

RESEARCH & ANALYSIS SECTION – LEGISLATIVE REFERENCE BUREAU
Executive Summary: 2007 PROPOSED BUDGET – DPW WATER WORKS

EXPENSE CATEGORY	2005	2006	2005-2006	2007	2006-2007	2006-2007
	ACTUAL	BUDGET	%CHANGE	PROPOSED	CHANGE	%CHANGE
OPERATING	\$61,274,238	\$67,730,974	10.54%	\$67,728,842	-\$2,132	0.00%
CAPITAL	\$15,212,549	\$20,120,000	32.26%	\$25,140,500	\$5,020,500	24.95%
TOTAL	\$76,486,787	\$87,850,974	14.86%	\$92,869,342	\$5,018,368	5.71%
TOTAL POSITIONS	363	355	-2.20%	346	-9.00	-2.54%
O&M (FTE's)	322.79	373.04	15.57%	362.66	-10.38	-2.78%

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 2007 proposed activities equals \$75,813,681: (1) \$67,728,842 in operating and non-operating revenues, (2) \$24,540,500 in deposits to Retained Earnings for Capital, and (3) \$16,455,661 Withdrawal from Retained Earnings. **(Page 1)**

Position Changes

The 2007 Proposed Budget reduces the total number of positions in the department by 9 to 346, compared to 355 authorized in 2006. The net fiscal impact on salaries and wages totals \$1,512,199, and \$21,421 on estimated employee fringe benefits. **(Pages 1-3)**

Operating Expenditures

The 2007 Proposed budget – Total Operating Expenditures provides \$34,675,055, a \$1,382,792 or 4.2% increase compared to \$33,292,263 provided in 2006. **(Pages 4-6)**

Equipment Purchases

The 2007 Proposed Budget – Total Equipment Purchases provides \$1,704,250, a \$350,00 decrease compared to \$1,704,600 provided in 2006. **(Pages 6-7)**

Rate of Return and Rate Increases

The Water Works proposes applying for a full rate increase in 2007. The calculated rates of return in years 2005, 2006 (est.), and 2007 (est.) are 3.6%, 2.5% and 3.5% respectively. **(Page 8)**

Capital Improvements Projects

The 2006 Proposed Budget provides \$25,140,500 for capital improvement projects, 13.2% below the amount stated in the 2007-2012 Capital Improvement plan and an increase of \$5,020,500 or 25% from the \$20,120,000 provided in the 2006 Budget. **(Pages 9-10)**

Water Main Improvements

In 2007, \$15,650,500 is provided for water main projects, a \$430,500 or 2.9% increase compared to \$15,220,000 provided in 2006. **(Pages 9-10)**

Plant and Building Improvements

The 2007 Proposed Budget provides \$9,500,000 for plant and building improvements, an increase of \$4,600,000 from the \$4,900,000 provided in the 2006 Budget for water projects other than water mains. **(Pages 9- 10)**

Debt Service

The 2007 Proposed budget provides for \$2,263,600 for debt service for Plants South, compared to \$2,890,500 in 2006. Based upon the 40%-60% split, there is \$3,395,400 debt service listed under Plants North in 2007, compared to \$4,335,500 in 2006. **(Page 11)**

Payment in Lieu of Taxes (PILOT)

The Comptroller's Office calculates the Payment in lieu of taxes (PILOT). The 2007 Proposed budget provides that the Water Works make a \$8,000,000, PILOT payment to the general City budget, a \$275,000 or 3.4% decrease from \$8,275,000 in 2006. **(Page 11)**

Revenues

The 2007 Proposed Budget estimates that the Water Works will generate \$75,813,681 in revenues. **(Page 11)**

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RESEARCH & ANALYSIS SECTION – LEGISLATIVE REFERENCE BUREAU
2007 PROPOSED BUDGET SUMMARY: DPW-WATER WORKS

Mission Statement

“To provide safe, reliable, and aesthetically pleasing drinking water to the City of Milwaukee and customers in suburban communities.”

