

FISCAL REVIEW SECTION – LEGISLATIVE REFERENCE BUREAU

2005 Proposed Budget Summary: Port of Milwaukee

CATEGORY	2003 ACTUAL	2004 BUDGET	% CHG	2005 PROPOSED	% CHG
OPERATING	\$3,237,878	\$3,422,909	5.7%	\$3,557,378	3.8%
CAPITAL	\$1,412,869	\$ 650,000	-54.0%	\$ 725,000	11.5%
POSITIONS*	34	33	-2.9%	29	-12.1%
DHL	28,854	36,000	0.0%	27,000	-25.0%

* *Authorized positions include full-time funded, part-time funded and unfunded positions, including auxiliary positions and members of boards and commissions.*

OVERVIEW

The operations of the Port of Milwaukee include: leasing of harbor lands, equipment, and facilities; establishing rates for use of the Port and its facilities; planning, designing, and constructing harbor improvements; and day-to-day operations and promotion of the Port. The Port of Milwaukee is a city department included in the tax levy-supported budget; however it is accounted for as an enterprise fund.

DEPARTMENTAL MISSION STATEMENT AND OBJECTIVES

To enhance the overall economic environment of the region by stimulating trade, business, and employment.

The Port's objectives in meeting this mission are to:

- Continue developing as a major regional transportation and distribution center
- Become self sufficient financially
- Develop a sensitivity and responsiveness to the needs of current and potential customers
- Locate water dependent manufacturing or related businesses on Port property
- Seek support from local and state political entities to address federal legislation more favorable to the Port

PERTINENT HISTORICAL INFORMATION

1. The Port's budgeted direct labor hour allocation increased from 34,218 in 2000 to 36,000 in 2004, an increase of 5.2%. Budgeted position authority, including auxiliaries and Harbor Commissioners, decreased from 35 in 2000 to 33 in 2004.
2. The 1998 Adopted Budget included \$2,390,000 for capital improvements. Approximately 73% of these funds were budgeted for a new state-of-the-art warehouse on Pier 2. Total project funding requirements were estimated at \$3 million. The 1998 Capital Budget appropriated \$1.74 million in new borrowing, which was combined with a later request to transfer approximately \$1.3 million into the existing capital improvement funds for the warehouse project.

3. Port revenues during 2000 were budgeted at \$2,220,060, an increase of 1.31% from 1999 actual revenues of \$2,309,853.
4. In the 2000 Adopted Budget, \$2,150,000 was provided for capital improvements. Projects included \$1.9 million for South Harbor Track Improvements, \$200,000 for Pier, Berth and Channel Improvements and \$50,000 to demolish the old Dock Office.
5. In 2000, the Port was part of an Economic Impact Study by the St. Lawrence Seaway System. The study examined the Port's influence on employment, revenue and taxes. The report was published in 2001.
6. In 2001, the Port signed a 20 year agreement with Milwaukee World Festival Inc. for lease of the Summerfest grounds. The new lease will provide approximately \$960,000 in annual revenue.
7. For 2002, the Capital Improvements Budget was approved at \$785,000, an increase of \$60,000, 8.28%, from the 2001 Budget of \$725,000.
8. In June 2002, the U.S. Coast Guard ruled that hopper barges transporting cargo on the country's inland waterways could be used to ship goods via Lake Michigan. The regulatory change has increased the Port's overall tonnage.
9. In the 2003 Budget, two projects, formerly provided through capital funding, were made part of Special Funds. They include Major Maintenance of Terminal and Piers for \$72,600 and Major Rehabilitation and Upgrades for Equipment for \$50,000.

2004 ACTIVITIES

High Speed Ferry - For the past few years, the Port has been working with a private investor group to develop a high speed, cross-lake auto and passenger vessel service. On June 25, 2003, Lake Express LLC announced that U.S. Department of Transportation, Maritime Administration approved their application for a Title XI loan guarantee to assist in cost development and construction. The high-speed ferry was constructed at the Austal Ship Yard in Mobile, Alabama. The ferry was delivered to Milwaukee in May 2004 for inspection and crew training. Service began June 2004.

