

PORT OF MILWAUKEE 2008 PROPOSED BUDGET Executive Summary

1. The 2008 Proposed Budget for the Port of Milwaukee is \$4,328,059, an increase of \$103,118 (or 2.4%) from the 2007 Budget. (page 1)
2. The 2008 Proposed Budget provides funding for 35 positions at the Port of Milwaukee, up 4 from 2007. FTEs are increasing by 3, from 19 to 22. (page 3)
3. The 4 new positions are a permanent, full-time position of Civil Engineer Technician II and 3 unfunded, auxiliary positions – Management Civil Engineer-Senior, Port Operations Supervisor and Civil Engineer III. These positions are being created as part of a staff succession plan to be implemented over the next 18 months. (page 3)
4. The 2008 Proposed Budget provides \$962,019 for the Port’s Operating Expenditures, a 10.6% increase from 2007. This change comes primarily from a \$230,000 increase in the Other Operating Services category. (pages 4 and 5)
5. The Port’s budget contains 7 special funds totaling \$1,633,483, including 2 funds that are new for 2008: Equipment Rehabilitation and Upgrade (\$150,000) and Dockwall and Breakwater Rehabilitation (\$150,000). (pages 5 and 6)
6. The 2008 Proposed Budget includes funding for 5 Port capital improvement projects totaling \$500,000. New capital projects include replacement of electrical service in the mooring basin area, resurfacing of paved areas at the Port’s terminals and installing new, energy-efficient roofs on 2 terminal buildings. (page 7)
7. The Port of Milwaukee handled a record amount of cargo in 2006 but has experienced a slowdown in activity in recent months. (page 8)
8. The Port’s revenues have exceeded its expenditures each year since 2001. Surplus revenues are transferred to the City’s General Fund. (page 10)

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2008 PROPOSED BUDGET – PORT OF MILWAUKEE

Summary by Legislative Reference Bureau – Research & Analysis Section

Expense Category	2006 Actual	2007 Budget	% Change	2008 Proposed	% Change
Personnel Costs	\$1,335,367	\$1,649,275	23.5%	\$1,732,557	5.0%
Operating Expend.	\$845,698	\$870,136	2.9%	\$962,019	10.6%
Equipment Purch.	\$0	\$0	0.0%	\$0	0.0%
Special Funds	\$1,279,763	\$1,705,530	33.3%	\$1,633,483	-4.2%
TOTAL	\$3,460,828	\$4,224,941	22.1%	\$4,328,059	2.4%
Capital	\$568,033	\$750,000	32.0%	\$500,000	-33.3%
Positions*	30	31	+1	35	+4

* 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. In 2004, the Port, along with MMSD and the DNR, was a sponsor of the Jones Island East Bank Public Fishing Project, which expanded public access and fishing opportunities on the Port's Lake Michigan shoreline. The Port received a DNR Stewardship Grant for this purpose.
4. 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 2 ½ 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.
5. 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.
6. Port of Milwaukee revenues exceeded operating expenditures each year from 2001 through 2006. 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.
7. In July, 2007, the Common Council approved a 10-year lease with North American Biodiesel, LLC, 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. North American Biodiesel will be using the Port's liquid cargo pier and existing excess liquid cargo storage capacity on Jones Island.

2008 BUDGET HIGHLIGHTS AND ISSUES

Personnel

1. The 2008 Proposed Budget provides \$1,732,557 in funding for the Port's personnel costs, an increase of \$83,282 (5.0%) from the 2007 Adopted Budget.
2. The number of positions at the Port of Milwaukee is increasing from 31 to 35 for 2008. Full-time equivalent positions are increasing by 3, to 22.00. In addition to the 22 O&M-funded, full-time positions, the Port's budget also includes position authority for 7 unfunded Harbor Commissioners and 6 unfunded auxiliary positions.
3. The 4 additional positions for 2008 are:

Civil Engineer Technician II (pay range 602, \$35,390-43,351) – this is a funded, permanent, full-time position in the Port's Design Section.

Management Civil Engineer-Senior (salary grade 12, \$72,183-\$101,056) – unfunded, auxiliary position.

Port Operations Supervisor (salary grade 9, \$59,617-\$83,460) – unfunded, auxiliary position.

