



## REPORT

LEGISLATIVE REFERENCE BUREAU

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# 22. Capital Improvement Overview, 2014

**Proposed Plan and Executive Budget Review**

## 22. Capital Improvement Overview

The 2014 Proposed Budget provides \$233,194,000 for the Total Capital Plan, an increase of \$6,857,100 (3.0%) from the 2013 Budget.

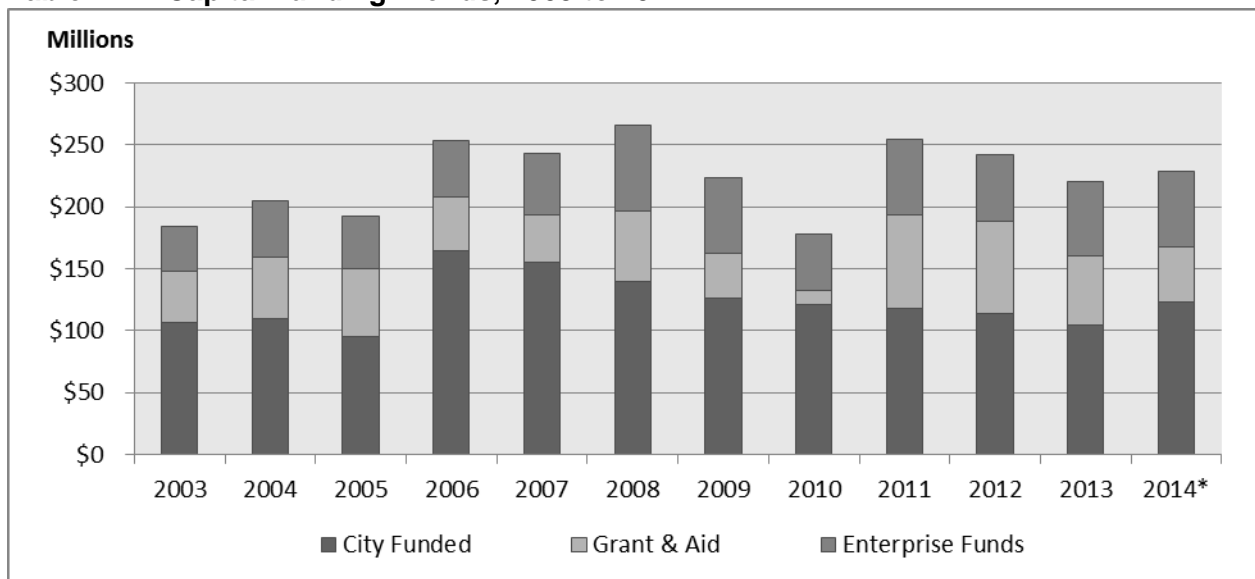
The increase is driven primarily by increased borrowing authority for Tax Incremental Districts (\$4.8 million), the inclusion of \$2.3 million to begin the development of a regional single-stream recycling system, and nearly \$3 million of new capital funding to support the Strong Neighborhood Investment Plan (SNIP). SNIP funding will include \$2.2 million in the Department of Neighborhood Services for the new Concentrated Blight Elimination program and \$707,000 for DPW Fleet to purchase equipment for a newly-formed DPW demolition crew.

The Major Street and Major Bridge programs, which are supported by state and federal aid both decreased in 2014. Total grant funding for the 2 programs decreased by \$11.7 million (20.1%) from 2013; \$4.6 million for bridges and \$7.1 million for major streets.

The level of grant funding available for major streets and bridges can be highly variable causing large fluctuations in annual funding. These fluctuations do not affect the majority of the City's infrastructure or capital programs although as grant funding for bridges declines, funding for the local bridge program needs to be increased.

