

COUNTY OF MILWAUKEE
INTEROFFICE COMMUNICATION

DATE: April 10, 2018

TO: Theodore Lipscomb, Sr., Chairperson, Milwaukee County Board of Supervisors

FROM: Joe Lamers, Director, Office of Performance, Strategy, & Budget

SUBJECT: Annual Capital Budget Funding Review/Capital Project Development & Inclusion in the Annual Budget Process (For Information Only)

Issue

With the interest of enhancing communication with the County Board and providing budget information at the earliest opportunity, this report provides a preliminary 2019 capital budget financing estimate as well as a general outline of the upcoming capital budget process.

County Funding of Capital Projects

The County finances capital projects primarily with general obligation bonds and notes (bonds), sales tax, tax levy, and reimbursement revenue (from Federal, State, and/or Local sources).¹ The 2018 Adopted Capital Improvement Budget includes 40 separate sub-projects with expenditures totaling \$92,405,093, which includes \$76,749,180 of County funding and \$15,655,913 of private contributions and Federal/State/Local revenue. The table below illustrates the 2018 Adopted Capital Budget funding sources:

Milwaukee County Contribution					Fed/State/ Local	Private Contribution	Adopted '18 Total Funding
Bonds GO/Notes	Sales Tax	Tax Levy	Veh Reg Fee/Misc	PFC/Airport Reserve			
39,642,309	4,844,618	250,000	315,000	16,697,253	15,655,913	0	92,405,093
GARBS 15,000,000	<p><i>NOTE: The 'Veh Reg Fee/Misc' category includes Vehicle Registration revenue of \$315,000.</i></p> <p><i>NOTE: GARBS: General Airport Revenue Bonds.</i></p>						

What is a Bond Eligible project?

For non-Airport related capital projects, the County issues general obligation bonds. Proceeds of these bonds may be used to finance infrastructure related activities of the County. The United States Internal Revenue Service (IRS) and state statute maintain rules and regulation that dictate and limit the use of bond proceeds, and therefore, what County capital projects are bond eligible. Capital projects that are not bond eligible must then be financed through County cash (primarily sales tax and tax levy) and/or other financing sources (i.e. private contributions, federal-state-locals funds, etc.).

^[1] Airport capital projects are typically funded with general airport revenue bonds, airport reserve revenue, passenger facility charge revenue, and federal and state revenue.

Annual Bond Limit

The County has an adopted policy (County Board file number 03-263) limiting the amount of corporate purpose bonds issued to finance capital improvement projects. Under this policy, corporate purpose bond issuance is limited to an increase of no more than 3% over the preceding year's adopted bond amount.

