

# **Preserving Infrastructure Without Busting the Budget: Capital Finance Challenges**

**Report to Capital Improvements Committee  
Budget & Management Division  
July 28, 2010**

# Presentation Focus

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1. City Fiscal Constraints are severe and intensify during planning period
2. Migration from cash finance enabled improved preservation in a sustainable fashion
3. Future prospects are limited

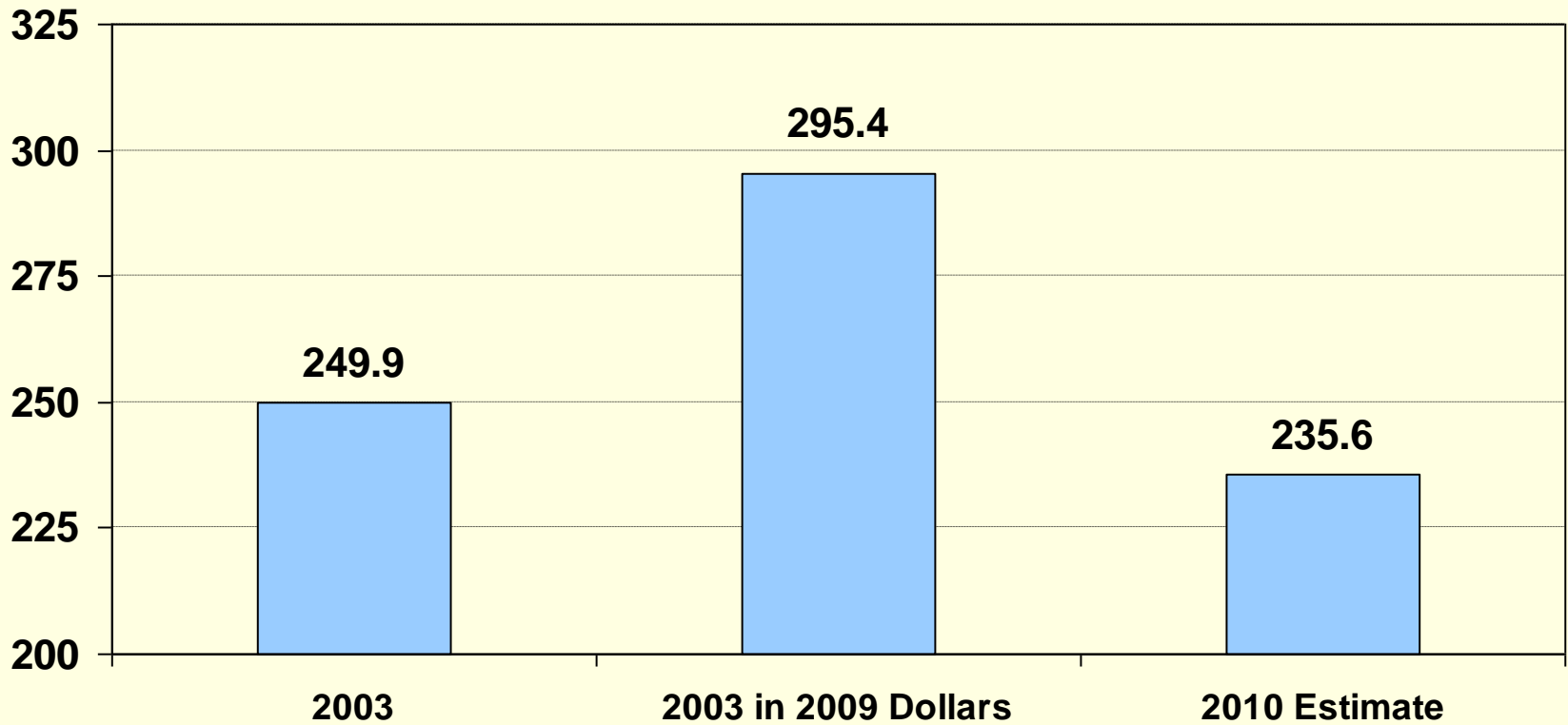
# Key Fiscal Constraints

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1. Shared revenue trend
  - CPI-adjusted value: \$60 m < 2003
2. Non-diversified revenue sources
3. Impact of non-discretionary costs on City budget
  - 65.4% of 2010 levy
4. Debt commitments (See Comptroller's slides)
  - Prior years' actions
  - Levy-supported debt retirement < planned new authorizations

# State Shared Revenue Trend

## Decline in State Shared Revenue & Expenditure Restraint Program Payments to Milwaukee 2003-2010



Inflation adjusted decline in Shared Revenue and ERP payments since 2003 is \$59.8 million.