Capital funding for the Milwaukee Water Works (MWW) which decreased by \$11.3 million (55%) in 2012 because of the extended delay in the settlement of the rate case, increased for 2013 by \$4.5 million. Proposed funding for MWW capital projects has not returned to historic levels in 2014, but significant progress has been made. Overall funding for the MWW is down \$25,000 but funding for water main improvements has increased by 43.8% (\$3.5 million) from 2013. MWW's 6-year capital request continues to make incremental increases and should return to more sustainable levels of capital maintenance for the system by 2017.

**Table 22.1. Capital Funding Trends, 2003 to 2014.**



\*Proposed funding.

Funding for the Sewer Maintenance Fund increases by \$40,000 (0.13%) from 2013. A \$1.6 million reduction in the Infiltration and inflow programs is offset by an increase in borrowing authority for the sewer main program to ensure adequate loan reserves.

The 2014 Proposed Budget includes several building projects. Funding is included to continue Phase II of the Police Administration Building renovation (\$6.0 million). Funding is also included (\$2.0 million) to begin the renovation of the 8<sup>th</sup> floor of City Hall. \$1.8 million is proposed for the Library Facilities Initiative. \$600,000 will be used to begin the development of 2 mixed-use libraries. The majority of the remaining Library funds will be used to renovate the Tippecanoe neighborhood library. No funding is included for the City Hall Hollow Walk/Structural Repair Project, or the City Hall Restoration account.

### **1. Sources of Funds for Capital Improvements.**

The City's capital program is divided into 2 sections, City-Funded and Enterprise Funds. The City-Funded (non-enterprise) portion of the capital program has several funding sources. The largest source is tax-levy-supported debt (69.2%). Other sources include the tax levy (4.3%), cash revenues (12.2%), special assessments (1.3%), and the increments from tax incremental districts (13.0%).

The portion of the capital program financed by the tax levy has decreased steadily since 2006, reflecting a suspension of the Infrastructure Cash Conversion (ICC) policy. Financing certain capital improvements with cash did not prevent capital borrowing from increasing at an unsustainable rate. The current strategy is to match the amount of capital borrowing to the amount of debt retired to maintain a stable and manageable amount of debt service.

In 2008, the City implemented a Motor Vehicle Registration (MVR) fee of \$20 per vehicle (Common Council File Number 080034). The fee was expected to generate \$6.6 million annually in revenue for street repairs. The 2014 Proposed Budget anticipates receiving \$6.25 million in revenue in 2014. Approximately half of that amount was offset by the elimination of most special assessments related to paving projects. When the fee was implemented, a provision was included that prohibited the fee from being raised until April, 2012. There are approximately 300,000 vehicles registered in the city. A \$5 increase to the fee would generate nearly \$1.5 million in additional revenue. Because the special assessments have already been reduced, each dollar increase in the fee will allow proportionally more paving-related work to be done.

Certain infrastructure improvements are financed with transfers from the Sewer Maintenance Fund. Capital programs include Forestry's Tree Planting and Production program (\$1,483,000), the Emerald Ash Borer Readiness and Response program (\$952,000) and DPW's Environmental Remediation program (\$50,000).

Capital improvements in the Enterprise Funds (Sewer Maintenance, Milwaukee Water Works and Parking) are funded by a combination of charges for products and services, fees, and the proceeds from borrowing.

Approximately 86% of the Sewer Maintenance program is funded with debt. Milwaukee Water Works, which is traditionally funded with cash, relied heavily on debt for its 2013 capital improvements. In 2014, MWW anticipates borrowing \$4 million for its capital program compared to \$8 million in 2013. Capital improvements for the Parking fund are relatively