Civil Engineer III (pay range 628, \$60,954-\$72,671) – unfunded, auxiliary position.

All 4 of these positions are being created to help the Port implement a staff succession plan. Over the next 18 months, 8 of the Port's management staff will become eligible for retirement. While it is not known at this time how many of these individuals will actually retire upon attaining eligibility, the Port believes it is important to create the new funded and auxiliary positions to ensure a smooth transition and continued efficient operation of the Port as retirements occur. In particular, the creation of these 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.

The Civil Engineer Technician II position is being created and funded for 2008 not only because of the need for staff succession at the Port, but also because of an increased workload in the Port's Engineering Division, which in turn relates to increased levels of business and activities at the Port. The duties of this new position will include organizing engineering records, drawings and files, performing computer hardware and software maintenance, inspecting construction work at the Port, and collecting and analyzing samples and data.

4. The 2008 Proposed Budget also reflects 3 Port of Milwaukee position reclassifications that were approved by the Common Council in late 2006 and effective January, 2007:

Office Assistant II (pay range 410) to Accounting Program Assistant III (pay range 475)

Port Operations Supervisor (salary grade 9) to Port Operations Manager (salary grade 12)

Port Operations Assistant Supervisor (salary grade 7) to Port Facilities Manager (salary grade 8)

5. Currently, 5 of the Port's 21 permanent, funded positions are vacant:

Trade Development Rep.-Sr. (SG 7)	vacant since 03/27/06
Harbor Crane Operator (PR 958)	vacant since 05/28/01
Port Maintenance Technician (PR 276)	vacant since 11/01/01
Port Maintenance Technician (PR 276)	vacant since 07/28/03
Port Maintenance Technician (PR 276)	vacant since 07/17/06

Within the past month, the Port filled another vacancy – the Port Facilities Manager, which had been vacant since December 31, 2006. The Port also expects to fill 2 of the Port Maintenance Technician positions by the end of 2007. The Port anticipates requesting permission to fill the third Port Maintenance Technician vacancy during the first quarter of 2008. The Port has been accepting applications for the Trade Development Representative position, but has put the actual filling of the position on hold.

6. The Port has not used its auxiliary position authority to supplement regular personnel in at least 7 years.

Operating Expenditures

1. The 2008 Proposed Budget provides \$962,019 for Operating Expenditures, an increase of \$91,883 (+10.6%) from the \$870,136 budgeted for 2007.
2. The Port's biggest Operating Expenditures are in the following categories:
 - Other Operating Services (namely equipment repairs, travel expenses and payments for temporary crane operators) \$310,000
 - Property Services (e.g., security, water/sewer, grounds maintenance) \$225,000
 - Professional Services (primarily consultant studies of the Port's land and equipment use) \$120,000
 - Infrastructure Services (includes railroad track maintenance, water distribution system maintenance and sewer maintenance) \$80,000
3. The increase in the Port's Operating Expenditures for 2008 is primarily attributable to a \$230,000, or 287.5%, increase in expenditures in the Other Operating Services category. The growth in this category stems largely from increased use of temporary crane

operators. The Port is short-staffed in terms of crane operation personnel and must hire and pay temporary workers to operate cranes. In fact, the Port expects to pay over \$365,000 for temporary crane operators in 2007. However, these expenses are recovered through customer billing for the crane services (through July 31, 2007, the Port had already received \$231,366 in revenue from billable labor charges).

4. Several Operating Expenditures categories will actually have significantly lower budgets for 2008, including:
 - Professional Services (down \$65,900, or 35.4%, from 2007) -- less funding will be needed for 2008 because 3 major consultant studies were completed in 2007.
 - Construction Supplies (down \$40,350, or 80.1%) – decrease reflects anticipated decline in railroad maintenance supply purchases in 2008 (a significant track upgrade was completed in 2007), as well as the fact that Harbor Island is now under the control and maintenance responsibility of the State of Wisconsin.
 - Property Services (down \$25,000, or 10.0%) -- decrease reflects the Port's efforts to hold down costs in this category to help it stay within the 2008 budget allocation for the department.

