

COUNTY OF MILWAUKEE
INTEROFFICE COMMUNICATION

DATE: 2/8/2019
TO: Theodore Lipscomb, Sr., Chairperson, Milwaukee County Board of Supervisors
FROM: Joe Lamers, Director, Office of Performance, Strategy, & Budget (PSB)
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 2020 capital budget financing estimate as well as a general outline of the upcoming capital budget process.

It should also be noted two additional capital reports will be submitted in 2019:

1. As part of the adopted 2019 operating budget (via County Board amendment 1B002), the Comptroller/PSB will issue a joint report that includes a review of capital infrastructure/needs and related fiscal analysis of alternative bonding limits, bond rating impact(s), and potential staffing capacity to manage capital projects.
2. PSB will submit a (15-20 year) long-term capital report as part of the September committee cycle. This review dovetails with the aforementioned report, but also expands in the following area(s):
 - Begin the development of a baseline listing of all County infrastructure for the next 20 years;
 - Review current financing scenarios against available baseline County infrastructure;
 - Conceptual overview of long-term capital needs relative to existing capital funding policies to inform policymakers' decisions regarding capital

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 2019 Adopted Capital Improvement Budget includes 55 separate sub-projects with expenditures totaling \$124,444,736, which includes \$79,849,040 of County funding and \$44,595,696 of private contributions and Federal/State/Local revenue. The table below illustrates the 2019 Adopted Capital Budget funding sources:

Milwaukee County Contribution					Fed/State/ Local	Private Contribution	Adopted '19 Total Funding
Bonds GO/Notes	Sales Tax	Tax Levy	Veh Reg Fee/Misc	PFC/Airport Reserve			
43,619,074	10,781,492	125,000	570,000	24,753,474	30,978,117	13,617,579	124,444,736

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

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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.).

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.

2020 Estimated Annual Bond Limit

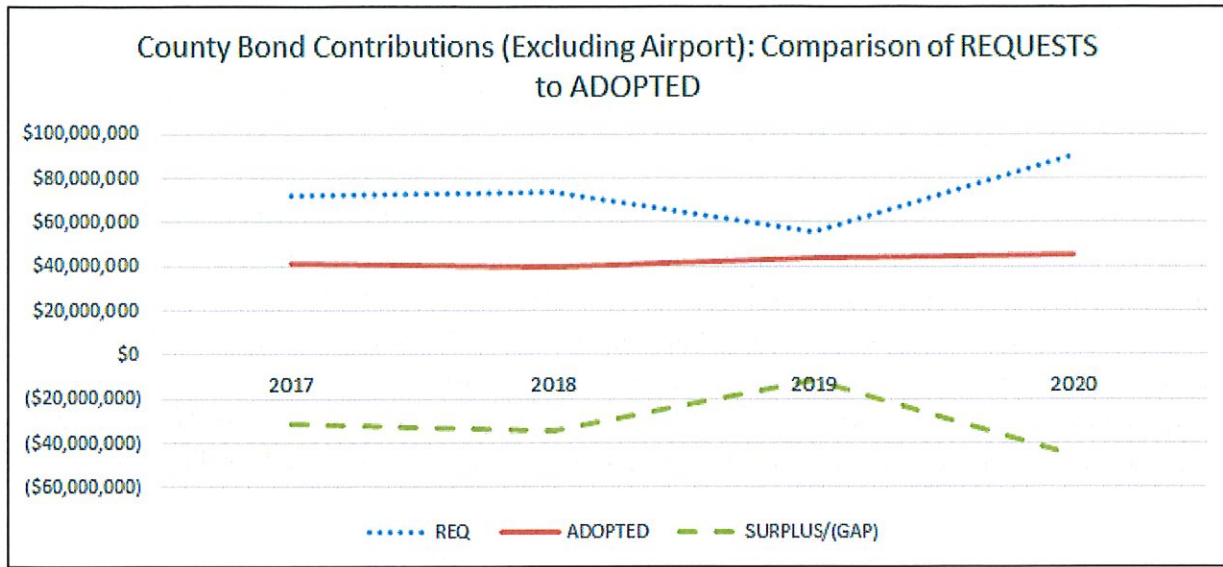
Based on the 2019 adopted bonding amount of \$43,619,074, the estimated 3% bond increase results in a projected 2020 bonding limit of \$44,927,646.

