

Milwaukee Water Works 2010 Proposed Budget

Research & Analysis – Legislative Reference Bureau

Impact of 2010 Budget Cutbacks - Summary

As an enterprise fund, the Milwaukee Water Works generates its own revenues to fund operations and will, for the first time, pay the City a \$3,000,000 payment from transfer of surplus earnings in 2010, plus its \$10,440,000 PILOT.

Also, as an enterprise fund, the Water Works' personnel and operating costs are for the most part directly tied to service delivery and revenues, so there are fewer opportunities to cut costs without effecting revenues.

Operating costs are expected to be up \$11,794,329 but revenues are projected up \$14,787,300 as a result of the utility's more aggressive approach to water rate increases. In addition, capital improvements proposed for 2010 are down \$7,066,000 from 2009 budgeted levels as the utility delays some maintenance until these improvements, and the new \$3,000,000 transfer of surplus earnings, can both be funded by future rate increases.

While Milwaukee Water Works employees will be furloughed like other City employees for 4 unpaid days during the year, saving the City \$276,404, and 2 authorized positions will be eliminated, the proposed 2010 budget adds 58 authorized positions for a net gain of 56. 49 of these 56 positions are to staff a battery replacement program for automatic meter reading system mandated by the Public Service Commission.

Executive Summary

1. The Department of Public Works - Milwaukee Water Works ("Water Works") expects to raise water rates 28.4% for Milwaukee customers and 36% for customers outside the City, and to pay a \$3,000,000 payment from transfer of surplus earnings to the City in 2010 (*pages 8-9*).
2. The 2010 Proposed Budget for the Water Works of \$82,802,804 is \$11,794,329 or 16.61% greater than the 2009 Adopted Budget (*page 3*).
3. \$10,468,758 or 88.76% of the increase in Water Works spending proposed for 2010 stems from operations in the utility's Business Section and the required replacement of batteries for automatic meter reading system (*pages 4-6*).
4. Authorized positions are proposed to increase in 2010 by 56, primarily the result of increased staffing for the required replacement of batteries for automatic meter reading system (*pages 10-11*).
5. Proposed 2010 PILOT is up \$2,411,000 to \$10,440,000 from \$8,029,000 budgeted for 2009 (*page 12*).

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6. Proposed Revenues are up \$14,787,000 to \$83,000,000 from \$68,212,700 budgeted for 2009 due primarily to substantial water rate increases expected in 2010 (*page 12*).
7. Proposed 2010 Capital Improvements is down \$7,066,000 as the Water Works delays some maintenance projects until expected rate increases catch-up with costs (*page 14-15*)

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Overview

Water Works Budget & Authorized Positions				Change
	'08 Actual	'09 Adopted	'10 Proposed	
Wage & Fringes	\$24,137,106	\$27,123,375	\$28,384,804 *	\$1,261,429
<i>year-to-year change</i>	-0.82%	12.37%	4.65%	
Operating Expenditures	35,464,824	36,692,000	41,512,000	4,820,000
<i>year-to-year change</i>	10.01%	3.46%	13.14%	
Equipment Purchases	1,436,152	1,898,100	3,488,000	1,589,900
<i>year-to-year change</i>	8.63%	32.17%	83.76%	
Special Funds	5,127,678	5,295,000	9,418,000	4,123,000
<i>year-to-year change</i>	-10.93%	3.26%	77.87%	
Total	\$66,165,760	\$71,008,475	\$82,802,804	\$11,794,329
<i>year-to-year change</i>	3.94%	7.32%	16.61%	
Capital Improvements	\$18,069,464	\$27,096,000	\$20,030,000	(\$7,066,000)
<i>year-to-year change</i>	16.69%	49.95%	-26.08%	
Operating Revenue	\$68,414,358	\$68,212,700	\$83,000,000	\$14,787,300
<i>year-to-year change</i>	1.10%	-0.29%	21.68%	
Authorized Positions	346	348	404	
* includes furlough deduction of (\$276,404)				

Water Works' proposed 2010 Operating Budget is up \$11,794,329 or 16.61% over 2009's Adopted Budget. \$10,468,758 or 88.76% of this stems from spending in the utility's Business Section. This increased spending is due principally to the utility's AMR - Automatic Meter Reading program (approximately \$3,700,000), a transfer of surplus earnings to the City (\$3,000,000), increased PILOT fees (approximately \$1,825,000) and a pension contribution of roughly \$1,000,000. See the "Budget Analysis" section of this report for further discussion of Business Section's increased spending.

