

RESEARCH AND ANALYSIS SECTION – LEGISLATIVE REFERENCE BUREAU

Executive Summary: 2008 Proposed Budget – DPW Water Works

1. The Water Works 2008 operating budget will decrease by less than 1% from the 2007 Budget, from \$67,728,842 to \$67,709,700 (page 2).
2. There is no change in the number of positions authorized between 2007 and 2008, though O&M FTE's decreases by 32.07 positions and other FTE positions decreases by 0.4 positions. The decrease in FTE's reflects an adjustment to FTE calculations and is not a reduction in the net staffing level (page 3).
3. A new *Energy Efficiency Specialist* position will be created with the 2008 Budget. This position will identify and implement opportunities for energy efficiency improvements at treatment facilities and pumping stations. The Water Works is one of the City's largest users of energy, spending \$5.4 million in energy in 2006, and \$6,545,000 in 2007 and the 2008 Proposed Budget, respectively (page 3).
4. The Comptroller's estimate of the 2008 Water Works PILOT payment to the general City budget is \$8,029,000, a \$266,000 decrease from the 2007 PILOT payment of \$8,295,000 (page 5).
5. The Public Service Commission (PSC) granted the Water Works a 3.4% rate increase on retail and wholesale accounts effective September 1, 2006. In 2007 a 3.75% rate of return was requested from the Public Service Commission. This resulted in an average increase of 6%, effective June 1, 2007, to the average residential customer (page 5).
6. Per PSC rules, the next opportunity to apply for a rate increase will be in 2009 – after the new rate has been in effect for one full calendar year (page 5).
7. Total Revenue increases by 13% between 2007 and 2008, which includes \$12.5 million in bonds issued and an 11% increase in non-operating revenues (page 5).
8. The Capital Budget increases by 46% between 2007 and 2008. Comprising this increase is \$4.465 million for capital improvements at the Linnwood facility; \$618,000 for capital improvements at the Howard facility; and \$955,000 for pump facility improvements (pages 6-7).
9. \$12.5 million is provided in the 2008 capital budget for back-up power generation, and will be used to provide back-up power at the Riverside Pumping Station. Over 6 years, providing back-up power will cost an estimated \$23 to \$25 million (pages 6-7).

Research & Analysis Section – Legislative Reference Bureau

2008 Proposed Budget Summary: DPW – Water Works

EXPENDITURES	2006 Actual	2007 Budget	2006-2007 Change	2008 Proposed	2007-2008 Change
FTE Positions- O&M	300.42	362.66	+62.24	330.59	-32.07
FTE Positions - Other	11.68	11.03	-0.65	10.63	-0.4
Total Authorized Positions	355	346	-9	346	No change
Salaries and Wages	\$16,421,736	\$17,951,083	+9%	\$18,762,427	+5%
Fringe Benefits	\$6,026,139	\$7,539,454	+25%	\$6,938,073	-8%
Operating Expenditures	\$28,869,836	\$34,675,055	+20%	\$34,921,500	+1%
Equipment	\$1,793,881	\$1,704,250	-5%	\$1,877,700	+10%
Special Funds	\$7,371,054	\$5,859,000	-21%	\$5,210,000	-11%
TOTAL EXPENDITURES	\$60,482,646	\$67,728,842	+12%	\$67,709,700	-0.03%
CAPITAL BUDGET					
Main Program	\$11,130,705	\$15,640,500	+41%	\$16,260,000	+4%
Plants and Other	\$2,041,189	\$9,500,000	+365%	\$20,509,000	+116%
TOTAL CAPITAL BUDGET	\$13,171,894	\$25,140,500	+91%	\$36,769,000	+46%
CAPITAL FINANCING					
Retained Earnings	\$13,108,861	\$24,540,500	+87%	\$23,569,000	-4%
Bond Issue	0	0	0	\$12,500,000	+\$12.5 million
Assessments	0	0	0	\$100,000	+\$100,000
Developer Financed	\$63,033	\$600,000	+852%	\$600,000	No Change
TOTAL CAPITAL FINANCING	\$13,171,894	\$25,140,500	+91%	\$36,769,000	+46%
REVENUES					
Operating	\$64,423,714	\$66,849,681	+4%	\$69,825,297	+4%
Non-operating	\$10,545,349	\$8,964,000	-15%	\$9,919,000	+11%
Developer Capital and Assessments	\$63,033	\$600,000	+852%	\$700,000	+17%
Bond Issue	0	0	0	\$12,500,000	+\$12,500,000
Withdrawal From Retained Earnings	0	\$16,455,661	+\$16,455,661	\$11,534,403	-30%
TOTAL REVENUE	\$75,032,096	\$92,869,342	+24%	\$104,478,700	+13%

