

RESEACH & ANALYSIS SECTION – LEGISLATIVE REFERENCE BUREAU

**2009 Proposed Budget – Sewer Maintenance Fund
Executive Summary**

1. Proposed **operating funding** in the Sewer Maintenance Fund in 2009, including personnel and fringe costs, equipment, and services is budgeted at \$39,800,413, a decrease of \$362,206 (-0.9%) from the 2008 Budget (page 2).
2. **Capital projects** in the 2009 proposed Sewer Maintenance Fund budget are budgeted at \$31,450,000, an increase of \$1.5 million (+5.0%); this increase reflects, in part, a decision to eliminate the Expansion of Capacity Program funded under the City's general capital budget in recent years (page 2).
3. The 2009 Proposed Budget provides \$4,831,447 for **salaries and wages**, a decrease of \$557,077 (-10.3%) from the 2008 Budget due, in part, to the elimination of 7.26 actual O&M FTE's (page 4).
4. In 2009, net **authorized positions** are proposed to decrease by 7 units, from 179 to 172 (page 4).
5. In 2009, Sewer Maintenance Fund total **revenues** other than revenues from borrowing and retained earnings are projected to rise to \$41,809,700 (+7.1%) from the 2008 Budget (page 7).
6. The **Sewer Maintenance Fee** continues to be based on water use, and will increase in 2009, following an 8% increase in 2008, and following an initial reduction in 2007 due to the implementation of the **Storm Water Management Charge**, effective July 1, 2006. These fees and charges taken together are budgeted to increase another 8% in 2009 (page 7).
7. Proposed **Sewer Maintenance Fee** is expected to generate \$26,617,000 in 2008, an increase of \$1,235,000 (+ 4.9%) from the budget projection for 2008 (page 7).
8. The **Storm Water Management Fee** is expected to generate \$13,622,400 in 2009, an increase of \$1,022,400 (+ 8.1%) from the budget projection for 2008 (page 7).
9. The Sewer Maintenance Fund anticipates replacing 17 of the City's 2,446 miles of sewers in 2009; this level of replacement results in a **145 year sewer replacement cycle** (pages 2 and 7).
10. Regulatory changes and anticipated reductions in water usage may result in substantial changes to future operations, capital needs and revenue structuring for the Sewer Maintenance Fund (pages 3, 4 and 10).

LEGISLATIVE REFERENCE BUREAU - RESEARCH & ANALYSIS SECTION

2009 Proposed Budget Summary: Sewer Maintenance Fund

Expense Category	2007 Actual	2008 Budget	% Chg	2009 Proposed	% Chg
Operations*	\$36,583,470	\$40,162,619	+ 9.8%	\$39,800,413	- 0.9%
Capital**	\$19,502,394	\$29,950,000	+ 53.6%	\$31,450,000	+ 5.0%
Total	\$56,085,864	\$70,112,619	+ 25.0%	\$71,250,413	+ 1.6%
Positions***	189	179	- 5.3%	172	- 3.9%

*Includes personnel, fringe, operating costs, equipment and special fund expenditures.

**Projects funded by borrowing from the Wisconsin Clean Water Fund and General Obligation (GO) Bonding.

***Vacant positions eliminated; 2.25 FTEs moved from O&M to Capital within the total number of positions.

The Sewer Maintenance Fund (SMF) is an enterprise fund for sewer maintenance expenses. It funds the administration, operation and maintenance of the City's 2,446 miles of sewers. This enterprise Fund recovers sewer maintenance costs through user fees rather than through the property tax. Residents pay for the costs of sewer maintenance as part of their quarterly city services bills. Properties are also subject to Storm Water Management Charges initiated in July, 2006. The Department of Public Works - Infrastructure Services Division administers the Sewer Maintenance Fund, including oversight of personnel and activities. All revenues from these fees and charges go to the Sewer Maintenance Fund.

Mission

The Mission of the SMF is to protect people, property, and the environment from sewage, flooding, erosion, and polluted runoff. It accomplishes this through the operations of 2 DPW Infrastructure Services Units: the Environmental Unit plans and designs sewer construction, replacement and repair, samples and tests storm water at outfalls and performs other inspections, and the Underground Unit inspects and cleans sewers, and makes minor repairs of sewers, manholes, catch basins and outfalls. The SMF also funds the City's Street Sweeping and Leaf Collection Program.

The function of the sewer system is to transport sanitary sewage to the Milwaukee Metropolitan Sewerage District (MMSD) and to carry storm water to lakes and rivers without pollutants. Approximately two-thirds of the City's sewer system functions as a "separated" system with one conduit for sanitary sewage and another for storm water. The remaining system is "combined" and must transport combined sanitary and storm water to MMSD.

Because of the essential health and environmental concerns affected by the handling of sewage and water, a variety of agencies regulate or provide oversight for the activities of the SMF including the U.S. Environmental Protection Agency (EPA), the Wisconsin Department of Natural Resources, the Wisconsin Justice Department, the Southeastern Wisconsin Regional Planning Commission (SEWRPC) and MMSD.