# Competitive Problems: City Revenue System

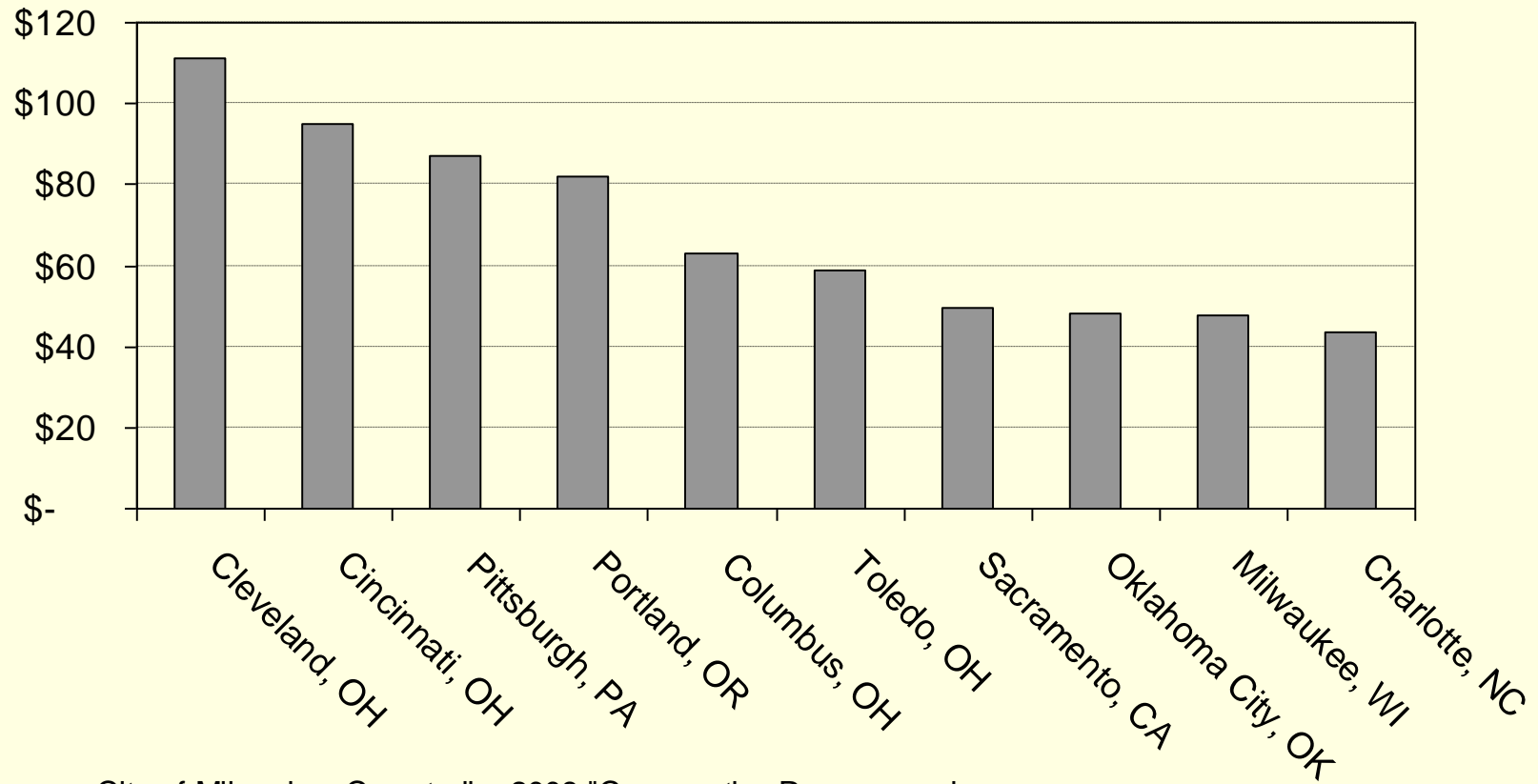
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## *Comparative Revenue & Expenditure Report (2008)*

1. Annual report from Comptroller's Office analyzes City government revenues and expenditures from 10 regional "lead cities", including Milwaukee.
2. Key findings include:
  - Milwaukee's **per capita total revenue is 23% less than the 10-city average**
  - Milwaukee's **per capita total expenditures are 17% less than the 10-city average** (8<sup>th</sup> highest of 10)
  - Milwaukee's per capita total local revenues are 49% less than the 10-city average (10<sup>th</sup> highest of 10)
  - Milwaukee's per capita property taxes are 32% higher than the 10-city average (4<sup>th</sup> highest of 10)
  - Milwaukee's per capita intergovernmental revenues are 31% higher than the 10-city average (3<sup>rd</sup> highest of 10)
  - The other cities in the 10-city sample average \$482 in per capita "other" local taxes (\$0 per capita for Milwaukee)

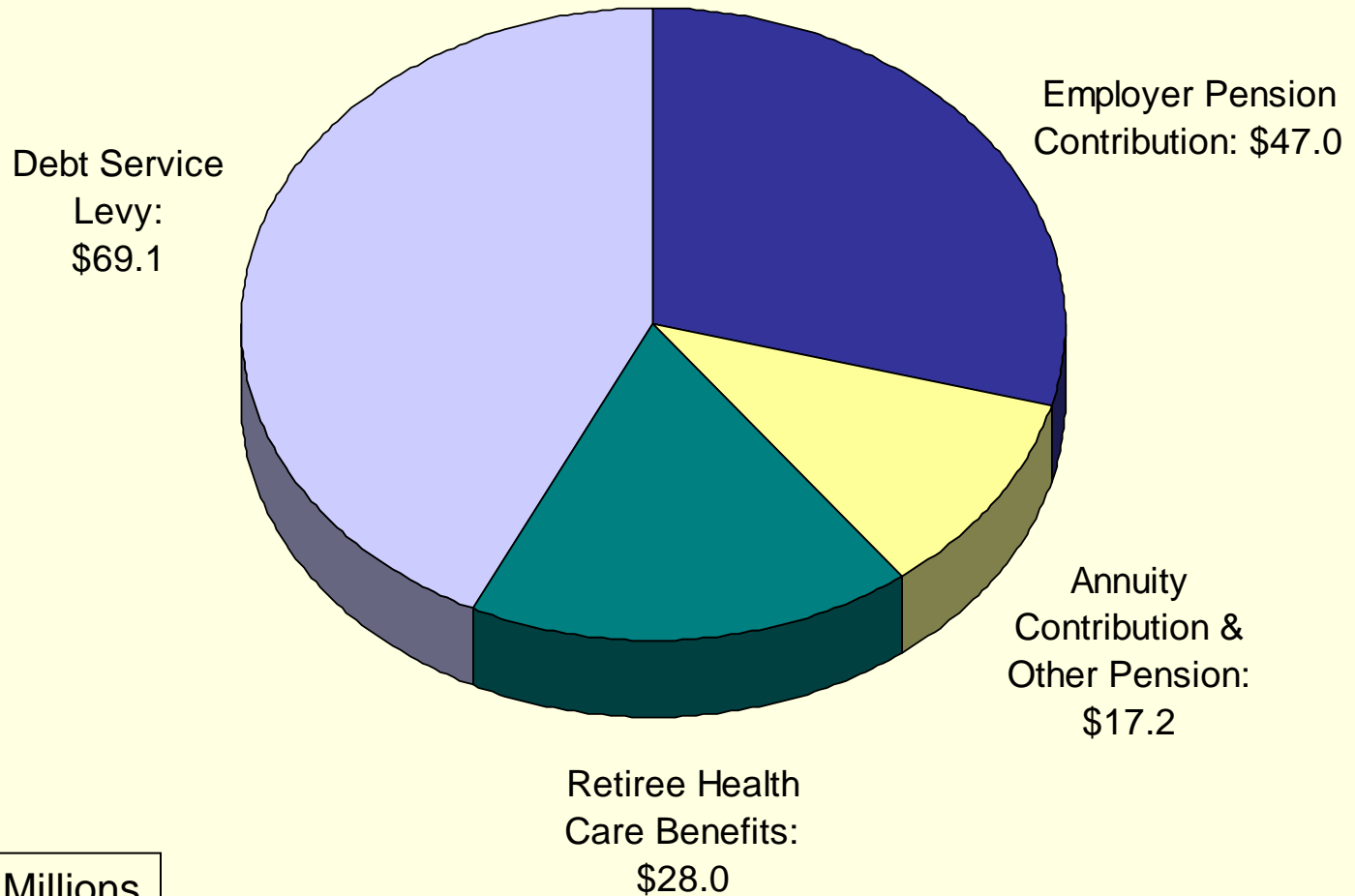
# Impacts on Per Capita Income from City Own Source Revenues

## Local Taxes & User Charges per \$1000 of Per Capita Income



Source: City of Milwaukee Comptroller 2008 "Comparative Revenue and Expenditure Report" adjusted with 2006 population and income data.