Pertinent Historical Information

1. 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 September 2006.
2. As of September 2000, the Water Works had borrowed \$86.7 million of the \$89 million authority for five Cryptosporidium outbreak related capital improvement projects: \$17.6 million in Revenue Bonds and \$69.1 in General Obligation (GO) bonds. The outbreak affected more than 400,000 people and was traced to the presence of Cryptosporidium in the City's finished water supply.

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. 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. The Customer Information System (CIS) project was funded in 2001 and fully implemented in 2006.
5. In 2001, several reorganization and administrative shifts occurred throughout the Water Department.
 - Split the north and south water production groups, dividing the performance measures 60% and 40%, respectively
 - Transfer the Control Center from the Plants Unit to the Business Unit because it is primarily a customer service activity which handled all evening and weekend service calls. In 2006, the center transferred to the Distribution Unit when it relocated to the Tower Automotive Site.
 - Meters equipped with AMR (automatic meter reading) devices are read using a computer-equipped van. Twenty-three (23) residential meter reader positions (including auxiliary) were replaced with 1 person designated to read meters while driving the AMR van reducing the time required for reading district residential meters from 1 month to 8 days.
6. 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.

7. In 2005, "unaccounted for water" was calculated to be 12% or 5,370,334,000 gallons. "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
8. The use of Retained Earnings has decreased from a \$17,537,479 actual withdrawal in 2003 to an anticipated \$11,749,241 withdrawal in 2006, a decrease of \$5,788,238 or 33.0%. The additional funds uses were to provide for various capital improvement projects.

Rate of Return and Rate Increases

Effective June 1, 2002, the Water Works is authorized to set user rates to provide up to a 6.5% rate of return and a 10% residential rate increase pursuant to Common Council, under Resolution File No. 010234.

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 2005, Water Works pumped and purified approximately 44,560,000 gallons of water.
3. 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	2005 Actuals	2006 Projection
Meter readings obtained	647,500	640,000
Meter not accessible for reading	5,466	6,250
Meter investigations	2,481	2,500
Billing investigations	6,720	6,000
Read by AMR van	153,225	154,000

4. 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.
5. In 2005, the Water Works reduced its vehicles inventory accordingly:

International 10 yd Dump Truck (2)	Ford 10 yd Dump Truck	Drill Rig
Plymouth Sundance passenger car (2)	Stake bed truck	Forklift
Chevy Cavalier passenger car (3)	Plymouth Reliant passenger car	Vac all
Blazer passenger car	GMC 2 yd dump truck	GMC Pick up
Panel van (2)		Chevy Van

Staffing Changes due to Tower Automotive Relocation

In 2006, the Water Works initiated a reorganization that provided for consolidating the Lincoln Yard and Cameron Yard Distribution facilities and relocating the operations to the Tower Automotive site. The plan called for eliminating vacant and filled positions and transferring others to DPW-Infrastructure Services. Management's responsibilities changed by expanding managerial responsibilities for district boundaries to include the entire service area (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 were eliminated in 2006:

- 4 positions – (1) Water Inventory Manager, PG 4 and (3) Inventory Assistant IV's, PR 350 transferred to DPW-Infrastructure as reimbursable services
- (1) Communications Assistant III – PR 445, incumbent transferred to DPW-Parking
- (1) Water Material Handler – PR 245
- (4) Water Distribution Laborers – PR 230

The following positions were reclassified through the 2006 budget process (by new title/rate of pay):

- (1) Water Distribution District Svr (SG 8) to Water Distribution Operations Mgr (SG10)
- (1) Water Distribution District Svr (SG 8) to Water Distribution Construction Mgr (SG 8)
- (2) Water Distribution Svr II (SG 6) to Water Distribution Construction Mgr (SG 8)
- (8) Water Distribution Svr I (SG 4) to Water Distribution Field Operations Svr (SG 6)
- (1) System & Special Projects Mgr (SG 5) to Water Distribution Systems Mgr (SG 6)
- (1) Communications Assistant IV (PR 455) to Office Assistant IV (PR 445)

Originally, the Water Works planned for and received capital improvement borrowing authority to construct a new facility; however, the plan changed to allow the Redevelopment Authority to pay the redevelopment costs and lease the facilities to the Water Works and DPW Sewer Maintenance fund.

