of August 31, year-to-date revenues were down in all 4 major tonnage-related categories compared to the same time period in 2008: wharfage (-1.4%), dockage (-49.3%), billable labor charges (-41.5%) and crane rental (-30.5%).

The Port's revenue estimates for 2010 are based on actual revenue figures for the last 6 years (2003-2008). As such, they may be somewhat optimistic given that the current recession affected only one of those years (2008) and that economists predict the recession, while abating somewhat, will continue well into 2010.

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	\$1,634,000
2008	\$208,000

Please note that these figures do not include the transfers of Summerfest rental payments to the General Fund, which exceed \$1 million annually.

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PORT OF MILWAUKEE BUDGET HISTORICAL HIGHLIGHTS

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. Most recently, the Port was awarded a U.S. Department of Homeland Security Port Security Grant for the purchase of a replacement for its harbor patrol boat.
2. 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.
3. 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.
4. Port of Milwaukee revenues exceeded operating expenditures each year from 2001 through 2008. 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.
5. 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. Innovation Fuels will be using the Port's liquid cargo pier and existing excess liquid cargo storage capacity on Jones Island. However, due to uncertainty in the market demand for biofuels, Innovation has temporarily placed construction of the fuel production facility on hold.
6. 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. Currently, at least 8 Port employees are eligible for retirement, and the auxiliary positions will allow the Port to hire new employees quickly, thereby enabling it to transmit institutional knowledge from retiring employees to their replacements before the retirements occur.
7. After several years of steady growth, activity at the Port of Milwaukee -- as measured by both cargo tonnage and number of vessels -- dropped significantly in 2008. The Port handled 2,931,125 tons of cargo in 2008, 17.9% less than in 2007, while the number of vessels calling on the Port decreased from 311 to 212. This decline in Port traffic is attributable to weakness in the international, national and local economies.