# Non-Discretionary Expenses: Impact on 2010 City Tax Levy



In Millions

# Intensifying Pressures During the Planning Period

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1. Pension Contributions
2. Health Care Benefit Costs
3. State Fiscal Circumstances
4. Low interest rates a 2-edged sword
  - Create capital finance opportunities

**BUT.....**

- Depress interest earnings and constrain PDAF use for debt service relief



# Rationale & Impacts of Migration From Cash Conversion Policy

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1. Cash funding and status of core infrastructure funding (e.g., local streets)
2. Focus on limiting amount and use of levy-supported GO debt
  - Rapid repayment well above municipal benchmark
  - PDAF as a credit quality enhancement
3. Diversification of Sewer Maintenance Fund
4. Debt service becoming more manageable

# Milwaukee's Infrastructure Challenge

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1. Impact of post-WW II development
  - Sewer & Water especially significant due to development and work quality issues
2. Inadequate investment in local streets
  - Significant reliance on special assessments
  - Cash financing policy: unintended consequences
  - In 2004, replacement cycle ~ 120 years
3. Commitment to MPS building projects
4. Restoration of City Hall

# Strategy Elements-Finance

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1. Establish \$70 m annual target for new levy-supported GO
2. Use Sewer enterprise fund for all sewer improvements
  - Payment for prior levy-supported debt
  - Initiation of local storm water charge
3. Reallocate ~ \$10 m of annual borrowing capacity from MPS to core City infrastructure
4. Local wheel tax (Common Council initiative)
  - Eliminate special assessments for street projects
  - Increase debt service repayment capacity without increasing debt service tax levy
5. Use TIF for economic development finance
6. Preserve high quality credit rating

# Strategy Elements: Programming

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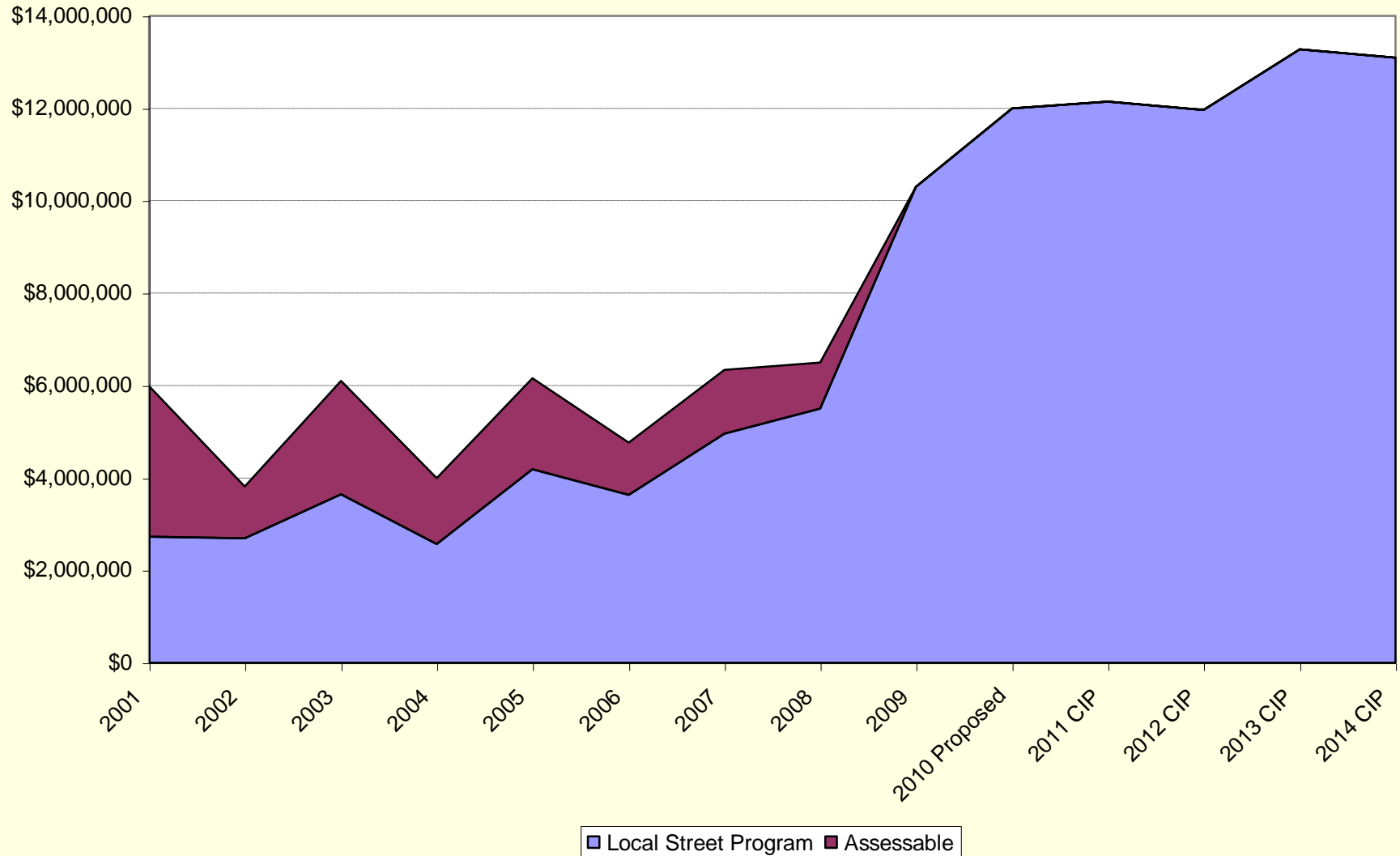
1. Focus budget growth to streets, street lighting, and sewers
2. Extend useful life through “capital maintenance”
3. Eliminate street special assessments to expedite projects
4. Limit facilities projects to necessary items
5. Use investments to reduce operating costs (e.g., Library material processing, energy efficiency)
6. 2009 & 2010: accelerate crucial priorities via federal stimulus

