

REVISED

3-29-17

**COUNTY OF MILWAUKEE
INTEROFFICE COMMUNICATION**

Date: April 5, 2017
To: Theodore Lipscomb Sr., Chairman, County Board of Supervisors
From: Steven R. Kreklow, Director, Office of Performance, Strategy, & Budget,
Department of Administrative Services
Subject: Annual Capital Budget Funding Review/Capital Project Development & Inclusion
in the Annual Budget Process (For Information Only)

Issue

In the interest of enhancing communication with the County Board and providing budget information at the earliest opportunity, this report provides a preliminary 2018 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 2017 Adopted Capital Improvement Budget includes 71 separate sub-projects with expenditures totaling \$103.5 million, which includes \$59.8 million of County funding and \$43.7 million of private contributions and Federal/State/Local revenue. The table below illustrates the 2017 Adopted Capital Budget funding sources:

Milwaukee County							
Bonds	Sales Tax	Tax Levy	Vehicle Registration Fee	PFC/ Airport Reserve	Federal/State/ Local	Private Contribution*	Adopted 2017 Total Funding
\$41,147,918	\$6,843,500	\$1,475,000	\$1,968,487	\$8,344,625	\$37,401,320	\$6,300,000	\$ 103,480,850

**Private contribution is related to capital projects WZ11901-African Plains Exhibit (\$4.3M) and WP48401-Lake Park Ravine Bridge (\$2M)*

Annual Bond Limit

The self-imposed annual bond limit is defined by County Board file number 03-263, and represents a 3% increase over the prior year's Adopted bond base.

2018 Estimated Annual Bond Limit

Based on the 2017 adopted bonding amount of \$41.2 million, the estimated 3% bond increase results in a projected 2018 bonding limit of \$42.4 million.

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

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 of 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 2017 Adopted Capital Improvement Budget included approximately \$1.97 million in County “cash” financing through the introduction of the Vehicle Registration Fee.

2017 Cash Financing

Net County financing included in the 2017 Adopted Capital Improvement Budget totals \$66.1 million (including private contributions) when including the Airport. Cash needed to meet the 20 percent financing goal is calculated at \$13.2 million. The 2017 budgeted cash financing of \$24.9 million represents 37.7 percent of net County financing. Excluding Airport projects, net County financing totals \$57.7 million. Cash needed to meet the 20 percent financing goal of non-airport projects is calculated at \$11.5 million. The 2017 budgeted cash financing of \$16.6 million represents 28.7 percent of net County financing.

	Milwaukee County				Private Contribution	Total Cash Financed	% Cash Financed	
	2017 Net County Contr	Sales Tax	Tax Levy	Vehicle Registration Fee				PFC/Airport Reserve
Including Airport:	\$66,079,530	\$6,843,500	\$1,475,000	\$1,968,487	\$8,344,625	\$6,300,000	\$24,931,612	37.7%
Excluding Airport:	\$57,734,905	\$6,843,500	\$1,475,000	\$1,968,487	\$ -	\$6,300,000	\$16,586,987	28.7%

2018 Cash Financing

Based on the 2018 projected capital bonding amount of \$42.4 million, the estimated cash contribution of 20% of Net County Contributions results in a *2018 cash goal of \$10.6 million.*²

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), \$10.5 million (2016), and \$6.8 million (2017). Remaining sales tax revenue is available for operating purposes stated in Milwaukee County Ordinance 22.04.

