

FISCAL REVIEW SECTION – LEGISLATIVE REFERENCE BUREAU

Executive Summary: 2005 Proposed Budget – Sewer Maintenance Fund

1. The 2005 Proposed Sewer Maintenance Fund budget provides \$54,403,316, a \$8,738,083 or 19.14% increase from \$45,665,233 in 2004. **(Page 5)**
2. No layoffs are planned in the 2005 Proposed Budget. **(Page 5)**
3. The 2005 Proposed Budget maintains staffing levels at 198 total authorized positions through position title reclassifications, attrition, and eliminating obsolete titles. **(Pages 5 and 6)**
4. Excluding salaries and wages, fringes, equipment, and special funds, the 2005 Proposed Budget provides \$6,761,750 for Operating Expenditures, a \$661,000 or 8.91% decrease from the \$7,422,750 for 2004. **(Page 6)**
5. Funding for the manhole rehabilitation project decreases by \$270,000 to \$400,000 in 2005, compared to \$670,000 provided in 2004. **(Page 7)**
6. The 2005 Proposed Budget Special Funds changes to \$17,452,000 from \$9,331,952 in 2004, an increase of \$8,120,048 or 87.01%. **(Pages 7-9)**
7. In a 2005 proposal, the Sewer Maintenance Fund pays \$5,852,000 in Debt Service-Sewer Maintenance Fund and \$7 million, an ongoing payment, on Debt Service for Prior Years G.O. debt. While the later converts tax levy support debt to self-supporting debt, reducing the 2005 property tax levy by approximately \$1 million, the measure may increase user fees in future years. **(Page 8)**
8. The 2005 Proposed Budget maintains the Payment to General Fund for street sweeping and leaf removal services at 2004 levels; \$4,200,000. **(Page 9)**
9. The 2005 Proposed Budget provides 100% borrowing authority for the \$21,500,000 for the Relay Program and \$1,080,000 for implementing 3 pilot capital projects. **(Pages 9 and 10)**
10. In 2005, Total Revenues are expected to increase by \$8,738,083 to \$54,403,316, from \$45,665,233 in 2004, mainly due to increased borrowing. **(Page 11)**
11. Cash financing, and not borrowing, for capital improvement projects was eliminated to avoid raising the sewer rate in 2005, and, to avoid using debt to pay for debt included in the proposed \$7 million transfer of pre-2000 tax levy debt service to the Fund. **(Page 11)**
12. The 2005 Proposed Sewer User Fee is \$31,000,000, compared to \$31,661,733 in 2004. The fee was calculated on the premise that billable water consumption will decrease no lower than 27,943,032 Ccf, and the sewer rate will remain unchanged at \$1.1094 per 100 Ccf. **(Pages 12 and 13)**

2005 DEPARTMENTAL BUDGET SUMMARY: SEWER MAINTENACE FUND

Expense Category	2003 Actual	2004 Budget	% Chg	2005 Proposed	% Chg
Operating	\$21,644,305	\$24,165,233	11.65%	\$31,823,316	31.69%
Capital	\$19,692,165	\$21,500,000	9.18%	\$22,580,000	5.02%
Positions	209	198	-5.27%	198	-
Total Direct Labor Hours*	206,316	258,300	25.20%	258,300	-

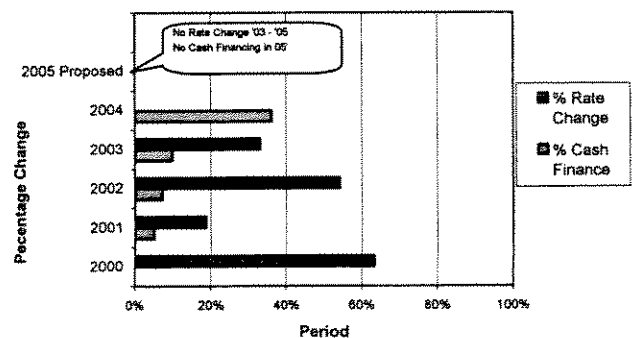
* Includes O&M and Non-O&M funded direct labor hours

The Sewer Maintenance Fund is an enterprise fund for sewer maintenance expenses. It funds the administration, operation and maintenance of the City's sewer system. This Fund recovers sewer maintenance costs through a user fee rather than through the property tax. Residents pay for the costs of sewer maintenance as part of their quarterly city services bills. DPW-Infrastructure Services Division administers the Sewer Maintenance Fund, including oversight of personnel and activities. All revenues from this fee go to the Sewer Maintenance Fund. Interest earned on the revenues are credited 2/3 to the General Fund, and 1/3 to the Public Debt Amortization Fund.

