



Office of the Comptroller

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September 10, 2007

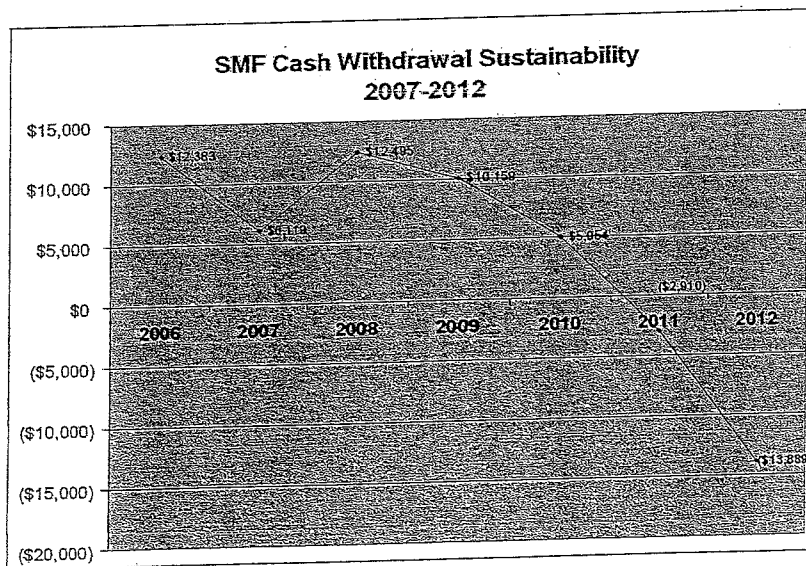
Mr. Mark Nicolini, Director
DOA - Budget and Management Division
City Hall - Room 307
Milwaukee, WI 53202

Dear Mr. Nicolini:

I am writing in response to your August 17th letter regarding the unrestricted cash balance in the Sewer Maintenance Fund and the sustainability of the transfer to the Debt Service Fund. Consistent with my August 28, 2006 letter on the same subject (enclosed), my office has updated our unrestricted cash balance projection, which includes updated revenue and expenditure assumptions for 2007 through 2012.

Unrestricted cash is the measure of working capital the Sewer Maintenance Fund has available to meet its ongoing commitments, including the proposed 2008 transfer to the Debt Service Fund for debt service related to the sewer expansion capital program. Your letter, referred to retained earnings, which includes illiquid assets not available to support a debt service payment.

Actual 2006 figures were used as starting point in developing the projection of unrestricted cash or working capital. These figures are found in Exhibits B2 and B3 (enclosed) in the 2006 Comprehensive Annual Financial Report. Using these 2006 actuals as a starting point, the unrestricted cash balance projection shows a transfer of \$9.16 million to be sustainable for 2008 and unsustainable from net operating cash flows for 2009 through 2012.



Mr. Mark Nicolini, Director

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Sustainability in 2008 is due in large part to the implementation of the storm water fee which has a full year's impact beginning in 2007 and the proposed increase in the sanitary rates to 1.036 per CCF. Of course the sustainability in 2008 is dependent on adoption of the higher sanitary rate as well as the projection's underlying assumptions regarding water usage, revenues and expenditures.

Enclosed with this letter is our unrestricted cash balance projection, my 2006 letter on the Sewer Fund transfer and the related CAFR schedules. I would like the opportunity to meet with you to discuss in detail the Sewer Maintenance Fund cash flow projections. My staff will be contacting you to arrange this meeting, but please contact me should you have any questions before then.

Sincerely,



W. MARTIN MORICS
Comptroller

Enclosures (3)