Background and History

1. The 1998 Budget created the Sewer Maintenance Fund by transferring two decision units from DPW-Infrastructure Services: (1) Environmental and (2) Underground Operations. 188 positions were transferred.
2. The 2000 Adopted Budget transferred the Relief and Relay Sewer capital program from the City's capital program to the Sewer Maintenance Fund. The Relief and Relay Sewers have been financed through issuance of revenue or general obligation bonds and paid for from Sewer Maintenance Fee revenues. Before 2000, the Relief and Relay Sewers were largely cash financed.
3. The 2000 Budget authorized a \$14,560,000 Sewerage System Revenue Bond issuance and the 2001 Budget authorized an additional \$14,535,000 bond issuance for financing costs of improvement to the City's sewerage system. These were followed by an additional bond issue implemented in June 20, 2003 for up to \$33,885,000.
4. In 2001, a cash conversion policy was developed related to the Sewer Maintenance Relay Program designed to realize long-term savings through debt service avoidance. The intent was to balance current costs and future savings thereby making annual fee increases manageable and acceptable. Cash financing, and not borrowing, for capital improvement projects was eliminated in the 2005 budget to avoid raising the sewer rate in 2005, and, to avoid using debt to pay for debt. It appears likely that future Sewer Maintenance Fees will need to be adjusted upwards to service the debt incurred on General Obligation borrowing prior to the creation of the fund, the debt incurred outside the SMF since its inception, and new debt incurred within the SMF.
5. In 2001, the department began purchasing its own equipment fleet. Prior to 2001, the Fund rented equipment from DPW – Buildings & Fleet.
6. In 2002, Special Funds began providing payments to the General Fund for the Street Sweeping and Leaf Collection services. The Department of Public Works (Buildings & Fleet and Sanitation) delivers those services to City of Milwaukee property tax payers as well as tax exempt entities.
7. The MMSD grant offsetting costs related to monitoring and studying the sanitary sewer system expired on December 31, 2002. No comparable grant sources have been identified to replace this revenue stream.
8. In 2002, the Wisconsin Department of Natural Resources (DNR) charged that the city failed to adequately enforce erosion control ordinances. Future resources were required to be dedicated to correcting areas of noncompliance.
9. In December of 2005 the City entered into a stipulation with 29 other Milwaukee and Waukesha County municipalities, settling a lawsuit brought by the State of Wisconsin alleging violation of federal and state water pollution control laws at various sanitary and combined sewer locations in the County. The City agreed to

continue enforcement of ch. 120 (Storm Water Management) of the Code of Ordinances, and ch. 13 of MMSD Rules and Regulations within the combined sewer area. This voluntary settlement promotes the disconnection of roof drains to reduce and prevent overflows of the combined sewers (CSOs). The settlement also addresses overflows of sanitary sewers (SSOs), assessing financial penalties for such overflows. The settlement also addressed "infiltration/inflow" (I/I) as defined in s. NR 110.03(14), (16) and (17), Wis. Admin Code.

10. The stipulated settlement also referenced the amended MMSD 2020 Facilities Plan as it may be approved by the DNR and directed that the DNR may not issue a permit to the City that avoids, alters, or otherwise amends the stipulation or the DNR approved MMSD 2020 Facilities Plan.
11. In 2006 a DPW reorganization relocated Sewer Maintenance Fund operations to the Tower Automotive site at N. 35th Street and W. Capitol Drive; this resulted in elimination of 1 of 3 field districts and certain vacant positions. The SMF entered into a long term lease agreement with the Redevelopment Authority for the property. Annual lease payments are in excess of \$840,000.
12. The latest Draft MMSD 2020 Facilities Plan was approved by the DNR in December of 2007 and can be accessed at <http://www.mmsd.com/wqi>.
13. Discussions are currently underway with DNR to relax certain requirements and to give credit to the City for innovative infrastructure improvements that are designed to reduce storm water pressures on combined sewers.

PERSONNEL

The 2009 Proposed Budget provides \$4,831,447 for salaries and wages, a \$557,077 decrease (10.3%) from the \$5,388,524 provided in the 2008 budget.

In September of 2008, the SMF reported the following vacancies:

Engineering Drafting Tech V	8/8/08	Fill
Office Assistant II	6/15/07	Fill
Sewer Repair Crew Leader – 3 positions		Fill as needed
Sewer Crew Leader I - 6 positions		Fill as needed
Sewer Laborer II – 5 positions		Fill as needed
Sewer Laborer I – 10 positions		Fill as needed

The proposed budget provides for the elimination of 7 authorized positions (1 Engineering Drafting Technician, 2 Sewer Laborer I positions, 1 Auxiliary Sewer Repair Crew Leader I, 2 Auxiliary Sewer Crew Leader I positions, and 1 Auxiliary Sewer Mason). These positions are vacant. The actual effect of changes, based in large part upon adjustments made as a result of experience with a variety of positions, is to decrease O&M FTEs by 7.26 and to increase Non O&M FTEs by 2.11. Adjustments in Non-O&M FTEs include the movement of 2.25 FTEs involved in water quality projects to capital funding.