The remaining \$1,325,571 or 11.24% of the \$11,794,329 increase in Water Works' 2010 Proposed Budget may be ascribed to all "Other Sections" of the utility's operations, excluding the Business Section (see the "Budget Analysis: section of this report).

Water Works' Operating Revenues are also up 21.68% to \$83,000,000 reflecting increased water sales to portions of New Berlin and significant rate increases expected in 2010 (see the "Water Rate Increases & Transfers of Surplus Earnings" section of this report). Water Works proposes to trim 2010 Capital Improvements spending roughly 26% or \$7,066,000 to \$20,030,000 from 2009's budgeted levels.

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Budget Analysis

Proposed 2010 Business Section spending is as follows:

Business Section Changes - 2010 vs. 2009			Change	
	'09 Budgeted	'10 Proposed	Units	Amount
Meter Services Positions	\$1,731,844	\$2,754,059	49	\$1,022,215
Other Positions	2,478,523	2,454,188	4	(24,335)
Payroll Adjustments	(49,129)	(196,343)		(147,214)
Fringe Benefits	2,191,758	2,893,450		701,692
Wages & Fringes Total	\$6,352,996	\$7,905,354	53	\$1,552,358
Tools & Machinery Parts	407,800	730,000		322,200
Construction Supplies	333,200	885,000		551,800
Energy	19,000	74,000		55,000
Information Tech Services	1,522,000	2,115,000		593,000
Property Services	8,161,000	9,986,000		1,825,000
Other	3,783,000	3,933,000		150,000
Operating Expenditures TL	\$14,226,000	\$17,723,000		\$3,497,000
Computer Peripherals	35,000	232,000	24	197,000
Computer Software	7,100	74,000	9	66,900
Industrial Trucks	0	900,000	28	900,000
Pickup trucks and vans	75,000	180,000	6	105,000
Handheld Radios	0	47,000	18	47,000
Metering Devices	81,000	116,000	11	35,000
Other	256,500	307,000		50,500
Equipment Purchases Total	\$454,600	\$1,856,000		\$1,401,400
Pension Contribution	0	1,038,000		1,038,000
Transfer of Surplus Earnings	0	3,000,000		3,000,000
Interstate Marketing	0	30,000		30,000
Other	300,000	250,000		(50,000)
Special Funds Total	\$300,000	\$4,318,000		\$4,018,000
Business Section Total	\$21,333,596	\$31,802,354		\$10,468,758

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The total proposed 2010 spending increases in Water Works' Business Section of \$10,468,758 account for 88.76% of the spending increases for the entire utility for 2010. There are significant proposed spending increases in all categories, Wages & Fringes, Operating Expenditures, Equipment Purchases and Special Funds. These spending increases can be grouped into two broad classes; systemic changes which account for roughly \$6,500,000 and the AMR program at approximately \$3,700,000.

Systemic spending increases are often outside, or only marginally within the direct control of the utility. In 2010 they include the following:

Systemic Spending Increases	
Information Tech Services	\$ 593,000
Property Services	\$1,825,000
Pension Contribution	\$1,038,000
Transfer of Surplus Earnings	\$3,000,000
Total	\$6,456,000

Information Technology Services: Water Works proposes to spend an additional \$593,000 during 2010 to upgrade the utility's CIS ("Customer Information System") and telephone system. These systems facilitate customer bill payments and as such are critical to maintaining the utility's revenue stream, and as such cannot be neglected.

Property Services This \$1,825,000 is almost exclusively the result of PILOT ("Payment in Lieu of Taxes") fees charged by the City for property used by the utility. For 2009, Water Works budgeted \$8,029,000 at the direction of the City Comptroller. Water Works was notified 2010's PILOT would be \$10,440,000. A portion of this \$2,411,000 increase was allocated to the other operating sections, but approximately \$1,825,000 is charged to the Business Section.