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 REQ	BOND ADOPTED	BOND SURPLUS/(GAP)	% of REQ BOND PROJECTS:	
				FUNDED	NOT FUNDED
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	\$55,423,856	\$43,619,074	(\$11,804,782)	78.7%	21.3%
3-Year AVG	\$67,046,899	\$41,469,767	(\$25,577,131.67)	63.2%	36.8%
<i>2020 est</i>	<i>\$89,985,467</i>	<i>\$44,927,646</i>	<i>(\$45,057,821)</i>	<i>49.9%</i>	<i>50.1%</i>

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.

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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). Typically, private contributions are one-time (non-County) allocations to specific capital projects pursuant to specific agreement(s). In order to more accurately account for the true County cash (i.e. sales tax, property tax, and VRF) capital contribution requirement for non-Airport projects, private contributions are excluded (this was also reflected in the 2019 Adopted Budget). In addition, the 2019 Adopted Capital Improvement Budget included \$0 in County “cash” financing through implementation of the Vehicle Registration Fee (VRF) (which was introduced as part of the 2017 Adopted Budget).

2019 Cash Financing

The 2019 Adopted Capital Improvement Budget reflects net County financing (including private contributions) of \$36,229,966 when including the Airport and \$11,476,492 when the Airport is excluded. The table below details the cash financing sources.

	Milwaukee County Contribution				Total Cash Financed	% Cash Financed
	Sales Tax	Tax Levy	Veh Reg Fee/Misc	PFC/Airport Reserve		
Include Airport:	10,781,492	125,000	570,000	24,753,474	36,229,966	45.5%
Exclude Airport:	10,781,492	125,000	570,000	0	11,476,492	20.8%

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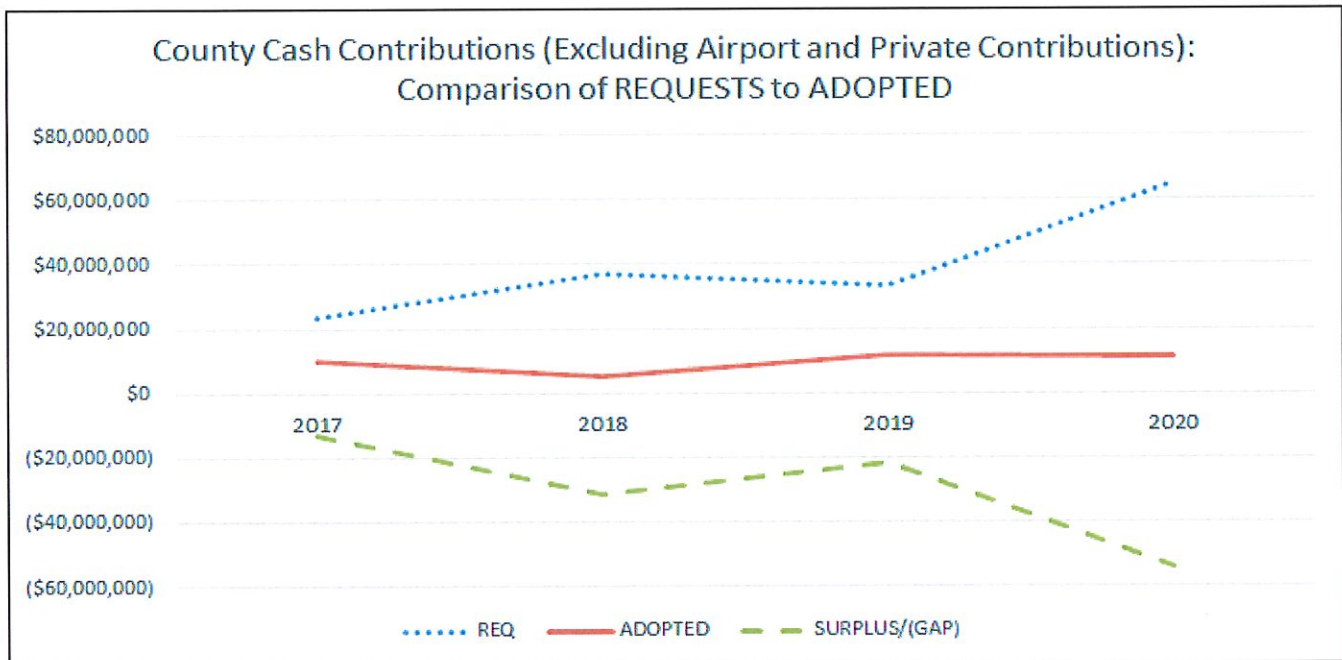
2020 Cash Financing