Pertinent Historical Information

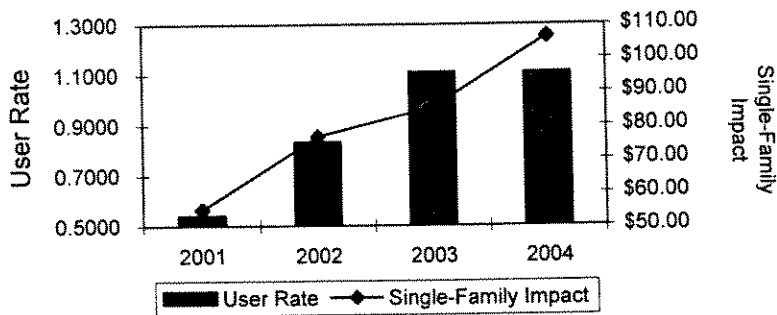
1. The 1998 Budget created the Sewer Maintenance Fund by transferring two decision units from DPW-Infrastructure Services: (1) Environmental and (2) Underground Operations. Included was the transfer of 188 positions.
2. The 2000 Adopted Budget transferred the Relief and Relay Sewer capital program from the City's capital program to the Sewer Maintenance Fund. The Relief and Relay Sewers are to be financed through issuance of revenue or general obligation bonds and paid for through the Sewer Maintenance Fee. Prior to 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 addition \$14,535,000 bond issuance for financing costs of improvement to the City's sewerage system. The most recent bond issue was June 20, 2003 for up to \$33,885,000.
4. In 2001, a cash conversion policy was developed for the Sewer Maintenance Relay Program for realizing substantial long-term savings through debt service avoidance. The intent is to balance current costs and future savings thereby making annual fee increases manageable and acceptable.
5. In 2001, the department began purchasing its own equipment fleet. Prior to 2001, the enterprise fund rented equipment from DPW – Buildings & Fleet.

Cash Financing Effect on % Change in Sewer Rate



6. Since 2001, the average residential sewer user rate has increased by \$0.5693 from \$0.5401 per 100 Ccf to \$1.1094 per 100 Ccf. As a result, the annual average single-family property owner billing increased \$30.31, from \$54.89 to \$85.20 per year.

Historic Sewer Maintenance User Rates and Single-Family Impact



7. In 2002, Special Funds began providing for a first time \$4,372,001 Payment 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 and non-profits.
8. The MMSD grant that offsets 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.
9. In 2002, the DNR charged that the city failed to adequately enforce erosion control ordinances. Future resources must be dedicated to correcting those areas of noncompliance.
10. In 2003, 2 major organizational changes enhanced the number of positions and management assignment to the Environmental Section. Those changes involved reassigning personnel and responsibilities from the following:
- Field Operations Section – Underground Unit to the Environmental Section and,
 - Streets and Bridges Unit - Underground Maintenance area to the Environmental Section Underground Operations Unit
11. The 2003 Proposed budget provided \$200,000 for a dewatering facility capital project based on a dewatering facility study. The recommendation is to continue current practices, which is more cost efficient.

Miscellaneous: Studies-In-Progress

- The DPW-Sewer Maintenance Fund is in the process of digitizing the records of existing building laterals. The records for the laterals are now drawn by hand. As part of this process, the department is also transforming the sewer $\frac{1}{4}$ sections to conform due to curvature of the earth.
- A contract has been awarded for closed-circuit television examinations of combined sewers and storm sewers at various locations throughout the City to examine the sewers to determine the structural integrity and infiltration sources.
- The sewers to be examined were typically constructed more than 75 years ago. A remote camera system will examine approximately 22,390 linear feet of sewer, with diameters less than 54-inches. Approximately 40,880 linear feet of sewer, with diameters equal to or greater than 54-inches, will be examined by man-entry into the sewers. The contract cost is \$168,179.
- A dye-testing contract has been awarded for 2004. The dye-testing contract is to determine sources of clear water entering the sanitary sewer system. The contractor will be flooding the storm sewers while televising 59,870 linear feet of sanitary sewer. The testing will take place in five different sanitary systems in various locations in the City. The contract cost is \$237,486.50.