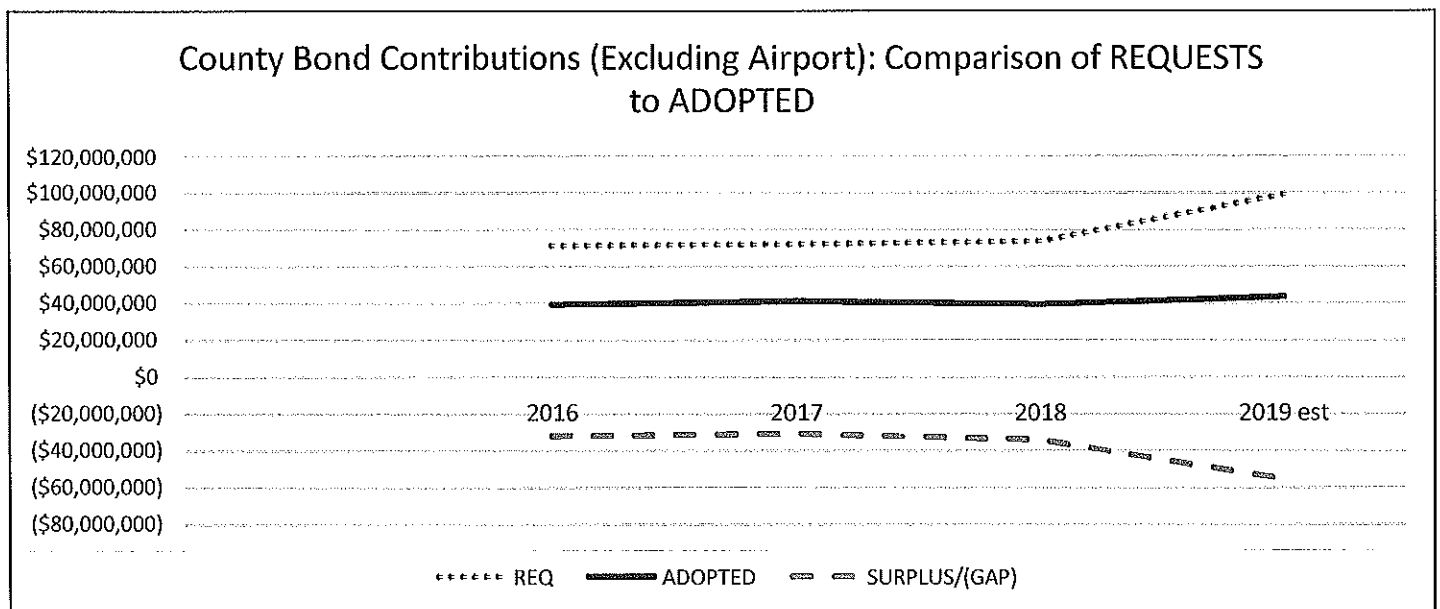
2019 Estimated Annual Bond Limit

Based on the 2018 adopted bonding amount of \$39,642,309, the estimated 3% bond increase results in a projected 2019 bonding limit of \$43,625,968. Pursuant to language included in the 2018 Adopted Capital Budget, the 2019 bond cap includes \$2.7 million within the base calculation as planned 2018 bond financed project WZ119-Adventure Africa Elephant Exhibit was accelerated to 2017 (File # 17-496).

Perhaps more importantly, however, it should be recognized that the total BOND ELIGIBLE projects at the DEPARTMENTAL REQUEST Phase is significantly higher than the County's available Bond financing (under the 3% bond increase policy). Increasing the County's bond financed projects is addressed under the "Projected County Funding of Anticipated Capital Projects" section of this report.

County Bond Funding Gap (Excluding Airport)					
BUDGET YR	BOND	BOND	BOND	% of REQ BOND PROJECTS:	
	REQ	ADOPTED	SURPLUS/(GAP)	FUNDED	NOT FUNDED
2016	\$71,328,011	\$39,234,810	(\$32,093,201)	55.0%	45.0%
2017	\$71,997,939	\$41,147,918	(\$30,850,021)	57.2%	42.8%
2018	\$73,718,901	\$39,642,309	(\$34,076,592)	53.8%	46.2%
2019 est	\$99,117,766	\$43,625,968	(\$55,491,797)	44.0%	56.0%

NOTE: As the Airport, in general, does not utilize County sales tax and/or tax levy to fund its capital or operating budgets, it is excluded from table above.



Cash Financing

Beginning with the 1995 capital budget, the County established a cash-financing goal of 20 percent to be implemented over a ten-year period. County cash financing primarily consists of sales tax and tax levy for non-airport capital projects.

The annual cash goal is based off 20% of the Net County Funding Contribution (which excludes Federal/State/Local revenue sources). Private contributions have historically been included as part of the Net County Funding Contribution. In addition, the 2018 Adopted Capital Improvement Budget included \$315,000 in County “cash” financing through implementation of the Vehicle Registration Fee (VRF) (which was introduced as part of the 2017 Adopted Budget).

2018 Cash Financing

The 2018 Adopted Capital Improvement Budget reflects net County financing (including private contributions) of \$76,749,180 when including the Airport and \$45,051,927 when the Airport is excluded. The table below details the cash financing sources.

	Milwaukee County Contribution				Private Contribution	Total Cash Financed	% Cash Financed
	Sales Tax	Tax Levy	Veh Reg Fee/Misc	PFC/Airport Reserve			
Include Airport:	4,844,618	250,000	315,000	16,697,253	0	22,106,871	28.8%
Exclude Airport:	4,844,618	250,000	315,000	0	0	5,409,618	12.0%

NOTE: The 'Veh Reg Fee/Misc' category includes Vehicle Registration revenue of \$315,000.