Based on the 2020 projected capital bonding amount of \$44,927,646, the estimated cash contribution of 20% of Net County Contributions results in a cash goal of \$11,231,912.²

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).

County Cash Funding Gap (Excluding Airport and Private Contributions)					
BUDGET YR	CASH	CASH	CASH	% of REQ CASH PROJECTS:	
	REQ	ADOPTED	SURPLUS/(GAP)	FUNDED	NOT FUNDED
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	\$33,085,532	\$11,476,492	(\$21,609,040)	34.7%	65.3%
3-Year AVG	\$31,090,374	\$9,057,699	(\$22,032,675)	31.1%	68.9%
2020	\$65,162,135	\$11,231,912	(\$53,930,223)	17.2%	82.8%

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.



[2] The total projected Net County Contribution for 2020 is \$56,159,558 (\$44,927,646 bond funding, or 80%; \$11,231,912 cash funding, or 20%).

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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), \$4.8 million (2018), and \$10.8 million (2019). Remaining sales tax revenue is available for operating purposes stated in Milwaukee County Ordinance 22.04.

Projected County Funding of Anticipated Capital Projects: 2020 Budget Year

Based on the 2020 planned capital project requests (included in the 2019 - 2023 Capital Improvement Plan) and 2019 requested projects that were NOT adopted, there will be an estimated 2020 financing gap of \$98,988,044. As reference, last year's budget planning process forecast a 2019 County funding gap of \$95,360,792. Continuing-Mandated-Contractual projects and Bus/Vehicles replacements combine for \$35.9 million and account for 80% of the available bond financing (\$44.9 million) while cash financed Continuing-Mandated- Contractual projects (\$25.6 million) are more than double the estimated available cash financing (\$11,231,912).

2020 County Financing Estimates			
Estimated 2020 BOND Projects	\$	\$	Estimated 2020 CASH Projects
<i>2019 Not Adopted---></i>	\$16,592,498	\$16,432,733	<i><---2019 Not Adopted</i>
<i>Continuing-Mandated-Contractual---></i>	\$9,660,277	\$25,586,000	<i><---Continuing-Mandated-Contractual</i>
<i>2020 Planned---></i>	<u>\$63,732,692</u>	<u>\$23,143,402</u>	<i><---2020 Planned</i>
	\$89,985,467	\$65,162,135	
	2020 Est. Total Requests:		
	\$155,147,602		
		↓	
Financing @ 3% BOND Policy			Cash Financing @ 20% CASH Goal
2020 Estimated County BOND Financing-->	<u>\$44,927,646</u>	<u>\$11,231,912</u>	<--2020 Estimated County CASH Financing
2020 Est. County BOND Financing Surplus/(Gap)-->	(\$45,057,821)	(\$53,930,223)	<--2020 Est. County CASH Financing Surplus/(Gap)
	2020 Est. Total County Funding Surplus/(Gap):		
	(\$98,988,044)		