2005 Budget Highlights and Issues

The 2005 Proposed Sewer Maintenance Fund budget provides \$54,403,316; a \$8,738,083 or 19.14% increase from \$45,665,233 in 2004. Included are proposals for the following:

- No position layoffs
- No change in total authorized positions
- Reduce Total Operating Expenditures by \$661,000
- Reduce Manhole Rehab funding
- Increase borrowing to 100% of capital needs (borrowing vs. cash financing)
- Purchase fewer equipment items
- Transfer \$7 million debt service from the tax levy
- No change in Street Sweeping/Leaf Collection Activities and Payment to the General Fund
- Fund and implement 3 pilot capital programs
- Maintain sewer rate at \$1.1094 Ccf for the third straight year

PERSONNEL

The 2005 Proposed Budget provides \$5,072,457 for salaries and wages, a \$118,084 or 2.4% increase from the \$4,954,373 provided in 2004.

In addition, net authorized positions will remain at 2004 levels – 198 in total. The net change reflects several vacant positions being eliminated, others moving from DPW-Infrastructure Field Operations Division, and some moving from auxiliary to ‘above the line’ status. The proposed impact, by section, to the annual local sewer fee follows.

Environmental Decision Unit

Reclassifications

The 2005 Proposed Budget reflects a reclassification of 1-Engineer in Charge (SG 14) to Environmental Manager (SG 16), resulting in a net cost increase of \$16,218 from 2004 levels. This reclassification was approved in Common Council Resolution 030362 in October 2003. There is no expected impact on service delivery.

Internal Transfers

The 2005 Proposed Budget moves and funds 1-Auxiliary Engineering Drafting Technician II (PR 602) position ‘above the line’. This would make the position permanent.

Underground Operations Unit

Transfers In

The Underground Operations Decision Unit proposes creating 1-Sewer Equipment Mechanic (PR 235) position to accommodate the transfer of 1-Equipment Mechanic I position from DPW Infrastructure Field Operations. The existing position does mostly sewer work and would now be funded out of the sewer maintenance fund. There is no impact to this change. The impetus is to

create a team of electrical and equipment mechanics to test and maintain bypass pumps and other equipment. Cost savings projections are unavailable.

Eliminating Position Title

DPW anticipated completing its plan to eliminate the Sewer Examiner I position title. The 2005 Proposed Budget provides for eliminating position authority and funding for the last remaining position. The department anticipated promoting the incumbent in anticipation of a Sewer Examiner II position opening due to an expected retirement. In 2004, 4-auxiliary and 2-permanent Sewer Examiner I positions were eliminated.

OPERATING EXPENDITURES

The 2005 Proposed Budget provides \$6,761,750 for Operating Expenditures, a \$661,000 or 8.91% decrease from the \$7,422,750 listed in 2004. Per the department, the reduction will not impact service delivery or sewer performance. The most substantial changes are summarized in the following table.

Expenditure Type	2005 Proposed	2004 – 2005 Dollar Change	2004 – 2005 Pct Change
Professional Services	\$370,250	(\$770,000)	(67.53%)
Infrastructure Services	\$1,550,000	\$530,000	51.96%
Other Operating Services	\$478,000	(\$82,000)	(14.64%)
Reimburse Other Depts.	\$1,862,000	(\$327,000)	(14.94%)

Professional Services Of the \$770,000 total reduction in Professional Services, \$685,000 is accounted for in the Environmental Services Decision Unit. Money for Sewer System Evaluation Studies (SSES) activities (\$560,000 in 2004) are now budgeted in Infrastructure Services to reflect the type of contracts being awarded and a \$125,000 reduction in match dollars for Department of Natural Resources grants from \$150,000 in 2004 to \$25,000 in 2005.

In the Underground Decision Unit, Professional Services reflects more accurate budgeting based on past years expenditures, and the fact that the department is doing more of the chemical treatment for tree roots in-house rather than contracting out.

Infrastructure Services The increase in the Infrastructure Services results from SSES activities being transferred to this account; increases in funds for pump rehabilitation (\$150,000) and sewer examinations (\$50,000), and a decrease for funds for manhole rehabilitation (\$270,000). The savings is made possible because consultant costs and some contractor costs are no longer required under mandates.