Equipment Purchases

The 2008 Proposed Budget makes no provisions for equipment purchases by the Port of Milwaukee.

Special Funds

The 2008 Proposed Budget contains 7 Port of Milwaukee Special Funds totaling \$1,633,483. This is down 4.2% from the \$1,705,530 budgeted for 2007. Two of the Special Funds in the 2007 Budget – Boom Replacement and Harbor Security Grant Match – have been eliminated, while 2 other Special Funds are new for 2008. The 2008 Special Funds are:

1. Summerfest Revenue Transfer to the General Fund (\$1,108,483) – 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) – 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 (\$65,000) – Major rehabilitation or upgrading of Port equipment, including telecommunications, hydraulic, electrical and security systems is funded by this Special Fund. The increase from \$50,000 in the 2007 Budget reflects actual 2006 expenditures.

4. Environmental Cleanup Fund (\$35,000) – This Special Fund pays for testing and plan preparation related to DNR-required environmental remediation of Port-controlled properties. A large funding decrease (from \$100,000 in 2007) is proposed to reflect actual 2006 expenditures.
5. Harbor Maintenance Dredging (\$50,000) – 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.) The 2008 Budget appropriation is significantly less than the \$150,000 budgeted for 2007, but the decrease will be offset by the addition of \$100,000 in capital improvement funding for harbor maintenance dredging (see discussion of capital projects below).
6. Equipment Rehabilitation and Upgrade (\$150,000) – This special fund is new for 2008. It will provide funding for major repairs to cranes, kalmars (fork lifts) and other operating equipment. It will also be used to fund the purchase of replacement cargo-handling equipment, such as a new crane spreader bar.
7. Dockwall and Breakwater Rehabilitation (\$150,000) – Also new for 2008, this special fund will support 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 2007 Budget provided \$250,000 in capital funding for Dockwall Rehabilitation.

The Harbor Security Grant Match special fund that is eliminated in the 2008 Budget was intended to provide the 25% local match required for a grant from the U.S. Department of Homeland Security. The Port has applied for this grant each year it has been available (2002-2007), but was only awarded a grant in 2007. The Port believes it is highly unlikely it will be awarded another grant in 2008, so it has not included matching funds for this grant in its 2008 Budget.

The 2008 Proposed Budget also contains no funding for the Boom Replacement special fund, which had \$100,000 in funding in the 2007 Budget. This fund was used to pay for major repairs to Crane No. 16 at the Port. However, the new Equipment Rehabilitation and Upgrade special fund is intended to provide continued funding for this type of work, but in a more flexible way (i.e, the new fund can be used for a broader range of equipment repair work than just boom replacement on cranes).

Special Purpose Accounts

The 2008 Proposed Budget contains no special purpose accounts administered by the Port of Milwaukee.

Capital Projects

The 2008 Proposed Budget includes funding for 5 Port of Milwaukee capital improvement projects totaling \$500,000. This is a decrease of 33.3% from the \$750,000 budgeted for 2007 and less than half the \$1,025,000 provided by the 2006 Budget. The 2008 capital projects are:

1. Rehabilitate Electrical Services – South Harbor Tract -- The 2008 Proposed Budget allocates \$100,000 for replacement of electrical services in the mooring basin area of the South Harbor Tract. The Port believes this upgrade is necessary to accommodate the winter mooring of additional ships in the 2007-2008 season (perhaps 10 vessels, compared to the 5 that wintered here in 2006-2007). Funds would also be used to purchase portable generators that could be used throughout the Port in the event of a power outage.
2. Harbor Maintenance Dredging -- The 2008 Proposed Budget provides \$100,000 for the Port's ongoing dredging program. As mentioned earlier, the Port is responsible for keeping its waterways at a navigable depth along dockwalls and in minor navigation channels, while the U.S. Army Corps of Engineers bears responsibility for dredging major navigation channels. The Port's dredging activities are also supported by a previously described special fund (\$50,000) and by a grant from the State of Wisconsin, with \$400,000 in grant proceeds anticipated for 2008.
3. Pier, Berth and Channel Improvements -- This is another ongoing Port of Milwaukee capital program. For 2008, \$100,000 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. The 2007 Budget provided \$400,000 in capital funding for this project, and 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 an annual \$400,000 Wisconsin Department of Transportation grant that funds this program.
4. Terminal Resurfacing – The 2008 Proposed Budget includes \$125,000 in capital for a one-year 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.
5. Port Facility Systems – This is the first year of a 3-year initiative to improve the energy efficiency of Port facilities. The \$100,000 in capital funding for 2008 would finance the installation of aluminum-coated roofs on 2 of the Port's terminal buildings.