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The chart below reflects the estimated County funding gap for 2020 assuming existing County funding policies and the inclusion of 2019 non-adopted projects and the 2020 mandated and planned projects in the current CIP:

REQUESTING DEPARTMENT	2019 REQ NON ADOPTED	2020 CONT- MANDT-CNTRCT	2020 PLANNED REQ	TOTAL
Dept of Parks, Recreation, & Culture	7,948,217	2,617,486	26,869,443	37,435,146
Dept of Administrative Services - Facilities Mngmnt - Facilities Maint	818,189	23,821,000	9,668,543	34,307,732
Dept of Transportation - Transit / Paratransit System	-	4,150,791	21,800,000	25,950,791
Dept of Transportation - Fleet Mngmnt	-	-	11,454,479	11,454,479
Dept of Health & Human Services - Behavioral Health Division	4,668,102	-	3,441,577	8,109,679
Office of the Sheriff	4,290,616	-	2,598,000	6,888,616
Dept of Administrative Services - Information Mngmnt Service Division	1,990,216	1,765,000	2,795,685	6,550,901
Milw Public Museum	3,366,568	-	2,060,500	5,427,068
Charles Allis / Villa Terrace	4,220,056	-	100,000	4,320,056
Dept of Transportation - Highway Maint	450,000	2,432,000	1,364,875	4,246,875
Office of Emergency Management	1,050,645	-	1,210,000	2,260,645
House of Correction	1,182,543	-	565,000	1,747,543
Dept of Administrative Services - Office of Persons w/ Disabilities	808,076	-	500,000	1,308,076
Dept of Administrative Services - Facilities Mngmnt - Envrmntl Services	408,368	-	726,502	1,134,870
Zoological Department	664,345	-	400,000	1,064,345
Department on Aging	259,958	-	682,690	942,648
Milw County Historical Society	532,257	-	-	532,257
Medical Examiner	237,075	-	228,800	465,875
Marcus Center for the Performing Art	-	460,000	-	460,000
Office of African American Affairs	-	-	300,000	300,000
Dept of Health & Human Services	130,000	-	110,000	240,000
Grand Total	33,025,231	35,246,277	86,876,094	155,147,602