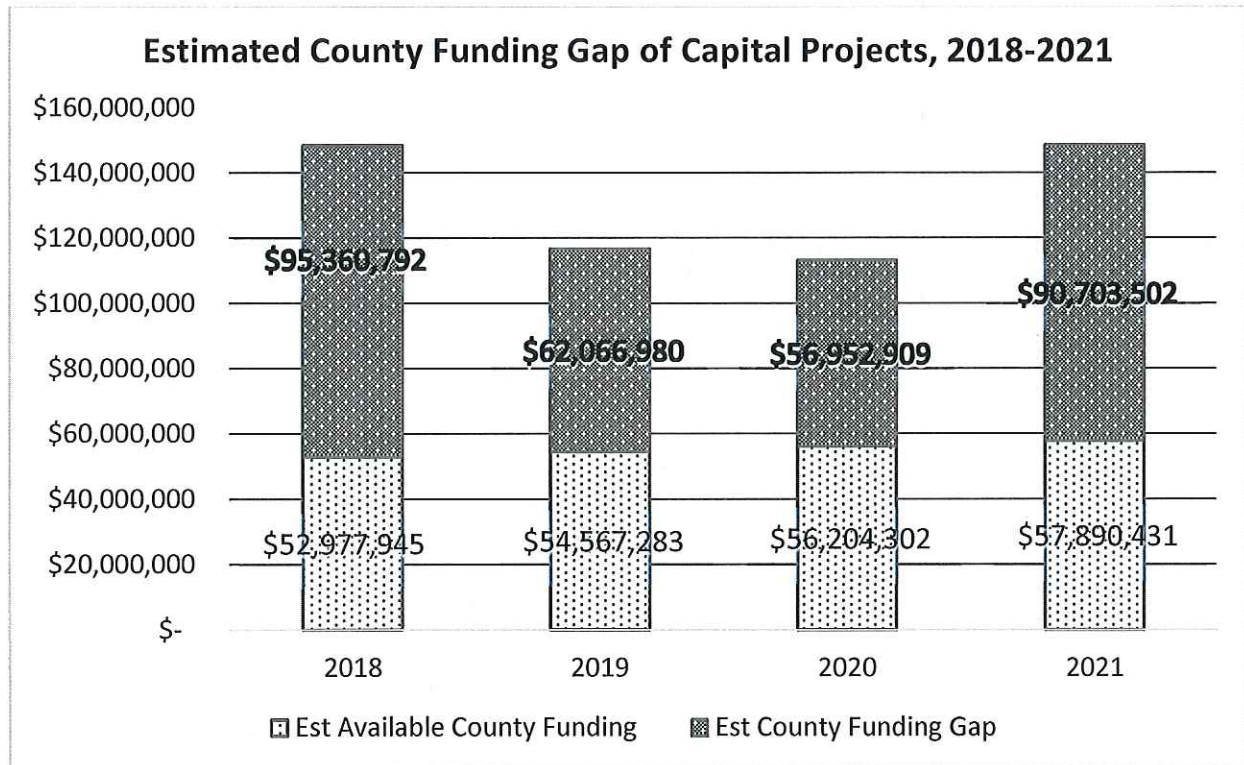
Projected County Funding of Anticipated Capital Projects: 2018 – 2021 (Current 5-YR Plan)

The following figures and tables are based on project scopes and cost estimates relative to planned capital projects within the 2017-2021 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,

² The total projected Net County Contribution for 2018 is \$52.98 million (\$42.4 million bond funding, or 80%; \$10.6 million cash funding, or 20%).

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 2018 through 2021 based on the projects in the current CIP and existing County funding policies:³



Projected County Funding of Anticipated Capital Projects: 2018 Budget Year

Based on the 2018 planned capital project requests (included in the 2017-2021 Capital Improvement Plan) and 2017 requested projects that were NOT adopted, there will be an estimated 2018 financing gap of approximately \$95.4 million.

The chart below reflects the estimated County funding gap for 2018 assuming existing County funding policies and the inclusion of 2017 non-adopted projects and the 2018 planned projects in the current CIP:

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.

REQ DEPT	2017 Requested Not Adopted	2018 Cont-Mandated- Contractual & Programmatic	2018 Planned Request	Grand Total
DOT-TRANSIT	\$ 2,069,614	\$ 17,500,000	\$ 961,386	\$ 20,531,000
DAS-FM-FM	\$ 1,982,000	\$ 8,677,000	\$ 8,732,400	\$ 19,391,400
PARKS	\$ 3,325,000	\$ 5,600,000	\$ 10,822,200	\$ 19,747,200
DAS-IMSD		\$ 14,395,000	\$ 4,615,375	\$ 19,010,375
DOT-HWY		\$ 12,146,000	\$ 817,945	\$ 12,963,945
DHHS-BHD	\$ 1,605,000		\$ 9,302,000	\$ 10,907,000
DOT-FLEET	\$ 231,000	\$ 8,378,000		\$ 8,609,000
ZOO	\$ 849,000	\$ 2,713,000	\$ 8,313,000	\$ 11,875,000
MPM	\$ 3,431,500		\$ 915,500	\$ 4,347,000
SHERIFF	\$ 517,800	\$ 663,731	\$ 2,685,797	\$ 3,867,328
HOC	\$ 1,234,000		\$ 2,280,207	\$ 3,514,207
DAS-FM-EE	\$ 1,938,000	\$ 100,000	\$ 1,250,000	\$ 3,288,000
CAVT	\$ 2,593,000		\$ 315,000	\$ 2,908,000
DHHS	\$ 1,166,500		\$ 850,000	\$ 2,016,500
EMERGENCY MNGT		\$ 677,000	\$ 785,000	\$ 1,462,000
WMC-MAM			\$ 1,050,000	\$ 1,050,000
AGING	\$ 279,000		\$ 663,000	\$ 942,000
MARCUS CNTR		\$ 694,782		\$ 694,782
MC HIST SCTY	\$ 367,000		\$ 252,000	\$ 619,000
DAS-OPD			\$ 595,000	\$ 595,000
Grand Total	\$ 21,588,414	\$ 71,544,513	\$ 55,205,810	\$ 148,338,737