The 2006 Budget Operating Expenditures – Property Services funded a \$924,383 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.

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 adopted file 980871 on April 20, 1999, authorizing 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 April 2006, the Common Council adopted Resolution 051473 authorizing the Water Works to amend the wholesale water service agreement with the City of Wauwatosa to allow Wauwatosa to resell the water to the Village of Elm Grove.

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. In 2006, the City of New Berlin submitted a request to the State of Wisconsin Department of Natural Resources for permission to request an amendment to their water agreement that would allow increase the service area westward beyond the subcontinental divide.

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.

2007 BUDGET HIGHLIGHTS & ISSUES

The Total Source of Funds for Water Works 2007 proposed activities equals \$75,813,681: (1) \$67,728,842 in operating and non-operating revenues, (2) \$24,540,500 in deposits to Retained Earnings for Capital, and (3) \$16,455,661 Withdrawal from Retained Earnings.

Personnel

The 2007 Proposed Budget reduces the total number of positions in the department to 346, a 9-unit decrease from 355 authorized in 2006. The net fiscal impact on salaries and wages totals \$161,005, and \$21,421 on estimated employee fringe benefits.

Vacancies

The Water Works provided the following table which lists all 26 vacant positions as of August 18, 2006 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.

Position	Date Vacant	PR/SG	Reason	R/G	F&P
Water Distr. Repair Worker I	10/26/03	235	Promotion	W/M	Hold
Water Distr. Repair Worker I	10/26/03	235	Promotion	W/M	Hold
Water Distr. Repair Worker I	12/12/03	235	Resign.	W/M	Hold
Machine Repair Person	1/1/04	287	New Position	NA	3/20/06
Machine Repair Person	2/27/04	287	Retirement	B/M	3/21/06
Water Distr. Repair Worker I	11/21/04	235	Promotion	W/M	Hold
Network Coord Associate	1/1/05	004	New Position	NA	7/26/06
Water Distr. Repair Worker I	1/29/05	235	Promotion	B/M	Hold
Water Quality Analyst	5/23/05	007	Promotion	W/F	Hold
Water Distr. Repair Worker I	10/10/05	235	Promotion	ALM	Hold
Water Distr. Repair Worker I	10/22/05	235	Retirement	W/M	Hold
Security Manager	1/1/06	006	New Position	NA	
Water Distr. Repair Worker I	2/12/06	235	Promotion	B/M	Hold
Water Distr. Repair Worker I	2/12/06	235	Promotion	B/M	Hold
Machine Repair Person	2/25/06	287	Retirement	W/M	3/20/06
Water Distr. Repair Worker I	3/26/06	235	Promotion	B/M	Hold
Water Plants Laborer	4/29/06	235	Retirement	W/M	NA
Water Distr. Repair Worker I	5/31/06	235	Retirement	B/M	Hold
Water Treatment Plt Oper	6/4/06	252	Promotion	W/M	5/24/06
Meter Technician I	7/15/06	240	Promotion	W/M	4/6/06
Network Coord Associate	8/9/06	004	Resigned	W/M	
Network Coord Associate	8/9/06	004	Resigned	W/M	
Meter Technician I	8/12/06	240	Promotion	W/M	7/26/06
Network Coord Senior	8/26/06	252	Retirement	W/M	7/26/06
Meter Reader Supervisor	7/29/06	005	Resigned	B/F	Hold
Water Distr. Repair Worker I	8/18/06	235	Resigned	W/M	Hold

The following positions are being eliminated through attrition and do not affect any incumbents.