# Some Key Results

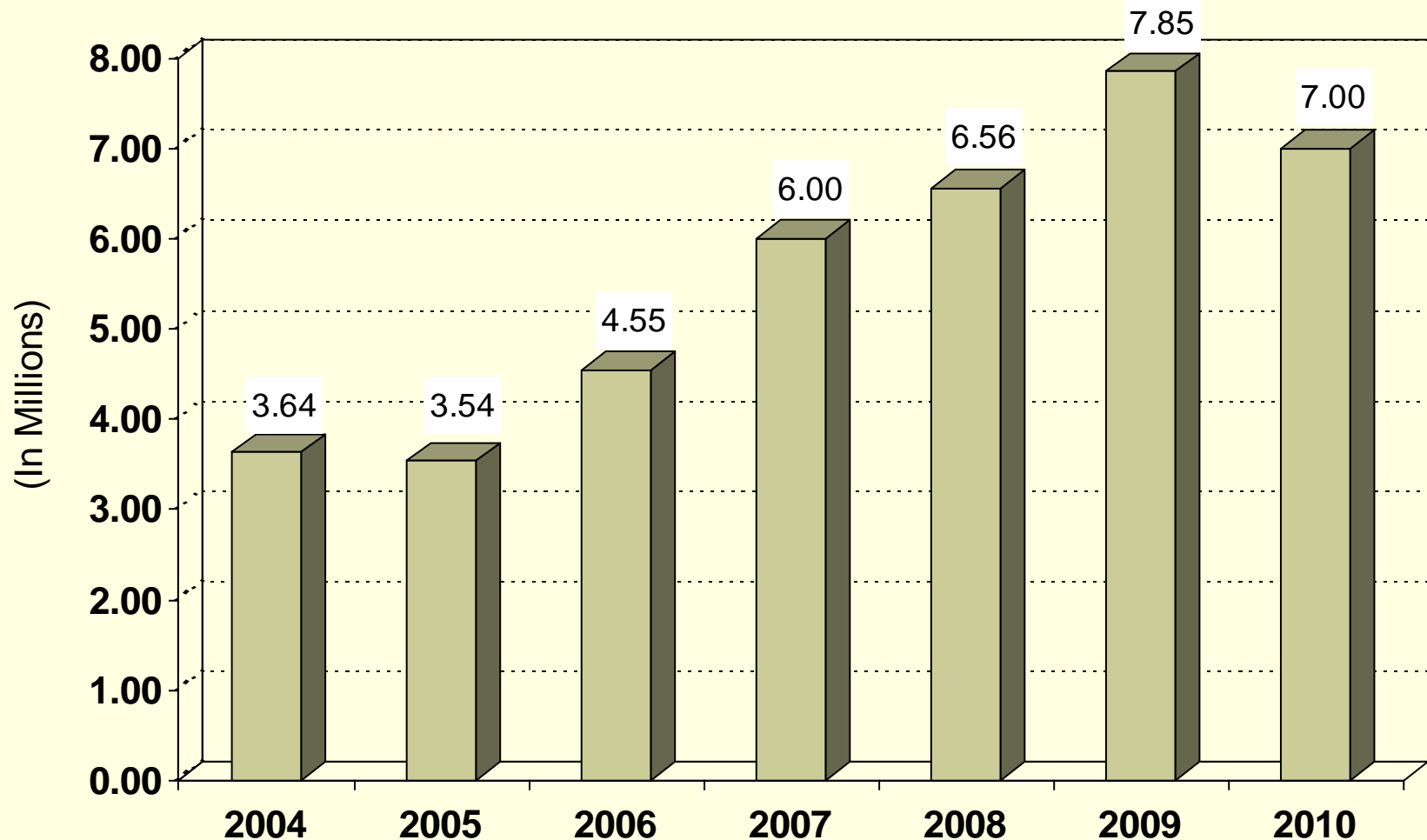
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1. Debt service levy has been stabilized
2. Improvements to core infrastructure replacement cycles
3. High quality credit rating has been retained

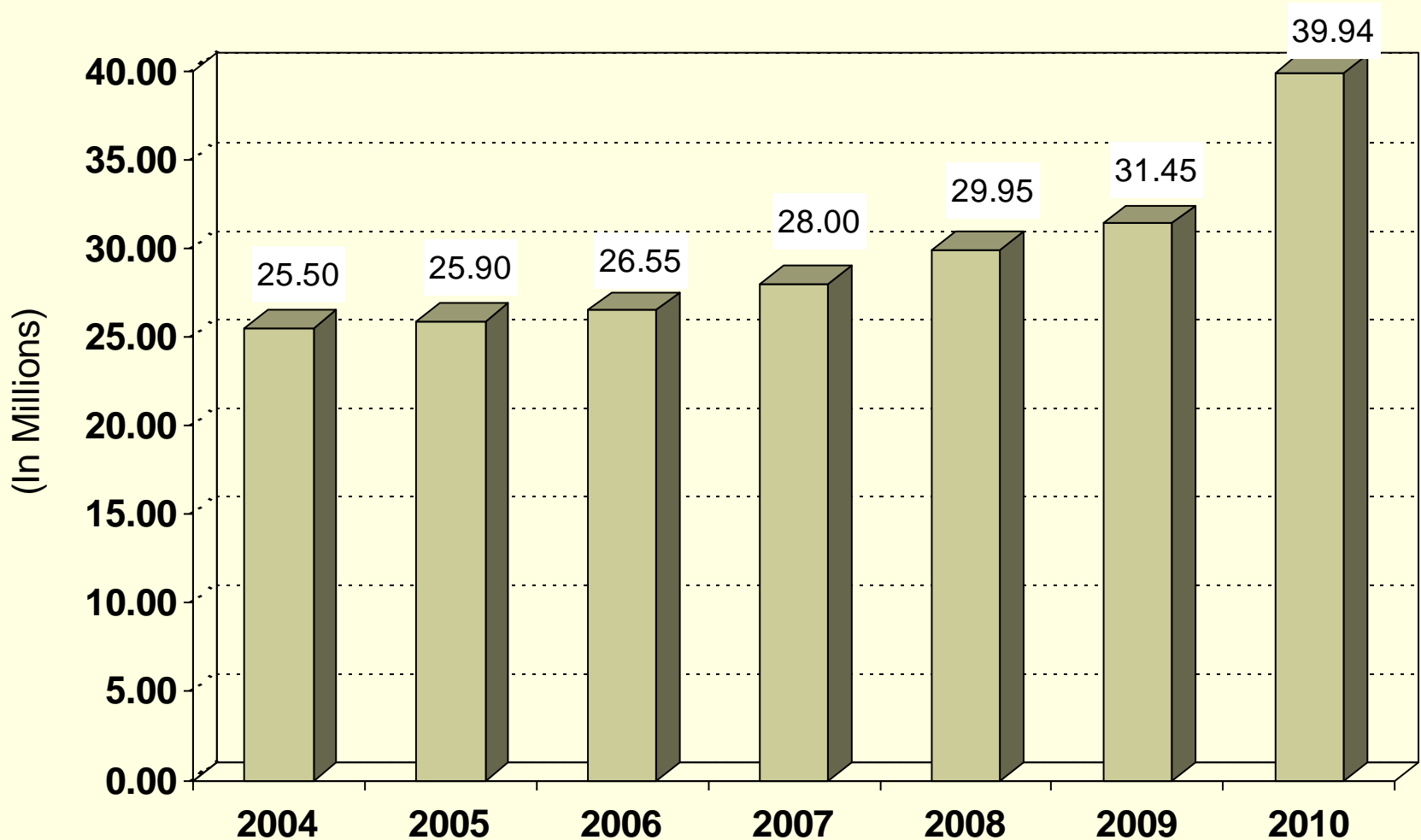
# Local Street Capital Funding (Nominal \$)