2018 Projected County Financing: \$ 52,977,945

2018 Projected County Financing (Gap): \$ (95,360,792)

County Funding Level Scenarios of Anticipated Capital Projects

Over the next five years, under the existing County capital financing policy, approximately 45% (on average) of the anticipated annual capital funding can be met. It is important to note that the anticipated capital request(s) are not inclusive of any projects related to the Mitchell Park Conservatory Domes.⁴

To illustrate the impact of increased County funding beyond the existing financing policy, the tables below assume an annual increased funding level of 75% (from 2018 through 2022) and the resulting cumulative tax levy increase (estimated):

Projected Capital REQS	Existing Policy					75% Funding Level					
	County Funding TOTAL	Bonding	Cash (Sales Tax/ Tax Levy/VRF)***	Funding Level	Funding Gap	County Funding TOTAL	Bonding	Cash (Sales Tax/ Tax Levy/VRF)***	Funding Level	Funding Gap	
YR 1*	\$148,338,737	\$52,977,945	\$42,382,356	\$10,595,589	36%	(\$95,360,792)	\$111,254,053	\$89,003,242	\$22,250,811	75%	(\$22,250,811)
YR 2	\$116,634,263	\$54,567,283	\$43,653,827	\$10,913,457	47%	(\$62,066,980)	\$87,475,697	\$69,980,558	\$17,495,139	75%	(\$17,495,139)
YR 3	\$113,157,211	\$56,204,302	\$44,963,441	\$11,240,860	50%	(\$56,952,909)	\$84,867,908	\$67,894,327	\$16,973,582	75%	(\$16,973,582)
YR 4	\$148,593,933	\$57,890,431	\$46,312,345	\$11,578,086	39%	(\$90,703,502)	\$111,445,450	\$89,156,360	\$22,289,090	75%	(\$22,289,090)
YR 5**	\$131,681,036	\$59,627,144	\$47,701,715	\$11,925,429	45%	(\$72,053,892)	\$98,760,777	\$79,008,622	\$19,752,155	75%	(\$19,752,155)

