

## RESEARCH & ANALYSIS SECTION – LEGISLATIVE REFERENCE BUREAU

### 2010 Proposed Budget – Sewer Maintenance Fund Executive Summary

#### **Overall Impact of the Proposed 2010 Sewer Maintenance Fund Budget:**

The 2010 Proposed budget raises the Sewer Maintenance Fee from \$1.12 to \$1.167 per 100 cubic feet of water (CCF) and will raise the Stormwater Management Fee from \$11.82 to \$14.00 per Equivalent Residential Unit (ERU) per quarter. The City's 2,446 miles of sewers, with an estimated life of 90 years, are subject to replacement and relining schedules projected to be more than 175 years at current rates. 2010 proposed operating costs increase 11.1% and capital costs decrease \$7,513,000 (-23.9%) to \$23,937,000. This reduction is due to an unanticipated opportunity to apply for federal stimulus funding through the Wisconsin Clean Water Fund; application for \$16,263,000 was authorized by Common Council File # 090317 adopted in July, 2009.

1. Proposed operating funding in the Sewer Maintenance Fund in 2010, including personnel, fringe, equipment, and services, is budgeted at \$49,873,755, an increase of \$4,975,412 (+11.1%) from the 2009 adopted budget of \$44,898,343 (page 2).
2. Capital projects in the 2010 proposed Sewer Maintenance Fund are budgeted at \$23,937,000, a decrease of \$7,513,000 (-23.9%) from \$31,450,000 in the 2009 adopted budget; this reduction is due in part to federal stimulus funding which resulted in application to the Wisconsin Clean Water Fund for \$16.3 million in the summer of 2009 (pages 2 and 4).
3. The 2010 Proposed Budget eliminates 7 unneeded auxiliary positions and 1 vacant Management Civil Engineer Senior; the equivalent of one position (0.98% FTE) is moved from capital to O&M funding due to shifts in funding for various engineering positions (page 3).
4. Costs of promoting and maintaining tree canopy for storm water management will include all tree care costs including mitigation of emerald ash borer infestation and all pruning. The SMF will also continue to pay for street sweeping and for leaf and brush collection (page 4).
5. Overtime costs in 2008 were \$336,508; \$50,000 was budgeted for overtime in 2009, but is projected to cost approximately \$120,000 in 2009; \$100,000 in overtime has been included in the 2010 Proposed Budget (page 3).
6. Capital projects are funded at more than \$14 million below the budget request as a result of expedited availability of funding through the American Recovery and Reinvestment Act (ARRA) made available through the Wisconsin Clean Water Fund (page 4).

## **LEGISLATIVE REFERENCE BUREAU - RESEARCH & ANALYSIS SECTION**

### 2010 Proposed Budget Summary: Sewer Maintenance Fund

<b>Expense Category</b>	<b>2008 Actual</b>	<b>2009 Budget</b>	<b>% Chg</b>	<b>2010 Proposed</b>	<b>% Chg</b>
Operations*	\$35,634,818	\$44,898,343	+26.0 %	\$49,873,755	- 11.1%
Capital**	\$26,939,928	\$31,450,000	+ 16.7%	\$23,937,000	-23.9%
Total	\$62,574,746	\$76,348,343	+ 22.0%	\$73,810,755	-3.3%
Positions***	179	172	-3.9%	164	-4.7%

\*Includes personnel, fringe, operating costs, equipment and special fund expenditures.

\*\*Projects funded by borrowing from the Wisconsin Clean Water Fund, temporary Revenue Bonding, and General Obligation (GO) Bonding.

\*\*\*7 auxiliary positions and 1 vacant position eliminated.

The Sewer Maintenance Fund (SMF) is an enterprise fund for sewer maintenance expenses. It funds the administration, operation and maintenance of the City's 2,446 miles of sewers. This enterprise fund recovers sewer maintenance costs through user fees rather than through the property tax. Residents pay for the costs of sewer maintenance as part of their quarterly city services bills. Properties are also subject to Storm Water Management Charges initiated in July, 2006. The Department of Public Works - Infrastructure Services Division administers the Sewer Maintenance Fund, including oversight of personnel and activities. All revenues from these fees and charges go to the Sewer Maintenance Fund.