Pension Contribution The City assessed a \$1,038,000 pension contribution for 2010.

Transfer of Surplus Earnings The City determined the utility should pay the City a \$3,000,000 transfer of surplus earnings (see the "Water Rate Increases & Transfers of Surplus Earnings" section of this report).

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AMR – Automatic Meter Reading Replacement Program

Approximately \$3,700,000 of the Business Section's proposed increased spending for 2010 is for the utility's AMR – Automatic Meter Reading replacement program.

Water Works installed an Automated Meter Reading system in over 161,000 water meters between 1995 and 2000. The Automatic Meter Reading device emits a signal meter readers can "read" from the street, simply by driving slowly past, and eliminates the costly and time consuming task of gaining physical access to each meter every time it must be read. Batteries in the transmitters of this system will begin to fail if they are not replaced over the next 5 to 6 years. Battery failure means customer water use will not be metered, or charged, and revenues will suffer.

The Public Service Commission mandates that all water meter between 5/8 inch and 1 inch be replaced with a meter of known accuracy every 20 years.

As utility staff must gain physical access to meters to replace batteries, Water Works plans to take advantage of the opportunity and replace both the meter and the battery. Old meters will be tested, as required by the PSC, and refurbished for inventory or scrapped. It will take approximately 6 years to replace the over 161,000 residential meters in the Water Works network.

Water Works will hire 49 additional employees during 2010 to make these meter/battery replacements at an approximate cost of \$1,500,000 including fringe benefits. For the next 6 years these new hires, plus existing meter reading staff, will be making this AMR change-over along with regular, utility duties. Water Works expects normal employee attrition at the utility plus in the City at large will allow these new hires to transition to other City positions by the time the AMR project is completed, thus avoiding layoffs. Meter/battery replacement will be staggered to even out the work flow in the future.

In addition, Water Works proposes to spend an additional \$950,000 for operations and \$1,250,000 on equipment purchases during 2010 on the AMR replacement project.

"Other Sections" - Proposed 2010 Spending of All Sections *Except* Business

The remaining 11.24% of Water Works' proposed 2010 spending increase of \$11,794,329 not attributable to the Business Section comes from a \$1,325,571 or 2.67% increase in spending by all Other Sections – Water Works operating sections excluding the Business Section.

\$1,100,000 of virtually all this \$1,325,571 increase stems from the spiraling costs of chemicals at the 2 water treatment plants.

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Proposed 2010 “Other Sections” spending is as follows:

Other Sections (excludes Business Section)			Change
<i>Changes – 2010 vs. 2009</i>	'09 Adopted	'10 Proposed	Amount
Wages & Fringe Benefits	20,770,379	20,479,450	(\$290,929)
Operating Expenditures			
General Office Expense	\$116,000	\$126,000	\$10,000
Tools & Machinery Parts	300,500	271,000	(29,500)
Construction Supplies	1,600,500	1,611,000	10,500
Energy	6,202,000	6,114,000	(88,000)
Other Operating Supplies	3,210,000	4,310,000	1,100,000
Facility Rental	1,360,000	1,360,000	No Change
Vehicle Rental	18,000	38,000	20,000
Non-Vehicle Rental	29,000	29,000	No Change
Professional Services	1,585,000	1,750,000	165,000
Information Tech Services	195,000	280,000	85,000
Property Services	2,522,000	2,752,000	230,000
Infrastructure Services	4,020,000	4,020,000	No Change
Vehicle Repair Services	733,000	778,000	45,000
Other Operating Services	575,000	350,000	(225,000)
TI Operating Expenditures	\$22,466,000	\$23,789,000	\$1,323,000
Equipment Purchases			
New	113,400	348,000	234,600
Replacement	1,330,100	1,284,000	(46,100)
Total Equipment Purchases	\$1,443,500	\$1,632,000	\$188,500
Special Funds			
Contingent Debt Service	4,995,000	5,100,000	105,000
Total Special Funds	\$4,995,000	\$5,100,000	\$105,000
Total Other Sections	\$49,674,879	\$51,000,450	\$1,325,571