Reimburse Other Depts. The decrease in Reimburse Other Department reflects administration charges paid to DPW Administration and Infrastructure Services. The Fund anticipates a reduction in estimated cost for mowing the drainage channels, less temporary and

permanent pavement based on actual experience, and reduction for charges for mechanics resulting in the addition of a mechanic to the SMF staff.

It should be noted that manhole rehabilitation project funding has decreased considerably since 2003, by \$1,130,000 to \$670,000 in 2004, compared to \$1,800,000 provided in 2003. This item was charged to Infrastructure Services. According to the department, the reduction will not impact service delivery or sewer performance.

EQUIPMENT EXPENDITURES

The 2005 Proposed Budget provides \$660,300 for Equipment Purchases, a increase of \$37,260 or 5.99% compared to \$623,040 in 2004. The proposed budget per decision unit follows:

Decision Unit	Additional Equipment	Replacement Equipment	Total Equipment Expenditures
Environmental	\$ 0	\$55,500	\$55,500
Underground	\$35,000	\$569,800	\$604,800

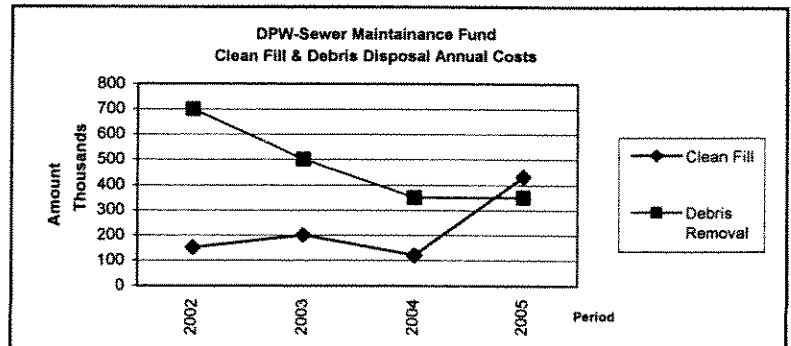
Environmental The \$55,500 proposed budget provides for replacing 10 units of Flow Meters and various office equipments.

Underground The proposal provides primarily for the following major equipment and vehicle purchases, \$576,000 of the division’s \$604,800 total proposed Equipment Purchases budget. A list of big-ticket items is shown below.

- 1 Skid-Steer Loader; \$35,000
- 1 Step Van; \$49,000
- 1 Small Dump Truck; \$37,000
- 1 Tri-Axle Dump Truck; \$110,000
- 2 Sewer Jet; \$240,000
- 1 Sewer Rodder; 105,000

Clean Fill & Debris Removal Trend

The 2005 Proposed Budget provides \$350,000 for debris removal and \$120,000 for clean fill disposal, compared to \$432,000 and \$120,000 in 2004, respectively.

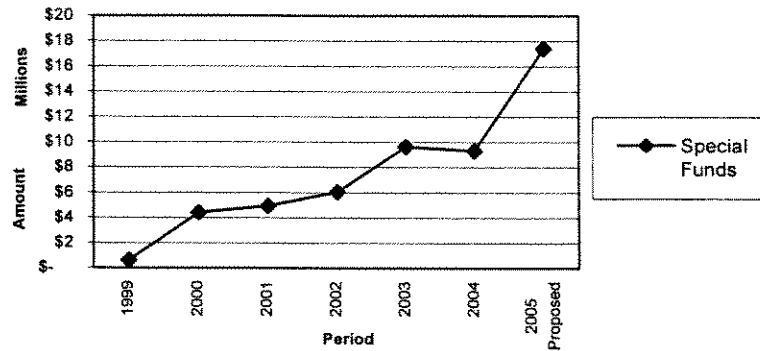


Special Funds

The 2005 Proposed Budget Special Funds changes to \$17,452,000 from \$9,331,952 in 2004, an increase of \$8,120,048 or 87.01% based on changes discussed on page 8. Historically, the

Special Funds budget category provided for debt service, payment to the general fund, PILOT payments, contingencies and depreciation. These line items are supported by sewer user fees.