#### **Mission**

The Mission of the SMF is to protect people, property, and the environment from sewage, flooding, erosion, and polluted runoff. It accomplishes this through the operations of 2 DPW Infrastructure Services Units: the Environmental Unit plans and designs sewer construction, replacement and repair, samples and tests storm water at outfalls and performs other inspections, and the Underground Unit inspects and cleans sewers, and makes minor repairs of sewers, manholes, catch basins and outfalls. The SMF also funds the City's Street Sweeping and Leaf Collection Program.

The function of the sewer system is to transport sanitary sewage to the Milwaukee Metropolitan Sewerage District (MMSD) and to carry storm water to lakes and rivers without pollutants. Approximately two-thirds of the City's sewer system functions as a "separated" system with one conduit for sanitary sewage and another for storm water. The remaining system is "combined" and must transport combined sanitary and storm water to MMSD for treatment.

Because of the essential health and environmental concerns affected by the handling of sewage and water, a variety of agencies regulate or provide oversight for the activities of the SMF including the U.S. Environmental Protection Agency (EPA), the Wisconsin Department of Natural Resources, the Wisconsin Justice Department, and the MMSD. The Southeastern Wisconsin Regional Planning Commission (SEWRPC) also has

considerable input to decisions and rulemaking of MMSD. Appendix A contains a narrative description of the creation and evolution of the SMF.

## **PERSONNEL**

The 2010 Proposed Budget provides \$5,002,568 for salaries and wages, an increase of \$171,121 (+3.5%) from the \$4,831,447 provided in the 2009 adopted budget.

In September of 2009, the SMF reported plans to fill the following the following vacancies:

Engineering Drafting Technician - 2 positions  
 Office Assistant II  
 Civil Engineer III  
 Civil Engineer II  
 Sewer Crew Leader I - 3 positions

The 2010 Proposed Budget provides for the elimination of 7 authorized and unfilled auxiliary positions and 1 vacant Management Civil Engineer-Senior position. Funding shifts for portions of various engineering positions will result in moving 0.98 FTE from enterprise funding to O&M funding.

Overtime costs continue to be greater than anticipated partly due to an increase in severe rain events in the last several years. The amount paid in overtime in 2008 was \$336,508. The 2009 adopted budget provided only \$50,000 for overtime, which is now expected to cost approximately \$120,000 by the end of the year. \$100,000 is included in the 2010 Proposed Budget for overtime costs.

## **OPERATING EXPENDITURES**

The 2010 Proposed Budget “Total Operating Expenditures” provides \$5,671,000 compared to \$5,262,000 in the 2009 proposed budget, (+7.8%). Operating Expenditures of the SMF remain substantially constant.

<b>Operating Expenditures</b>	<b>2008 Actual</b>	<b>2009 Budget</b>	<b>2010 Proposed</b>
General Office Expense	\$27,322	\$28,000	\$28,000
Tools & Machinery Parts	\$41,199	\$45,000	\$45,000
Construction Supplies	\$581,978	\$600,000	\$600,000
Energy	\$38,745	\$41,000	\$41,000
Other Operating Supplies	\$74,440	\$100,000	\$100,000
Vehicle Rental	\$2,197,686	\$1,800,000	\$2,000,000
Non-vehicle Equip. Rental	\$2,585	\$4,000	\$4,000
Professional Services	\$166,669	\$233,000	\$158,000
IT Services	\$9,235	\$20,000	\$20,000
Infrastructure Services	\$1,727,525	\$920,000	\$920,000
Other Operating Services	\$466,307	\$515,000	\$515,000
Reimburse Other Depts.	\$1,403,307	\$956,000	\$1,240,000
<b>TOTAL</b>	<b>\$6,738,369</b>	<b>\$5,262,000</b>	<b>\$5,671,000</b>

Costs of promoting and maintaining tree canopy for storm water management will include all tree care costs including mitigation of emerald ash borer infestation and all pruning. The SMF will also continue to pay for street sweeping and for leaf and brush collection.