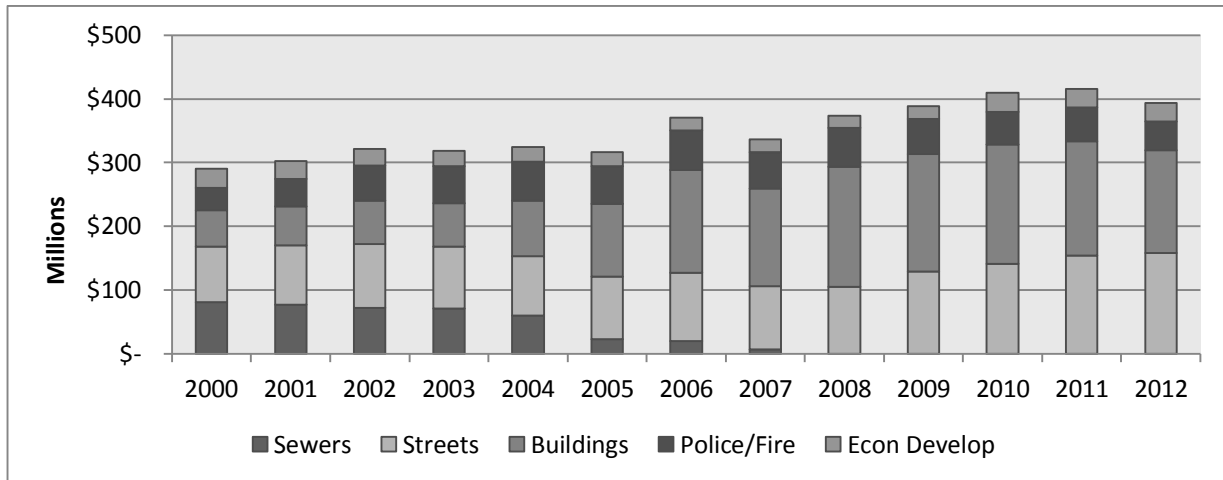
modest (\$1,715,000) compared to the Sewer Maintenance Fund and the Milwaukee Water Works and are typically debt-financed.

**2. 2013 Debt.**

It is generally the City’s policy to finance operations with cash and to finance the City’s portion of capital improvements with general obligation borrowing. Debt service on general obligation bonds is paid by the Debt Service Fund which in turn is funded directly through the tax levy.

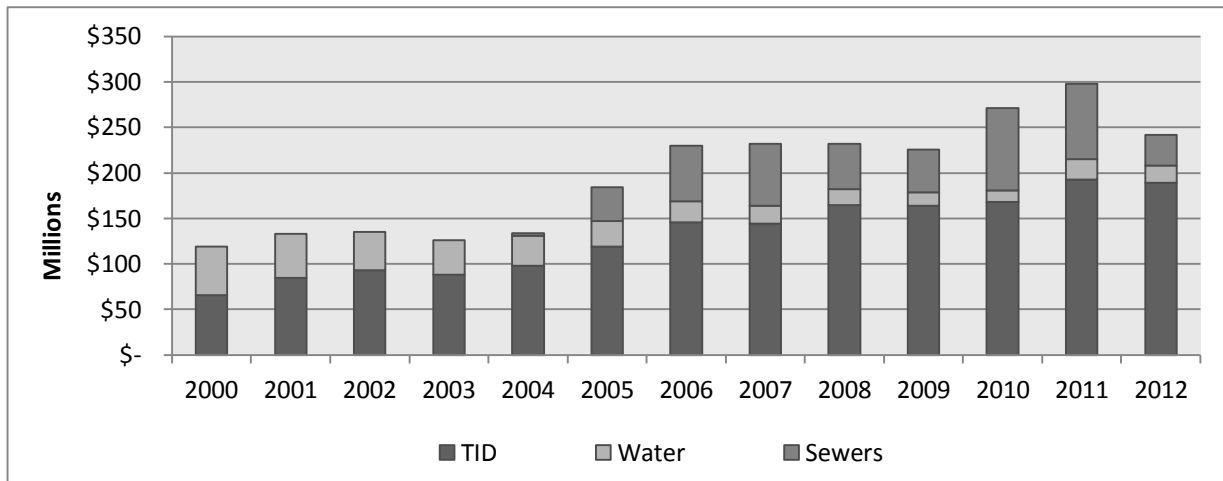
As proposed, the City-Funded capital program will be financed with \$85.5 million of general obligation debt. This amount does not include \$15 million of debt which will be used to fund Tax Incremental Districts. The TID debt is considered self-supporting because the debt service is not paid directly by the tax levy, but is included when calculating the City’s use of its debt limit.