The ship, called Lake Express, operates from May through December, crossing Lake Michigan to Muskegon, Michigan in 2 hours and 20 minutes at 40 miles per hour (versus 5.5 to 6 hours driving). As a vehicle and passenger-carrying catamaran, it is designed to transport approximately carry 250 passengers and 46 autos each trip from May through December. From June through mid-September, the vessel made 3 round-trips daily. In May and October through December, the vessel will make 2 round-trips daily. This is the first high-speed auto/passenger vessel to connect ports within the continental U.S.

Lake Express LLC is organized by Lubar & Co., a Milwaukee based investment firm.

Ferry Terminal – The terminal is located at the Milwaukee docking on the Port's Confined Disposal Facility (CFD), next to the Coast Guard Base. The project involved the construction of a passenger terminal/maintenance facility and ramping system to handle both the proposed high-speed ferries and increasing American and international cruise trade.

The original architectural design called for two buildings, a terminal building and maintenance building. That design included a building layout of 8,000 sq. ft: the first level included baggage handling, a café, small retail shop, a ticket counter, commercial kitchen, rest rooms, maintenance and storage and a glassed waiting area for 45 passengers. The second floor was for offices and roof deck. Due to the high construction costs the architectural designs were modified, whereby there is one building, to meet the \$2.4 million total budget. The ferry terminal/maintenance facility is a dual use facility to accommodate the Port's growing cruise passenger trade as well as the high-speed ferry.

The Port has negotiated a lease with Lake Express LLC for the development and use of the ferry terminal. The lease, for 5 acres of land, begins April 15, 2004 and runs through April 14, 2014 with options for 3 additional 5-year periods. The estimated revenue for the first 10 years is \$1.7 million through passenger fees, and terminal/maintenance building rent. These revenues will assist the Port in becoming financially self-sustaining.

The site includes parking for 200 cars adjacent to the terminal. A long term lot is scheduled to be built in the near future according to the lease agreement. The terminal is expected to handle up to 150,000 passengers per year.

2005 PROPOSED BUDGET ISSUES AND CHANGES

PERSONNEL

In the 2005 Proposed Budget, the Port has 29 authorized positions, a decrease of 4 positions, -12.1%, from the 2004 Budget of 33 positions. Direct Labor Hours (DLH) for 2005 is 27,000, a decrease of 9,000, 25.0%, from the 2004 Budget of 36,000. O&M FTE is 15.0 and Non-O&M FTE is 0.0.

1. The following 7 positions are vacant:

- Trade Development Rep. Sr.SG 007, since 1/98
- Office Assistant II, SG 410, since 1/00
- Port Maintenance Worker II, SG 274, 3 positions, since 9/00, 6/01 and 2/04
- Harbor Crane Operator, SG 958, since 5/01
- Municipal Port Director, SG17, since 9/04

2. The following positions are eliminated in the 2005 Proposed Budget to reduce 2005 operating expenses:

- Trade Development Rep. Sr, SG007, vacant since 1/98
- Office Assistant II, SG 410, vacant since 1/00
- Auxiliary - Civil Engineer II, SG626
- Auxiliary - Inspector Docks & Dredging, SG535, 2 positions
- Auxiliary - Port Maintenance Technician II, SG278

3. The following positions were added to the 2005 Proposed Budget:

- Auxiliary - Trade Development Rep. Sr, SG007, vacant since 1/98
- Auxiliary - Office Assistant II, SG 410, vacant since 1/00

4. Due to vacancies, critical duties are being performed by the other personnel; non-critical duties have been delayed or have ceased to be performed. The department has hired temporary crane operators and contracted out many services such as railroad repairs, formerly performed by the staff.