DPW- Water Works is the drinking water utility owned by the City of Milwaukee regulated by the State of Wisconsin Public Service Commission (PSC), the U.S. Environmental Protection Agency and the Wisconsin Department of Natural Resources. In 2006, Water Works pumped and treated 42 billion gallons of water from Lake Michigan and delivered it to approximately 831,000 customers through 1,960 miles of mains. It provides drinking water to residents and businesses in the City of Milwaukee and 14 neighboring communities. Its mission is to provide safe, reliable, and aesthetically pleasing drinking water to the City of Milwaukee and customers in suburban communities.

Water Works provides services to the following communities: Brown Deer, Butler, Franklin, Greendale, Greenfield, Hales Corners, Menomonee Falls, Mequon, New Berlin, Shorewood, St. Francis, Wauwatosa, West Allis, and West Milwaukee. New Berlin has requested that the Water Works investigate the feasibility of supplying water to the middle third of the community, which is outside the Great Lakes Basin but within the MMSD service area.

HISTORICAL INFORMATION

1. In 1999, the Wisconsin Public Service Commission enacted a Simplified Rate Case (SRC) Program allowing the utility to increase rates by an amount equivalent to the previous year’s rate of inflation. The most recent rate increase (3.4%) pursuant to this program was implemented in September, 2006.
2. As of September 2000, the Water Works had borrowed \$86.7 million for treatment plant capital improvement projects: \$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 2015, while the Revenue Bonds are expected to be paid off by 2018.
3. Effective June 1, 2002, the Water Works was authorized to set user rates to provide up to a 6.5% rate of return, which equated to a 10% residential rate increase to the average single-family customer, pursuant to Common Council resolution 010234.
4. In 2006, the Water Works initiated a long prepared for reorganization that provided for consolidating the Lincoln Yard and Cameron Yard Distribution facilities and relocating the operations to the Tower Automotive site. The Redevelopment Authority (RACM) paid the redevelopment costs and leased the facilities to the Water Works and DPW Sewer Maintenance Fund.

PERSONNEL

Changes in number of positions and overtime compensated:

	2007 Budget	2008 Proposed	Change
FTE Positions- O&M	362.66	330.59	-32.07
FTE Positions - Other	11.03	10.63	-0.4
Total Authorized Positions	346	346	No change
Overtime Compensated	\$1,526,000	\$1,840,300	+21%
NET IMPACT: Salaries & Wages increases by \$811,344 (+5%)			
Fringe Benefits decreases by \$681,301 (-8%)			
Overtime Compensated increases by \$314,300 (+21%)			

- There is no change in the number of positions authorized between 2007 and 2008, though O&M FTE’s decrease by 32.07 positions and other FTE positions decrease by 0.4 positions. The decrease in FTE’s reflects an adjustment to FTE calculations and not a reduction in net staffing levels. The net fiscal impact on salaries and wages totals an increase of \$811,344 on salaries and wages (+5%), and a decrease of \$601,381 on fringe benefits (-8%).
- *Energy Efficiency Specialist:* The 2008 Budget creates this position to identify and implement opportunities for energy efficiency improvements at treatment facilities and pumping stations. The Water Works is one of the City’s largest users of energy, spending \$5.4 million in energy in 2006, and \$6,545,000 in both the 2007 and 2008 Proposed Budget, respectively.
- No positions will be eliminated due to budget cuts. Four positions will be reclassified with the 2008 Budget:
 - (2) Office Assistant III positions to Communications Assistant III.
 - (1) Office Assistant IV to Communications Assistant IV.