Port of Milwaukee Grants

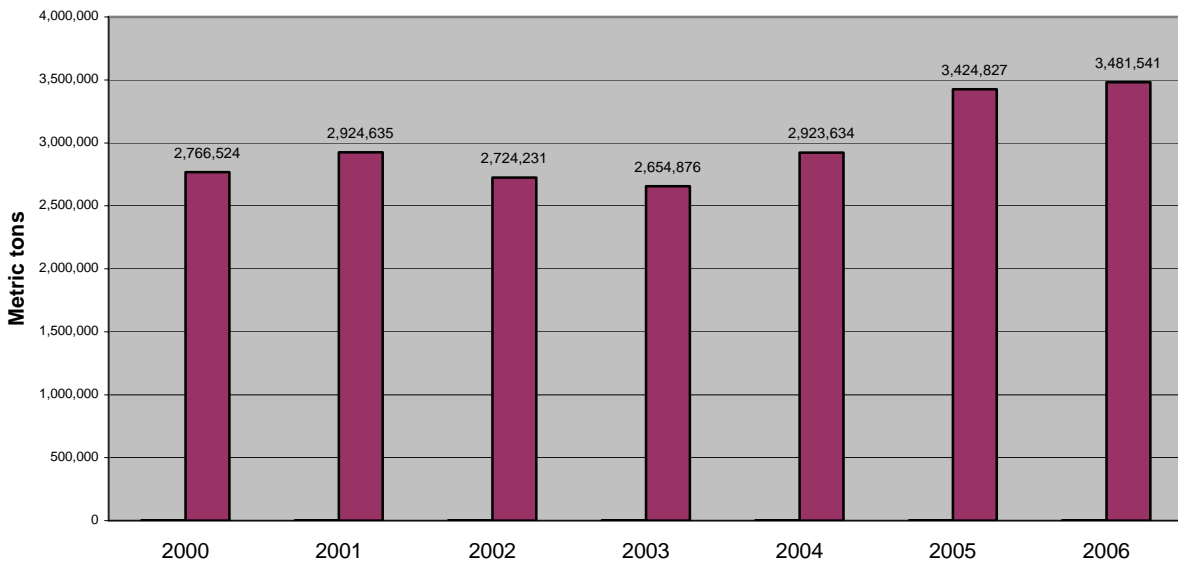
The Port's budget documents indicate that it will administer two grant-funded projects in 2008. First, the Port anticipates receiving a \$400,000 grant from the Wisconsin Department of Transportation Harbor Assistance Program to support the Port's ongoing harbor-dredging program. As indicated in the above discussion of the Port's capital projects, these funds will be supplemented by \$100,000 in City capital funding, as well as \$50,000 from the Harbor

Maintenance Dredging special fund. Secondly, the Port expects to receive another \$400,000 grant from the Harbor Assistance Program to fund the Port's annual program of pier, berth and channel improvements. Again, this grant will be matched by \$100,000 in City capital funding.

Port Activity Levels

The Port of Milwaukee handled a record amount of cargo in 2006. As the following table shows, the 2006 increase continued a pattern of growth at the Port in recent years.

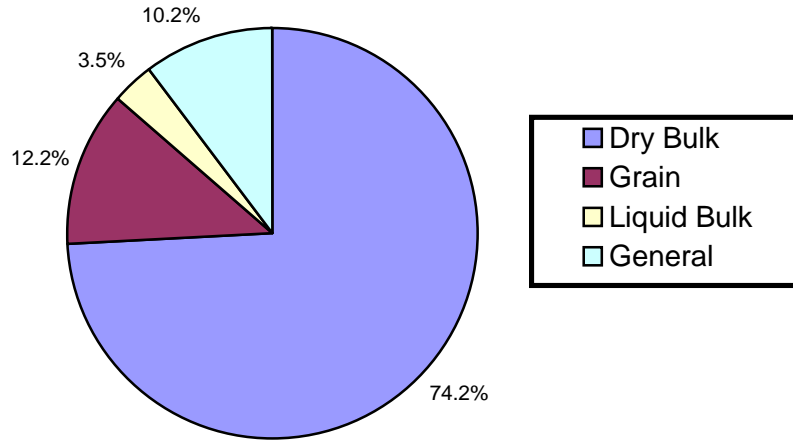
PORT OF MILWAUKEE ANNUAL TONNAGE, 2000-2006