2019 Cash Financing

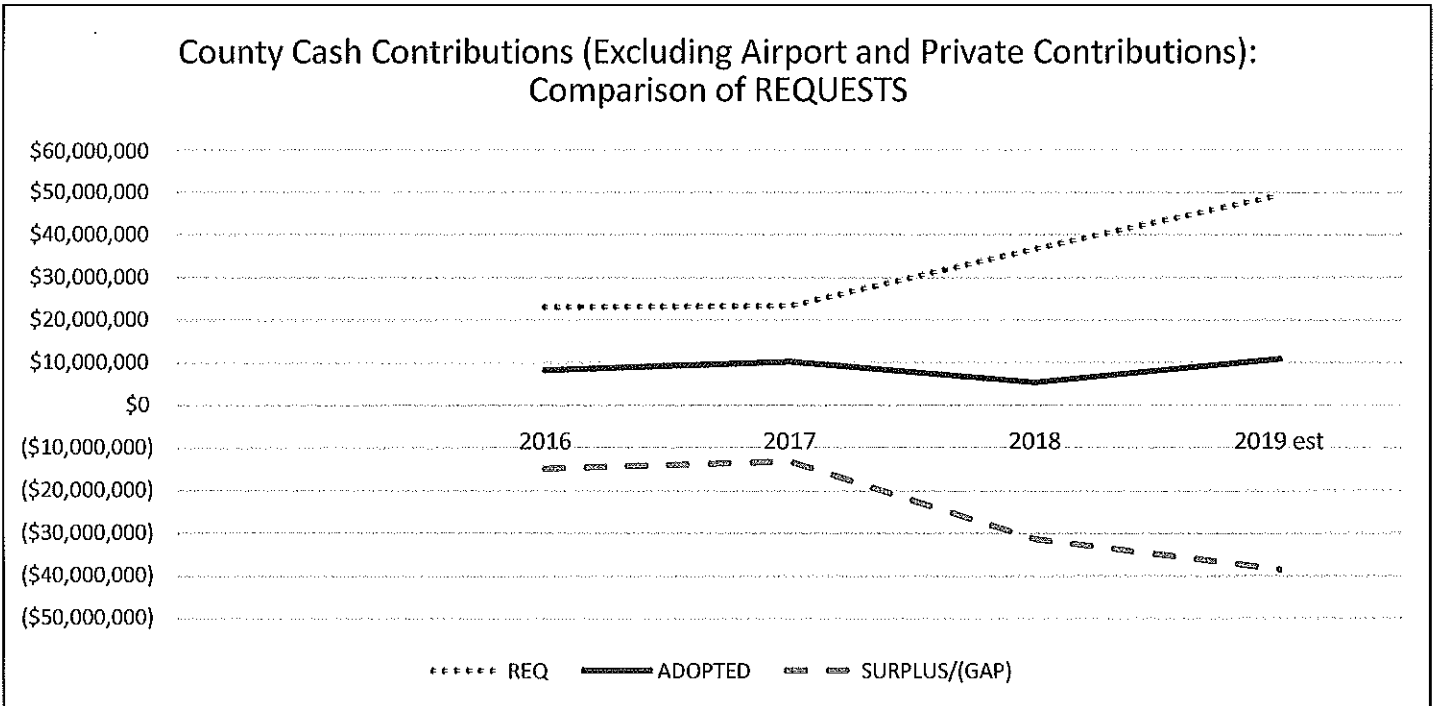
Based on the 2019 projected capital bonding amount of \$43,625,968, the estimated cash contribution of 20% of Net County Contributions results in a cash goal of \$10,906,492.²

Similar to bond financing issues noted previously, NON-BOND ELIGIBLE projects at the DEPARTMENTAL REQUEST Phase consistently, and significantly outpace the County's ability to finance projects using sales tax, tax levy, and/or VRF revenue (i.e. “cash”). Given the fiscal challenges facing the operating budget and assuming relatively flat revenue growth as well as assumed annual cost to continue increases, it is unlikely that additional cash resources will be available to shift from operations towards the financing of cash capital projects. Exacerbating the problem is the anticipated loss of between \$8.5 - \$9.0 million of Doyne Hospital Sales Revenue after 2020 (based on the 1996 sale agreement between Milwaukee County and Froedtert Memorial Lutheran Hospital).

[2] The total projected Net County Contribution for 2019 is \$54,532,460 (\$43,625,968 bond funding, or 80%; \$10,906,492 cash funding, or 20%).

County Cash Funding Gap (Excluding Airport and Private Contributions)					
BUDGET YR	CASH			% of REQ CASH PROJECTS:	
	REQ	ADOPTED	SURPLUS/(GAP)	FUNDED	NOT FUNDED
2016	\$23,095,097	\$8,293,468	(\$14,801,629)	35.9%	64.1%
2017	\$23,400,414	\$10,286,987	(\$13,113,427)	44.0%	56.0%
2018	\$36,785,176	\$5,409,618	(\$31,375,558)	14.7%	85.3%
2019 est	\$49,392,522	\$10,906,492	(\$38,486,029)	22.1%	77.9%

NOTE: As the Airport, in general, does not utilize County sales tax and/or tax levy to fund its capital or operating budgets, it is excluded from table above.



Use of Sales Tax to Fund Capital Projects

Sales Tax is used to fund the County's general obligation bonding debt service. After funding debt service, surplus sales tax revenues are allocated to cash finance capital projects. Previous Adopted Capital Improvement Budgets included sales tax funding of \$9.3 million (2015), \$6.7 million (2016), \$6.8 million (2017), and \$4.8 million (2018). Remaining sales tax revenue is available for operating purposes stated in Milwaukee County Ordinance 22.04.