- (4) Civil Engineer II positions to Civil Engineer III.
 - (2) Water Maintenance Manager positions, still unknown how they will be reclassified.
- Each personnel vacancy is reviewed for future needs by filling in kind, not filling at all or making adjustments to the position. As a result, the Water Works is comprised of 100 less employees than it was 10 years ago.

The Water Works provided the following table which lists all 19 vacant positions as of August, 2007:

Vacancy Date	Title	PR/SG	Reason	F&P fill date
1/1/06	Security Manager	007	New Position	5/2/07
7/29/06	Meter Reader Supervisor	005	Holding	NA
9/24/06	Steamfitter/HVAC Spec	287	Promotion	7/25/07
11/16/06	Water Distribution Lbr	230	Retirement	NA
12/1/06	Machine Repair Person	287	Retirement	3/20/07
1/1/07	Customer Service Rep III	445	New Position	1/1/07
1/1/07	Machine Repair Person	287	Retirement	3/20/07
1/1/07	Water Quality Analyst	007	Promotion	NA
1/14/07	Water Distribution Lbr	230	Promotion	NA
1/21/07	Electrical Engineer III	628	Retirement	7/25/07
2/25/07	Water Distribution Lbr	230	Resignation	NA
6/1/07	Machine Repair Person	287	Retirement	7/9/07
6/29/07	Water Laboratory Tech	504	Resignation	NA
6/30/07	Water Dist Chief Rep Wrk	282	Retirement	7/9/07
7/1/07	Water Meter Tech I	240	Promotion	7/9/07
7/1/07	Water Meter Tech I	240	Promotion	7/9/07
7/7/07	Business Operations Mgr	008	Retirement	NA
8/8/07	Civil Engineering III	628	Medical	9/17/07
8/10/07	Electrical Mechanic	978	Resignation	9/17/07

LINE ITEMS

TOTAL OPERATING EXPENDITURES: The 2008 Proposed Budget provides \$34,921,500, which is a 1% increase from 2007 (+\$246,445). The following table summarizes these changes:

Operating Expenditure	2007 Budget	2008 Proposed	2007-2008 Change
General Office Expense	\$494,000	\$620,000	+26%
Tools & Machinery Parts	\$476,500	\$282,500	-41%
Construction Supplies	\$1,917,255	\$2,205,000	+15%
Energy Expenditures	\$6,545,000	\$6,545,000	No change
Other Operating Supplies	\$2,762,800	\$2,536,500	-8%
Facility Rental	\$1,533,000	\$1,584,000	3%
Vehicle Rental	\$32,000	\$21,000	-34%
Non-Vehicle Equipment Rental	\$37,500	\$37,500	No change
Professional Services	\$3,110,000	\$4,033,000	+30%
Information Technology Services	\$1,235,000	\$1,195,000	-3%
Property Services	\$10,363,000	\$10,227,000	-1%
Infrastructure Services	\$4,500,000	\$4,020,000	-11%
Vehicle Repair Services	\$769,000	\$795,000	+3%
Other Operating Services	\$900,000	\$820,000	-9%
TOTAL	\$34,675,055	\$34,921,500	+1%

Selected Line Items:

- The 41% decrease in *Tools and Machinery Parts* is primarily due to a \$150,000 decrease in funding in the Plants – North Organization, where anticipated cost increases did not materialize.
- *Professional Services* increases 30%, or \$923,000, from 2007 to 2008. This increase is primarily due to the \$910,000 increase in this item in the Business Organization, and is comprised of costs that other City departments charge for services to the Water Works, including cross-connection inspection charges. Eighty-nine percent of the increase is related to the cross-connection control program which has been ramping up over the past 2 years.
- *Infrastructure Services* decreases 11%, or \$480,000, from 2007 to 2008. This decrease is reflected in the \$500,000 decrease in this item in the Distribution Organization, which is based on actual 2006 experience. The major expense in this category is repair of street cuts from water main breaks.

PAYMENT IN LIEU OF TAXES (PILOT): The Comptroller’s estimate of the 2008 Water Works PILOT payment to the general City budget is \$8,029,000, a \$266,000 decrease from the 2007 PILOT payment of \$8,295,000.

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 Full Rate Increase Application involves the Water Works requesting a specified rate of return from the PSC, the PSC auditing Water Works finances and then assigning rate increases to various classes of customers based on their cost of service study.