**Table 22.2. Levy Supported General Obligation Debt, 2001 to 2012.**



Source: Office of the Comptroller – Report of Debt & Debt Service.

**Table 22.3. Self-Supporting General Obligation Debt, 2001 to 2012.**



Source: Office of the Comptroller – Report of Debt & Debt Service.

Additional borrowing will support the capital programs of the Sewer Maintenance Fund (\$38.5 million), the Milwaukee Water Works (\$4.0 million) and the Parking Fund (\$1,715,000). Borrowing for enterprise fund activities is also considered self-supporting because debt service is paid using revenues received by the respective funds – not the tax levy. Debt for the enterprise funds can be issued as general obligation bonds or revenue bonds. Revenue bonds are not included when calculating the City's use of its debt limit.

The City has a fairly aggressive repayment policy. The "10-Year Debt Payout" measures the percentage of total general obligation debt that will be repaid or retired with the next 10 years. The industry benchmark is 50%. From 2007 through 2011 the City's 10-Year Debt Payout ranged between 82% and 87%. It is projected to stay around 85% through 2016.

### 3. Debt Limit & Funding Constraints

The City is facing unique challenges in maintaining its capital program. The value of the City's allocation of Shared Revenue from the state has declined by \$89 million (28.1%) since 2003. At the same time, strict limits on levy increases imposed by the state prevent the City from raising additional revenues to pay for services or infrastructure improvements.

The City is also facing a higher utilization rate of its debt limit. The amount of general obligation debt the City may issue is limited by the state constitution to no more than 5% of the City's equalized value. The Report of Debt and Debt Service issued by the Comptroller on August 5, 2013 estimates that at the end of 2013, the City will have utilized approximately 66% of its debt limit. At the end of 2009, debt limit utilization was just over 50%.

To address the declining condition of its infrastructure the City is issuing slightly more debt than it is retiring. Until 2008, increases in the City's equalized value helped to keep debt limit utilization at an acceptable level. The City of Milwaukee's equalized value for 2013 is \$26.1 billion, a decline of 1.35% from 2012. Equalized value has declined nearly 20% since 2008.

If equalized property value remains unchanged for 2014, the general obligation borrowing in the 2014 Proposed Budget will utilize 6.5% of the City's debt limit. If all debt, including debt for the enterprise funds is issued as general obligation, it would utilize 11.1% of the City's debt limit.

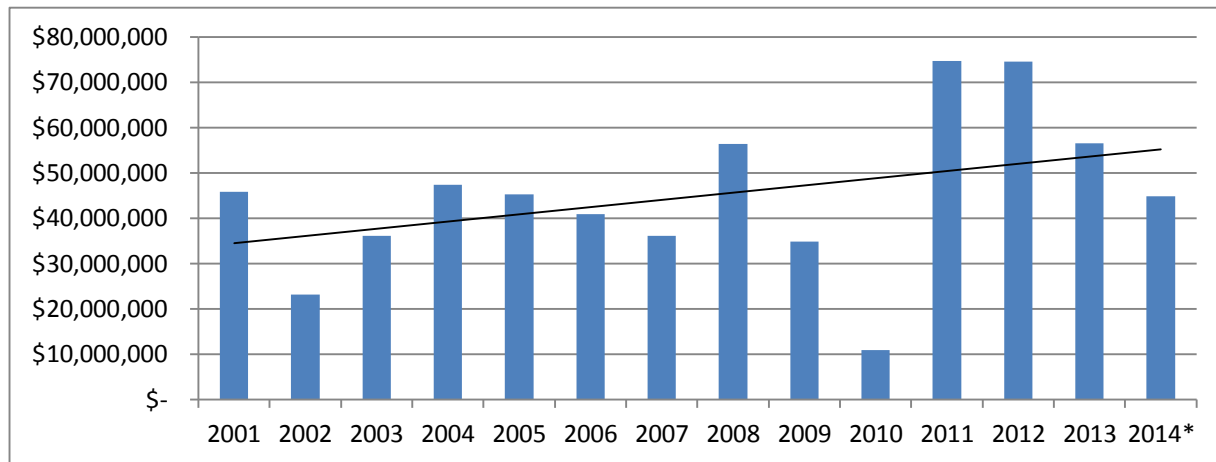
Assuming a constant level of general obligation debt, as projected by the Comptroller for year end 2013, if the City's equalized property value continues to fall at 0.5% each year, debt limit utilization will be 70% by 2017. Assuming that equalized value remains constant, and a 1% annual increase in total general obligation debt, debt limit utilization would rise to 71% by 2017. If total general obligation debt increases by 1% each year, equalized property values would have to rise nearly 6% each year to bring debt limit utilization back down to 50% by 2019.