Projected County Funding of Anticipated Capital Projects: 2019 Budget Year

Based on the 2019 planned capital project requests (included in the 2018 - 2022 Capital Improvement Plan) and 2018 requested projects that were NOT adopted, there will be an estimated 2019 financing gap of \$93,977,827. As reference, last year's budget planning process forecast a 2018 County funding gap of \$95,360,792. Continuing-Mandated-Contractual projects and Bus and Vehicles replacements of \$46,931,195 account for more than the estimated available bond financing (\$43,625,968) while Continuing-Mandated-Contractual projects that must be cash financed comprise 63.0% (or \$6,869,552) of the anticipated cash financing (\$10,906,492).

2019 County Financing Estimates				
Estimated 2019 BOND Projects	\$	\$	Estimated 2019 CASH Projects	
2018 Not Adopted	\$20,274,669	\$20,781,583	2018 Not Adopted	
Continuing-Mandated-Contractual	\$27,346,924	\$6,869,552	Continuing-Mandated-Contractual	
2019 Planned	<u>\$51,496,173</u>	<u>\$21,741,387</u>	2019 Planned	
	\$99,117,766	\$49,392,522		
2019 Est. Total Requests:				
\$148,510,287				
↓				
Financing @ 3% BOND Policy			Cash Financing @ 20% CASH Goal	
2019 Estimated County BOND Financing	\$43,625,968	\$10,906,492	2019 Estimated County CASH Financing	
2019 Est. County BOND Financing Surplus/(Gap)	(\$55,491,797)	(\$38,486,029)	2019 Est. County CASH Financing Surplus/(Gap)	
2019 Est. Total County Funding Surplus/(Gap):				
(\$93,977,827)				

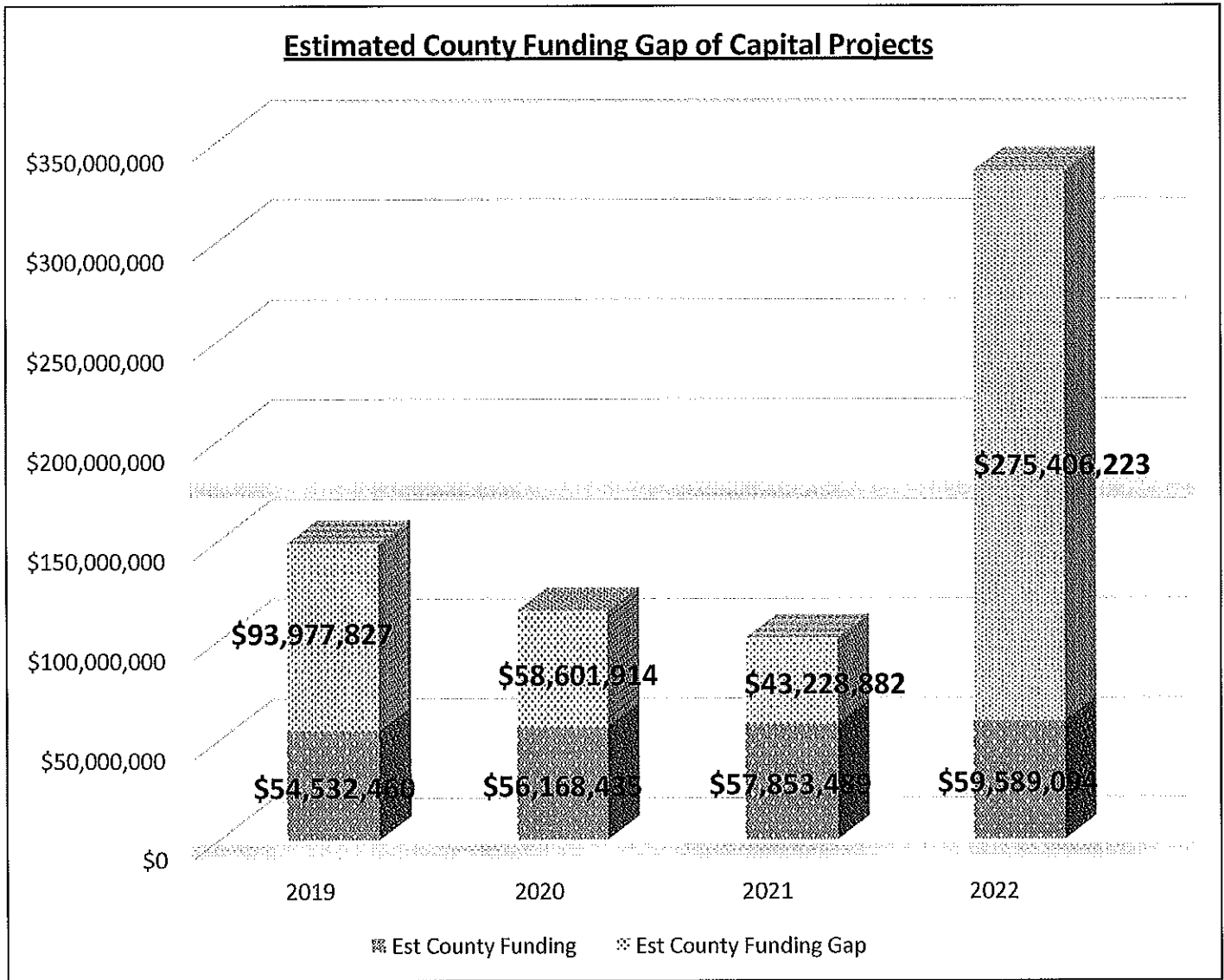
The chart below reflects the estimated County funding gap for 2019 assuming existing County funding policies and the inclusion of 2018 non-adopted projects and the 2019 mandated and planned projects in the current CIP:

REQUESTING DEPARTMENT	2018 REQ NON ADOPTED	2019 CONT- MANDT-CNTRCT	2019 PLANNED REQ	TOTAL
Dept of Administrative Services - Facilities Mngmnt - Facilities Maint	11,737,315	-	14,992,130	26,729,445
Dept of Transportation - Transit / Paratransit System	3,558,551	4,500,000	17,950,000	26,008,551
Dept of Parks, Recreation, & Culture	7,354,290	4,498,987	11,589,860	23,443,137
Dept of Administrative Services - Information Mngmnt Service Division	646,290	10,360,074	4,000,000	15,006,364
Dept of Transportation - Highway Maint	125,000	10,957,000	827,296	11,909,296
Dept of Transportation - Fleet Mngmnt	329,178	3,311,414	7,084,271	10,724,863
Office of the Sheriff	2,228,196	-	3,843,505	6,071,701
Milw Public Museum	3,995,338	-	1,321,500	5,316,838
Dept of Health & Human Services - Behavioral Health Division	3,130,016	-	1,806,379	4,936,395
Charles Allis / Villa Terrace	3,863,794	-	125,000	3,988,794
Zoological Department	653,784	-	1,800,000	2,453,784
Dept of Health & Human Services	252,260	-	2,088,200	2,340,460
Dept of Administrative Services - Facilities Mngmnt - Envrnmtl Services	1,503,370	-	643,200	2,146,570
House of Correction	-	-	1,753,000	1,753,000
Office of Emergency Management	149,060	-	1,332,000	1,481,060
Dept of Administrative Services - Office of Persons w/ Disabilities	-	-	990,219	990,219
Department on Aging	696,065	-	291,000	987,065
War Memorial Center	-	-	800,000	800,000
Milw County Historical Society	604,945	-	-	604,945
Marcus Center for the Performing Arts	-	589,000	-	589,000
Medical Examiner	228,800	-	-	228,800
Grand Total	41,056,252	34,216,475	73,237,560	148,510,287

Projected County Funding of Anticipated Capital Projects: 2019 – 2022 (From Current 5-YR Plan)

The following figures and tables are based on project scopes and cost estimates relative to planned capital projects within the 2018 - 2022 Capital Improvement Plan (CIP). The availability and allocation of County resources are subject to change relative to the status of adopted projects that are in-progress, project refinement of scope/cost/scheduling, and updated departmental capital requests relative to the current CIP. As in previous years, modifications to these items are anticipated to occur during the departmental request (and cost estimate request/review) phase of the capital process, which typically falls between March and May/June.

The chart below illustrates the estimated County funding gap for years 2019 through 2022 based on the projects in the current CIP and existing County funding policies:

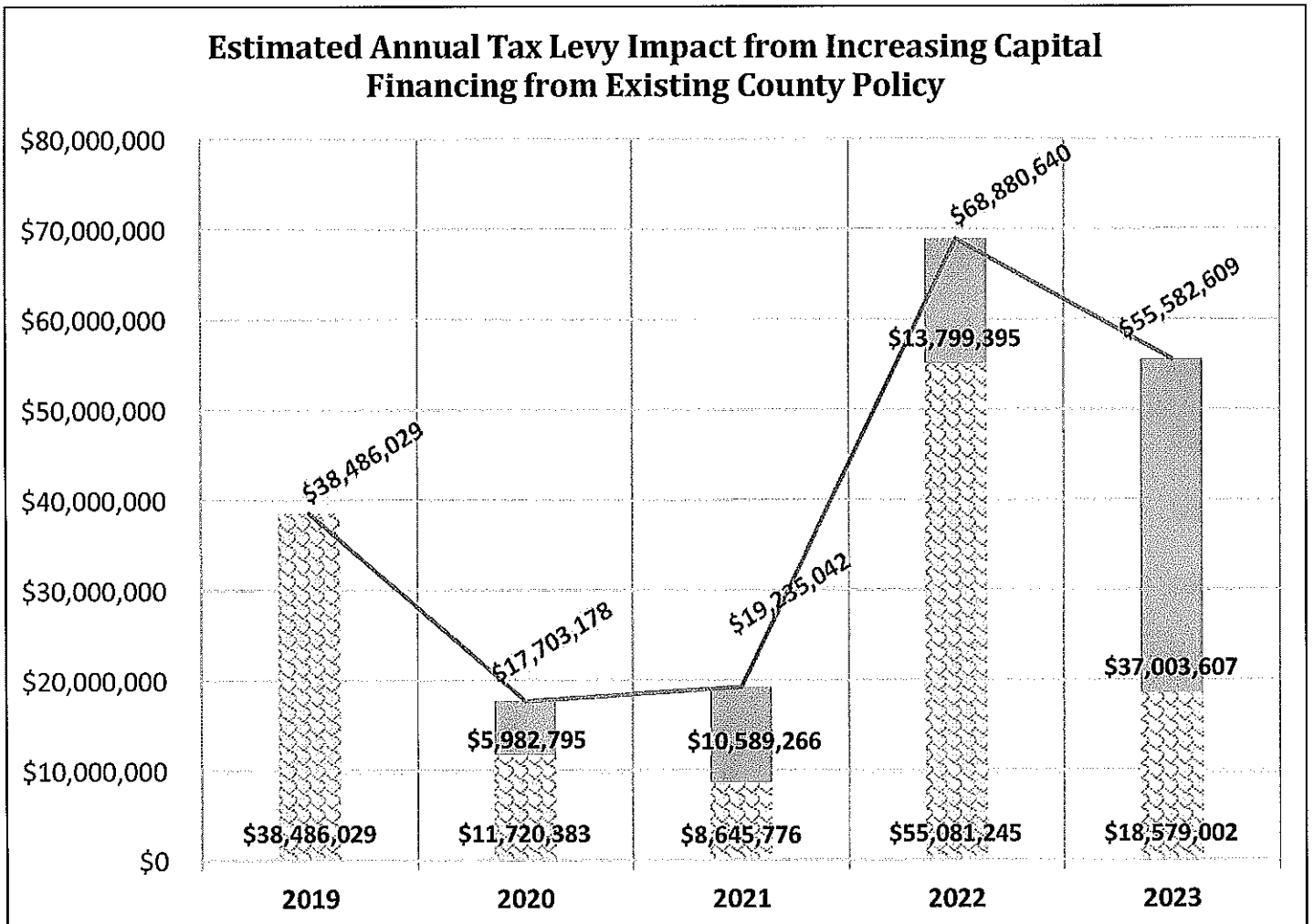


[3] County funding shown in the table reflects the existing County policy of increasing the amount of general obligation bond (bond) funding by three percent over the previous years adopted bonding amount. In addition, County funding also reflects the current policy of including a 20% cash financing goal.

County Funding Level Scenarios of Anticipated Capital Projects

Over the next five years, under the existing County capital financing policy, approximately 44% (on average) of the projected annual capital funding can be met. It is important to note the funding gap spike reflected in the 2022 planning year (illustrated in the previous table and the table below) includes anticipated capital placeholder request(s) for the Mitchell Park Conservatory Domes (\$10 million), Bus Replacements (\$48.6 million), and a New Criminal Courthouse (\$200 million). Again, these are high-level conceptual planning figures only and will likely change upon refined cost estimates.

To illustrate the impact of increased County funding beyond the existing financing policy, the table below assumes full funding of the DEPARTMENTAL REQUESTs (from 2019 through 2023) and reflects a projected cumulative tax levy increase when compared to the existing financing policy:



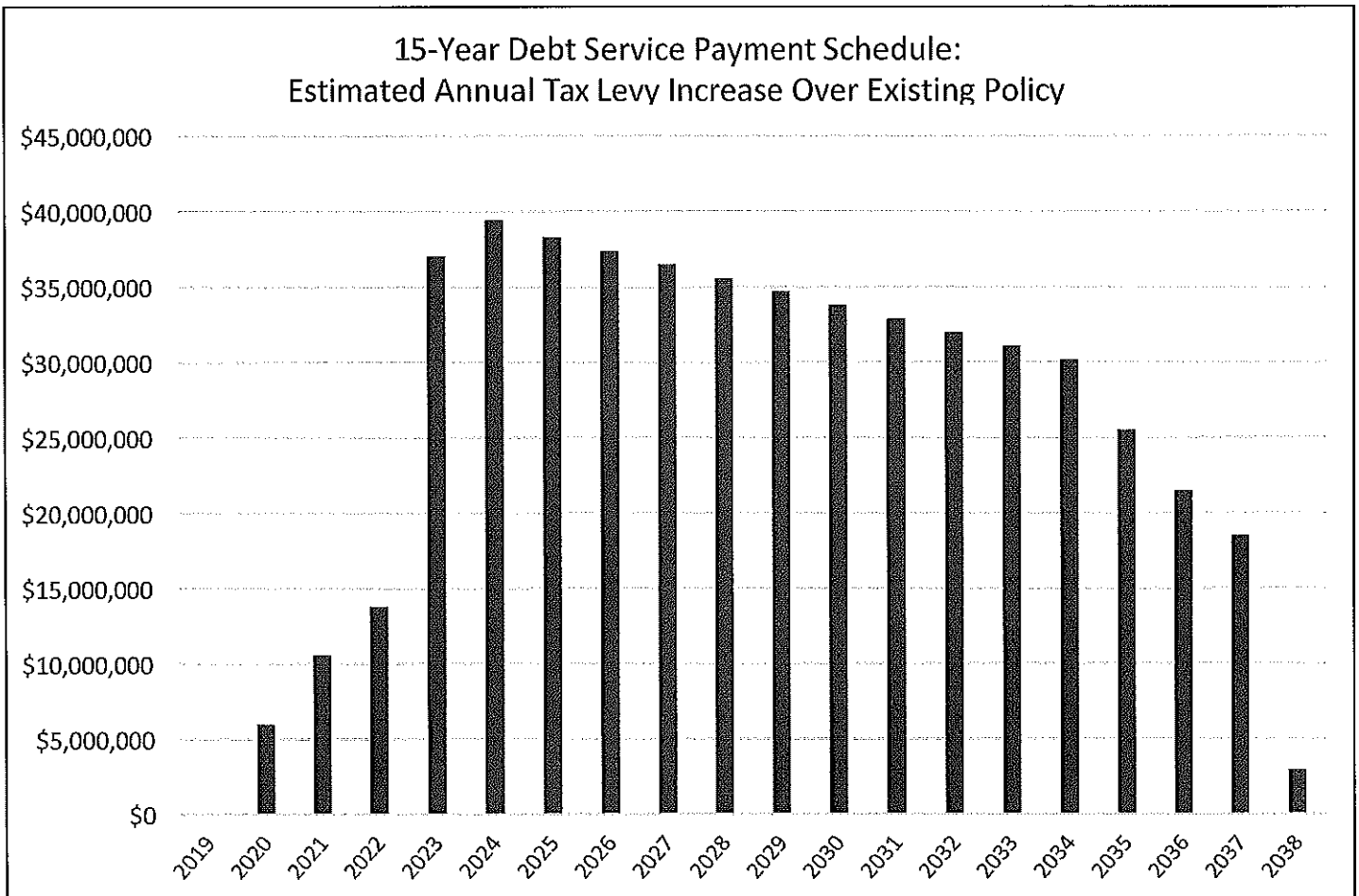
Note: Year 2023 reflects the average of years 2019 - 2021 based on the existing 2018 - 2022 5-YR CIP.



The table above does NOT include pre-existing debt and only reflects a specific five-year snapshot in time to illustrate the effect of increasing County financing over the existing policy. In general, the County’s amortization of debt related to general obligation bonds occurs over a 15-year period.

Additionally, you will notice that 2019 only reflects the estimated increase in County cash (sales tax, tax levy, and potentially VRF) required to fund the anticipated non-bond eligible projects. This is because annualized debt service payments (related to bond financed projects) are typically realized in the subsequent year(s) as opposed to the bond adoption year. For instance, the amortized debt service repayment schedule for 2019 general obligation bonds will begin in 2020; the amortized debt service repayment schedule for 2020 general obligation bonds will begin in 2021; the amortized debt service repayment schedule for 2021 general obligation bonds will begin in 2022; the amortized debt service repayment schedule for 2022 general obligation bonds will begin in 2023.

Overall, 2020 through 2024 reflect the cumulative annualized debt service payment increases (over existing policy). The table below reflects the increased 15-year annualized debt service payments specific to assumed full funding of 2019-2023 department requests (this does NOT include existing debt service schedules):



NOTE: 2023 is an estimated figure based on the current 5-YR Plan.

Capital Projects Development via Annual Budget Process

General Capital Improvement Plan Overview

The County utilizes a 5-Year Capital Improvement Plan (CIP) to help organize and estimate future capital project needs. The first year of the CIP (which for this year's budget development process is 2019) is the year in which capital projects scheduled for that particular year are submitted as REQUESTS by departments and (may) receive budget appropriation(s) through the normal capital improvement budget process. Years two through five (2020 – 2023) are planning years for future projects and/or continuing phases of existing projects.