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Water Rate Increases & Transfers of Surplus Earnings

The Common Council passed, on September 22, 2009, an amendment to section 14-08 of the City Charter allowing the Council to appropriate surplus earnings from the Water Works to the City's general fund provided the utility maintains a reserve at least one year's debt service (principal and interest) on any bond indebtedness. Notwithstanding this charter ordinance change, Water Works must maintain *110%* reserves for debt service on the utility's revenue bonds (total \$11,206,602 as of yearend 2008) under issuing covenants (see the "Long-term Debt" section of this report).

Section 14-08 of the charter previously required the Water Works to maintain 2 years of debt service in reserve before the City could appropriate surplus earnings to the general fund. This 2-year requirement effectively blocked the City from appropriating surplus earnings from the Water Works. Lowering the reserve requirement to one year's debt service makes a transfer of surplus earnings from the Water Works possible.

In addition to satisfying City ordinance, any transfer of surplus earnings from the Water Works to the City must comply with Wis. Stat. 66.0811(2) which states in part that before earnings may be paid into the City's general fund, "The income of a municipal public utility shall first be used to make payments to meet operation, maintenance, depreciation, interest, and debt service fund requirements, local and school tax equivalents, additions and improvements, and other necessary disbursements or indebtedness."

A \$3,000,000 transfer of surplus earnings is included in the Water Works' proposed 2010 budget, in addition to the Utility's PILOT, projected in the proposed 2010 budget for the Water Works at \$10,440,000 as discussed in the "PILOT – Payment in Lieu of Taxes" section of this report.

To make a transfer of surplus earnings, and to improve profitability and continue to fund its considerable infrastructure maintenance schedule without debt-financing, the Water Works has embarked on a more aggressive approach to water rate increases.

Water Works sought, and was granted a 3.8% Simplified Rate Case ("SRC") rate increase (basically a "cost of living" increase) by the Public Service Commission effective September 1, 2009.

The PSC, the regulating agency for the Water Works, sets the rates for water sold by Water Works based on costs of service delivery plus a rate of return on its assets. The PSC's rate of return benchmark is 7.50% for municipal water utilities.

Rates of return determined for Water Works have declined steadily over recent years as indicated by the following chart:

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Water Works - PSC Rates of Return				
2004	2005	2006	2007	2008
4.71%	3.63%	2.44%	1.97%	0.97%

Water Works projects its PSC rates of return will be *0.70%* for 2009.

The *3.8%* SRC increase granted to the Water Works was a Simplified Rate Case, a relatively perfunctory “cost of living” rate increase. A Conventional Rate Case (“CRC”) requires a thorough PSC audit and lengthy scrutiny of the utility’s operations.

The Water Works applied, on September 1, 2009, to the PSC for a CRC increase of *28.5%* for Milwaukee retail customers and *36%* for wholesale customers outside the City. This rate increase would provide the utility with a blended rate of return of *5.4%*, well within the PSC’s *7.5%* target. The Water Works expects this rate increase to be granted and go into effect on April 1, 2010.

Prior to this year’s increase, the utility’s last SRC increase was *3.4%* in June, 2007. Its last CRC increase was *6%* effective in June, 2007.

The Water Works presented its rate increase strategy before the Public Works Committee in July, 2009. When capital improvement costs are included, the Water Works has not been profitable in 2007 or 2008, and is projected not to be profitable in 2009 despite the approximate \$680,000 in additional revenue resulting from the *3.8%* SRC increase effective on September, 2009 and new sales to the middle portion of New Berlin (roughly \$200,000 in 2009). The utility has been relying on cash reserves to continue operations.

To regain profitability, the Water Works plans to seek SRC and CRC rates increases as soon as the utility is eligible to apply, and to maintain a return of return in the *5%* or greater range.

This more aggressive approach to water rate increases is expected not only to strengthen the utility’s financial operations but to produce sufficient earnings to transfer surplus earnings of \$3,000,000 to the City annually.