Managing debt utilization is critical to maintaining high bond ratings. In April, 2012, Moody's downgraded the City's credit rating from Aa1 with a negative outlook to Aa2 with a stable outlook. The downgrade was primarily driven by concerns about the stability of the City's property tax base and cuts in state shared revenue. The change from a negative outlook to a stable one indicates that Moody's does not anticipate dropping the rating further in the near term future. However, as the utilization of the debt limit rises, the City faces the risk of further downgrades which could have a significant, adverse effect on the City's borrowing costs.

#### 4. Grant Funding.

The most variable portion of the capital program from year to year is the grant and aid funding which is received for the Major Bridge and Major Street programs. Funding is received from both the state and the federal government. Grant funding for Major Streets has been trending upward offsetting a significant decline in the availability grant funding for bridges. The decline in bridge funding will put considerable pressure on the Local Bridge Program in the coming years.

**Table 22.4. Trend for Capital Grant and Aid Funding, 2000 to 2014.**



\*Projected.

#### 5. Core Infrastructure Programs.

For detailed information regarding core infrastructure programs, please refer to the LRB Budget Briefings for individual departments.

##### **Bridge Program (Major and Local).**

The combined City funding for the Major and Local Bridge programs is \$11.1 million, a decrease of \$4.4 million (28.5%) from the 2013 Budget. Anticipated grant funding is \$1.04 million, a decrease of \$4.6 million (81%).

The City's investment in bridges has increased significantly since 2007. Although the City's efforts have improved the condition of many bridges, the system overall continues to age, with many bridges being at or near the end of their projected useful lives. Unless structural changes in transportation funding are made at the state and federal levels, grant and aid funding will likely remain difficult to obtain and the bridge program will require significant local funding.

##### **Major Streets.**

Federal stimulus funding has supported significant progress in the major street program. The total funding for this program is \$50.0 million, a decrease of \$1.3 million (2.6%). Although grant funding is down slightly for 2013, the 10-year trend in major street grant funding has been upward.

**Local Streets.**

The Local Street Program decreases from \$16.0 million to \$13.5 million (15.6%). Funds available for local streets in 2014 will be similar to 2013 because the decreased funding in the local street account will be offset by Local Road Improvement Program (LRIP) funds from the state which are only available in even-numbered years. LRIP funds and the City's match are budgeted in the Major Street Program. The 2014 Proposed Budget also provides \$3 million for a High Impact paving program. The High Impact program will target high-volume streets in commercial corridors which may be eligible for state or federal funding but for which funding is not available. \$2 million of the High Impact Street program will be funded with cash.

**Sewer Maintenance Program.**

Funding for the Sewer Relief and Relay program has increased significantly in recent years, resulting in a replacement cycle that closely approximates the currently recommended cycle. In addition to replacing and relining sewer mains, the City is utilizing a more diversified approach to improving the performance of the sewer system. Strategies include reducing the amount of clear water that enters the sewer system, constructing bio-swales to help manage stormwater runoff and restoring capacity to various channels and drainage ditches. The 2014 Proposed Budget provides \$1,000,000 in funding for water quality projects.