## **CAPITAL BUDGET**

In 2008, the Sewer Maintenance Fund began applying for and borrowing capital revenues from the State of Wisconsin Clean Water Fund. These amounts are now a primary source for Sewer Maintenance Fund revenues. The Clean Water Fund provides loans at a lower subsidized rate than other bond markets. The length of time required for applications, and requirements to apply individually for Relief and Relay capital projects, has led to decisions by the Office of the Comptroller to issue short-term debt to assure sufficient ongoing revenues. This may result in debt service costs not anticipated in 2009 and 2010 budgeting.

The most recent debt service schedules provided by the Comptroller show the substantial savings provided by borrowing from the Clean Water Fund compared to the costs of debt service in General Obligation and Revenue Debt obligations that are currently outstanding. The revenue bond principal debt of \$48.1 million payable through 2023 will require an estimated interest payment of \$18.1 million. The Clean Water Fund debt of \$47.9 million payable through 2028 will require an estimated interest payment of \$12.1 million. Clean Water Fund borrowing appears to save the City approximately \$6 million in interest payments.

The availability of this lower interest borrowing mechanism provided by the State should be credited for saving the City with several millions of dollars over the next 2 decades. These schedules remain current because further borrowing authority authorized in July of 2009 has not yet resulted in new debt.

The Proposed Budget and Budget Plan for 2010 continues to rely on expected capital borrowing from the Wisconsin Clean Water Fund and, when eligible for this funding, utilizing General Obligation bonding as opposed to Revenue bonding, which is generally more expensive and requires maintaining a cash reserve. The Office of the Comptroller continues to use Revenue bonding in anticipation of, and to ameliorate delays in, other funding. The impact of the current downturn in credit markets on the ability of the City to borrow for capital projects and the level of costs of such borrowing remain unstable.

**Note: the 2009 planning goals were for replacement of 17 miles of sewers. At this level of annual replacement, City of Milwaukee sewers would be on a 145 year replacement cycle. The target for 2010 has fallen to between 13.8 and 15.5 miles annually which results in sewer replacement schedule of more than 175 years. Sewers have an expected life of approximately 90 years. This is clearly not a sustainable replacement schedule.**

Capital financing in the 2010 Proposed Budget will rely once more on the availability of Wisconsin Clean Water Fund resources. General Obligation debt will fund projects not

eligible for Clean Water Fund financing. The 2010 Proposed Budget includes a \$8.3 million transfer from the SMF to the Debt Fund for sewer related General Obligation debt service. Retained earnings (amounts received in an enterprise fund in excess of actual expenditures) will be used over several years to reduce the need for increases in sewer rates.

The 2010 Proposed Budget for the Sewer Maintenance Fund commits \$2.6 million in cash financing to capital projects. Capital improvements include \$13,562,000 in new borrowing for Sewer Relief and Relay (R&R), \$500,000 in cash borrowing for Pump Facility projects, \$5,850,000 in new borrowing and \$500,000 cash borrowing for Inflow and Infiltration (I&I) projects, \$1,925,000 in new borrowing for best management to reduce total suspended solids (TSS) in stormwater. The total capital budget proposed for 2010 is \$23,937,000.

The 2010 Proposed Budget notes that \$74,520,826 carryover capital borrowing funding is available for a variety of programs including flow reduction projects, water quality projects, I&I reduction projects and the SCADA (electronic monitoring) system.

Common Council File # 090317 authorized construction of nonassessable public improvements and authorized application for up to \$16,263,000 from the Wisconsin Department of Natural Resources (DNR) for Clean Water Fund. It was initially understood that funds from the Clean Water Fund would be borrowed. As ARRA funds became available, it was learned that as much as half of the funds would be in the form of grants and not subject to repayment. It has since been learned that only about \$2,000,000 has been designated by the DNR as grant funding for the City of Milwaukee. This is subject to further negotiations and consideration depending upon the needs and capacity of other Wisconsin communities.

