

## MILWAUKEE COUNTY FISCAL NOTE FORM

**DATE:** March 6, 2018

Original Fiscal Note ☒

Substitute Fiscal Note ☐

**SUBJECT:** A resolution amending Chapter 4 of the Milwaukee County Code of General Ordinances by creating section 4.34 to require workforce development labor market intermediary agreements for employers employing people to operate concessions at General Mitchell International Airport.

### FISCAL EFFECT:

- |  |  |
|--|--|
| <input type="checkbox"/> No Direct County Fiscal Impact  | <input type="checkbox"/> Increase Capital Expenditures |
| <input checked="" type="checkbox"/> Existing Staff Time Required                                       | <input type="checkbox"/> Decrease Capital Expenditures |
| <input type="checkbox"/> Increase Operating Expenditures<br>(If checked, check one of two boxes below) | <input type="checkbox"/> Increase Capital Revenues     |
| <input type="checkbox"/> Absorbed Within Agency's Budget   | <input type="checkbox"/> Decrease Capital Revenues     |
| <input type="checkbox"/> Not Absorbed Within Agency's Budget   |  |
| <input type="checkbox"/> Decrease Operating Expenditures   | <input type="checkbox"/> Use of contingent funds       |
| <input type="checkbox"/> Increase Operating Revenues   |  |
| <input type="checkbox"/> Decrease Operating Revenues   |  |

*Indicate below the dollar change from budget for any submission that is projected to result in increased/decreased expenditures or revenues in the current year.*

	Expenditure or Revenue Category	Current Year	Subsequent Year
Operating Budget	Expenditure	\$0	\$0
	Revenue	*Possible Impact	*Possible Impact
	Net Cost	\$0*	\$0*
Capital Improvement Budget	Expenditure	\$0	\$0
	Revenue	\$0	\$0
	Net Cost	\$0	\$0

\*Because the Airport is solely funded by revenues earned, any reduction in concessionaire revenue could result in an increase in airline rates and charges. Increases in airline rates and charges can have multiple impacts, including, but not limited to reduction in service and increases in airfare.

## DESCRIPTION OF FISCAL EFFECT

**In the space below, you must provide the following information. Attach additional pages if necessary.**

- A. Briefly describe the nature of the action that is being requested or proposed, and the new or changed conditions that would occur if the request or proposal were adopted.
- B. State the direct costs, savings or anticipated revenues associated with the requested or proposed action in the current budget year and how those were calculated. <sup>1</sup> If annualized or subsequent year fiscal impacts are substantially different from current year impacts, then those shall be stated as well. In addition, cite any one-time costs associated with the action, the source of any new or additional revenues (e.g. State, Federal, user fee or private donation), the use of contingent funds, and/or the use of budgeted appropriations due to surpluses or change in purpose required to fund the requested action.
- C. Discuss the budgetary impacts associated with the proposed action in the current year. A statement that sufficient funds are budgeted should be justified with information regarding the amount of budgeted appropriations in the relevant account and whether that amount is sufficient to offset the cost of the requested action. If relevant, discussion of budgetary impacts in subsequent years also shall be discussed. Subsequent year fiscal impacts shall be noted for the entire period in which the requested or proposed action would be implemented when it is reasonable to do so (i.e. a five-year lease agreement shall specify the costs/savings for each of the five years in question). Otherwise, impacts associated with the existing and subsequent budget years should be cited.
- D. Describe any assumptions or interpretations that were utilized to provide the information on this form.
  - A. This ordinance, if adopted, directs concessions operators, who enter into concession agreements with Milwaukee County General Mitchell International Airport ("Airport"), to also enter into agreements with "qualified labor market intermediaries" as defined within the ordinance; these agreements are required to contain certain provisions defined within the ordinance.
  - B. Under most concession agreements, the County is entitled to either a "Minimum Annual Guarantee" (MAG) or a percentage of gross revenues earned by the operator, whichever is more. The MAG is negotiated based on a minimum annual gross revenue estimate times a percentage, which range from approximately 4 – 17 percent.