The City anticipates issuing \$31.9 million of debt for the Sewer Relief and Relay program and \$6.6 million of debt for the infiltration and inflow (I&I) program. The remainder will be funded with revenues collected from the Sewer Maintenance Fee and the Stormwater Management Fee. The City also anticipates receiving \$1.65 million in grant funding from the Milwaukee Metropolitan Sewerage District to line private sewer laterals as part of the I&I program.

**Milwaukee Water Works.**

The delay in the settlement of the 2009 rate case depleted the utility's cash reserves. Anticipating the cash flow concerns, MWW began, in 2010, to delay many capital projects and in 2012, began to finance capital programs with borrowing. In 2013, \$8 million of borrowing authority was budgeted for the MWW. In 2014, \$4 million of borrowing is proposed.

The utility also chose, in 2012, to focus on other components of the water system instead of water mains because water mains have a longer life, more redundancy in the system and are less prone to catastrophic failure than other components of the system. MWW was able to continue replacing a small number of mains in 2012 using spending authority from 2011. Funding proposed for 2013 returned much of the emphasis to the replacement of water mains. For 2014, 83% of the proposed funding for MWW capital projects is allocated to water mains.

**6. Special Capital Projects.**

The 2014 Proposed Budget includes funding for 4 on-going capital improvement items.

**Grant and Aid, \$8,000,000.**

This account provides budget authority for unanticipated capital grants that the City receives. Budgeted funding in this account has been at least \$8,000,000 since 2006.

**Municipal Art Fund, \$25,000.**

This is the City's annual contribution to the Municipal Art Fund, a pool of money set aside for the acquisition of works of art to be incorporated in City buildings and other public facilities. The Milwaukee Arts Board determines how money in the Municipal Art Fund is expended on various works of art for City construction projects. The Municipal Art Fund has received \$25,000 per year (on average) since at least 2000. The Municipal Art Fund is not supported by general obligation debt.

**Capital Improvements Committee, \$85,000.**

The 2014 Proposed Budget includes \$85,000 in capital funding for the salary and fringe benefits for a Fiscal Planning Specialist position. This position will be in the City Clerk's Office and will serve as staff to the Capital Improvements Committee and provide budget analysis for the Finance and Personnel Committee.

**Housing Trust Fund, \$600,000.**

The 2014 Proposed Budget includes \$600,000 for the Housing Trust Fund, an increase of \$200,000 (50%) from the 2013 Budget. Created in 2006, this fund primarily supports developers in the acquisition, construction, rehabilitation and modification of affordable and accessible housing for low-income households. It also finances support services that assist low-income households in obtaining and maintaining affordable housing. Priority is given to projects that can leverage investments from other sources. Although other funding sources have been investigated, funding comes primarily from the City of Milwaukee tax levy.

Funding is used to support 3 main objectives: housing for the homeless, rental housing and homeownership. Since 2006, \$4.5 million has been budgeted for this program. Over 500 units of housing have been created or rehabilitated through this program. Actual expenditures have totaled \$2.9 million through the end of 2012.

**7. Unfunded Capital Programs.****Energy Challenge Fund.**

The 2014 Proposed Budget contains no new funding for the Energy Challenge Fund. This fund was created in 2008 to support the goal of helping City departments reduce energy consumption by 15% from 2008 to 2012, using 2005 city energy consumption as a baseline. The fund has not received funding since 2009 and has no carryover borrowing authority.

Actual expenditures from this fund through December 2012 total \$610,766; \$133,250, \$200,216, \$226,668, \$7,456 and \$43,176 in 2008, 2009, 2010, 2011 and 2012, respectively.

Capital projects that result in energy efficiencies or that use renewable energy or alternative fuel sources were considered for funding. Funding was awarded based on projected reductions in energy use, changes in energy demand and the demonstration of project payback within a reasonable period of time. The Office of Environmental Sustainability managed the Energy Challenge Fund.



