

FISCAL REVIEW SECTION – LEGISLATIVE REFERENCE BUREAU
Executive Summary: 2006 PROPOSED BUDGET – DPW WATER WORKS

EXPENSE CATEGORY	2004	2005	2004-2005	2006	2005-2006	2005-2006
	ACTUAL	BUDGET	%CHANGE	PROPOSED	CHANGE	%CHANGE
OPERATING	\$60,366,377	\$65,242,241	8.08%	\$67,730,974	\$2,488,733	3.81%
CAPITAL	\$12,754,805	\$18,790,000	47.32%	\$20,120,000	\$1,330,000	7.08%
TOTAL POSITIONS	363	363	0.00%	355	-8.00	-2.20%
O&M (FTE's)	319.06	385.28	20.75%	373.04	-12.24	-3.18%
NON O&M (FTE's)	11.60	10.06	-13.28%	10.29	0.23	2.29%

The Water Department is a public utility that supplies water to residents and commercial enterprises within the City of Milwaukee, and various suburbs and government entities. Water is provided through a system of purification plants, pumping stations, booster stations and a distribution system. The Department has a system capacity of 375 million gallons per day. Current average pumpage is about 121 million gallons a day (32% capacity).

Proposed Budget

The total source of funds for Water Works 2006 proposed activities equals \$87,850,974: (1) \$67,730,974 in operating and non-operating revenues, (2) \$19,520,000 in deposits to Retained Earnings for Capital, and (3) \$600,000 for out-of-pocket developer assessments. **(Page 1)**

Position Changes

The 2006 Proposed Budget maintains the total number of positions in the department at 355, an 8 unit decrease from 363 authorized in 2005. The overall breakdown includes eliminating 64 positions and creating 56 new positions. The net fiscal impact on salaries and wages is approximately \$240,014, and \$1,024,510 on estimated employee fringe benefits. **(Pages 1-3)**

Of those 64 positions eliminated, several have been or are proposed to be reclassified from auxiliary during this budget process, and, one may result in a 2006 layoff. **(Pages 1-3)**

Operating Expenditures

The 2006 Proposed budget – Total Operating Expenditures provides \$33,292,263, a \$1,674,609 or 5.3% increase compared to \$31,617,654 provided in 2005. **(Pages 3-5)**

The Water Works plans to occupy the Tower Automotive site beginning April 2006 under a 9-month lease rather than through an up-front capital payment as originally planned. The 2006 Proposed Budget Operating Expenditures – Property Services funds \$924,383 to pay a 9-month lease on the property beginning April 2006 at \$102,709 per month and the capital is suspended. **(Pages 4 and 9)**

Equipment Purchases

The 2006 Proposed Budget – Total Equipment Purchases provides \$1,704,600, a \$26,400 or 1.53% decrease compared to \$1,731,000 provided in 2005. The summary of the proposed uses for 2006 is provided for on pages 5-7.

Rate of Return and Rate Increases

The Water Works proposes applying for a full rate increase in 2006 to achieve a 6.5% rate of return. (Pages 7-8)

Capital Improvements Projects

The 2006 Proposed Budget provides \$20,120,000 for capital improvement projects, 13.54% below the amount stated in the 2006-2001 Capital Improvement plan and an increase of \$1,330,000 or 7.08% from the \$18,790,000 provided in the 2005 Budget. (Pages 8-10)

Water Main Improvements

In 2006, \$15,220,000 is provided for water main projects, a \$420,000 or 2.84% increase compared to \$14,800,000 provided in 2005. (Pages 9-10)

Plant and Building Improvements

The 2006 Proposed Budget provides \$4,900,000 for plant and building improvements, a decrease of \$13,890,000 from the \$18,790,000 provided in the 2005 Budget for water projects other than water mains. (Page 10)

No capital funding is proposed for the Water Works Distribution Facilities relocation to the Tower Automotive site project. (Page 10)

Debt Service

The 2006 Proposed budget provides for \$2,890,500 for debt service for Plants South, compared to \$3,060,000 in 2005. There is an additional \$4,335,500 debt service listed under Plants North in 2006, compared to \$4,590,000 in 2005. (Page 10)

Payment in Lieu of Taxes (PILOT)

The Comptroller's Office calculates the Payment in lieu of taxes (PILOT). The 2006 Proposed budget provides that the Water Works make a \$8,275,000 PILOT payment to the general City budget, a \$166,000 or 1.97% decrease from \$8,441,000 in 2005. (Page 11)

Revenues

The 2006 Proposed Budget estimates that the Water Works can generate \$87,250,974 in revenues. Compared to the \$83,432,241 projected for 2005, the Water Works anticipates generating \$3,838,733 or 4.58% more operating and non-operating revenues during 2006 than the prior year. (Page 11)

Prepared by: Emma J. Stamps (286-8666)
LRB – Fiscal Review Section
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FISCAL REVIEW SECTION – LEGISLATIVE REFERENCE BUREAU
2006 PROPOSED BUDGET SUMMARY: DPW-WATER WORKS

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The Water Department is a public utility that supplies water to residents and commercial enterprises within the City of Milwaukee and various suburbs and government entities. Water is provided through a system of purification plants, pumping stations, booster stations and a distribution system. The Department has a peak system capacity of 375 million gallons per day and an average daily capacity of 325 million gallons. Current average pumpage is about 121 million gallons a day (32% capacity).