## **REVENUES**

<b>SMF Revenues Other Than Borrowing and Retained Earnings</b>					
<b><u>TYPES OF REVENUE</u></b>	<b><u>2008 actual</u></b>	<b><u>2009 Budget</u></b>	<b><u>2010 Proposed</u></b>	<b><u>CHANGE</u></b>	<b><u>% CHANGE</u></b>
Sewer Maintenance Fee	\$26,358,869	\$26,617,000	\$28,591,500	+ \$1,974,500	+ 7.4%
Storm Water Mgmt Charge	\$12,756,516	\$18,720,320	\$22,316,000	+ \$3,595,680	+19.2%
Charges For Services	\$1,608,929	\$1,200,000	\$1,286,000	+ \$86,000	+ 7.2%
Interest Revenue	\$370,300	\$258,000	\$258,000	- 0 -	+ 0.0%
<b>TOTAL REVENUE</b>	<b>\$ 41,094,614</b>	<b>\$46,795,320</b>	<b>\$52,451,500</b>	<b>+ \$5,656,180</b>	<b>+12.1 %</b>

Total revenues of the Sewer Maintenance Fund in 2007 were \$56,085,864 and \$62,574,746 in 2008. Budgeted revenues expected in 2009 are \$76,348,343. These figures are expected to be modestly reduced in 2010 to \$73,810,755. These figures include proceeds from borrowing and adjustments for retained earnings.

The local sewerage charge (Sewer Maintenance Fee) continues to be based on water use. The 2008 level was \$1.036 per one hundred cubic feet of water (CCF) and was increased to \$1.12 per CCF in 2009. The Sewer Maintenance fee peaked in 2006 at \$1.27 per CCF prior to implementation of the new storm water management charge. The 2010 proposed Budget increases the fee to \$1.167 CCF.

The Storm Water Management Charge became effective July 1, 2006, and provides a Storm Water Management charge for each 1-4 unit dwellings (including condominiums) based on the citywide average impervious area per residential developed property. Charges for all other properties vary based on the amount of impervious surface area on each property. The Storm Water Management Charge is calculated based on an “equivalent residential unit” (ERU) rate set annually by Common Council resolution. The charge first appeared on Municipal Services Bills in August 2006.

The 2010 Proposed Budget anticipates \$22,316,000 revenue from the Storm Water Management Charge compared to \$12,756,516 actually realized in 2008.

### **Charges for Services and Miscellaneous Revenues**

The various services provided under Charges for Services and Miscellaneous Revenue include: (1) deferred sewer assessments, (2) unused sewer life, (3) certified survey plat review, (4) storm water management manual sales, (5) sewer maintenance non-city services, (6) sewer maintenance plat and reviews, (7) sewer user penalty for transfers to property tax roll.

## **CHALLENGES AND FUTURE ISSUES**

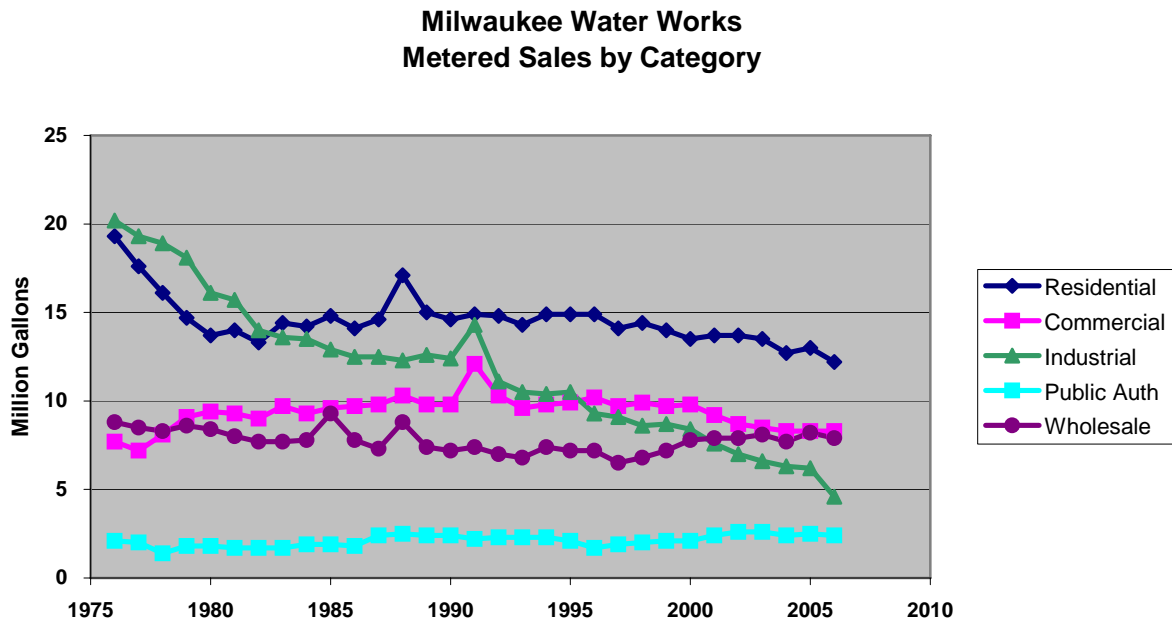
### **MMSD 2020 Facilities Plan and SEWRPC Planning**