**Table 22.5. Capital Budget by Department, 2009 to 2013 Adopted, 2014 Proposed.**

	2009	2010	2011	2012	2013	2014	% Change
	Adopted	Adopted	Adopted	Adopted	Adopted	Proposed	(from 2013)
<b>City-Funded</b>							
Special Projects	\$15,825,000	\$16,335,000	\$15,135,000	\$11,022,000	\$8,510,000	\$8,710,000	2.35%
Administration, Dept of	1,656,920	949,400	2,035,000	600,000	1,875,000	1,060,000	-55.4%
Assessor							
City Attorney						2,010,000	
City Development, Dept of	43,844,614	39,402,543	30,661,257	29,176,000	17,585,000	23,450,000	33.4%
Common Council	350,000			40,000	117,500	175,000	48.9%
City Clerk							
Election Commission	40,000						
Employee Relations, Dept of							
Fire & Police Commission	150,000					150,000	
Fire Dept	2,807,500	4,056,000	3,064,000	3,424,000	3,403,000	4,437,000	30.4%
Health Dept	864,000	100,000	110,000	450,000	435,000	425,000	-2.3%
Library	4,144,000	4,075,000	2,526,000	2,577,000	3,743,000	3,383,000	9.6%
Neighborhood Services, Dept of		76,141				2,220,000	
Municipal Court	683,645	334,000				144,000	
Police Dept	6,664,000	4,188,000	4,987,931	1,502,000	7,375,700	9,177,000	24.4%
Port of Milwaukee	1,500,000			225,000	1,075,000	750,000	30.2%
Public Works, Dept of	47,320,300	51,827,944	59,443,409	64,440,700	60,061,700	67,195,000	11.9%
<b>Total City Funded</b>	<b>\$125,849,979</b>	<b>\$121,344,028</b>	<b>\$117,962,597</b>	<b>\$113,456,700</b>	<b>\$104,180,900</b>	<b>\$123,286,000</b>	<b>18.3%</b>
<b>Grant &amp; Aid</b>							
Library	50,000						
Police Department							
Port of Milwaukee	1,450,000	400,000	800,000				
Public Works, Dept of	34,886,000	10,936,200	74,621,230	74,591,800	56,555,000	44,818,000	-20.8%
<b>Total Grant &amp; Aid</b>	<b>\$36,386,000</b>	<b>\$11,336,200</b>	<b>\$75,421,230</b>	<b>\$74,591,800</b>	<b>\$56,555,000</b>	<b>\$44,818,000</b>	<b>-20.8%</b>
<b>City Funded and Grant &amp; Aid</b>	<b>\$162,235,979</b>	<b>\$132,680,228</b>	<b>\$193,049,618</b>	<b>\$190,713,500</b>	<b>\$160,485,900</b>	<b>168,104,000</b>	<b>4.6%</b>
<b>Enterprise Funds</b>							
Parking	2,936,000	950,000	1,175,000	790,000	1,441,000	1,715,000	19.0%
Sewer Maintenance	31,450,000	23,937,000	39,833,000	43,950,000	44,510,000	44,550,000	0.1%
Water	27,096,000	20,030,000	20,645,000	9,320,000	13,850,000	13,825,000	-0.2%
<b>Total Enterprise Funds</b>	<b>61,482,000</b>	<b>44,917,000</b>	<b>61,653,000</b>	<b>\$54,060,000</b>	<b>\$59,801,000</b>	<b>\$60,090,000</b>	<b>0.5%</b>
<b>TOTAL CAPITAL PLAN</b>	<b>\$223,717,979</b>	<b>\$177,597,228</b>	<b>\$254,702,618</b>	<b>\$242,108,500</b>	<b>\$220,536,900</b>	<b>\$228,194,000</b>	<b>3.5%</b>

Prepared by: Kathy Brengosz, Fiscal Planning Specialist  
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