Mission Statement

“Maintain the highest quality of service while providing a safe, reliable, and aesthetically pleasing supply of water.”

Pertinent Historical Information

1. The 1995 Budget provided \$89 million in borrowing authority for five capital improvement projects resulting from the Cryptosporidium outbreak that affected more than 400,000 people and was traced to the presence of Cryptosporidium in the City's finished water supply. As of September 2000, \$86.7 million has been borrowed for these projects. This includes \$17.6 million in Revenue Bonds and \$69.1 in General Obligation (GO) bonds.

Full payment of the GO Bonds is scheduled to occur in the Year 2015, while the Revenue Bonds are expected to be paid off by 2018.
2. In 1999, the Public Service Commission enacted a Simplified Rate Case (SRC) Program allowing the Utility the ability to increase rates by an amount equivalent to the previous year's rate of inflation. The most recent SRC rate increase (3.4%) was implemented June 2001.
3. The 2000 Budget provided \$1.3 million for information technology services. These funds were used for upgrading the Water Works' mainframe computer system, which is used for billing, and tracking customers, and other tasks (replacing its server, software, training dollars, various other system enhancements, etc.).
4. In 2001, several reorganization and administrative shifts occurred throughout the Water Department. Beginning with the 2001 Budget, the Water Works split the north water production group from the south water production. The performance measures were divided 60% to the north plant and 40% to the south plant.
5. In 2001, the Control Center located in the Municipal Building transferred from the Distribution Unit to the Business Unit because it is primarily a customer service activity. Both units, the

Control Center and Distribution, handled all customer service calls in the evenings and on weekends.

6. Meters equipped with AMR devices are read using a computer-equipped van. During years 2000 and 2001, twenty-three (23) residential meter reader positions (including auxiliary) were replaced with 1 person designated to read meters while driving the AMR van. Efficient resources allocation reduces the time required (and direct labor hours) for reading district residential meters from 1 month to 8 days.
7. The 2001 Budget eliminated 13 Meter Reader Residential positions (\$403,987), including 3 vacant positions. Ten positions were created to facilitate this change. The 10 individuals had some bumping rights to other positions. Meter-reading performance indicators showed 543,000 meters read in 2001, compared to 629,455 in 2002. No-access (meters that could not be accessed for readings) measures decreased from 105,000 in 2001 to 25,312 in 2002.
8. In June 2003, the Common Council adopted Resolution 021758 authorizing the Water Works to execute a wholesale water service agreement with the City of New Berlin.
9. The anticipated withdrawal from Retained Earnings increases from \$485,707 in 2003 to \$9,183,632 in 2004, an increase of \$8,697,925 or 1690.78%. The additional funds uses were to provide for the 2004 Distribution Buildings Replacement capital improvement project.
10. In 2003, "unaccounted for water" was calculated to be 12%. "Unaccounted for water " represents water treated/pumped but not measured or accounted for through metering, estimates or other quantifiable uses and does not reflect only system leakage. Water Works is making an effort to reduce this "unaccounted for water" by a) better quantifying water lost through flushing programs, water main breaks, etc, and b) conducting leak surveys throughout the system and repairing any identified leaks.

Rate of Return and Rate Increases

On June 19, 2001, the Common Council, under Resolution File No. 010234, authorized the Water Works to file a petition with the Public Service Commission of Wisconsin to increase water rates. Applying a 6.5% rate of return and an 11.5% increase to the \$47.32 average urban residential quarterly water bill using 32 ccf of water resulted in a new average quarterly water bill of \$52.76, a quarterly increase of \$5.44 or an annual increase totaling \$21.76. This increase took effect June 1, 2002.

Performance Measures

1. 2004 and previous years' budget forms included statistics on individual performance measures, indicators of program/project successes or challenges. Those indicators could be used to determine the effectiveness and appropriateness of resource allocations to programs/projects. Several indicators are no longer tracked for various reasons. Some statistics provided by the Water Works are summarized below.
2. In 2004, Water Works pumped and purified approximately 44 billion gallons of water.

3. The percentage of damages paid in 2005 at slightly more than 50% of billable damages. Unpaid damages are usually the result of uninsured motorists not paying, regardless of the dollar amount billed.
4. Substantial equipment and personnel costs are associated with the condition of meter inventories and staff ability to read usage. The Water Works provided the following statistics.