- Water Distribution Repair Worker I, 5 positions due to consolidation at Tower Aux. Water Distribution Laborer (1 FTE each), 6 positions due to consolidation at Tower

The following positions are being reclassified through the 2007 Budget process:

- Water Maintenance Manager 2 positions from SG 006 to 008
- Water Maintenance Supervisor 1 new position SG 006
- Automated System Specialist PR 598 formerly Network Coordinator Assoc SG 004

Position Changes in the Business Decision Unit (6411)

The following position changes are proposed for the Business decision unit:

- Reclassify a Water Security Manager, SG 7 to Water Systems and Security Coordinator, SG 7 in the Technical Services section, at no cost impact
- The 2007 Proposed budget disallowed requested position and funding authority for 1 Network Coordinator-Senior, SG 6 in the Technical Services section, cost savings \$57,353
- Reclassify an Aux. Water Revenue Collector, PR 360 to Customer Service Representative III, PR 445 in the Commercial Services section and create position authority and funding for an additional Customer Service Representative III, PR 445 in the Meter Services section, net cost \$55,108.
- A staff reorganization proposes moving 1 Program Assistant I, PR 460 from the Commercial Services section to the Meter Services section moving 1 Office Assistant II, PR 410 from Administration to the Meter Services section.
- Due to staff reorganization in the Meter Services section, create position and funding authority for 1 Water Meter Technician I, PR 240, and eliminate position and funding authority for the Meter Shop Laborer, PR 230 and Aux. Water Revenue Collector, PR 360, net savings \$44,600
- Create position authority only for 1 Aux. Meter Reader Supervisor, SG 5, no funding (asking for budget amendment to allow funding this position)

Salary for the Auxiliary Project Manager (0.5 FTE), SG 8 increases from \$36,408 in 2006 to \$74,422 in 2007, a \$38,014 or 104.5% increase. The intent is to increase FTE from (0.5) to (1.0) but is not reflected on the BMD2, 1 Auxiliary Project Manager (0.5 FTE) should have been eliminated and 1 Auxiliary Project Manager should have been created.

Positions Changes in Plants (North 6412 and South 6416)

The 2007 Proposed budget reclassifies both Water Maintenance Manager, SG 6 positions to Water Maintenance Manager, SG 8 thereby increasing the range of salary compensation.

All personnel authority and costs related to North Plant-Plant Automation section moves to South-Plant-Plant Automation section in 2007 affecting:

- 1 Water Plant Automation Manager (formerly classified as Plant Automation Specialist)
- 1 Network Coordinator Senior

- 2 Automated System Specialist (only 1 position was authorized in 2006)
- 2 Program Assistant II

In 2007, the Water Works proposed reclassify the Network Coordinator Associate, SG 4 position to Automotive Systems Specialist, PR 598. At Plant-South, a Water Plant Laborer, PR 235 is reclassified as Machine Repair Person, PR 287.

Position changes in the Engineering Decision Unit (6413)

No personnel changes are proposed for the Engineering Decision Unit.

Position changes in the Distribution Decision Unit (6414)

The 2007 Proposed Budget merges the Lincoln and Cameron Yard Distribution budgets to facilitate centralizing operations at Tower thereby reducing combined total authorized positions from 137 to 131 to create a "Field Operations" section.

All position authority and funding are maintained except:

- 1 Communications Assistant III, PR 445
- +1 Office Assistant III, PR 425
- 1 Equipment Mechanic III, PR 248
- 5 Water Distribution Repair Worker I, PR 235
- 1 Water Maintenance Worker (Regular), PR 235
- 4 Aux. Water Distribution Laborer, PR 230
- +1 Aux. Equipment Mechanic III, PR 248
- +1 Aux. Water Maintenance Worker, PR 235

The 2007 Proposed budget also creates funding authority for existing positions including 1 Aux. Water Distribution Utility Investigator (0.33 FTE), PR 254 at \$13,685 and 1 Aux. Water Distribution Field Operations Supervisor (0.33 FTE), SG 6 at \$18,750.

Position changes in the Water Quality Decision Unit (6415)

No personnel changes are proposed for the Water Quality Decision Unit.