# Street Lighting Budgets: City of Milwaukee, 2004 - 2010

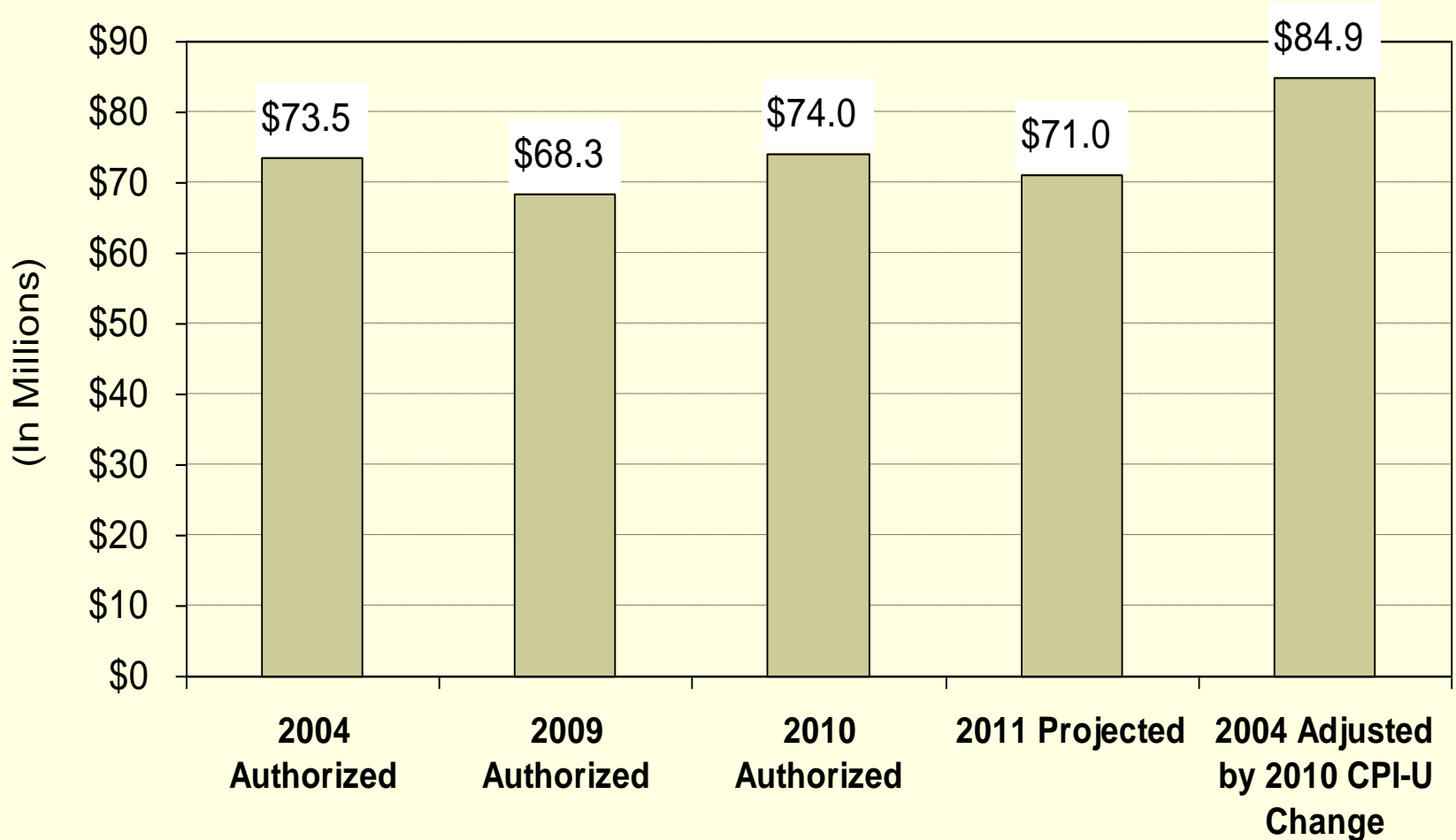


# Sewer Maintenance Fund – Capital Improvement Allocation





# City of Milwaukee Trend in Levy-Supported GO Debt



# Future Prospects: Challenges to Additional Improvement

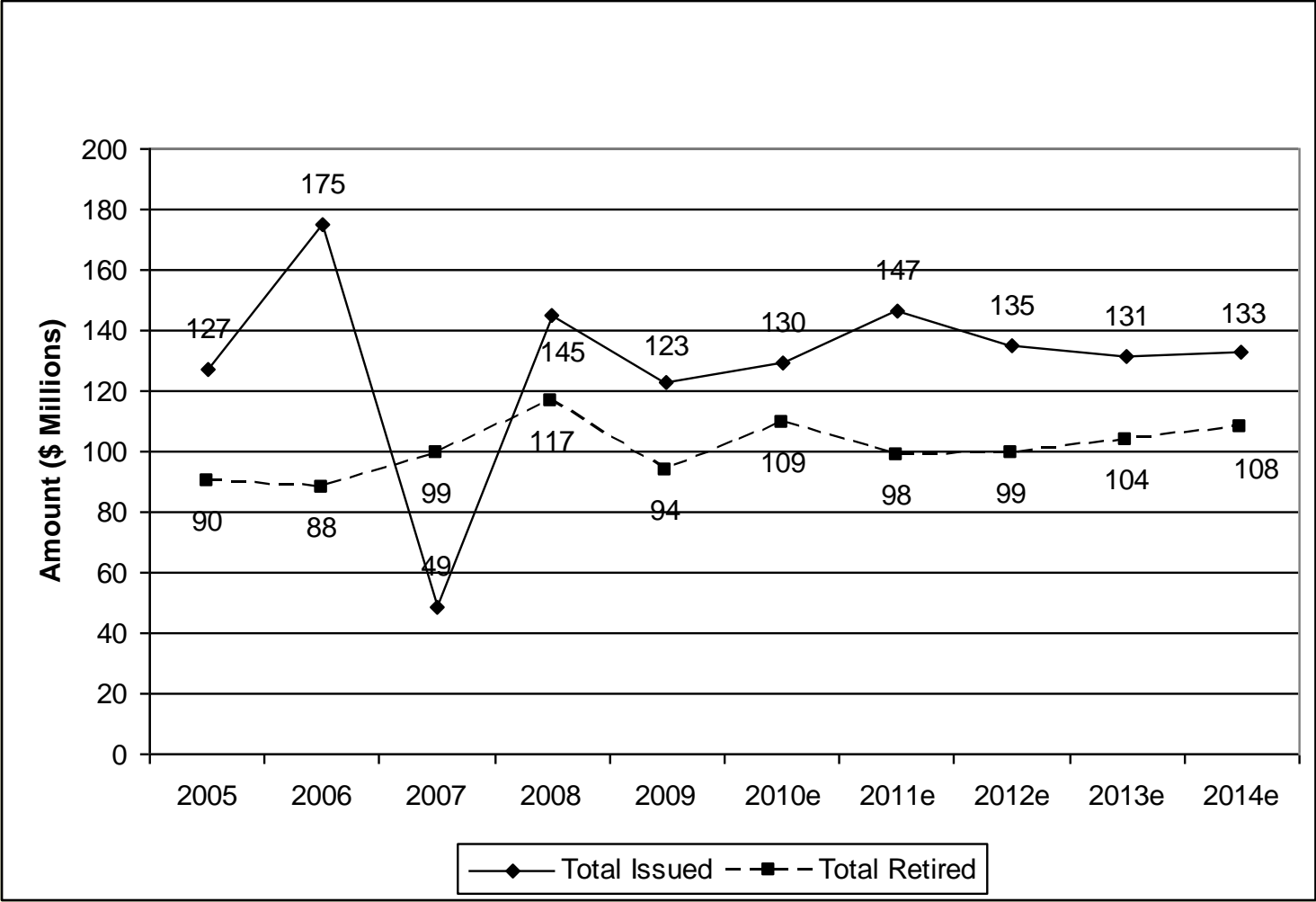