Meter Statistic	Type	2003 Actuals	2005 Projection
In-service	Small	155,002	155,150
	Medium	4,655	4,500
	Large	1,341	1,325
Repaired	Small	6,357	6,750
	Medium	163	275
	Large	258	260
Exchanged	Small	2,076	3,100
	Medium	442	420
	Large	39	75
Read		639,839	635,000
Investigated for functionality/damage		7,400	7,100
Successfully read by the AMR van (automatic meter reading)		97%	98%
<i>Source: Milwaukee Water Works</i>			

5. In 2005, the Water Works reduced its vehicles inventory accordingly:

International 10 yd Dump Truck (2)
 Ford 10 yd Dump Truck
 Drill Rig
 Forklift
 Stake bed truck
 Vac all
 Plymouth Reliant passenger car

Plymouth Sundance passenger car (2)
 GMC Pick up
 Chevy Cavalier passenger car (3)
 Chevy Van
 GMC 2 yd dump truck
 Panel van (2)
 Blazer passenger car

2006 BUDGET HIGHLIGHTS & ISSUES

The total source of funds for Water Works 2006 proposed activities equals \$87,850,974: (1) \$67,730,974 in operating and non-operating revenues, (2) \$19,520,000 in deposits to Retained Earnings for Capital, and (3) \$600,000 for out-of-pocket developer assessments.

PERSONNEL

The 2006 Proposed Budget maintains the total number of positions in the department at 355, an 8-unit decrease from 363 authorized in 2005. The overall breakdown includes eliminating 64 positions and creating 56 new positions. The net fiscal impact on salaries and wages is approximately \$240,014, and \$1,024,510 on estimated employee fringe benefits.

Of those 64 positions eliminated, several have been or are proposed to be reclassified from auxiliary during this budget process, and, one may result in 2005 layoffs.

Vacancies

The Water Works provided the following table which lists all vacant positions by title, vacancy date, pay range classification, reason for vacancy, race and gender, and date that the request to fill was submitted for Finance and Personnel Committee approval, if applicable.

<u>Title</u>	<u>Vacancy Date</u>	<u>PR</u>	<u>Reason</u>	<u>R/G</u>	<u>F&P</u>
Machine Repair Person	1/1/05	287	New Position		*
Machine Repair Person	2/27/04	287	Retire	AA/M	3/31/04*
Sr. Wtr Treat Plant Opr	6/29/05	291	Injury	AA/M	9/21/05
Wtr Dist. Repair Wrkr I	10/26/03	235	Promotions	C/M	Hold**
Wtr Dist. Repair Wrkr I	10/26/03	235	Promotions	C/M	Hold**
Wtr Dist. Repair Wrkr I	12/12/03	235	Retire	C/M	Hold**
Wtr Dist. Repair Wrkr I	11/21/04	235	Promotions	AA/M	Hold**
Wtr Dist. Repair Wrkr I	1/21/05	235	Promotions	C/M	Hold**
Wtr Meter Tech II	11/14/05	249	Retire	C/M	9/21/05
Wtr Meter Tech I	8/15/04	240	Promotion	C/M	5/18/05
Wtr Meter Tech I	2/25/05	240	Promotion	C/M	5/18/05
Wtr Meter Tech I	4/7 /05	240	Promotion	C/M	5/18/05
Wtr Meter Tech I	8/29/05	240	Promotion	C/M	9/21/05
Wtr Revenue Collector	10/12/05	360	Retire	C/F	Hold**
Wtr Claims Specialist	11/6/04	005	Resign	C/F	6/29/05
Network Coord. Assoc.	1/1/05	004	New Position		9/21/05
Wtr Dist. Repair Wrkr II	5/6/05	252	Retire	C/M	4/27/05
Wtr Dist. Repair Wrkr II	7/17/05	252	Promotion	C/M	7/21/05
Wtr Dist. Chief Rep Wrk	6/21/05	282	Promotion	H/M	7/21/05
Wtr Dist. Supervisor I	7/2/05	004	Promotion	C/M	5/18/05
Wtr Treat Plant Opr	7/18/05	252	Promotion	C/M	9/21/05
Wtr System Opr in Chrg	12/29/05	282	Retire	C/M	9/21/05
Wtr Dist. Laborer	1/4/05	230	Deceased	C/M	***
Wtr Dist. Laborer	4/9/05	230	Retire	C/M	***
Wtr Dist Laborer	5/21/05	230	Resign	AA/M	***

Wtr Material Handler	5/21/05	245	Retire	C/M	***
Wtr Dist Laborer	Vacant	230	Promotion	AA/M	***

- * Awaiting DER Recruitment
- ** Hold for reorganization
- *** Eliminated in 06 Budget

Staffing Changes due to Tower Automotive Relocation

The reorganization due to relocating to the Tower Automotive site will result in eliminating vacant and currently filled positions and transferring others to DPW-Infrastructure Services. Management's responsibilities will change from individual districts to the entire service area, which includes the Cities of Milwaukee Greenfield, St. Francis and the Village of Hales Corners.