**Special Funds Trend:
1999 to 2005 Proposed**



Special Funds Reserved for Debt Payments: Revenue vs. General Obligation

Sewer capital is categorized as (1) Relief and Relay (replacement or rehabilitation of existing sewer systems) and (2) Expansion of Sewer Capacity (installation of new sewer systems). Revenue bonds provide for replacement and rehabilitation projects and general obligation borrowing provides for expanding the existing sewer system. Pre-2000 borrowing, and its debt service, was supported by the property tax levy. Post-2000 relay projects have been funded by user fees collected by the Sewer Maintenance Fund. The Budget Office proposes an ongoing transference of annual debt service for all sewer related projects, regardless of age, from the tax levy to sewer users as sewer fees billable on the municipal service bill.

As mentioned on page 7, the 2005 Special Funds budget provides for the following uses.

Title and Cost	Description
Debt Service-SMF \$5,852,000:	The 2000 Budget transferred the Relief and Relay Sewer capital program from the City's capital improvement budget to the Sewer Maintenance Fund. The Relief and Relay Sewers are financed through issuance of revenue bonds and paid for through the Sewer Maintenance Fee. The City of Milwaukee issued a series of Sewerage System Revenue Bonds, Series 2001, in the principal amount not to exceed \$29,095,000 to finance Sewer Maintenance Fund capital projects and Series 2003 S4, in the principal amount not to exceed \$33,888,500 (included \$16,138,500 in year 2002 borrowing authority). This budget line provides for repayment of that debt.

The Comptroller's Office estimated 2003 expenditures of approximately \$1.4 million for debt service in 2003 and \$2.6 million per year in years 2003-2023.

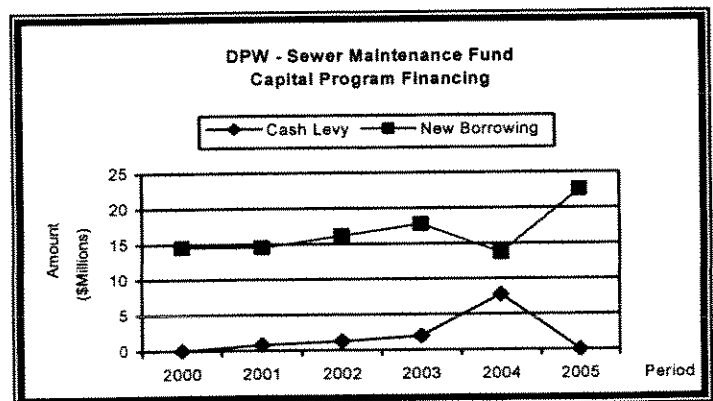
In 2005, the proposed Debt Service-SMF increases \$1,990,048 to \$5,852,000 from \$3,861,952 provided in 2004.

Title and Cost	Description
<i>Debt Service- Prior G.O. Debt</i> \$7,000,000:	All pre-2000 sewer projects were financed using general obligation borrowing as tax levy supported debt. If adopted in 2005, ongoing annual transfers from the Sewer Maintenance Fund to the city for annual debt service related to pre-2000 sewer expansion and rehabilitation projects will be paid by quarterly user fee collections. Transfers of tax levy debt could increase sewer user rates in future years. The 2005 Proposed Budget provides for the initial annual payment, converting \$7 million in pre-2000 sewer related tax levy supported debt to the Fund, potentially reducing the 2005 property tax levy approximately \$1 million (2005 Proposed Plan & Executive Budget Summary, p. 162).
<i>Payment to the General Fund</i> \$4,200,000:	A proposed \$4,200,000 Payment to the General Fund reduces the tax levy by the costs of providing Street Sweeping and Leaf Collection services through the DPW Operations Sanitation and the Buildings & Fleet decision units. The payment amount is sensitive to annual fluctuations in operating expenditures, debt service, and revenue stream changes.
<i>Water Administration</i> \$350,000	The Milwaukee Water Works provides a fee-based service to the Sewer Maintenance Fund for billing, adjusting, collecting and remitting Sewer Fees through the users' Municipal Services Bills. The annual fee increased from \$100,000 in 1998 to \$355,000 in 2003. The fee was decreased to \$350,000 in 2004 and remains at that level in 2005.
<i>Contingencies</i> \$None	Contingencies finance future wage settlements, fluctuations in revenue sources, and unknowns, such as a successful challenge to individual fee collections. No Contingency financing is proposed in 2005. The 2004 Budget provided \$900,000 for Contingencies, a \$275,000 decrease from the \$1,175,000 provided in 2003.
<i>Depreciation</i> \$ None	Since 2003, the first time since 1999, the DPW-Sewer Maintenance Fund has not budgeted for Depreciation based on a Budget Office decision.