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1. Limitations of revenue structure
2. Increasing non-discretionary claims on City revenues
3. Rapid Repayment Goal
4. Two conundrums for future discussion
  - Local street preservation: getting beyond the 65 year replacement cycle
  - Remaking the sewer system

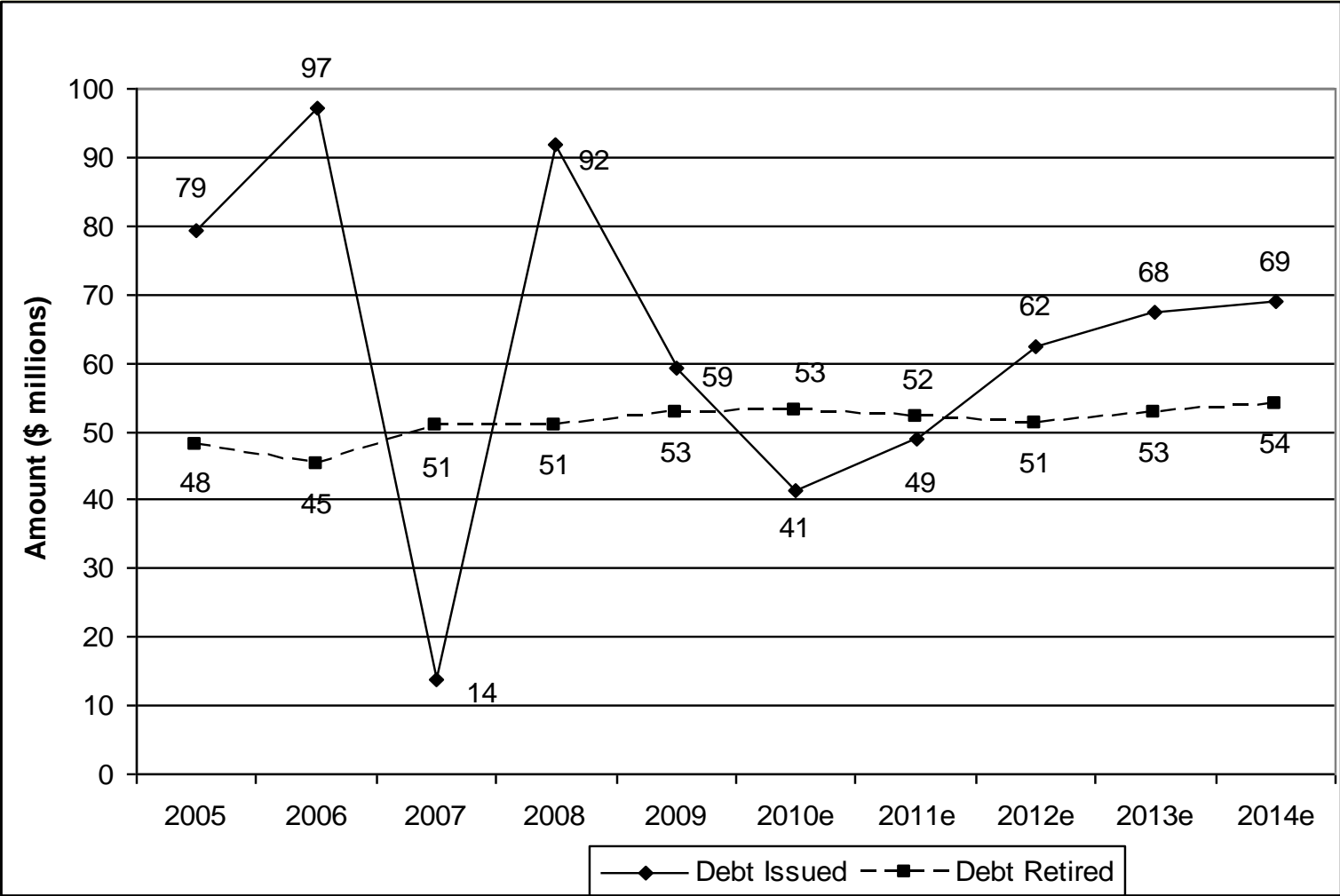
# **General Obligation Debt & Debt Service**