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Personnel

Vacancies as of August 24, 2009, are as follows:

Water Works Vacancies - August 24, 2009			
Position	Pay Range	Reason	Date Vacant
Water Quality Analyst	598	Promoted	05/23/05
Accountant III	006	Retired	08/30/08
Water Meter Investigator	360	Retired	08/01/09
Water Dist Repair Worker I	235	Terminated	07/22/09
Network Coordinator Assoc	004	Promoted	11/02/08
Plant Steamfitter/HVAC Spec.	287	Retired	09/23/08
Machinist I	282	Medical	06/15/07
Machine Repairperson	287	Retired	04/29/06
Meter Technician I	240	Promoted	08/09/09
Dist Chief Repair Worker	282	Promoted	05/16/09
Hydrant Service Worker	230	Reclassification	07/13/08
Hydrant Service Worker	230	Retired	08/01/08
Office Assistant IV	445	Retired	05/01/09
Dist Repair Worker II	252	Retired	08/01/09
Utility Investigator	254	Promoted	05/31/09
Info. Systems Security Mgr.	007	Resigned	01/27/08
Machinery Technician	268	Promoted	08/09/09
Laboratory Technician	504	Resigned	06/30/07
18 Vacancies			

Wages & Fringe Benefits

Wages and Fringe Benefits spending proposed for 2010 of \$28,384,804 is up \$1,261,429 or 4.65% from 2009's Adopted Budget of \$27,123,375, while authorized positions are up 56 from 348 in 2009 to 404 in 2010. Proposed spending increases in the Business Section, where Water Works is hiring 49 meter replacement personnel (see the "AMR – Automatic Meter Reading Replacement Program" portion of the "Budget Analysis" section of this report), plus 4 interns, 4 new hires in the Distribution Section to improve service and operating efficiency, account for virtually all wage and fringe benefit increases for the Water Works in 2010.

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Wages and fringe benefits spending in 2010 is proposed to be lower for the utility's 4 other operating sections, in part because estimated costs to settle District Council #48 contracts were less than anticipated by the Budget Office.

Proposed changes in wages and fringe benefits and authorized positions by operating section for 2010 are as follows:

Changes in Wages & Fringes and Authorized Positions - 2010 vs. 2009						
Section	'09 Budgeted	'10 Proposed	Amount	'09 Bud.	'10 Prop.	Units
Business	\$6,352,996	\$7,905,354	\$1,552,358	81	134	53
North Plant	4,191,297	4,122,994	(68,303)	52	52	0
Engineering	1,415,037	1,279,974	(135,063)	21	22	1
Distribution	9,252,473	9,322,716	70,243	124	128	4
Water Quality	1,658,633	1,567,107	(91,526)	20	19	(1)
South Plant	4,252,939	4,186,659	(66,280)	50	49	(1)
Total	\$27,123,375	\$28,384,804	\$1,261,429	348	404	56

Industry Internship Program

Milwaukee Water Works hired its first college intern in 2009 for the utility's Industry Internship Program for undergraduate and graduate college students and has budgeted \$25,000 to hire up to 3 more during 2010. The program is in the early stages of development but is envisioned as a partnership among government, academia and the private sector designed to give future water professionals valuable, hands-on experience in the 3 major sectors of the water industry. The proposed 2010 budget also sets aside \$50,000 for programming costs and early indications are the City's investment might be leveraged as much as 10 to 1 as foundations, academia and private industry invest to position Milwaukee as the hub of the fresh water industry.

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PILOT – Payment in Lieu of Taxes

Water Works pays the City a Payment in Lieu of Taxes (“PILOT”). Proposed 2010 PILOT is up \$2,411,000 or 30% from the 2009 Adopted Budget. Historic payments and the proposed 2010 PILOT budget are as follows:

PILOT (Payment in Lieu of Taxes Payments)			
'07 Actual	'08 Actual	'09 Budgeted	'10 Budgeted
\$7,766,749	\$8,696,137	\$8,029,000	\$10,440,000

Operating Revenues

Proposed 2010 Operating Revenues of \$83,000,000 are up \$14,787,300 or 21.68% over 2009’s budgeted level. Revenues for 2010 are projected to up \$14,250,000 as a result of implementing the Conventional Rate Case water rate increase of 28.4% for Milwaukee customers and 36% for customers outside the City that the utility expects to go into effect April 1, 2010 (see the “Water Rate Increase & Transfers of Surplus Earnings” section of this report).