Budget Line Items

Total Operating Expenditures

The 2007 Proposed budget – Total Operating Expenditures provides \$34,675,055, a \$1,382,792 or 4.2% increase compared to \$33,292,263 provided in 2006.

The benchmarks and 2006 projected needs are reflected in the following table.

Operating Expenditure	2006 Budget	2007 Proposed	2006-2007 Change
General Office Expense	\$488,000	\$494,000	+ \$6,000
Tools & Machinery Parts	\$366,500	\$476,500	+\$110,000
Construction Supplies	\$1,347,255	\$1,917,255	+\$570,000
Energy Expenditures	\$5,883,000	\$6,545,000	+\$662,000
Other Operating Supplies	\$2,080,800	\$2,762,800	+\$682,000
Facility Rental	\$243,000	\$1,533,000	+ \$1,290,000
Vehicle Rental	\$32,000	\$32,000	\$ -0-
Non-Vehicle Equipment Rental	\$33,500	\$37,500	+ \$4,000
Professional Services	\$3,100,825	\$3,110,000	+ \$9,175
Information Technology Svcs	\$1,677,000	\$1,235,000	(\$442,000)
Property Services	\$11,837,383	\$10,363,000	(\$1,474,383)
Infrastructure Services	\$4,500,000	\$4,500,000	\$ -0-
Vehicle Repair Services	\$769,000	\$769,000	\$ -0-
Other Operating Services	\$934,000	\$900,000	+ \$34,000

- Increase in the price of postage is the main part of the increase in the General Office Expense category.
- Tools & Machinery Parts: The increase in this category is needed to cover anticipated increases in maintenance costs. Linnwood Plant is 68 years old. Ozone system was installed in 1998 and chemical feed equipment upgraded in 2000. Both systems have been requiring additional costs to properly maintain the system.
- 79% or \$450,000 of the Total Construction Supplies increase is the result of having to budget for the cost of Encoder Register Transmitters (ERTs), the electronic part of the automatic meter reading devices on each meter. MWW has not had to budget for these units for the last few years because they kept a credit with the manufacturer, which is now exhausted. Other construction supplies increases are necessary to account for anticipated increase in cost of copper, stainless steel, etc. Also, the actual 2005 experience reflects this need.
- According to Water Works, Energy Expenditures for 2007 were calculated to reflect both actual year 2004 energy experience and rising industry costs. In 2004, budget authority exceeded expenditures by 2.45%.

- Other Operating Supplies: A significant portion of this category consists of cost of chemicals used at the plants. The increase in this category is actual 2005 chemical costs plus 22%, which is a known increase, to bring it up to estimated totals for 2006. It was further increased by 15 % for 2007 based on trends observed and bids received.
- Facility Rental increases \$1,290,000 to represent full year facility rental for Tower, which was shown in the Business (6411) section in the 2006. In 2007 it is shown under Distribution (6414).
- The Business Section's 2007 Information technology budget decreased because (1) Water Works did not budget \$300,000 for software upgrade for the enQuesta system in 2007 as it did in 2006, (2) a \$70,000 estimated decrease is expected in the S&S support cost for the new enQuesta system from the cost of supporting the old MUPS system, and (3) the remainder is anticipated decreases in support costs charged by DPW. The Customer Information System (CIS) and SCADA system were fully funded prior to 2006. The Information Technology Services category reflects the renewal fees for various technical licenses described below:
 - a. Renew 13 Microstation licenses at \$1,000 each for a total of \$13,000
 - b. Renew 2 Info Water Suite licenses at \$4,000 and \$2,000, for a total of \$6,000
 - c. Renew 2 ArcView licenses for \$1,000 total
- Property Services: The reduction in this category is primarily (about \$1.0 Million) due to budgeting for facility rental at Tower under Distribution (6414) in 2007, whereas in 2006 it was included in the Business Section. (See discussion on Facility Rental). Also, the estimate for 2007 Payment in lieu of taxes (PILOT) received from the Comptroller's Office decreased by \$267,000 from the 2006 figures.
- The increase in Vehicle rental is related to cost estimates for using "pool" cars and rental of replacements in the event of breakdowns in 2007.
- Non-Vehicle Equipment Rental: The Plants-South increase in this line item is needed to cover the cost of renting a copy machine based on a rental agreement that was initiated recently. In the past, an old machine owned by the plants was in use.
- 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 Services 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 Services. 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 \$4,500,000 for Infrastructure Services pay is for DPW related services provided to the Water Works.
- Other Operating Services: The change in this category reflects the Water Works review of past spending trends and the move to keep costs as reasonable as operationally possible. The ozone and chemical feed systems are 9 years old. Some of the infrastructure is 40 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.
- The reimbursement of costs related to the Cross Connection (inspection of cross connections in commercial and industrial buildings to prevent contamination of drinking water) program is as follows:

2005 - \$311,018
 2006 - \$180,330 (YTD)
 2007 - \$633,755 (budgeted)

- In Water Quality, the changes in Total Operating Expenditures from 2006 to 2007 are adjustments to accommodate renewal and expansion of laboratory professional services contracts anticipated in 2007.

Equipment Purchases

The 2007 Proposed Budget – Total Equipment Purchases provides \$1,704,250, a \$350 decrease compared to \$1,704,600 provided in 2006. The summary of the proposed uses for 2007 equipment purchases is shown on the table below.

2007 Equipment Purchase uses by decision unit

Decision Unit	Proposed Fund Uses	Proposed for Unit in 2007
Business	Various Metering Devices	\$235,000
	Various Computer workstations, peripherals, and servers	\$271,000
	Industrial trucks	\$185,000
	Testing equipment (rate gauge, air monitor, data log)	\$3,000
	Snow blower	\$3,000
North Plant	Various computer workstations, server and office furniture	\$18,000
	Station battery containment	\$8,000
	Various pumping equipment, tools, and testing apparatus	\$45,000
	Various Industrial vehicles	\$56,000
Engineering	Computer, printing equipment	\$750
	Testing apparatus	\$10,000
Distribution	Various computer equipment	\$15,000
	Various industrial trucks, trailer and other industrial vehicles	\$670,000
	Various tools and furniture, testing apparatus, pumping equipment	\$57,700
Water Quality	A testing apparatus	\$3,000
	Jeep	\$20,000
	Refrigeration appliances	\$6,000

Decision Unit	Proposed Fund Uses	Proposed for Unit in 2007
South Plant	Various pickup trucks and vans	\$56,000
	Various pumping equipments, tools, and testing apparatus	\$41,800
Total O&M Equipment Purchases for All Water Works Decision Units		\$1,704,250

- The various meter purchases provide inventory for exchanging damaged metering flow devices. An estimated 161,629 meters will be in service in 2007 compared to 161,509 in 2006 and 161,356 in 2005. The Meter Shop anticipates repairing 5,098 meters in 2007 compared to 6,218 in 2006 and 5,635 in 2005. The department expects to exchange 3,770 meters in 2007 compared to 3,310 in 2006 and 2,789 in 2005.
- Technical Tools: Include a GPS locating equipment with a shelf life between 3-5 years, depending on use and technological advances and a pipe threader.
- Printers and computers will be placed throughout the department.
- The various proposed replacement vehicle purchases for the Howard and Texas Avenues facilities include:
 - Replace a 1991 Dodge van with +50,000 miles used by electricians at Howard and Texas that has severe rust on the side access door support, rendering the vehicle ununlockable.
 - Replace a 1995 Blazer pickup truck with close to 100,000 miles on it.
- The various proposed replacement vehicle purchases for the Distribution DU include:
 - 4 additional automobiles will be assigned to hydrant service workers that previously used their personal vehicles and received auto allowance reimbursements. The new vehicles would provide more haul space.
 - A replacement automobile will be assigned to the Field Operations Supervisors.
 - Consolidating operations under one site (Tower) has increased distances between job sites, requiring the department to now purchase a trailer to haul backhoes to and between sites.
 - The replacement cycle dictates replacing 2 backhoes (industrial trucks). The Distribution section uses backhoes on more than 2000 excavation jobs annually.
 - Drill rig vehicles are used daily to accurately pinpoint leaks on water mains and services.