LINE ITEMS

In the 2005 Proposed Budget, total Operating Expenditures are \$865,220, an increase of \$86,369, 11.1%, from the 2004 Budget of \$778,831. This includes the following:

1. Property Services, \$258,737, an increase of \$85,906, 50.0% over the 2004 Budget of \$172,831 for telephones, and buildings, grounds and equipment maintenance.
2. Other Operating Services, \$110,000, used for equipment repair, advertising, printing and other miscellaneous services. This is an increase of \$35,000, 46.7% from the 2004 Budget of \$75,000. This increase is due to outsourcing for services that were previously obtained from other city departments, at a lower cost. *(In 2005, Reimburse Other Departments is funded at \$45,000, a decrease of \$31,500, -41.2%, from \$76,500 in the 2004 Budget.)*

3. Information Technology Services, \$49,000, an increase of \$44,000, 880.0% from the 2004 Budget of \$5,000. The increase is based on 2003 and 2004 expenditures to date. With rapid changes in computer technology, and upgrades to various IT services, the department must maintain its connections for communications.
4. Other Operating Supplies, \$30,000, a decrease of \$25,000, -45.5%, from the 2004 Budget of \$55,000 for chemicals, cleaning supplies, cable, chain and signs.
5. Infrastructure Services, \$45,000, a decrease of \$45,000, -50.0%, from the 2004 Budget of \$90,000. Repairs for dock and pier maintenance will be delayed due to budget allocation constraints. Necessary, required maintenance will be accomplished within the budget.

TONNAGE FLUCTUATION

From 1999 to 2003, the Port's annual net tonnage of cargo passing through Milwaukee decreased slightly from 2,786,860 tons in 1999 to 2,930,496 tons in 2003.

For the last five years, total net tonnage is 14,435,065, with a 5-year average of 2,887,013:

	1999	2000	2001	2002	2003
Tonnage	2,786,860	2,766,524	3,226,954	3,005,567	2,930,496

Tonnage of cargo either inbound or outbound can vary by the increase or decrease of goods demanded and weather conditions. A mild winter will reduce the demand for certain bulk cargoes, such as salt (for ice control) and coal.

The tonnage of cargo varies each year as stated above. The table below illustrates the types of cargo handled at the Port. It is not representative of the total tonnage by year.

Cargo	1999	2000	2001	2002	2003
Cement	348,589	370,461	403,165	353,639	352,409
Coal	595,470	700,729	765,834	825,363	726,329
Salt	873,607	778,027	1,136,232	693,697	682,949

The Port will continue to market its diversified transportation means in transporting cargo to attract additional customers and create increased tonnage and revenue in 2005.

LEASE AGREEMENTS

Lease Agreements – The Port continues to identify opportunities to lease land to private business and examine current lease agreements that benefit the City of Milwaukee and the department. The terms of the leases involve length of contract, costs, and economic returns to the community. In the 2005 Proposed Budget, there are no new leases, one lease may expire without renewal and some leases are due for an escalation in 2005, which projects an increase in revenue.

Summerfest. Based on a 20 year lease, beginning with January 2001 through December 2020, annual rental payments were estimated at \$1 million that is expected to increase. Every 5th year of the agreement, as in 2005, Summerfest is scheduled to make an additional payment. The amount received is dependent on MWF total sales. This lease will eventually rise 3% annually.

Return of River Barges - The Port of Milwaukee has worked closely with the U.S. Coast Guard and the barge industry to eliminate certain restrictive American Bureau of Shipping inspection requirements. The U.S. Coast Guard ruled in June 2002 that hopper barges transporting cargo on the country's inland waterways could be used to ship goods via Lake Michigan. The regulatory change has increased the port's overall tonnage. In the past, barges that ran from Milwaukee to the Mississippi River from 1993 through 1996 averaged 158,000 tons annually.

In 2002, the barges returned, bringing tonnage and commodities through 2004 as follow:

Year	# of Barges	Tonnage	Commodities
2002	45	67,500	Grain, Pig Iron, Salt & Gravel
2003	58	82,545	Grain & Pig Iron
2004 YTD	82	120,375	Grain & Pig Iron
2005*	-----	140,000	Grain & Pig Iron

** The 2005 metric tonnage is estimated.*

Cruise Ships – The Port is working with various cruise ships to make Milwaukee a destination in the tour itinerary. For 2005, agreements have been reached with:

- c. Columbus, a German cruise ship
- Niagara Prince, an American ship

The ships will disembark passengers for 1 day so that the passengers can visit points of interest like museums, restaurants, theaters, retail shops, bookstores, ballgames, casino, and parks in the Milwaukee area. The ships use the ferry terminal. The estimated fiscal impact to the city from the ship and passengers is \$100,000.