WMM:CDK:JME

REF: SewerFundSustainRev9-4-07.doc

Comptroller's Office
Revised SMF Cash Flow Projections

Year	PER CAFR		PROJECTED					
	2005	2006	2007	2008	2009	2010	2011	2012
Beginning Unrestricted Cash Balance	\$13,097	(\$0)	\$12,383	\$6,119	\$12,495	\$10,159	\$5,054	(\$2,910)
Beginning Restricted Cash Balance	\$7,513	\$7,762	\$8,116	\$8,197	\$8,279	\$8,362	\$8,446	\$8,530
Fee on Water Consumption								
Total Consumption ²	28,003	28,000	27,720	27,304	26,895	26,491	26,094	25,702
Growth - Consumption	-1.03%	-0.01%	-1.00%	-1.50%	-0%	-1.50%	-1.50%	-1.50%
Rates on Water Consumption ³	1.1094	0.9720	0.9250	1.0360	1.0360	1.0360	1.0360	1.0360
Growth - Rates	0.00%	-12.39%	-4.84%	12.00%	0.00%	0.00%	0.00%	0.00%
Revenues								
Total Fee (Water Works)	31,067	27,216	25,644	28,287	27,863	27,445	27,033	26,628
Comptroller Adjustment for actual cash rec'd	0.989	0.989	0.989	0.989	0.989	0.989	0.989	0.989
Sewer Fee Collected	30,725	26,915	25,359	27,976	27,556	27,143	26,736	26,335
Storm Water Fee on Impervious Surface								
ERU Base (thousands)		405	405	405	405	405	405	405
STORM RATE PER ERU ⁴		\$ 16.00	\$ 32.00	\$ 32.00	\$ 32.00	\$ 32.00	\$ 32.00	\$ 32.00
Growth in Rate		0%	100%	0%	0%	0%	0%	0%
STORM FEE	0	6,480	12,960	12,960	12,960	12,960	12,960	12,960
Total Operating Revenues	\$30,725	\$33,395	\$38,319	\$40,936	\$40,516	\$40,103	\$39,696	\$39,295
Residential Impact (Annual)	\$ 84.31	\$ 89.87	\$ 102.30	\$ 110.74	\$ 110.74	\$ 110.74	\$ 110.74	\$ 110.74
TOTAL RECEIPTS FROM CUSTOMERS	\$30,725	\$33,395	\$38,319	\$40,936	\$40,516	\$40,103	\$39,696	\$39,295
Growth - Expenses			3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Employee Costs	(7,418)	(7,251)	(7,469)	(7,695)	(7,923)	(8,165)	(8,406)	(8,658)
Payments to Suppliers, Services, Materials	(9,455)	(7,066)	(8,508)	(8,764)	(9,026)	(9,297)	(9,576)	(9,863)
Payments (To)/From Other Funds ⁵	8,416	(8,416)						
NET CASH PROVIDED BY OPERATING	\$22,268	\$10,662	\$22,342	\$24,480	\$23,567	\$22,645	\$21,714	\$20,773
NON-OPERATING EXPENSES								
Street Sweeping & Leaf Collection	(4,200)	(4,600)	(4,600)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)
Cash Transfer to General Fund	(7,000)	(7,000)	(9,000)	(9,160)	(9,160)	(9,160)	(9,160)	(9,160)
CASH USED FOR NON CAP FINANCING	(\$11,200)	(\$11,600)	(\$13,600)	(\$14,160)	(\$14,160)	(\$14,160)	(\$14,160)	(\$14,160)
Cash Financed Capital				(2,250)	(2,250)	(2,250)	(2,250)	(2,250)
Debt Service on Existing Borrowing ⁵	(5,152)	(5,147)	(5,275)	(6,100)	(6,089)	(5,994)	(5,970)	(5,944)
Estimated Debt Service on New Borrowing ⁶			(1,912)	(1,912)	(3,071)	(6,077)	(7,965)	(9,513)
Proceeds from Refunding In/(Out) ⁹		10,000	(10,000)	6,000	6,000	6,000	6,000	6,000
Capital Borrowing ¹		23,990	Proceeds in	Proceeds in	Proceeds in	Proceeds in	Proceeds in	Proceeds in
Capital Expenditures	(19,089)	(15,540)	(Capital Exp Out)	(Capital Exp Out)	(Capital Exp Out)	(Capital Exp Out)	(Capital Exp Out)	(Capital Exp Out)
CASH USED FOR CAPITAL FINANCING	(\$24,241)	\$13,303	(\$15,275)	(\$4,262)	(\$12,010)	(\$13,821)	(\$15,683)	(\$17,607)
CASH FLOWS FROM INVESTING ACTIVITIES	325	372	350	400	350	315	250	100
NET INCREASE (DECREASE) IN CASH	(12,848)	12,737	(6,183)	6,458	(2,253)	(5,021)	(7,879)	(10,894)
ENDING CASH BALANCE	7,762	20,499	14,316	20,774	18,521	13,499	5,620	(5,274)
Cash Reserved for Bond Covenant	(7,762)	(8,116)	(8,197)	(8,279)	(8,362)	(8,446)	(8,530)	(8,615)
Ending Unrestricted Cash Balance	(\$0)	\$12,383	\$6,119	\$12,495	\$10,159	\$5,054	(\$2,910)	(\$13,889)

Financial Statements
Exhibit B-3

ASSUMPTIONS

- 1.) All capital expenditures borrowed in year expended, with exception of 2008. It is anticipated that Clean Water Fund and other borrowing will become current in 2008. This results in proceeds exceeding capital expenditures in 2008. There after, it is anticipated that capital will be funded on a much more current basis, requiring approximately \$6 million to \$8 million in short term cash financing in anticipation of borrowing.
- 2.) Consumption declines slowly over time
- 3.) Estimated blended rate for 2006. Rate increase in 2008. Other increases not considered
- 4.) No rate increases proposed
- 5.) As of 9/5/07
- 6.) At end of 2005, the SMF was short of cash so the Gen Fund "loans" cash. In 2006, SMF returns the "borrowed" cash.
- 7.) Varies from \$1 million under actual Sewer-related GO debt service costs in 2007, to \$4.5 million more than actual GO debt services costs in 2012, per CAFR Schedule I-3
- 8.) Estimated based upon beginning annual borrowing of \$27.7 million in 2008 and increasing \$1 million annually thru 2012
- 9.) \$10 in proceeds from a 2006 refunding were deposited with the City, rather than with the bond Trustee. These funds were paid to the Trustee in early 2007. Essentially, these funds were never unrestricted cash for SMF purposes.