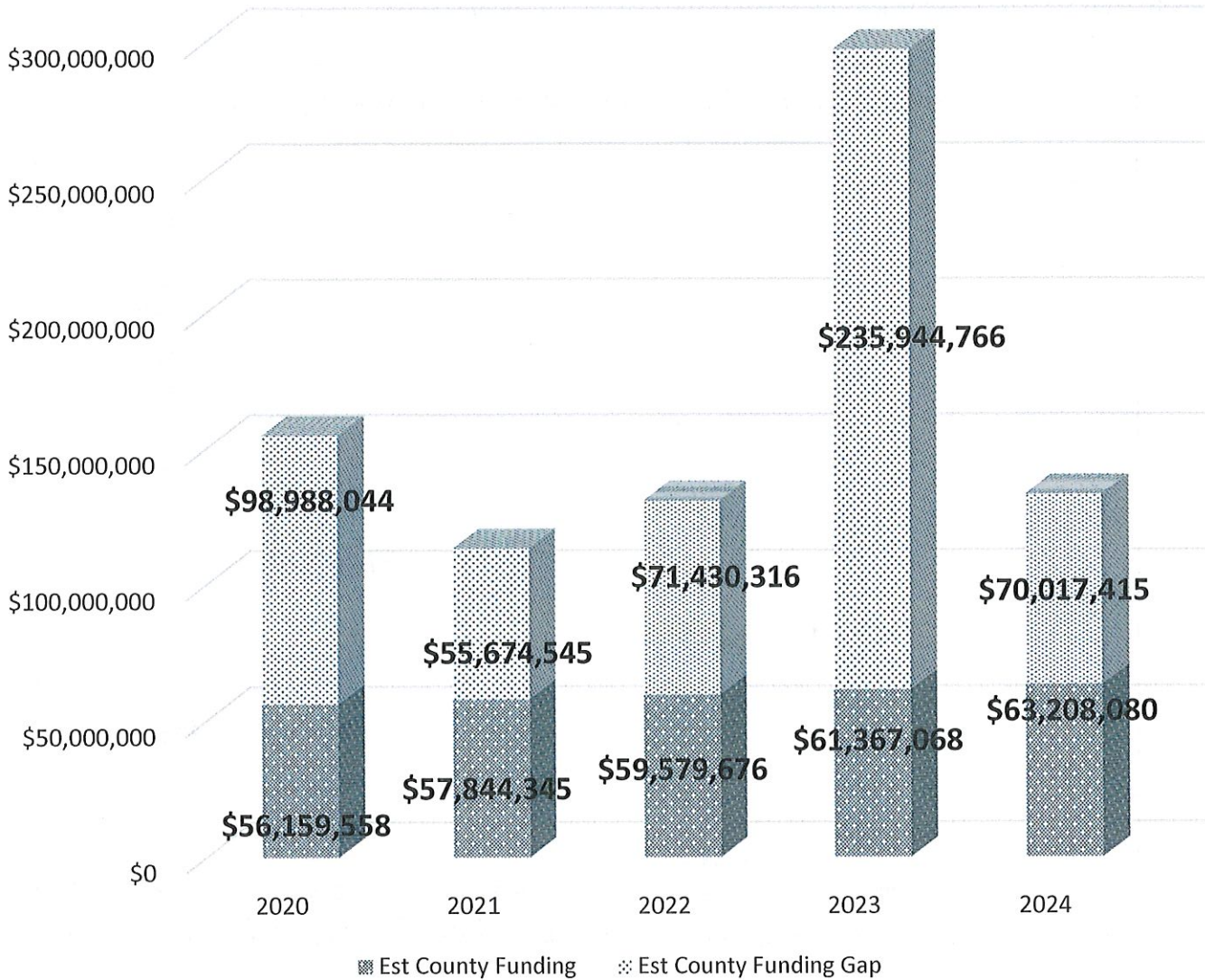
Projected County Funding of Anticipated Capital Projects: 2020 – 2023 (From Current 5-YR Plan)

The following figures and tables are based on project scopes and cost estimates relative to planned capital projects within the 2019 - 2023 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 on the following page illustrates the estimated County funding gap for years 2020 through 2024 (note: 2024 is an average estimate) based on the projects in the current CIP and existing County funding policies:

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Estimated County Funding Gap of Capital Projects³