In regards to plans to relocate distribution operations to the Tower site, the following positions are being eliminated:

- Transfer jobs out to other, non-Water Works DPW operations
4 positions – (1) Water Inventory Manager, PG 4 and (3) Inventory Assistant IV's, PR 350 are to be transferred to DPW-Infrastructure as reimbursable services
(1) Communications Assistant III – PR 445, incumbent has bumping rights
- Position is vacant and MWW does not plan to fill
(1) Water Material Handler – PR 245
(4) Water Distribution Laborers – PR 230
- Position(s) will become vacant in 2006 and MWW does not plan to fill
Undetermined at this point
- Reclassification through the 2006 budget process (by new title/rate of pay)
(1) Water Distribution District Supervisor (SG 10) to Water Distribution Operations Manager (SG10)
(1) Water Distribution District Supervisor (SG 10) to Water Distribution Construction Manager (SG 8)
(2) Water Distribution Supervisor II (SG 8) to Water Distribution Construction Manager (SG 8)
(8) Water Distribution Supervisor I (SG 4) to Water Distribution Field Operations Supervisor (SG 6)
(1) System & Special Projects Manager (SG 5) to Water Distribution Systems Manager (SG 6)
(1) Communications Assistant IV (PR 455) to Office Assistant IV (PR 445)

Positions Changes in Plants

Since the 2005 budget adoption, in Decision Unit 6412 (Plants North), Plants Automation Specialist, PG-7, was reclassified to Water Plant Automation Manager, PG-9, and an Electrical Mechanic, PR-978 was reclassified to Automated System Specialist, PR-598. The 2006 Proposed Budget reflects those authorized changes.

An Electrical Mechanic position is created in the Plants Section to replace a position eliminated during reclassification and set up of "Plant Automation Group."

A Metal Fabricator position is being reallocated from Plants North to Plants South to reflect where this position reports to work on a daily basis.

Position changes in the Engineering Decision Unit

Four (4) of the requested eight (8) Civil Engineer (CE) III positions are currently Civil Engineer II's. A reclassification request was submitted to Employee Relations on 3/21/05 and is currently under review.

The additional Civil Engineer III position is proposed to accommodate the end of a job sharing arrangement between a CE III and an Electrical Engineer III, where both incumbents want to assume full time positions.

Budget Line Items

Total Operating Expenditures

The 2006 Proposed budget – Total Operating Expenditures provides \$33,292,263, a \$1,674,609 or 5.3% increase compared to \$31,617,654 provided in 2005.

The year 2004 expenditure totals serve as benchmarks for forecasting year 2006 operating expenditures. The benchmarks and 2006 projected needs are reflected in the following table.

Operating Expenditure	2004 Actual	2006 Proposed	Change	Pct Change
Net Salaries and Wages	\$16,482,764	\$17,790,078	+\$1,067,300	+ 6.48 %
General Office Expense	\$383,288	\$488,000	+ \$109,712	+ 28.62 %
Tools & Machinery Parts	\$218,951	\$366,500	+ \$167,549	+ 76.52 %
Energy Expenditures	\$4,665,842	\$5,883,000	+ \$699,211	+ 14.99 %
Other Operating Supplies	\$1,779,012	\$2,080,800	+ \$306,788	+ 17.24 %
Vehicle Rental	\$76,976	\$32,000	- \$71,976	- 93.50 %
Professional Services	\$2,435,369	\$3,100,825	+ \$342,631	+14.07 %
Information Technology Svcs	\$2,002,287	\$1,677,000	- \$543,787	- 27.16 %
Property Services	\$9,914,120	\$11,837,383	+ \$1,340,880	+ 13.52 %
Infrastructure Services	\$4,428,632	\$4,500,000	+ \$91,368	+ 2.06 %
Other Operating Services	\$701,403	\$934,000	+ \$222,597	+ 31.74 %
Equipment Purchases	\$1,282,730	\$1,704,600	+ \$448,270	+ 34.95 %