In December 2007, the DNR approved a draft plan developed by MMSD titled the 2020 Facilities Plan. The Plan affects wastewater and flood management services for 28 municipalities, including the City of Milwaukee, serving 1.1 million people in a 411-square-mile area. The Plan has been developed in conjunction with a Court-ordered stipulation signed with the State of Wisconsin, MMSD and other Milwaukee County municipalities. The Plan document is integrated with a companion document prepared by the Southeastern Wisconsin Regional Planning Commission (SEWRPC) entitled, “The SEWRPC Regional Water Quality Management Plan Update (RWQMUPU).” This second document is referred to as a Section 208 Plan. Under federal and state requirements, the Facilities Plan, referred to as a Section 201 Plan, must conform to the RWQMUPU. The Wisconsin Department of Natural Resources has approved the final plan which identifies urban nonpoint stormwater as the major contributor (56%) to estimated annual bacteria loads in the Greater Milwaukee Area watersheds. This conclusion requires that attention be paid to storm water systems and outfall monitoring. The SEWRPC RWQMUPU included in its key findings that “...reducing (or even eliminating) combined sewer overflows and sanitary sewer overflows will result in little or no water quality improvement.”

### **Reduced Water Usage**

Reliance upon water usage, that is, volume of consumption for establishing a revenue calculation, not only provides an incentive for lower usage, but, taken with changes away from heavy industrial usage, undermines the long-term revenue stream intended to support sewer maintenance. The recently implemented Storm Water charge certainly assists the SMF in meeting its federal, state and regional mandates. But lower water consumption will continue to present a revenue challenge.

The following graph, prepared by Milwaukee Water Works, illustrates continuing trends in water sales by residential, commercial, industrial, public authority and wholesale customers, and total metered water sales from 1975:



### Unforeseeable Events

High rainfall experience in the last several years and basement backups such as those experienced in areas affected by Lincoln Creek (resulting in numerous claims against the City) are being addressed by the SMF particularly in planning maintenance and reconstruction coinciding with DNR and MMSD priorities. New technologies and approaches for addressing toxic and biohazard pollution are also being explored.

### Laterals

Though the City is responsible for its 2,446 miles of sewers, meeting the objectives of federal, state and regional authorities to prevent pollution is complicated by the fact that maintaining lateral sewer conduits is the responsibility of property owners and not the City. Maintenance, repair or replacement of compromised laterals is costly and, during depressed economic conditions, it is less likely that property owners will make this a priority. Strategies involving incentives or potential punishments for property owners may need to be considered to assure that City efforts to meet mandates are not undermined by failures of private parties in a collective responsibility to reduce or prevent water pollution.

### Regulatory Pressures

Regulatory and judicially adjudicated requirements result in significant policy-making decisions that are outside the control of the City. The Sewer Maintenance Fund

continues to work with DNR and MMSD to adjust requirements to reflect the City's needs and capacities while assuring that the health and safety of the public are protected and improvements of environmental quality are sustained. The City is also exploring ways in which it may receive 'credit' for innovative storm water and pollution management.