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. Effective September 1, 2006, the Water Works implemented a 3.4% SRC rate increase on retail and wholesale accounts based on last year's inflation. The Common Council also authorized a petition to the PSC for a full rate increase and, upon the decision, the Water Works must request Common Council authorization to implement a yet-to-be determined rate increase for retail water customers. The PSC, and not the Common Council, sets wholesale water rates. The last approved full rate increase was implemented in 2002, permitting the Water Works a 6.5% rate of return.

Water Rates

On June 30, 2006, the Water Works filed a SRC application with the Public Service Commission to increase retail customer by 3.4% effective September 1, 2006 according to the following schedules:

Customer Classification	City of Milwaukee Customers		Village of West Milwaukee		Suburban Retail Customers	
	Existing Quarterly Bill	Revised Quarterly Bill	Existing Quarterly Bill	Revised Quarterly Bill	Existing Quarterly Bill	Revised Quarterly Bill
Average Residential	\$36.87	\$38.12	\$35.58	\$36.79	\$39.93	\$41.28
Large Residential	\$51.03	\$52.77	\$44.98	\$46.51	\$53.20	\$55.01
Commercial	\$293.65	\$303.63	\$191.16	\$197.66	\$302.00	\$312.27
Public Authority	\$854.95	\$884.02	\$525.80	\$543.68	\$845.40	\$874.14
Industrial	\$1,699.08	\$1,756.85	\$1,531.78	\$1,583.86	\$1,600.99	\$1,655.43

Rates for wholesales customers also increased by 3.4%.

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 its 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. The calculated rates of return for 2005, 2006 (est) and 2007(est) are 3.6%, 2.5% and 3.5%, respectively. Revenue will be used to cover operating expenses and capital improvements. As the ratio of revenues and asset valuations decline, the rate of return also declines.

New Water Service Customers

No revenue from new water sale agreements are contained in the 2007 proposed budget.

CAPITAL IMPROVEMENTS PROJECTS

The 2007-2012 City of Milwaukee Capital Improvements Plan projected a \$28,940,500 total capital need for all Water Works capital projects in 2007. However, the 2007 Proposed Budget provides \$25,140,500 for capital improvement projects, 13.2% below the amount stated in the Plan, but 25% more than the \$20,120,000 budgeted in 2006. Included in the 2007 Proposed budget are:

- \$15,640,500 for the water main improvements program, a 2.8% increase from \$15,220,000 in 2006. Approximately \$1.64 million is planned for main extensions.
- \$2,700,000 for various Linnwood plant treatment improvements, a \$2,300,000 increase compared to \$400,000 in 2006.
- \$200,000 for various Storage Facilities Improvements, a \$4,300,000 decrease compared to \$4,500,000 in 2006.
- \$400,000 for various Meter Shop improvements

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 \$4 million to replace 1-mile of feeder main. In 2006, \$15,640,000 is provided for water main projects, a \$420,000 or 2.84% increase compared to \$15,220,000 provided in 2005.
2. As of August 2006, there have been 313 water main breaks compared to 387 recorded during the same time last year. Included are 1-4" water main break, 142-6" water main breaks, 123-8" water main breaks, 30-12" main breaks, and 17-16" main breaks. In 2004, there were 496 water main breaks, or an average of 41 per month. Based on a five-year average, main break projections for 2007 are 650-700.

WATER MAIN BREAKS EXPERIENCE - 1995-2004	
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

Distribution Water Main Project – \$14,000,000

This proposed capital program appropriation includes \$14,000,000 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 – \$1,040,500

In 2007, \$1,040,500 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.

2007 Plant and Buildings Improvements

The 2007 Proposed Budget provides \$9,500,000 for plant and building improvements, an increase of \$4,600,000 from the \$4,900,000 provided in the 2006 Budget for water projects other than water mains.