- Of the \$1,687,580 increase in Net Salaries and Wages, \$87,228 is attributed to position changes (p. 185 of Budget Summary), \$787,000 is attributed to calculated increased Overtime Compensation, and the remaining \$813,352 is reflective of step increases, changes in personnel cost adjustments and capital improvement deductions.
- Increase in the price of postage is the main part of the increase in the General Office Expense category. To increase revenue collections, the Water Works now mails significantly more collection letters to customers who are late paying one quarter of billable charges and fees. The standard for revenue billing requires mailing a quarterly bill, mailing collection letters for non-payment by the due date, and mailing delinquent notices when the account is past due for two consecutive quarters. Unresolved delinquent balances transfer to the tax roll in the third billing cycle. The last of 3 Water Revenue Collector positions retired in October 2004 and the position is proposed for elimination in 2006. This position made field collection calls and would disconnect services for noncompliance.
- According to Water Works, Energy Expenditures for 2006 were calculated to reflect both actual year 2004 energy experience and rising industry costs. In 2004, budget authority exceeded expenditures by 2.45%. An aggregate \$4,782,994 was budgeted (p. 209, 2005 Budget) and \$4,665,842 (p. 520.2, 2006 BMD2) in total was expended on energy.
- The increase in Vehicle rental is related to a cost estimates for using "pool" cars and rental of replacements in the event of breakdowns in 2006.
- Professional Services provides for consultant, architecture and engineering, medical, surgical, lab, administrative charges for other city department services, and miscellaneous professional services. In previous years, Department of Neighborhood inspections and DPW contract and engineering administration charges were the largest charges to this budget line. Due to the Tower Consolidation, one (1) Inventory Manager and three (3) Inventory Assistant IV positions are to be transferred to Infrastructure. However, Water Works will continue to be responsible for the salaries and wages, including fringe benefits, for those positions and it will be handled through interdepartmental billing. The increase in this category is to show the additional funds needed to pay for this billing. These positions are not shown in the 2006 Salaries & Wages budget.
- The most significant changes to Information Technology Services is that funding for the Customer Information System (CIS) and SCADA system are were fully funded prior to 2006. The 2004 and 2005 budgets for information technology budget covered software, licenses and hardware needed to supplement the installation of the new systems.
- The Property Services category, among other things, includes charges for building repair and maintenance, space usage charges and costs from DPW-Building and Fleet and DPW-Forestry sections, in addition to funding PILOT payments to the city and \$924,383 for a 9-month lease of the Tower Automotive site.

- The \$4,500,000 for Infrastructure Services pay for DPW related services provided to the Water Works.
- The ozone and chemical feed systems are nine (9) years old. Some of the infrastructure is forty years old and is beginning to need major repairs. The Other Operating Services budget was increased to cover costs to repair equipment and failing infrastructure.

Equipment Purchases

The 2006 Proposed Budget – Total Equipment Purchases provides \$1,704,600, a \$26,400 or 1.53% decrease compared to \$1,731,000 provided in 2005. The summary of the proposed uses for 2006 equipment purchases is shown on the table below.

2006 Equipment Purchase uses by decision unit

Decision Unit	Proposed Fund Uses	Proposed for Unit in 2005
Business	Various Metering Devices, including hydrant meters	\$495,000
	Various Computers, servers, hardware and software	\$121,500
	Industrial truck and truck attachments	\$77,000
	Testing and pumping equipment (rate gauge, air monitor, data log)	\$4,000
North Plant	A computer, printer, and office furniture	\$12,000
	Various testing apparatus, pumping equipment and technical tools	\$90,000
	Industrial vehicle	\$25,000
Engineering	Computers, printers, camera and video equipments	\$4,200
	Office furniture	\$1,900
	Technical tools	\$6,000
Distribution	Laptops and radios	\$120,000
	Various industrial trucks and other industrial vehicles	\$551,000
	Various tools, testing apparatus, pumping equipment	\$74,500
Water Quality	Various laboratory tools	\$24,500
South Plant	A computer and office furniture	\$28,000
	Various pumping equipments, tools, and testing apparatus	\$70,000
Total O&M Equipment Purchases for All Water Works Decision Units		\$1,704,600

- **Technical Tools:** These proposed purchases include an electric valve operator for crossover valve, TeLog recorders, and a DeChlorinator. The electric valve operator allows safe opening and closing of a large gate valve in a timely manner to allow proper plant flow configuration. Currently the gate is opened and/ or closed manually by 2-4 people. Thus, having this tool will immensely improve the efficiency of the process. TeLog recorders are used to monitor the pressure in water mains. The DeChlorinator is used to remove chlorine from water that is discharged into waters of the State.