**W. Martin Morics  
City Comptroller  
July 2010**

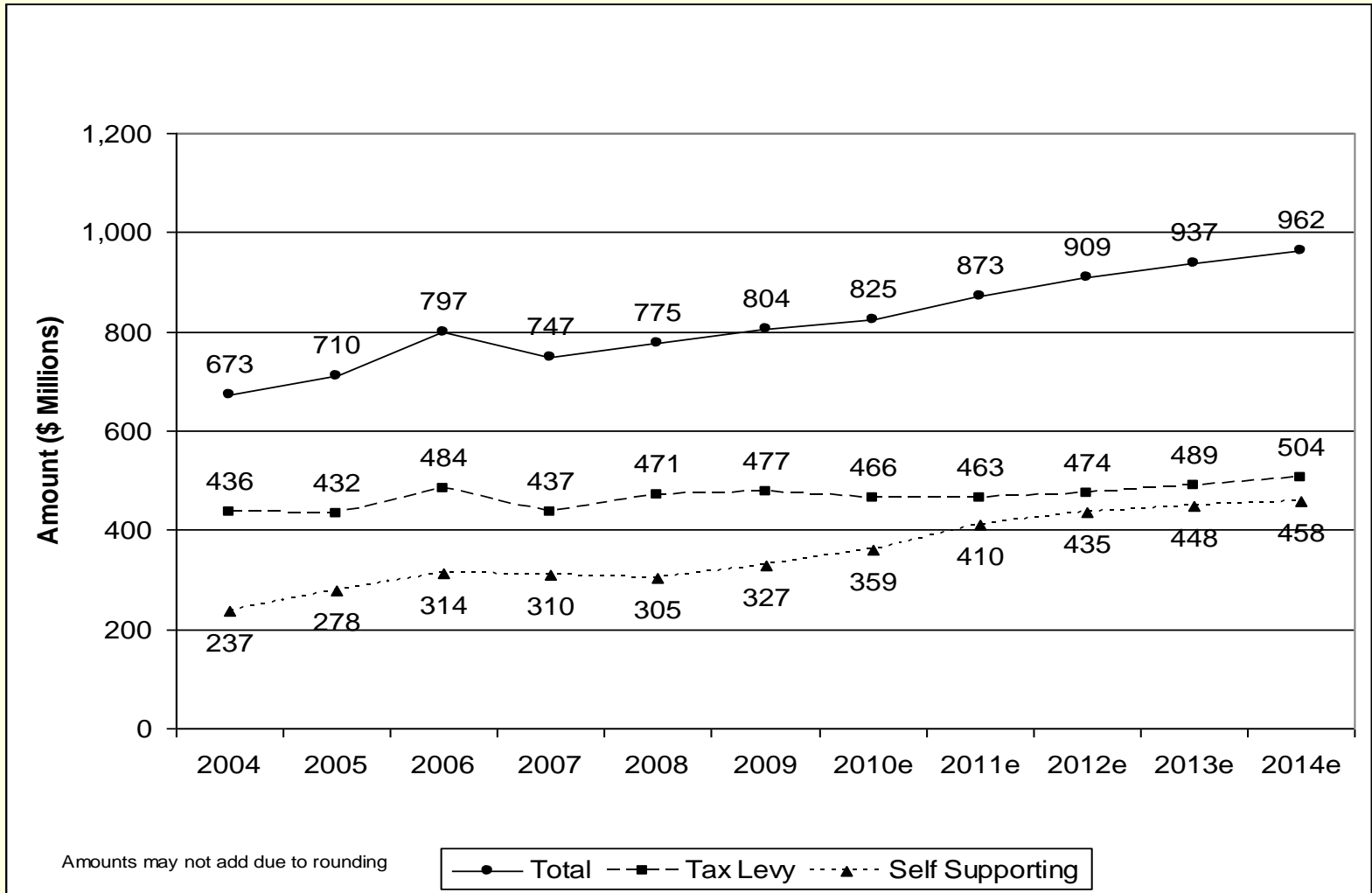
# Total GO Debt Issued/Retired



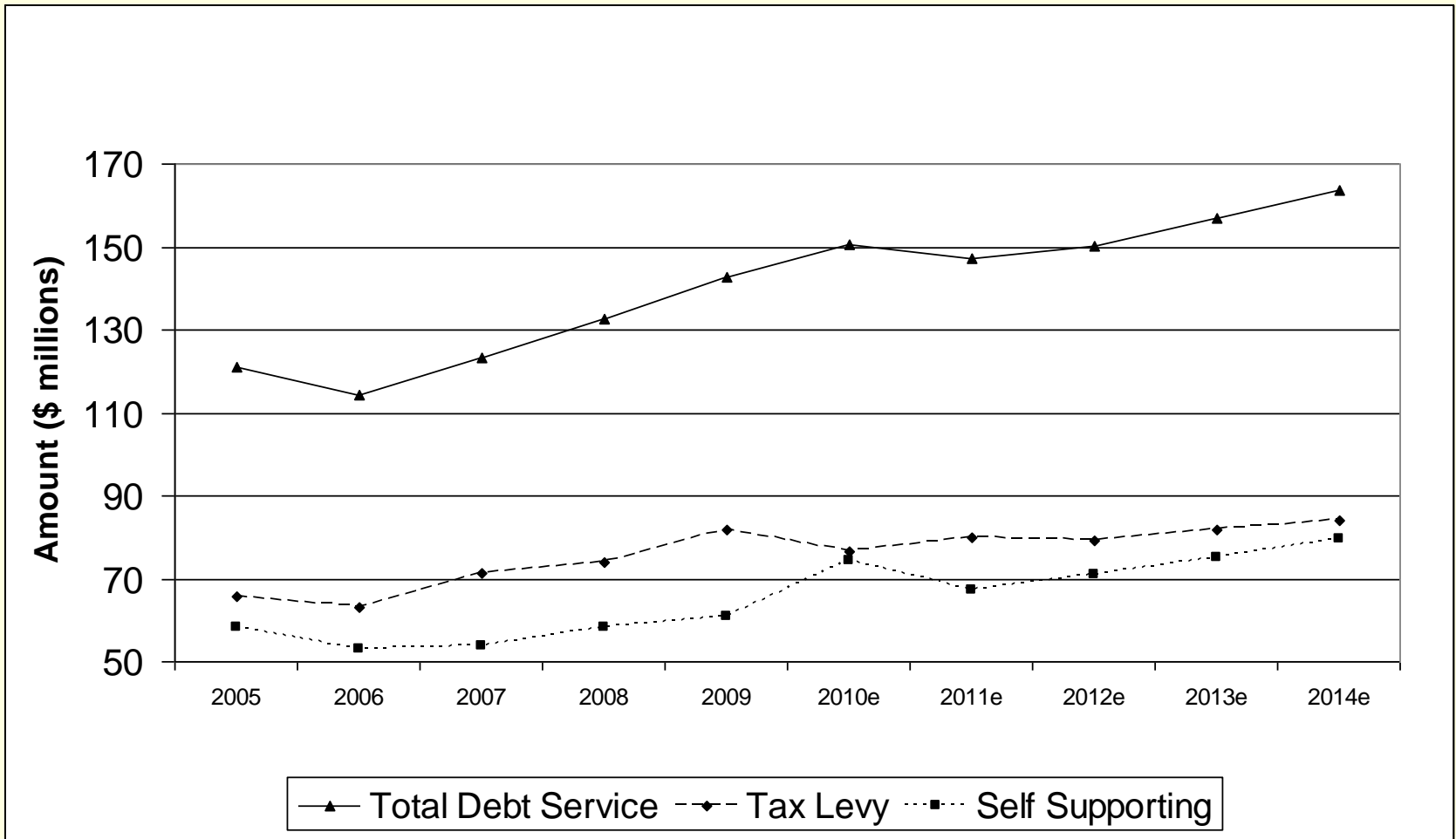
# Tax Levy GO Debt Issued/Retired