In addition, increased revenues from selling water to the middle third of New Berlin (beginning in mid-July, 2009) of roughly \$400,000 are included in to the proposed 2010 Revenue budget plus approximately \$625,000 from the SRC rate increase for the first 3 months of 2010 for all customers.

Revenues are diminished by a continued annual 2% decline in water consumption. Proposed 2010 Operating Revenues compared to 2009 budgeted and 2008 actual amounts are as follows:

Water Works Operating Revenues			
	Actual '08	Budgeted '09	Proposed '10
Total Operating Revenues	\$69,825,297	\$68,212,700	\$83,000,000
<i>year-to-year change</i>	<i>3.18%</i>	<i>-2.31%</i>	<i>21.68%</i>

Future “Outside” Sales

New Berlin paid the City \$1,500,000 in 2009 in accordance with its inter-government agreement in recognition of the value of gaining access to Milwaukee Water Works water.

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In order to determine such “recognition of value” for similar transactions in the future, the Common Council (File #080459 signed by the Mayor August 8, 2008) directed the Department of Administration to issue a Request for Proposals (“RFP”) and to award a contract to develop a methodology for evaluating the economic impact water purchased from Water Works will have on communities buying the water.

Responses received to this RFP (issued first in 2008 and reissued in 2009) have been reviewed by an evaluation committee and no response was found to provide the requested service.

As a result of the inadequate responses to the City’s RFP, the evaluation committee recommended the City continue to draw upon various City departments to evaluate the economic impact future purchases of water from Milwaukee will have on the purchasing communities as proposals are received on an individual basis, and will make recommendation of an appropriate “recognition of value” fee.

Long-term Debt

Water Works’ total yearend 2008 bond indebtedness was \$27,364,775, including \$17,049,474 in General Obligation Bonds and \$10,315,301 in Revenue Bonds. No new bonds were issued in 2008.

General Obligation Bonds are secured by the full faith and unlimited taxing power of the City of Milwaukee. The bonds will be retired by revenues from water services, or failing that, City tax levies. Water Works’ General Obligation Bonds are at various interest rates ranging from between 4.25% to 5.83% and most will be retired by 2017.

Revenue Bonds are secured solely by water services revenues. Water Works’ Revenue Bonds are issued through the State of Wisconsin Safe Drinking Water Loan Program and are at 2.64% interest. This bond issue is scheduled for retirement in 2018 with substantial (\$7,037,000) principal and interest payments due from 2013 to 2018.

Water Works’ Revenue Bonds are subject to a covenant that requires the utility to maintain a debt coverage ratio of 1.10. The debt coverage ratio is defined by gross revenues, less operating expenses including PILOT, divided by debt service. Water Works’ debt coverage ratio for its revenue bonds in 2008 was 12.98, roughly 12 times greater than the stipulated ratio.

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The debt coverage ratio for Water Works' General Obligation Bonds was 5.37 in 2008 and the combined ratio for these bonds plus the utility's Revenue Bonds was 3.80, both up slightly from 2007 coverage.

Based on 2008 operating income (as defined by the debt coverage ratio), Water Works could borrow an additional \$17,250,000 at 5.50% for 5 years and still maintain a 2.00 debt coverage ratio.

Water Works - Capital Improvements \$20,030,000

Proposed 2010 spending for capital improvements by Water Works is down \$7,066,000 or 26% from 2009's budgeted levels to help finance near-term cost increases outlined in the "Budget Analysis" section of this report. Water Works believes its new, more aggressive approach to rate increases will provide the funding needed to resume its usual capital improvements schedule in the future.

Only \$1,380,000 or 19.53% of the reduction in capital improvements comes from water mains, which are key to the utility's mission. The remaining \$5,686,000 or 80.47% of the spending reduction is the result of cuts to improvements of Water Works facilities. While important, improvements to these facilities can be deferred with less risk of undermining the utility's basic infrastructure.