Effective September 1, 2006, the Water Works implemented a 3.4% SRC rate increase on retail and wholesale accounts based on the previous year’s inflation. The Common Council also authorized a petition to the PSC for a full rate increase and, in 2007 a 3.75% rate of return was requested from the Public Service Commission. This resulted in an average increase of 6%, effective June 1, 2007, to the average residential customer. Per PSC rules, the next opportunity to apply for a rate increase, either a Simplified or Full Rate Increase, will be in 2009- after the new rate has been in effect for one full calendar year. The rate increase was the second lowest rate increase granted to 18 Wisconsin water utilities in early 2007. The last approved full rate increase was implemented in 2002, permitting the Water Works a 6.5% rate of return.

The Public Service Commission benchmark for rate of return for a municipally-owned water utility is 6.5%. The calculated rates of return for the Water Works for 2006, 2007 (estimated) and 2008 (estimated) are 2.44%, 2.59% and 2.81%, respectively. Revenue is used to cover operating expenses and capital improvements.

Between 2000 and 2002, the rate of return ranged from 3.98% to 5.79%, decreasing to 4.95% in 2003.

Following are 2004 – 2008 rates of return:

Year	2004	2005	2006	2007 (estimated)	2008 (estimated)
Rate of Return	4.71%	3.63%	2.44%	2.64%	2.70%

REVENUE

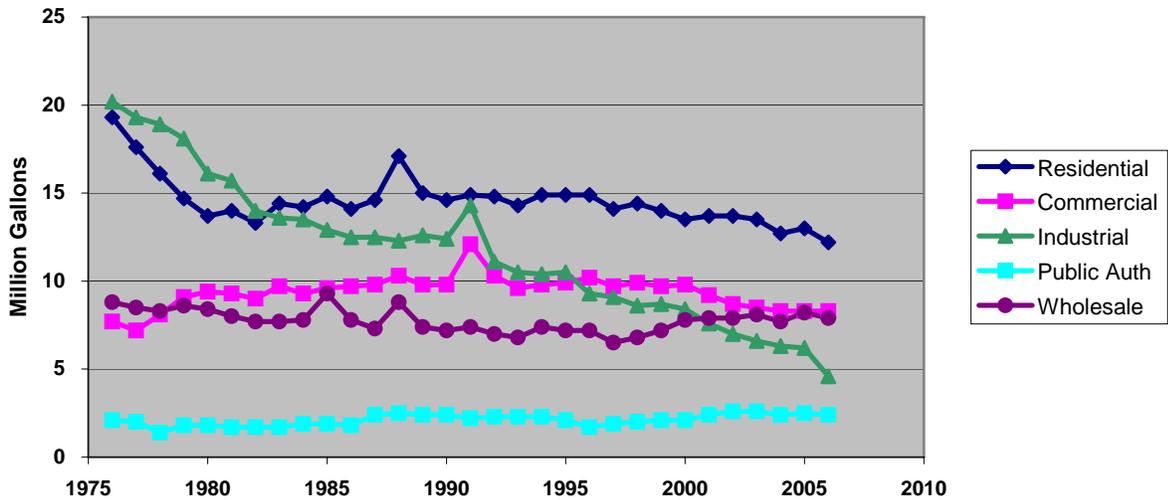
The 2008 Budget estimates \$104,478,700 in Water Works revenue:

REVENUES	2006 Actual	2007 Budget	2006-2007 Change	2008 Proposed	2007-2008 Change
Operating	\$64,423,714	\$66,849,681	+4%	\$69,825,297	+4%
Non-operating	\$10,545,349	\$8,964,000	-15%	\$9,919,000	+11%
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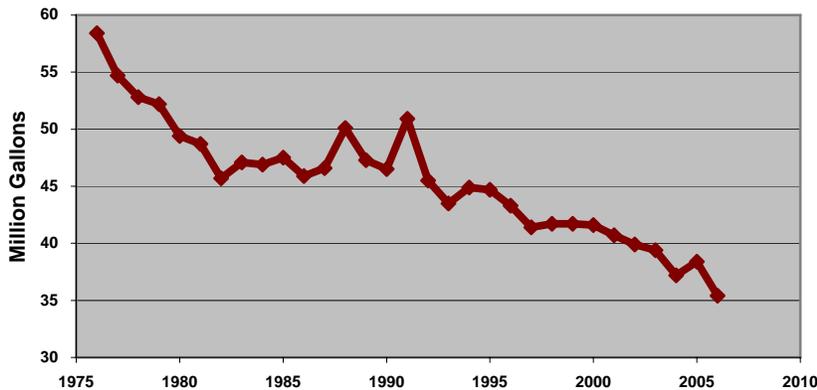
WATER USAGE