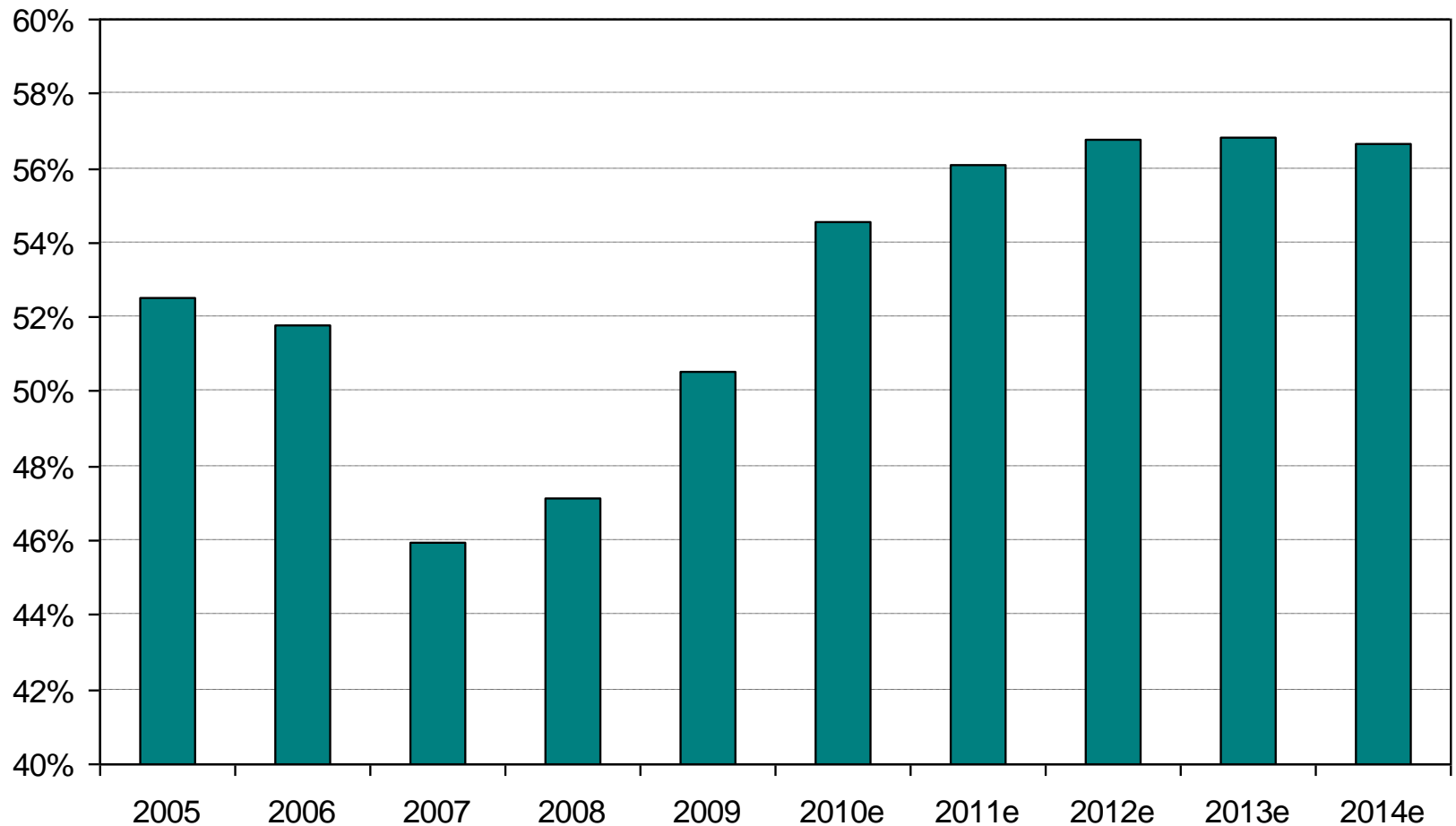
# Year End Outstanding GO Debt



# Annual General Obligation Debt Service



# Percent of 5% General Obligation Debt Limit Utilized





# Ten Year GO Debt Payout