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## APPENDIX A

### **Background and History of the City of Milwaukee Sewer Maintenance Fund**

1. The 1998 Budget created the Sewer Maintenance Fund with the transfer of two decision units from DPW-Infrastructure Services: (1) Environmental and (2) Underground Operations. 188 positions were transferred.
2. The 2000 Adopted Budget transferred the Relief and Relay Sewer capital program from the City's capital program to the Sewer Maintenance Fund. The Relief and Relay Sewers have been financed through issuance of revenue or general obligation bonds and paid for from Sewer Maintenance Fee revenues. Before 2000, the Relief and Relay Sewers were largely cash financed.
3. The 2000 Budget authorized a \$14,560,000 Sewerage System Revenue Bond issuance and the 2001 Budget authorized an additional \$14,535,000 bond issuance for financing costs of improvement to the City's sewerage system. These were followed by an additional bond issue implemented in June 20, 2003 for up to \$33,885,000.
4. In 2001, a cash conversion policy was developed related to the Sewer Maintenance Relay Program designed to realize long-term savings through debt service avoidance. The intent was to balance current costs and future savings thereby making annual fee increases manageable and acceptable. Cash financing, and not borrowing, for capital improvement projects was eliminated in the 2005 budget to avoid raising the sewer rate in 2005, and, to reduce the practice of using debt to pay for debt.
5. In 2001, the SMF began purchasing its own equipment fleet. Prior to 2001, the Fund rented equipment from DPW – Buildings & Fleet.
6. In 2002, the SMF began providing payments to the General Fund for the Street Sweeping and Leaf Collection services. The Department of Public Works (Buildings & Fleet and Sanitation) delivers those services to City of Milwaukee property tax payers as well as tax exempt entities.
7. The MMSD grant offsetting costs related to monitoring and studying the sanitary sewer system expired on December 31, 2002. No comparable grant sources have been identified to replace this revenue stream.
8. In 2002, the Wisconsin Department of Natural Resources (DNR) charged that the city failed to adequately enforce erosion control regulations. Future resources were required to be dedicated to correcting areas of noncompliance.
9. In December of 2005 the City entered into a stipulation with 29 other Milwaukee and Waukesha County municipalities, settling a lawsuit brought by the State of Wisconsin alleging violation of federal and state water pollution control laws at various sanitary and combined sewer locations in the County. The City agreed to continue enforcement of ch. 120 (Storm Water Management) of the Code of

Ordinances, and ch. 13 of MMSD Rules and Regulations within the combined sewer area. This voluntary settlement promotes the disconnection of roof drains to reduce and prevent overflows of the combined sewers (CSOs). The settlement also addresses overflows of sanitary sewers (SSOs), assessing financial penalties for such overflows. The settlement also addressed “infiltration/inflow” (I/I) as defined in s. NR 110.03(14), (16) and (17), Wis. Admin Code.

10. The stipulated settlement also referenced the amended MMSD 2020 Facilities Plan as it may be approved by the DNR and directed that the DNR may not issue a permit to the City that avoids, alters, or otherwise amends the stipulation or the DNR approved MMSD 2020 Facilities Plan.
11. In 2006 a DPW reorganization relocated Sewer Maintenance Fund operations to the Tower Automotive site at N. 35<sup>th</sup> Street and W. Capitol Drive; this resulted in elimination of 1 of 3 field districts and certain vacant positions. The SMF entered into a long term lease agreement with the Redevelopment Authority for the property. Annual lease payments are in excess of \$840,000.
12. The latest Draft MMSD 2020 Facilities Plan was approved by the DNR in December of 2007 and can be accessed at <http://www.mmsd.com/wqi>.
13. Discussions are currently underway with DNR to relax certain requirements and to give credit to the City for innovative infrastructure improvements that are designed to reduce storm water pressures on combined sewers. These requirements include deadlines for reduction of suspended solids in stormwater runoff.