The year 2007 has been another strong year for the Port. Through July, the Port handled 1,786,878 tons of cargo, a 5.4% increase over the same period last year. However, Port officials report that there has been a recent downturn in shipping activity and that the final cargo tonnage figure for 2007 could represent as much as a 10% decline from 2006. Tonnage has decreased in a number of categories, including coal, cement, asphalt and steel. The drop in activity at the Port may be indicative of a general slowdown in the local and regional economies.

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, 2002-2006**



In terms of specific commodities, the Port has witnessed generally increasing shipments of coal (up 34% in the last 5 years, 77% in 10 years), cement (31% in 5 years, 69% in 10 years) and grain (18% in 5 years, 176% in 10 years). On the negative side, shipments have been flat or trending downward in the areas of liquid bulk cargoes (down 17% in the last 5 years, 68% in 10 years), intermodal container shipments (up 67% in last 5 years but down 5% over last 10 years) and sand (no shipments at all in 2006).

Another measure of activity at the Port is the number of vessels that call on it. In 2006, 315 vessels visited the Port of Milwaukee – 160 domestic ships, 43 Canadian ships, 82 ships from other nations and 30 Mississippi River grain barges. This represents an increase of 18 vessels (+6.1%) from the 297 vessels that used the Port in 2005. In the first 6 months of 2007, 132 vessels came to the Port. This is identical to the number recorded in the same period in 2006.

The Port of Milwaukee accommodates passenger vessels as well as cargo ships. In 2006, 8 passenger ships docked in Milwaukee, bringing with them 520 passengers. This was a significant increase from the 3 ships and 438 passengers recorded for 2005. All passenger vessels now dock at the Pier Wisconsin cruise ship berth unless the ship’s draft exceeds 17 feet or a scheduling conflict exists. So far in 2007, 4 cruise ships carrying an estimated 300 passengers visited the Port of Milwaukee, all docking at the Pier Wisconsin site.

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, service began on April 14th and is expected to run through the end of October. The Lake Express provides 3 round trips per day, except in October, when service is reduced to 2 daily round trips. The ferry is expected to make approximately 1,050 trips across Lake Michigan by the end of the season, significantly more than the 900-925 trips in its first years of operation.

Revenues

The Comptroller's Office projects that the Port of Milwaukee will receive \$4,328,059 in revenues in 2008, 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 2.4% from the estimated 2007 revenues. The Port's 2008 Revenue Estimation Worksheets indicate that its largest revenue sources are as follows:

Revenue	2006 Actual	2007 Budget	Change	2008 Proposed	Change
1. Facility Rent*	\$1,808,700	\$1,965,000	+8.6%	\$1,965,000	0.0%
2. Wharfage Charges	\$812,000	\$563,800	-30.6%	\$812,000	+44.0%
3. Dockage Charges	\$370,100	\$322,000	-13.0%	\$370,100	+14.9%
4. Crane Rental	\$256,800	\$193,500	-24.7%	\$256,800	+32.7%
5. Billable Labor Charges	\$241,500	\$141,700	-41.3%	\$251,200	+70.2%

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

As this table shows, much of the 2008 revenue increase for the Port of Milwaukee simply reflects an adjustment of revenue projections to be consistent with actual revenues received in 2006. It should be noted that the Port's revenue estimates do not include any revenue from the recently-approved lease with North American Biodiesel, LLC, because North American Biodiesel has not completed financing or begun construction of its biodiesel fuel production facility. Rent and through-put charges from this lease could potentially add at least \$54,000 to the Port's annual revenues.

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, 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

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