CAPITAL BUDGET

Relief and Relay Program

The Sewer Maintenance Relay Program activity includes the replacement of existing combined, sanitary and storm sewers. The 2005 Proposed Budget provides \$21,500,000 for the Relay Program, no monetary change from 2004.



In 2005, all capital improvement projects will be paid for using debt. The ultimate goal has been to develop a cash conversion policy for the Sewer Maintenance Fund. The major advantage of cash financing is the long-term savings derived from avoiding paying for debt service. The 2005 Proposed Budget goes against that policy by **borrowing for all 2005 Proposed capital projects.**

In 2005, the Fund also proposes borrowing to implement three pilot projects, each subject to voluntary consent of single and two-family residential property owners. Legislation must be drafted and passed to change city ordinance related to each of the following pilots.

Flow Reduction Projects (Pilot)

The 2005 Proposed Budget lists \$1,080,000 for a Flow Reduction Project, which provides for three separate pilot projects. The purpose is to reduce the amount of clear water flowing directly into sanitary and combined sewers. These capital funded disconnection projects include:

- \$300,000 – Downspout Disconnections – This pilot project will target 1,200 single and two-family residential buildings in the Washington Park neighborhood for voluntary downspout disconnections. In previous years, MMSD funded a similar Sewer Maintenance Fund administered pilot program where property owners in targeted areas received \$50 per downspout disconnected, with a maximum of \$100 per house.
- \$275,000 – Inlet Restrictors and Downspout Disconnection – The project calls for the installation of inlet restrictors in catch basins to reduce the rate of rainwater runoff entering into the combined sewers. The water is temporarily stored on the street (puddle) and gradually released into the sewers. If implemented, this pilot project is expected to result in increased street flooding and complaints by citizens during the first year.
- \$550,000 – Footing Drain Disconnections – This pilot project targets homes built before 1954 in one area of the Lincoln Creek watershed. Homeowners must voluntarily consent to have foundation footing drains disconnected from sanitary sewers.

Expansion of Capacity Sewer Program

New sewers are funded in the Expansion of Capacity Sewer Program. An additional \$3.494 million is listed in the DPW-Infrastructure 2005 Proposed Capital budget for the citywide Expansion of Capacity Sewer Program (\$3,194,000 vs. \$4 million in 2004) and Developer Financed Sewers (\$300,000 vs. \$500,000 in 2004). Moreover, \$6,840,000 in Grants & Aids is anticipated from the Wisconsin Department of Natural Resources. The eligible sewer costs estimates for the contracts and State Aid received and the corresponding contract letting date are as follows:

- Clybourn St and Core Contract opened 2/17/2004: TOTAL \$78,000

City share (10%) \$7,800 and State Aid share (90%) \$70,200

- North Leg Contract opened 7/27/2004: TOTAL \$6,580,500
City share (10%) \$658,050 and State Aid share (90%) \$5,922,450
- West Leg Contract anticipated letting date 11/17/2004: TOTAL \$ 340,000
City share (10%) \$34,000 and State Aid share (90%) \$306,000
- South Leg Contract anticipated letting date 7/25/2005: TOTAL \$ 17,500
City share (10%) \$1,750 and State Aid share (90%) \$15,750
- Core/East Interchange Contract anticipated letting date 8/23/2005: TOTAL \$ 584,000
City share (10%) \$58,400 and State Aid share (90%) \$525,600

All the sewer design is done by WISDOT's consultant and will be constructed under WISDOT contract. The City will not have any personnel, operating expenses, or equipment costs.

DEPARTMENT REVENUES

The 2005 Proposed Budget projects an \$8,738,083 or 19.14% increase in the Sewer Maintenance Fund from \$45,665,233 in 2004 to \$54,403,316 in 2005.