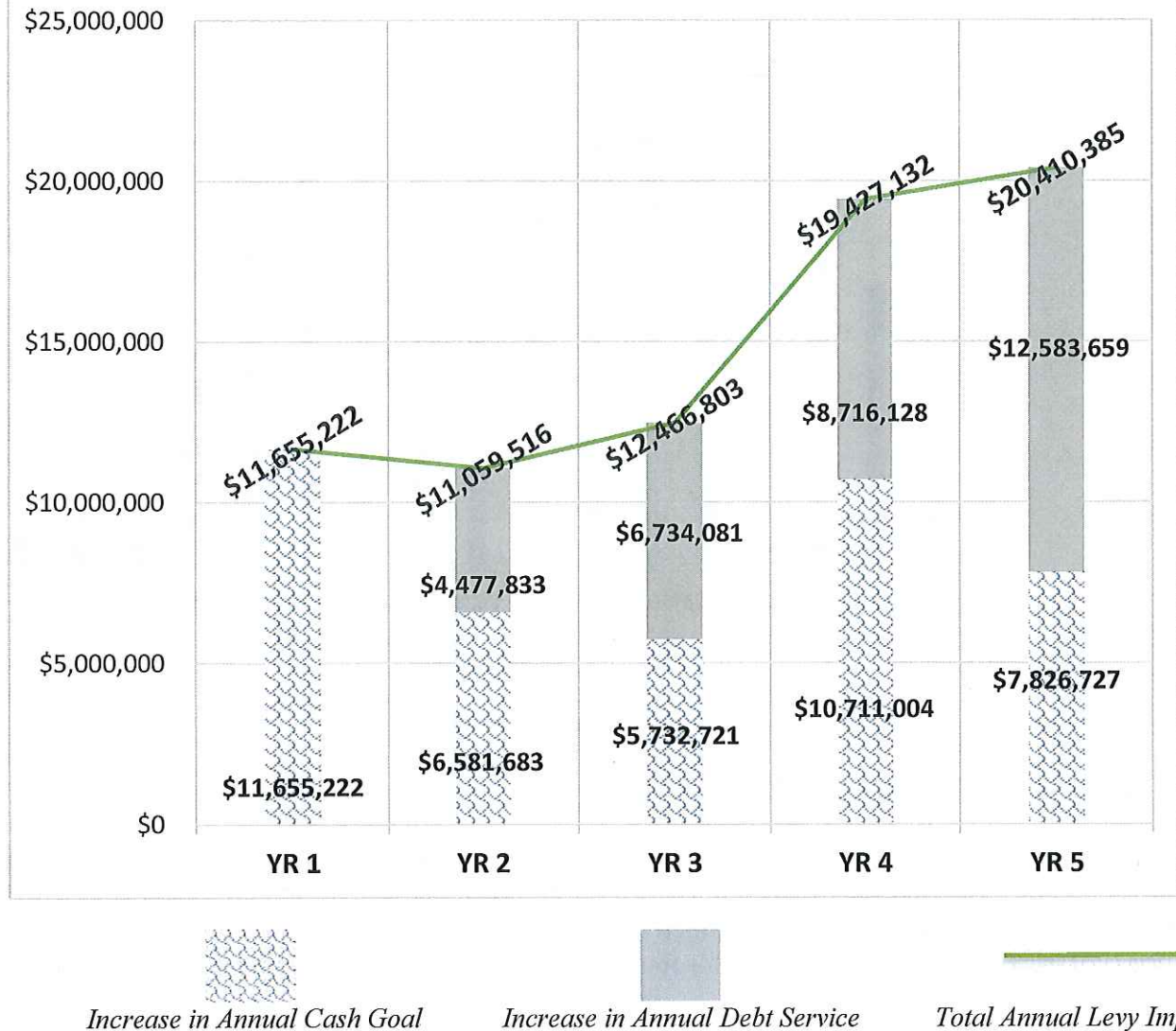
*Includes 2017 requested projects that were NOT Adopted.

**Estimated Capital Request Funding requirement assuming the AVG Capital Funding Requests from 2018-2021.

***Beginning in 2017, the Vehicle Registration Fee revenue (VRF) is an available funding source for transportation items.

⁴ The current 5-Year Capital Improvement Plan - 2017-2021 (CIP) does not include planned dome project(s) as task force meetings were in progress and decisions regarding any potential dome projects were not available for includes in the (CIP). At the time of this report, the status remains unchanged.

Estimated Annual Tax Levy Impact from Increasing Capital Financing from Existing County Policy