- The “pumping equipment” request is for a variable frequency drive units for coagulation basin drain pumps. Current coagulation drain pumps operate at one speed, although the flow into the pumps varies significantly during coagulation flushing operations, including running when dry during low flows. The variable frequency drive will allow coagulation drain pumps to be configured to more efficiently operate with the varying flows, thus minimizing damage to the pumps during low flow operations.
- Office Furniture equipment purchases vary from, a replacement fax machine and scanner for Engineering staff located in the Municipal Building to furnishing a Howard Plant control room and conference room remodeling project to setting up a new office, to house six (6) people from the Plant Automation Group who are currently housed at the Riverside Pumping Station.
- The radio will function within the same communication system developed by the Milwaukee Police Department (Water Works has its own frequency) for primary placement in Distribution and Meter Shop vehicles, according to the Water Works. MPD is upgrading their communications, and as part of their contract with the vendor, several radios are available to be purchased at a discount (\$2,000 compared to \$2,700 each). The Water Works reserved 50 radios that are comparable to existing stock.
- Printers and computers, both desktop and laptop, will be placed throughout the department. Laptops are assigned to vehicles and certain persons who carry work home.
- The various proposed replacement vehicle purchases for the Distribution DU include:
 - Compressor used to remove dirt and debris from service boxes, power large cutting machines as well as branch and tapping machines. This equipment affects the ability to perform turn-ons and turn-offs of water service for customer service requests, emergency requests and in cooperation with the MWW billing system.
 - Drill rig vehicle used daily to accurately pinpoint leaks on water mains and services.
 - Travel Vac is a trailer mounted industrial vacuum machine that provides the Water Works with an additional option before assigning a full crew with a backhoe to excavate the service or gate box.
 - Industrial backhoes vehicles and vans vehicles used to transport heavy equipment and supplies plus barricades and lumber to and from various job sites.
 - Chevy step van used by staff to test large water meters such as the ones used to supply water to MWW’s wholesale customers.

- In 2006 an additional truck-crew van purchase is proposed for a 2nd shift repair crew. The crew has been working in old vans and the Water Works states that without this additional van one crew will be forced to wait for another crew to finish repairs in order to redeploy the van.

Rate of Return and User Rate Increases

The Public Service Commission (PSC) provides the Water Works two options for increasing water rates: (1) a Simplified Rate Case (SRC) Inflationary Rate Increase and (2) a Full Rate Increase. The Water Works has **no plans** to implement a SRC rate increase based on last year's inflation. However, it does plan to petition the PSC for a full rate increase and, upon the decision, request Common Council authorization to implement a yet-to-be determined rate increases for retail water customers. The PSC, and not the Common Council, sets wholesale water rates. The Public Service Commission last approved a full rate increase in 2002 to permit the Water Works a 6.5% rate of return. In that same year, the Common Council authorized the Water Works to implement the increase and modify rate structures for retail customers accordingly.

Water Rates

The water rate for City of Milwaukee retail customers will remain constant in 2006 at \$1.18 per 100 cubic feet of water (Ccf).

Current water rates were implemented per PSC Docket 3720-WR-104 effective June 1, 2002 according to the following schedules:

Water Rates - Retail

Water Consumption - Retail	Milwaukee	West Milwaukee	Other Suburbs
First 100 CCF (hundred cubic ft.)	\$1.180	\$.671	\$1.475
Next 4,900 CCF	1.090	.637	1.363
Next 15,000 CCF	.680	.501	.850
Next 20,000 CCF	.630	.490	.788

Water Rates - Wholesale

Water Consumption - Wholesale	All Wholesale Customers
Each 100 CCF (hundred cubic ft.)	\$0.44
General Service Charge	\$8500 to \$190,750
Fire Protection (include demand charges)	\$ 0 to \$35,600

Four suburban retail customers receive full water service from the Water Works, including customer billing and distribution system maintenance. Those customers include Greenfield, Hales Corners, St. Francis, and a portion of Franklin. In a unique arrangement, West Milwaukee receives billing services from Milwaukee Water Works but maintains their own distribution system, warranting a unique rate structure.

Rate of Return and Revenue Projection

The rate of return is measured by the assets of the Water Works. Revenue growths produce higher rates of return. Between 2000 and 2002, the rate of return ranged from 3.98% to 5.79%, decreasing

to 4.95% in 2003 and further decreasing to 4.7% in 2004. As the ratio of revenues and asset valuations decline, the rate of return also declines.

New Water Service Customers

Potential markets for water sales are limited due to federal and international waterways legislation that prohibits water distribution beyond areas that will allow those waters to flow back into their origin. Since the Water Works provides its product from Lake Michigan, water may only be distributed to communities within the Great Lakes Basin and inside the subcontinental divide. The Common Council established guidelines that must be followed before the Water Works can sell water to other communities. The Common Council approved file 980871 on April 20, 1999 authorized the Water Works and the Legislative Reference Bureau to investigate and evaluate the impact that the sale of water to other communities will have on the City of Milwaukee and to report their findings to the Common Council. This file was adopted in part due to inquiries concerning availability of Milwaukee water for sale to other communities.

In June 2003, the Common Council adopted Resolution 021758 authorizing the Water Works to execute a wholesale water service agreement with the City of New Berlin. The portion of City of New Berlin that lies east of the subcontinental divide (within the Great Lakes Basin) began receiving Milwaukee Water in 2005.