In 2005, the department expects cruise ships/luxury liners to come in once a week from mid-July through August. The projected revenue in 2005 from dockage and wharfage is \$8,000. The Port expects the Niagara Prince to dock 5 times and the Columbus to dock twice.

YEAR	# OF SHIPS	LENGTH OF STAY	# PASSENGERS
2002	6	1 DAY	504
2003	12	1 DAY	980
2004 YTD	7	1 DAY	1,150
2005*	15	1 DAY	

**Projected figures.*

CAPITAL IMPROVEMENTS

The 2005 Proposed Budget provides \$725,000 for capital improvements projects, an increase of \$75,000, 11.5%, from the 2004 Budget of \$650,000.

Projects	2004 Estimated	2005 Estimated	% Change
Secured Ferry Terminal Parking Facilities	\$0	\$200,000	-
Dockwall Rehabilitation	\$100,000	\$50,000	-50.0%
Pier & Berth, Channel Improvement	\$200,000	\$0	-100.0%
Port Security	\$250,000	\$100,000	-60.0%
Rail Track & Service Upgrades	\$100,000	\$0	-100.0%
Analyze & Upgrade Sewer System	\$0	\$150,000	-
Cargo Handling Equipment	\$0	\$50,000	-
Acquire & Rehabilitate KK River Site	\$0	\$175,000	-
Total	\$650,000	\$725,000	11.5%

Many of the projects for upgrades, rehabilitation and improvements are mandated by the department's lease agreements with the tenants. The buildings must be maintained in a safe and useable condition to meet code regulations. Regular improvements and maintenance help prevent structural damage and costly repairs.

1. **Secured Ferry Terminal Parking Facilities - \$200,000** - In 2005, the department plans security improvements to the long-term secured parking facilities in support of Port cargo and passenger operations in compliance with new laws mandated by the federal Department of Homeland Security through the U.S. Coast Guard.
2. **Acquire and Rehabilitate KK River Site - \$175,000** – This project should be called the Confined Disposal Facility Rehabilitation. The facility was built in 1970 under an agreement between the U.S. Army Corps of Engineers as a disposal facility for dredging from the Federal Navigation Projects. According to the agreement, when the facility was full it would be returned to the city for long-term operation and maintenance. The southlerly 600 feet have been filled for about 10 years and the agreement requires the city to make various improvements when returned. The rehabilitation will includes a required covering cap, a berm separating the returned section from the active section and various other improvements needed to utilize the area for port activities.
3. **Analyze & Upgrade Sewer System - \$150,000** – In an effort to maintain the 10 miles of sewer system that serves the Port area, an inspection is needed to determine if heavy and/or corrosive cargo loading has reduced the capacity of the system. Rehabilitation is needed for safety measures and requirements for state and federal regulations. This is an on-going program. The Port is required under the terms of its various leases to provide adequate utilities. Through the wear and tear of using of 300-ton cranes, heavy trucks and cargo handling equipment, problems are created over time.

4. **Port Security - \$100,000** - The Department of Homeland Security, through the U.S. Coast Guard has developed a comprehensive set of new regulations concerning Port security. To protect the Port infrastructure the Port must be "secured" or made a more difficult target. Security enforcement includes more fencing, crash gates, lighting and potentially, security cameras. This is an on-going program.
5. **Cargo Handling Equipment - \$50,000** – The Port plans to purchase a skidster for ground maintenance, snowplowing, railroad maintenance, etc. The current tractor was purchased over 25 years ago, and the attachments, plow blades, and brooms must be replaced.
6. **Dockwall Rehabilitation - \$50,000** - This is an on-going project. Routine maintenance averts costly emergency repairs for appropriate cargo operations. The dockwalls must be maintained for lease and cargo operations. The funding will be used to maintain and upgraded the dockwalls to meet safety and industry standards.