The following graphs, prepared by the Water Works, illustrate water sales by residential, commercial, industrial, public authority and wholesale customer, and total metered water sales from 1975 to present:

**Milwaukee Water Works
Metered Sales by Category**



**Milwaukee Water Works
Metered Water Sales**



CAPITAL BUDGET

Capital Budget	2006 Actual	2007 Budget	2006-2007 Change	2008 Proposed	2007-2008 Change
Main Program	\$11,130,705	\$15,640,500	+41%	\$16,260,000	+4%
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TOTAL CAPITAL FINANCING	\$13,171,894	\$25,140,500	+91%	\$36,769,000	+46%

MAIN PROJECTS – \$16,260,000 - Main Hydrants and Valves: \$16.26 million is provided for adding an estimated 14.5 miles of water mains, and includes \$14.5 million in funding for replacement distribution mains, hydrants and valves; \$1.06 million for the Feeder Main Program; \$600,000 for developer financed mains; and \$100,000 for assessable main replacements.

PLANTS AND OTHER PROJECTS - \$20,509,000

Summary of Capital Projects:

	2007 Budget	2008 Proposed	2007-2008 Change
Linnwood Plant Building Improvements	\$2,200,000	\$3,390,000	+54%
Linnwood Plant Treatment Improvements	\$500,000	\$1,075,000	+115%
Howard Plant Building Improvements	0	\$176,000	+\$176,000
Howard Plant Treatment Improvements	0	\$442,000	+\$442,000
Pump Facilities Improvements	\$6,200,000	\$955,000	-85%
Storage Facilities Improvements	\$200,000	\$145,000	-28%
Meter Shop Repair	\$400,000	0	-\$400,000
Back-up Power Generator	0	\$12,500,000	+\$12,500,000
Capital Project Contingencies	0	\$1,826,000	+\$1,826,000
TOTAL	\$9,500,000	\$20,509,000	+116%

- **Linnwood Plant Building and Treatment Improvements:** \$4.465 million is provided for capital improvements at the Linnwood facility, and includes \$3 million for roof and gutter replacement; \$250,000 for replacement of a service elevator; \$140,000 for HVAC improvements; \$700,000 for replacement of large sluice gates; and \$375,000 for valve replacements.
- **Howard Plant Building and Treatment Improvements:** \$618,000 is provided for capital improvements at the Howard facility, and includes \$176,000 for the pump room replacement; \$242,000 for LOX electric vaporizers; and \$200,000 for energy efficiency improvements.
- **Pump Facilities Improvements:** \$955,000 is provided for pump facility improvements, including \$675,000 for low service pumps at the Howard pumping facility; \$220,000 for replacement substation switchgear at Florist; and \$60,000 for other Florist facility upgrades.
- **Storage Facility Improvements:** \$145,000 is provided for the designing of a replacement clear well roof at the Howard storage facility.

- **Back-up Power Generation:** In 2003 the Water Works commissioned a study to assess the reliability of electric power to the Water Works in the event of a blackout. The 2006 report, presented to the Common Council by File Number 061500, found the consequences of not having a backup source for power generation to be high. \$12.5 million is provided in 2008, and will be used to provide back-up power at the Riverside Pumping Station. Over 6 years, providing back-up power will cost an estimated \$23 to \$25 million, with the following estimated additional allocations: \$4.5 million for the Linnwood Treatment Plant; \$6.5 million for the North Point Pumping Station; \$0.5 million for the Florist Pumping Station; and \$0.5 million for the Grange Pumping Station.
- **Capital Project Contingencies:** \$1.826 million is provided to cover capital contingencies that may arise in 2008. Projects may include facility repairs at the Menomonee storage facility and structural repairs at the Meter Shop.

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