The Water Works has had preliminary discussions with the City of Brookfield, the Village of Elm Grove, and the Village of Germantown. The City of Waukesha has recently expressed interest in diverting water from Lake Michigan. However, only the portions of those communities that lie within the Great Lakes Basin are eligible. The Great Lakes Governors and Canadian Provinces are currently reviewing plans and recommendations to update the water diversion provisions and standards.

CAPITAL IMPROVEMENTS PROJECTS

The 2006-2011 City of Milwaukee Capital Improvements Plan projected a \$23,270,000 total capital need for all Water Works capital projects in 2006. However, the 2006 Proposed Budget provides \$20,120,000 for capital improvement projects, 13.54% below the amount stated in the plan and an increase of \$1,330,000 or 7.08% from the \$18,790,000 provided in the 2005 Budget. Lower capital budgets result in less fund deposits to retained earnings for future years debt service. Included in the 2006 Proposed budget are:

- \$15,220,000 for the water main improvements program, a 17.28% increase from \$14.8 million in 2005. Approximately \$1.62 million is planned for main extensions.
- \$400,000 for Linnwood plant treatment improvements, a 60% decrease from \$1 million in 2005.
- \$4,500,000 for Storage Facilities Improvements, a 215.00% increase from \$200,000 in 2005.

According to Resolution 040025, adopted May 2004, the estimated acquisition and development capital cost of relocating DPW Traser Yard and Water Works distribution facilities to the Tower site is \$24 million (\$14.1 million and \$9.9 million, respectively), to be supported by both the tax levy and enterprise funds.

According to the Water Works and Common Council Resolution 040258 adopted in June 2004, the turnkey agreement was to be negotiated by the Redevelopment Authority for either the lease or purchase of the parcels. The Water Works guaranteed the contract and was to make required payment based on final project costs in 2006, thereby postponing the obligation for 1-1/2 years.

As stipulated in the resolution, to supplement its year-2004 \$8 million capital authority, the Water Works required \$1.7 million in 2005 capital authority to complete its funding portion of the relocation project; however, the authority was not presented in the Mayor's 2005 proposed capital budget or added by budget amendment.

The 2006 Proposed Budget **does not** include capital funding to **relocate the distribution facilities to the Tower Automotive** site. Instead, the Water Works capital appropriations are to be suspended and the 2006 Proposed Budget Operating Expenditures – Property Services funds \$924,383 to pay a 9-month lease on the property (2006 Proposed Plan & Executive Budget Summary, p. 195) beginning April 2006 at \$102,709 per month, as negotiated by RACM. The DPW-Sewer Maintenance Fund is also budgeting for its own 10-month lease at the Tower Site.

Water Main Improvements

1. All funding provided in the capital program is for new or replacement mains. Main repairs are budgeted in the Water Department's operating budget. The approximate cost to replace 1-mile of distribution main is \$1 million and \$5 million to replace 1-mile of feeder main. In 2006, \$15,220,000 is provided for water main projects, a \$420,000 or 2.84% increase compared to \$14,800,000 provided in 2005.

2. As of August 2005, there have been 387 water main breaks compared to 492 recorded during the same time last year. Included are 183-6" water main breaks, 153-8" water main breaks, 30-12" main breaks, and 21-16" main breaks. In 2003, there were 659 water main breaks, or an average of 55 per month. Based on a five-year average, main break projections for 2006 are 620-700.

WATER MAIN BREAKS EXPERIENCE - 1995-2003 SMALL MAINS-DISTRIBUTION DECISION UNIT	
<u>YEAR</u>	<u>ACTUAL</u>
1995	831
1996	774
1997	886
1998	784
1999	710
2000	667
2001	651
2002	629
2003	659
2004	492

3. The budget provides resources to replace approximately 10-14 miles of main each year. Water Works seeks to reduce main breaks by 70 breaks per year and to reduce by 20 the number of feeders repaired each year.

Distribution Water Main Project – \$13,600,000

This proposed capital program appropriation includes \$13,600,000 to replace defective water main sections that have a history of failure. The purpose of the program is to reduce the dilapidation of the water main infrastructure. This authority represents non-assessable projects. Budgeting for assessable distribution water main capital projects in this line was discontinued in 2004.

Non-Assessable Feeder Main Program – \$1,020,000

In 2006, \$1,020,000 in capital authority is proposed for funding the program to replace deficient feeder mains. It is anticipated that the department's funding requests for this ongoing capital project will increase in \$20,000 increments annually.

Developer Out-of-Program Agreement at various locations – \$600,000

Funding is based on anticipated developer needs that require them to fund the cost for installing new water mains in new developments in accordance with the Milwaukee Code of Ordinances.

2006 Plant and Buildings Improvements

The 2006 Proposed Budget provides \$4,900,000 for plant and building improvements, a decrease of \$13,890,000 from the \$18,790,000 provided in the 2005 Budget for water projects other than water mains.