SPECIAL FUNDS

In the 2005 Proposed Budget, Special Funds provides \$1,315,000, an increase of \$94,899, 7.8%, from the 2004 Budget of \$1,220,101. The Special funds include:

	2003 Actual	2004 Estimated	2005 Projected	% Change
Summerfest Revenue Trans.	\$960,000	\$960,000	1,200,000	25.0%
Major Mtce. Terml. & Piers	\$49,600	\$72,601	\$70,000	-3.6%
Major Rehab & Upgrades	\$48,908	\$50,000	\$45,000	-10.0%
Jones Island Pub. Fishing	\$0	\$137,500	\$0	-100.0%
Total	\$1,058,508	\$1,222,101	\$1,315,000	

1. **Summerfest Revenue, \$1,200,000.** Based on a 20 year lease, beginning with January 2001 through December 2020, annual rental payments are estimated at \$1 million and are expected to increase. As part of the Summerfest agreement, the revenue is passed into the general fund. The projected amount of \$1.2 million is due to an additional payment required every 5th year of the agreement. The amount is based on revenue less sales tax. Please see further discussion on page 10.
2. **Major Maintenance – Terminal & Piers, \$70,000.** In the past, funding for terminals and pier maintenance was part of the capital improvement projects. The \$70,000 provides for routine repairs to roofs, heating, ventilating systems, overhead doors, electrical systems, fire protection systems, utility systems, structural support systems, railway and roadway systems and security systems.
3. **Major Rehabilitation & Upgrades – Equipment, \$45,000.** In the past, funding for major rehabilitation and upgrades in equipment was part of the capital improvements projects. The \$45,000 provides for routine repair of the operating equipment. The projects include safety systems, hydraulic systems, electrical systems, structural systems and security systems.

REVENUE

In the 2005 Proposed Budget, the Comptroller's office has estimated that \$3,557,378 is expected in revenue, an increase of \$134,469, 3.9%, from the 2004 Budget estimate of \$3,422,909.

Revenues, also titled charges for services, include leases, facility rent, through-put, dockage, wharfage, equipment, crane rent, labor charges, electricity and water and sewer usage.

Revenues	2003 Actual	2004 Estimate	% Change	2005 Proposed	% Change
Charges for Services	\$3,453,522	\$3,422,909	-5.0%	\$3,557,378	4.3%

The major revenue sources for the Port consist of facility rent and leasing, wharfage, and crane rentals. In 2004, increased leasing revenue reflects new leasing agreements with tenants. Leasing helps provide a fairly stable base revenue stream. Sometimes 2003 invoices are paid in 2004. The categories that represent a major portion of the 2003 and 2004 revenue stream include:

Revenue Activity	2003 Actual	% of Total	2004 YTD*	% of Total
Rent & Leasing	\$2,618,653	75.8%	\$1,561,205	79.6%
Wharfage	\$400,490	11.6%	\$181,932	9.3%
Dockage	\$257,925	7.4%	\$124,400	6.43
Through-Put	\$153,565	4.4%	\$71,464	3.6%
Mooring	\$21,899	0.6%	\$22,591	1.2%
Total	\$3,452,532		\$1,961,592	

* Through July, 2004

There are continuing fluctuations in international and local trade. Factors that affect tonnage and revenues include mild winters, winter mooring (ships docked during winter months). Continued capital improvement projects also make positive impacts to the Port's revenues in the near future.

SUMMERFEST LEASE

For 2005, the major projected increase in revenue is due to the new 20-year Milwaukee World Festival (MWF) lease.

1. The agreement was finalized between the Board of Harbor Commissioners and MWF, then approved by Council and signed by the Mayor, in June 2001. The 20 year lease, beginning with January 2002 through December 2020, is retroactive to January 2001.
2. Annual rental payments were estimated at \$1 million retroactive to January 2001 that is expected to increase. Every 5th year of the agreement, Summerfest is scheduled to make an additional payment. The amount received is dependent on MWF total sales.

Revenues for 2005 will increase due to the Summerfest lease. According to the agreement, Summerfest will make an additional rent payment of estimated at \$232,000. The Comptroller's Office estimates in the 2005 Proposed Budget that the revenue will increase by 4.3%.

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October 4 2004