It is uncertain how the market will react to the proposed ordinance, so therefore, the projected fiscal impact is incalculable until current and prospective bidders are required to comply with the proposed ordinance. Furthermore, the impact on any revenues beyond the MAG is subject to the market's response to the ordinance and not currently estimable by the Comptroller. To help understand how this ordinance might impact revenues at the Airport, this fiscal note provides both a favorable fiscal scenario and an adverse fiscal scenario. It is important to note that in any fiscal scenario, there is no impact on County tax levy. The Airport is funded solely through revenues earned and, in most cases, a reduction in revenues in the Airport budget results in a change to the rates charged to airlines.

In an adverse fiscal scenario, the ordinance increases total labor costs for the operator, which reduces the operator's proposal for MAG and/or percentage of gross revenue. It is uncertain what the cost would be of requiring an operator to enter into agreements with qualified labor market intermediaries, as well as geographical hiring quotas. Two possible outcomes in the

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<sup>1</sup> If it is assumed that there is no fiscal impact associated with the requested action, then an explanatory statement that justifies that conclusion shall be provided. If precise impacts cannot be calculated, then an estimate or range should be provided.

<sup>2</sup> Community Business Development Partners' review is required on all professional service and public work construction contracts.

adverse fiscal scenario are: 1) an operator is no longer able to provide the goods or the services at a profitable level and, therefore, those goods or services are no longer available to Airport patrons; 2) operators negotiate a lower MAG or a lower percentage of gross revenue to be paid to the Airport. Although there is no impact on the County's tax levy, any reduction in concessions revenue, if not earned elsewhere, generally results in an increase to airline rates and charges. Any increase in airline rates and charges can have multiple impacts including a reduction in service and higher airfares.

In a favorable fiscal scenario, this ordinance results in no increase in costs or a cost increase which is absorbed through either pricing adjustments or profit adjustments. This assumes the operator is able to maintain profitability. Under the favorable fiscal scenario, sales are not adversely impacted by possible pricing adjustments, and the Airport continues to earn revenues at the previous level, if not at a higher level due to possible pricing adjustments. Under this scenario, Airport patrons are potentially impacted by higher costs for the goods and services provided.

- C. The 2018 Adopted Budget includes approximately \$18.2 million in concessions revenue related to various operations that occur at and around the Airport. Of that \$18.2 million, \$10.5 million is budgeted for car rental concessions, with an additional \$5.3 million budgeted for restaurant concessions and gifts and souvenir concessions. Other smaller concession operations include, but are not limited to, services such as shoe shine concessions, transportation, and golf driving range concessions. Due to lack of specificity of concessions covered by this ordinance, this fiscal note makes no assumption about which operations are subject to the ordinance and which operations are exempt. Furthermore, contracts with the various operators at the Airport are in different stages of their respective agreements. As discussed above, it is uncertain how the market will react to the proposed ordinance, therefore, the projected budget impact is unknown until current and future bidders are required to comply with the proposed ordinance. Furthermore, the impact on any revenues beyond the MAG is subject to the market's response to the ordinance, and currently incalculable by the Comptroller. In an adverse fiscal scenario, it is possible that decreases would be necessary to MAGs or gross revenue percentages to maintain concessions operations, therefore, budgeted concession revenue would need to be reduced. Under a favorable fiscal scenario, no changes would be necessary to budgeted concession revenue.
- D. This fiscal note makes various assumptions discussed above. It should be noted that a previous ordinance had similar, but distinct provisions, which resulted in litigation costs for Milwaukee County. There are no potential litigation costs assumed in this fiscal note.

Department/Prepared By Cynthia J. (CJ) Pahl, Financial Services Manager, Office of the Comptroller

Authorized Signature



Did DAS-Fiscal Staff Review?

☐

Yes

☒

No

Did CDBP Review?<sup>2</sup>

☐

Yes

☐

No

☒

Not Required