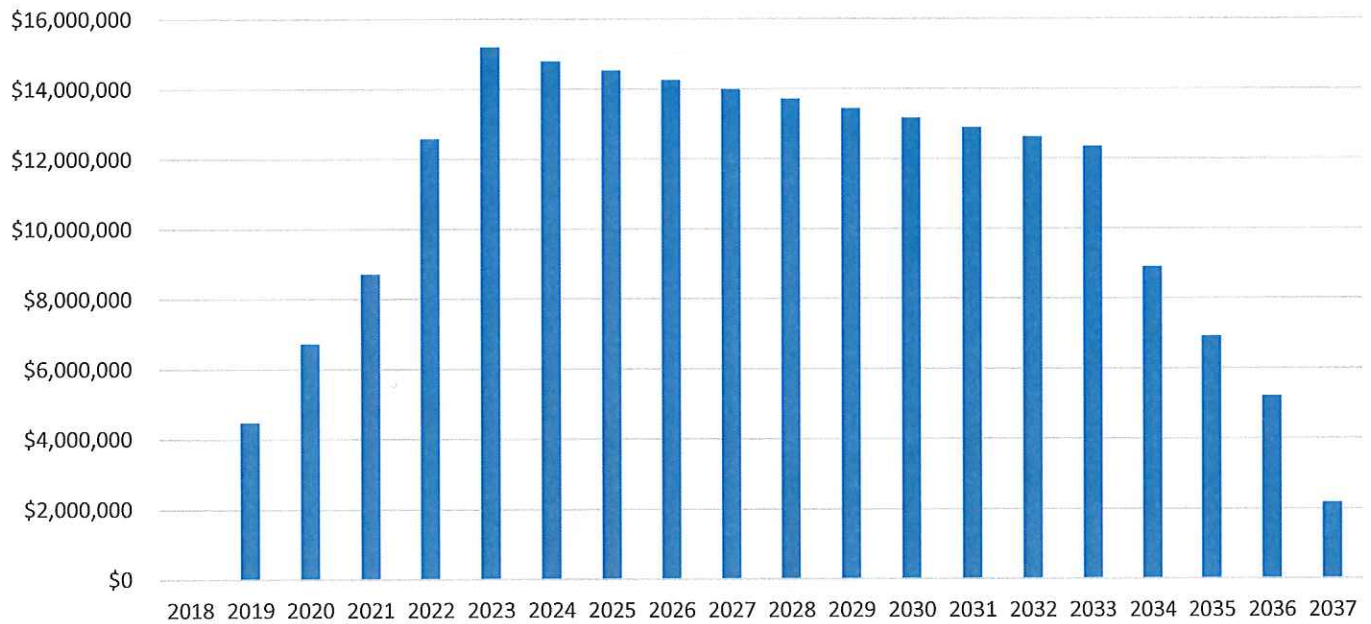


The table above does NOT include pre-existing debt and only reflects a specific five year snapshot in time to illustrate the effect of increasing County financing over the existing policy. In general, the County's amortization of debt related to general obligation bonds occurs over a 15-year period.

Additionally, you will notice that Year 1 only reflects the estimated increase in County cash (sales tax and tax levy) to meet the County's 20% cash goal policy. This is due to annualized debt service payments being realized in the subsequent year(s). For instance, the amortized debt service repayment schedule for Year 1 general obligation bonds will begin in Year 2; the amortized debt service repayment schedule for Year 2 general obligation bonds will begin in Year 3; the amortized debt service repayment schedule for Year 3 general obligation bonds will begin in Year 4; the amortized debt service repayment schedule for Year 4 general obligation bonds will begin in Year 5.

Overall, Years 2 through 5 reflect the cumulative annualized debt service payment increases (over existing policy). The table below reflect the 15-year annualized debt service payments:

15-Year Debt Service Payment Schedule: Estimated Annual Tax Levy Increase Over Existing Policy



Capital Projects Development via Annual Budget Process

General Capital Improvement Plan Overview

The County utilizes a 5-Year Capital Improvement Plan (CIP) to help plan and estimate future capital project needs. The first year of the CIP (which for this year’s budget development process is 2018) is the year in which capital projects scheduled in that particular year receive funding. Years two through five (2019 – 2022) 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.⁵ Departmental requested budgets (Capital and Operating) are posted by the DAS on the County’s website no later than August 15th of each year.⁶

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.

⁵ 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).

⁶ 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>

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, or alternate;
- (d) Chair of the Committee on Transportation, Public Works, and Transit, or alternate;
- (e) Chair/Vice-Chair of the committee on finance and audit, or alternates;
- (f) Two (2) appointments of the County Executive who shall be mayors or village board presidents of municipalities located in Milwaukee County, or alternate
- (g) The chair of the county board shall appoint the chair of the committee.

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.⁷

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.⁸ Departmental staff is present at FAC hearings to answer questions related to their capital projects.

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.

⁷ Per Wisconsin State Statute 59.60(6) (b) & 59.17(6), CEX submits recommended budget to the Board no later than October 1st.

⁸ The County Board establishes the budget hearing calendar for this committee annually.

Preliminary 2018 Capital Budget Timeline

- **January** – Presentation of 2018 Capital Financing/Process to County Board
- **February-March** – Preliminary planning with departments
- **March-June** – Departments develop their budget requests
- **June (30th)** – 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 2018 budget
- **December** – DAS-PSB and the Comptroller's Office work to implement the 2018 budget.

RECOMMENDATION

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



Steven R. Kreklow, Director
Office of Performance, Strategy and Budget
Department of Administrative Services

Cc: Chris Abele, Milwaukee County Executive
Peggy West, Chair, Finance Committee
Sheldon Wasserman, Co-chair, Finance Committee
Supreme Moore-Omokunde, County Supervisor
Michael Mayo Sr., County Supervisor
Willie Johnson, County Supervisor
Jason Haas, County Supervisor
Sequanna Taylor, County Supervisor
Scott Manske, County Comptroller
Teig Whaley-Smith, DAS Director
Raisa Koltun, Chief of Staff, Office of the County Executive
Kelly Bablitch, Chief of Staff, County Board