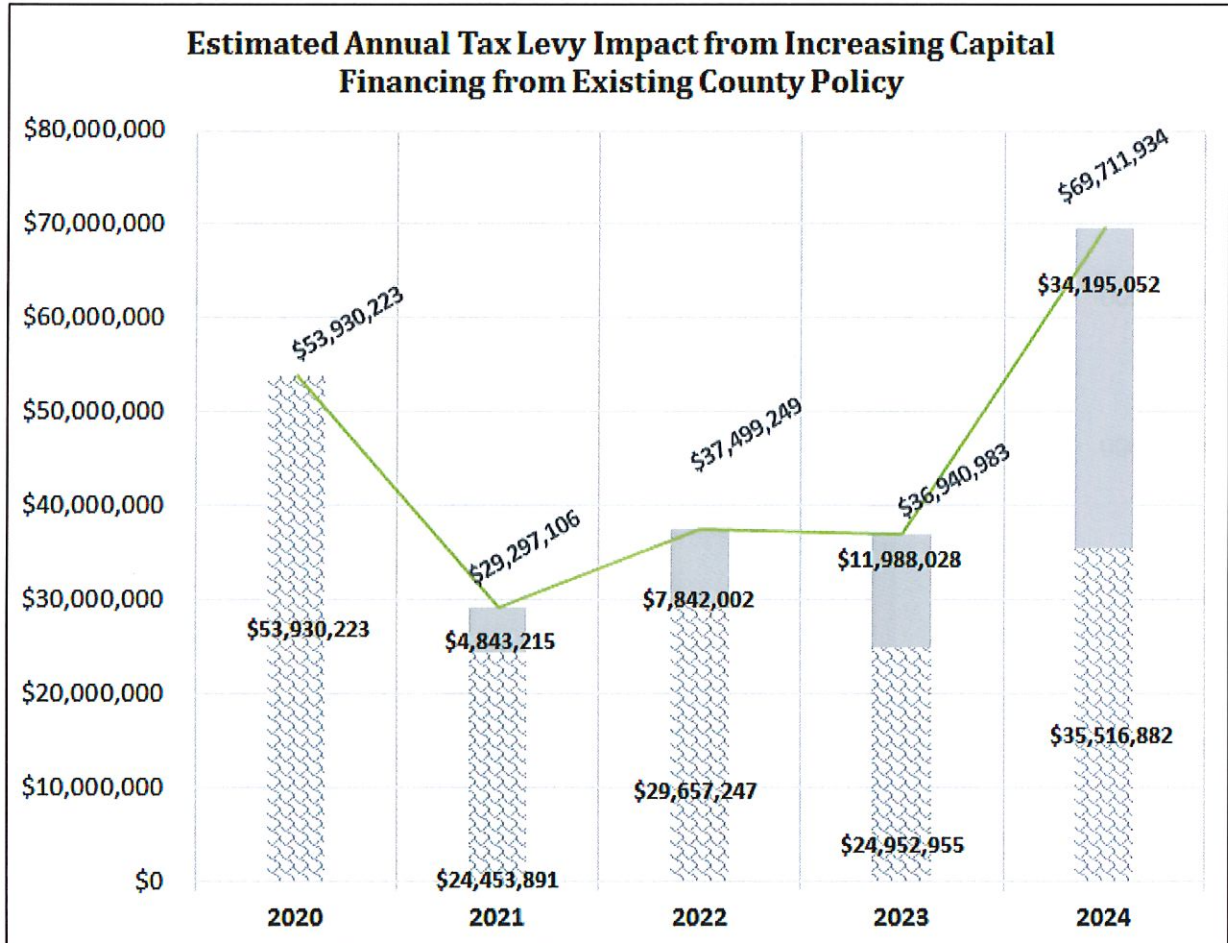
County Funding Level Scenarios of Anticipated Capital Projects

Over the next five years, under the existing County capital financing policy, approximately 40% (on average) of the projected annual capital funding can be met. It is important to note the funding gap spike reflected in the 2023 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 (\$13.4 million), and a New Criminal Courthouse (\$180 million). Again, these are high-level conceptual planning figures only and will likely change upon refined cost estimates.

[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.

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To illustrate the impact of increased County funding beyond the existing financing policy, the table below assumes full funding of the DEPARTMENTAL REQUESTs (from 2020 through 2024) and reflects a projected cumulative tax levy increase when compared to the existing financing policy:



Note: Year 2024 reflects the average of years 2020 - 2022 based on the existing 2019 - 2023 5-YR CIP.

 Increase in Annual Cash Goal
  Increase in Annual Debt Service
  Total Annual Levy Impact

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.

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Additionally, you will notice that 2020 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 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; the amortized debt service repayment schedule for 2023 general obligation bonds will begin in 2024.

Overall, 2021 through 2025 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 2020 - 2024 departmental requests (this does NOT include existing debt service schedules):



NOTE: 2024 is an estimated figure based on the current 5-YR Plan.

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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 2020) 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 (2021 – 2024) 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>

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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 2020 Capital Budget Timeline (subject to change)

- **February-May – Preliminary planning with departments;**
- **April or May – Presentation of 2020 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 2020 budget;**
- **December – DAS-PSB and the Comptroller’s Office work to implement the 2020 budget**

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

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RECOMMENDATION

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



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

cc: Chris Abele, County Executive
Raisa Koltun, Chief of Staff, County Executive
James Schmitt, Chairperson, Finance & Audit Committee
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

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