Departmental Request Phase

As part of the annual County budget development process, each department is responsible for updating its 5-Year CIP. This process typically begins in late winter/early spring with as departments develop/update cost estimates for each capital project. Departments submit their requested CIPs to the Department of Administrative Services (DAS) towards the end of June/early July.⁴ Departmental requested budgets (Capital and Operating) are posted by the DAS on the County's website no later than August 15th of each year.⁵

Capital Improvement Committee (CIC)

The CIC is an advisory sub-committee that reviews and scores the requested departmental capital requests and provides an annual recommended 5-Year CIP to the County Executive and County Board typically in late August/early September. The CIC is included in the Milwaukee County ordinances under chapter 36. Committee members include the following:

- (a) Director of the Department of Transportation or alternate;
- (b) Fiscal & Budget Administrator (DAS) or alternate;
- (c) Comptroller (committee chair as appointed by the Chair of the County Board), or alternate;
- (d) Chair of the Committee on Transportation, Public Works, and Transit, or alternate;
- (e) Co-Chair of the committee on finance, personnel and audit, or alternates;
- (f) Two (2) appointments of the County Executive who shall be mayors or village board

The CIC is staffed jointly by Office of the Comptroller and DAS-PSB.

County Executive Recommended Phase

Upon receipt of the departmental CIP requests, the DAS staff reviews the requested capital projects and assists the County Executive with the formulation of the Recommended Capital Improvement Budget. Requesting departments are consulted and site visits are performed relative to the departments' capital requests. This budget development phase usually extends from July through September. The Recommended Budget is submitted to the County Board no later than October 1st of each year.⁶

[4] Per Wisconsin State Statute 59.60(2) (b), the Requested Budget Deadline is set annually by DAS Director (deadline can be no later than July 15).

[5] Per Wisconsin State Statute 59.60(5), DAS Director submits a summary of the budget requests to the County Executive and County Board no later than August 15th. County website address: <http://county.milwaukee.gov/PSB/County-Budget.htm>

[6] Per Wisconsin State Statute 59.60(6) (b) & 59.17(6), CEX submits recommended budget to the Board no later than October 1st.

County Board Phase

Finance and Audit Committee

After the County Executive submits the Recommended Budget, the Finance and Audit Committee (FAC) holds budget hearings. The review typically lasts through the month of October. Departmental staff is present at FAC hearings to answer questions related to their capital projects.⁷

During this phase, members of the FAC may introduce amendments to the Recommended Budget. Upon close of the budget hearings, the FAC submits the amended budgets to the County Board for review/adoption.

Full County Board Meeting / County Executive Veto

No later than the 1st Monday of November, the County Board holds a public hearing on the amended capital budget submitted by the FAC. The County Board then meets to act on the amendments and recommendations submitted by the FAC as well as amendments submitted by individual County Board members.

The County Executive may then provide vetoes of the Adopted County Board Budget resolution to the County Board. The County Board then meets a final time (for the budget adoption process) to consider any possible vetoes by the County Executive and whether to sustain or override each veto.

Preliminary 2019 Capital Budget Timeline

- **February-May – Preliminary planning with departments;**
- **April or May – Presentation of 2019 Capital Financing/Process to County Board;**
- **March-June – Departments develop their budget requests;**
- **June (Last Business Day) – Departments submit their (capital) budget requests to the Office of Performance, Strategy, and Budget;**
- **August-September – County Executive works with DAS-PSB and departments to finalize the County Executive Recommended Budget;**
- **October-November – The Finance and Audit Committee reviews and requests information on the Recommended Budget;**
- **November – The County Board adopts the 2019 budget;**
- **December – DAS-PSB and the Comptroller's Office work to implement the 2019 budget**

[7] The County Board establishes the budget hearing calendar for this committee annually.

RECOMMENDATION

This report is for information purposes only. No action is required.

Prepared by: Vince Masterson, Capital Budget Coordinator, Office of Performance, Strategy, & Budget

Approved by:

A handwritten signature in cursive script that reads "Joe Lamers". The signature is written in black ink and is positioned above a horizontal line.

Joseph Lamers, Director
Office of Performance, Strategy and Budget
Department of Administrative Services

pc: Chris Abele, County Executive
Raisa Koltun, Chief of Staff, County Executive
Kelly Bablitch, Chief of Staff, County Board of Supervisors
Steve Cady, Research & Policy Director, Office of the Comptroller
Janelle Jensen, Sr. Committee Coordinator, Office of the County Clerk
Teig Whaley-Smith, Director, Department of Administrative Services
Scott Manske, Comptroller, Office of the Comptroller
Pamela Bryant, Capital Finance Manager, Office of the Comptroller