Pump Facilities Improvements – \$6,200,000

In 2007, \$6,200,000 in capital improvements is needed for various improvements including Riverside facility slope stabilization (\$500,000), heating systems (\$1,000,000), and pumps and valves replacement (\$4,000,000) projects, substation switchgear (\$500,000 of the \$2,500,000 requested) project and improving energy efficiencies systems (\$200,000).

Meter Shop Repair – \$400,000

In 2007, \$400,000 in capital improvements is needed to replace the meter shop HVAC (\$300,000) and fund bulk water fill station improvements (\$100,000).

Storage Facilities Improvements – \$200,000

In 2007, \$200,000 is provided to paint the Greenfield storage facilities.

Linnwood Building Improvements – \$2,200,000

In 2007, \$2,200,000 in capital improvements is needed to replace roof and gutters (\$400,000), the Water Quality Lab HVAC (\$1,000,000), and windows in the maintenance wing (\$800,000).

Linnwood Plant Treatment Improvement – Fluoride System Replacements – \$500,000

The department indicates that \$300,000 is needed to replace failing fluoride feed pumps, leaking storage tanks, and upgrade containments. The 2007 proposed budget also provides \$200,000 to repair and replace leaking parts of the underground wash water recovery line to the holding basin located at the North Plant.

DEBT SERVICE

The 2007 Proposed budget provides for \$2,263,600 for debt service for Plants South, compared to \$2,890,500 in 2006. Based upon the 40%-60% split, there is \$3,395,400 debt service listed under Plants North in 2007, compared to \$4,335,500 in 2006.

PAYMENT IN LIEU OF TAXES (PILOT)

The Comptroller's Office calculates the Payment in lieu of taxes (PILOT). The 2007 Proposed budget provides that the Water Works make a \$8,000,000 PILOT payment to the general City budget, a \$275,000 or 3.4% decrease from \$8,275,000 in 2006. This payment is provided for in the Water Work's 2007 Proposed Operating Expenditures-Professional Services budget line.

REVENUES

The 2007 Proposed Budget estimates that the Water Works will generate \$75,813,681 in revenues.

Deposits for capital and operating expenditures exceeded the budgeted withdrawal in 2004. In 2007, the proposed withdrawal increases over 2006 by \$4,706,420 or 40.1%. Withdrawals help bridge-funding gaps between expenditures and revenues and reduce reserves.

2007 PROPOSED REVENUES - WATER WORKS					
REVENUES	2005 ACTUAL	2006 ADOPTED	% CHANGE	2007 PROPOSED	% CHANGE
OPERATING	\$ 69,050,322	\$ 67,485,733	-2.27%	\$ 66,849,681	-0.94%
NON-OPERATING	\$ 7,142,069	\$ 8,016,000	12.24%	\$ 8,964,000	11.83%
TOTAL REVENUES	\$ 76,192,391	\$ 75,501,733	-0.91%	\$ 75,813,681	0.41%

MUNICIPAL SERVICES BILL

The Water Works maintains statistics for Municipal billing service fees and charges. Beginning in 2006, charges directly related to Storm Water Management are separated from the local sewer fees and 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 2006

MISCELLANEOUS PERFORMANCE MEASURES

84% of all calls were answered by either the interactive voice response system or customer service representatives in 2005 and 95% were answered year-to-date in 2006, according to Water Works. Unanswered calls drop or hang up from the Water Works phone system. The annual projection for 2006 and 2007 are 95% and 95% respectively.

Customer Service Activity:	Year – to – Date			
	Projected 2007 Total	Projected 2006 Total	Actual 2006 Total	Actual 2005 Total
Total Calls Received	205,000	205,000	135,413	126,475
Calls Handled IVR*	125,645	125,645	82,430	70,000
Calls Handled CSR	68,817	68,817	45,878	36,037
% of All Calls Answered	95%	95%	95%	84%

**interactive voice response*

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