Milwaukee Water Works - Capital Improvements Budget Comparison			
	'08 Actual	'09 Budgeted	'10 Proposed
Water Main Improvements	\$12,299,039	\$16,780,000	\$15,400,000
Improvements to Facilities			
Linnwood ("North") Treatment Plant	3,856,413	1,300,000	350,000
Howard ("South") Treatment Plant	53,643	950,000	130,000
Pump Facilities	607,843	3,440,000	3,600,000
Storage Facilities	1,022,916	3,826,000	100,000
Meter Repair Shop	11,450	300,000	0
Backup Power Generation	218,160	500,000	450,000
Contingencies	0	0	0
Total Improvements Budget	\$18,069,464	\$27,096,000	\$20,030,000

Water Main Improvements: These capital improvements include \$15,100,000 (\$15,000,000 non-assessable and \$100,000 assessable) to replace deteriorating and sub-standard water main sections which have

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histories of failure. This is an ongoing upkeep capital improvement program to maintain the aged Water Works infrastructure. Also included is \$300,000 to install new water mains in new developments to Water Work’s service area.

Improvements to Facilities \$4,630,000

Milwaukee Water Works - 2010 Capital Improvements to Facilities			
'10 Proposed		'10 Proposed	
Linnwood Treatment Plant		Pump Facilities (continued)	
Motor control centers	350,000	Various	
Howard Treatment Plant		Energy efficiency	100,000
Ozone Building - Wall Repair	100,000	Security upgrades	200,000
Ozone Building – Roof Refurb	30,000	Pump Facilities Total	3,600,000
Howard Plant Total	130,000	Storage Facilities	
Pump Facilities		Florist - Elevated Tank	100,000
Florist Station		Backup Power Generation	
HVAC/Dehumidification/Elec	300,000	Linnwood	450,000
Howard			
Substation, switchgear	3,000,000	Total All Improvements	\$4,630,000

Backup Power

Water Works uses electric pumps to pump water to its customers and any power interruption at We Energies will disrupt water distribution in Milwaukee. The 2008 Adopted Budget authorized the issuance of \$12,500,000 in bonds to fund Backup Power projects which will provide water pumping power in case of power outage. No bonds have been issued. While Water Works plans to spend \$450,000 on this project in 2010, the utility will delay additional backup power spending until 2012.

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Background

The Milwaukee Water Works is the drinking water utility owned by the City of Milwaukee and regulated by the Public Service Commission of Wisconsin, the U.S. Environmental Protection Agency and the Wisconsin Department of Natural Resources. During 2008, the Water Works sold 34 billion gallons of water pumped through 9 to 12-foot diameter intakes from Lake Michigan and treated in its 2 treatment plants. The utility serves an estimated population of 858,000 and had 143,817 residential metered accounts and 15,515 commercial/industrial accounts at year-end 2008. The water was distributed through a 1,967-mile network of mains ranging from 2 inches to 5 feet in diameter.

The combined water treating capacity from its 2 treatment plants is 380 millions gallons of water per day or 138.70 billion gallons a year. The 34 billion gallons sold in 2008 is 24.5% of total capacity.

Water Works sold approximately 9.87 billion gallons of water for resale in 2008 to neighboring communities resulting in roughly \$13,195,000 or 19% of revenues. Customers outside the City of Milwaukee include;

- | | |
|-----------------|--------------------|
| 1 Brown Deer | 9. Menomonee Falls |
| 2 Butler | 10. Mequon |
| 3 Cudahy | 11. New Berlin |
| 4 Franklin | 12. St. Francis |
| 5 Greendale | 13. Shorewood |
| 6 Glendale | 14. Wauwatosa |
| 7 Greenfield | 15. West Allis |
| 8 Hales Corners | 16. West Milwaukee |

The Village of West Milwaukee receives billing services from the Water Works but maintains its own distribution system.

Water rates, the price of water sold by Water Works are set by the Public Service Commission (see the “Water Rate Increases & Transfers of Surplus Earnings” section of this report).

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