SEWER MAINTENANCE FUND – 2005 PROPOSED REVENUES				
<u>TYPES OF REVENUE</u>	<u>2004</u>	<u>2005</u>	<u>CHANGE</u>	<u>%CHANGE</u>
*CHARGES FOR SERVICES	\$220,500	\$149,871	-\$70,629	-32.03%
RETAINED EARNINGS	\$0	\$396,875	\$396,875	-
MISCELLANEOUS REVENUE	\$83,000	\$276,570	\$193,570	133.22%
PROCEEDS FROM BORROWING	\$13,700,000	\$22,580,000	\$8,880,000	64.82%
<u>SEWER MAINTENANCE FEE*</u>	<u>\$31,661,733</u>	<u>\$31,000,000</u>	<u>-\$,661,733</u>	<u>-2.09%</u>
TOTAL	\$45,665,233	\$54,403,316	\$8,738,083	19.14%

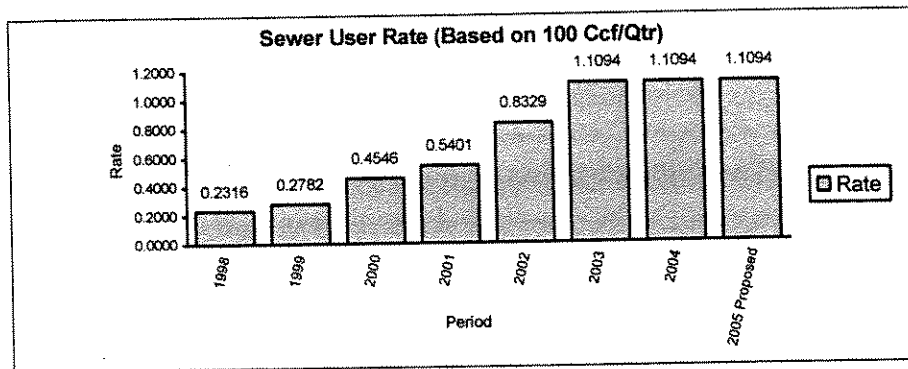
The revenue estimate of \$149,871 in Charges for Services consists of: deferred sewer assessment (\$20,910), unused sewer life (\$16,468), certified survey plat review \$3,693), sewer maintenance non-city service (\$60,885), sewer maintenance plat and reviews (\$13,048) and sewer user penalty (\$34,867).

Sewer User Rate

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 avoid using debt to pay for debt included in the proposed \$7 million transfer of pre-2000 tax levy debt service to the Fund. If the ongoing transfer of debt service is approved, future sewer rates must be adjusted upward to cover the required payments.

Sewer maintenance (user) rates have increased from \$0.2316 per hundred cubic feet of water in 1998 to \$1.1094 proposed in 2005. A typical single-family residence would pay \$84.31 per year, according to Budget Management calculations. Charts and tables on page 12 illustrate these facts and assumptions. To maintain years 2003-2004 rates, billable water consumption cannot decrease more than 2% from year 2004 estimates – significant changes would require mid-year draws from alternative revenue sources. For example, the 2003 budget set the sewer user rate at \$1.1094 per Ccf based on miscalculated total water consumption. The rate is set once per year, thereby requiring a \$11,147,738 Deposit to Retained Earnings in 2003. Underestimating water consumption, among other factors, impact retained earnings and ratings.

Chart Historical Sewer User Rates



Comparison of Fees by Customer Class: Calculated Using Lesser of Winter Qtr or Actual Consumption Method

	Estimated <u>Water Consumption</u>	Estimated <u>Fees in 2005</u>	Annual Single <u>Family Impact</u>	<u>Rate/100 ccf</u>
Certified	4,388,000 ccf	\$4,868,047		\$ 1.1094
Non-certified	9,301,000 ccf	\$10,318,529		\$ 1.1094
Residential	<u>14,254,100 ccf</u>	<u>\$15,813,499</u>	<u>\$84.31</u>	<u>\$ 1.1094</u>
Total*	27,943,100 ccf	\$31,000,075		

Source: Department of Administration Budget and Management * totals rounded

In order to maintain a \$1.1094 sewer maintenance rate per 100 Ccf, the fund has made the following assumptions:

- No Withdrawal from Retained Earnings is required.
- Volumetric change continues to be based on the lesser of winter-quarter water consumption or actual water consumption.
- Sewer Maintenance Rate per 100 Ccf is maintained at 2004 rate, \$1.1094 per 100 Ccf
- Estimated billable total water consumption decreases 2% to 27,943,100 Ccf compared to 28,539,519 Ccf estimated in 2004
- Sewer User Fee revenues – municipal services bill collections – decreases 2.1% to \$31,000,000 from \$31,661,733 in 2004

Various customer classes contribute to the total Sewer user fee revenues. Contributions by class are shown in the table above. Due to rounding, totals are slightly higher than listed in the proposed budget.

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