Linnwood Plant Treatment Improvement –Flocculator Systems Upgrades –\$400,000

The proposed budget authority would provide \$400,000 for multi-year flocculator system upgrades involving replacing mechanical flocculator (oar-shaped equipment) bearings and shafts.

Storage Facilities Improvements – Decommission Kilbourn Reservoir – \$4,500,000

This is the final phase of a project to take the Kilbourn storage facility out of service. The 2006 proposed appropriation will pay to fill in and cap the holding tank, landscape, and regrade the area. The six-year estimated total project cost, from years 2006-2011, is \$9,750,000 according to the department's capital improvement request documents.

Distribution Buildings Replacement – No Capital in 2006

DEBT SERVICE

Debt service consists of principal and interest payments. Governments often retire debt before it matures by issuing more debt. Assuming no refunding debt, anticipated debt service funds is expected to decrease from 2004 to 2006.

The 2006 Proposed budget provides for \$2,890,500 for debt service for Plants South, compared to \$3,060,000 in 2005. There is an additional \$4,335,500 debt service listed under Plants North in 2006, compared to \$4,590,000 in 2005.

PAYMENT IN LIEU OF TAXES (PILOT)

The Comptroller's Office calculates the Payment in lieu of taxes (PILOT). The 2006 Proposed budget provides that the Water Works make a \$8,275,000 PILOT payment to the general City budget, a \$166,000 or 1.97% decrease from \$8,441,000 in 2005. This payment is provided for in the Water Work's 2006 Proposed Operating Expenditures-Professional Services budget line.

REVENUES

The 2006 Proposed Budget estimates that the Water Works can generate \$87,250,974 in revenues. Compared to the \$83,432,241 projected for 2005, the Water Works anticipates generating \$3,838,733 or 4.58% more operating and non-operating revenues during 2006 than the prior year.

The amount budgeted for anticipated withdrawal from Retained Earnings increased by \$3,949,050 from (\$1,458,514) in 2004 to \$5,407,919 in 2005. Deposits for capital and operating expenditures exceeded the budgeted withdrawal in 2004. In 2006, the proposed withdrawal increases over 2005 by \$6,341,322 or 117.25%. Withdrawals help bridge-funding gaps between expenditures and revenues and reduce reserves.

2006 PROPOSED REVENUES - WATER WORKS					
	2004	2005	%	2006	%
<u>REVENUES</u>	<u>ACTUAL</u>	<u>ADOPTED</u>	<u>CHANGE</u>	<u>PROPOSED</u>	<u>CHANGE</u>
OPERATING	\$ 65,791,948	\$ 70,765,322	7.56%	\$ 67,485,733	-4.63%
NON-OPERATING	\$ 8,539,453	\$ 7,549,000	-11.60%	\$ 8,016,000	6.19%
<u>WITHDRAWAL-RETAINED EARNINGS</u>	<u>\$ (1,458,514)</u>	<u>\$ 5,407,919</u>	<u>-470.78%</u>	<u>\$ 11,749,241</u>	<u>117.26%</u>
TOTAL REVENUES	\$ 72,872,887	\$ 83,722,241	14.89%	\$ 87,250,974	4.21%

MUNICIPAL SERVICES BILL

The Water Works maintains statistics for Municipal billing service fees and charges. The current computer system reports in \$1000 increments but cannot distinguish the revenue by type (water, sewer maintenance fee, MMSD, solid waste, snow and ice fee). In 2006, charges directly related to Storm Water Management will be separate from the sewer fees and be billed according to impervious surface area measurements by property type.

- **Water** service charges are billed based on meter size and consumption
- **MMSD Sewer Treatment Charge** is billed, based on the size of the meter, on behalf of the Milwaukee Metropolitan Sewerage District (MMSD) for treating wastewater.
- **Solid Waste Fee**, established 2001
- **Snow & Ice Fee** (Snow and Ice Cost Recovery Charge), established in 2002
- **Storm Water Management Fee**, established in 2005 for 2006 budget purposes

MISCELLANEOUS PERFORMANCE MEASURES

78% of all calls were answered by Customer Service Representatives in 2004 and 74% were answered year-to-date in 2005, according to Water Works. Unanswered calls drop or hang up from the Water Works phone system. The projection for 2005 and 2006 are 80% and 91% respectively.

Customer Service Activity:	Year – to – Date			
	Projected 2006 Total	Projected 2005 Total	Actual 2005 Total	Actual 2004 Total
Total Calls Received	140,000	94,500	48,699	91,139
Calls Handled CSR	128,000	75,600	36,037	70,484
% of All Calls Answered	91%	80%	74%	78%

Prepared by: Emma Stamps (x8666)
LRB Fiscal Review Section
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