OPERATING EXPENDITURES

The 2009 Proposed Budget Total Operating Expenditures provides \$5,262,000 compared to \$6,284,000 provided in 2008, a \$1,022,000 (-16.3%) decrease following a 22.3% decrease in the 2008 Budget from the 2007 Budget.

Operating Expenditures	2007 Actual	2008 Budget	2009 Requested	2009 Proposed
General Office Expense	\$28,337	\$28,000	\$28,000	\$28,000
Tools & Machinery Parts	\$41,127	\$45,000	\$45,000	\$45,000
Construction Supplies	\$640,266	\$550,000	\$600,000	\$600,000
Energy	\$50,841	\$41,000	\$41,000	\$41,000
Other Operating Supplies	\$90,802	\$100,000	\$100,000	\$100,000
Vehicle Rental	\$1,809,057	\$2,000,000	\$2,000,000	\$1,800,000
Non-vehicle Equip. Rental	\$2,819	\$4,000	\$4,000	\$4,000
Professional Services	\$126,238	\$178,000	\$153,000	\$233,000
IT Services	\$20,650	\$10,000	\$20,000	\$20,000
Property Services	\$843,546	-0-	-0-	-0-
Infrastructure Services	\$4,968,914	\$1,920,000	\$920,000	\$920,000
Other Operating Services	\$370,075	\$525,000	\$515,000	\$515,000
Reimburse Other Depts.	\$1,027,823	\$883,000	\$928,000	\$956,000
TOTAL	\$9,520,506	\$6,284,000	\$5,354,000	\$5,262,000

- The 2007 Budget provided \$206,800 for Equipment Purchases. Actual expenditures in 2007 totaled \$775,763. The 2008 Budget for Equipment Purchases is \$126,800. The Proposed 2009 Budget provides \$215,500 for Equipment Purchases, \$40,000 more than requested by the SMF.
- The amount budgeted for Property Services in 2007 of \$843,546 was for the Tower Facility lease. In the 2008 Budget and the 2009 Proposed Budget this lease amount appears in a different account, Special Funds, and is budgeted at \$844,000.
- The Sewer Maintenance Fund pays equipment rental fees to DPW. The rental payments are funded in the Vehicle Rental account. The yearly payments (rounded) are as follows:
 - 2003 actual - \$1,544,805
 - 2004 actual - \$1,358,693
 - 2005 actual - \$1,739,688
 - 2006 actual - \$1,987,450
 - 2007 actual - \$1,809,057
 - 2008 budget - \$2,000,000
 - 2009 proposed -\$1,800,000

SPECIAL FUNDS

The 2009 Proposed Budget Special Funds provides \$27,269,000 compared to the amount \$26,154,000 budgeted for 2008 and the actual expenditure of \$19,437,999 in

2007. The increase proposed over the 2007 actual expenditures is \$7,831,001 or 40.3%. Historically, the Special Funds budget category provided for debt service, payment to the general fund, contingencies and depreciation. Sewer user fees provide funding for the following special fund line items:

Special Funds Reserved For Debt Payments

Sewer capital is replacement or rehabilitation of existing sewer systems and installation of new sewer systems. General obligation borrowing provides for replacement and rehabilitation projects and also provides for expanding the existing sewer system. Pre-2000 borrowing, and its debt service, was supported by the property tax levy. Post-2000 relay projects have been funded by user fees collected by the Sewer Maintenance Fund. The Budget Office has adopted an approach that places all annual debt service for sewer related projects, regardless of age, on SMF accounts paid for by consumers and property owners through quarterly Sewer Maintenance and Storm Water Fees.

The 2009 Special Funds Budget of \$27,269,000 provides for the following uses:

Debt Service Reduction within the Sewer Maintenance Fund since the transfer of Relief and Relay Sewer capital to the Fund in 2000 (\$11,700,000; this amount is \$3,200,000 above the Requested Budget and double the amount of \$5,785,568 actually expended in 2007).

Debt Service on prior City GO debt (\$9,300,000).

Payment to the General Fund for street sweeping and leaf collection (\$5,000,000).

Payment to Milwaukee Water Works on a fee basis for billing, adjusting, collecting and remitting sewer fees through user's Municipal Services Billing (\$350,000).

Payment of the Tower Facility Lease (\$844,000).

Amortized costs of bond issuance (\$75,000).

A job skills training program funded in 2008 at \$75,000 has been eliminated in the 2009 Proposed Budget.

CAPITAL BUDGET

In 2008, the Sewer Maintenance Fund began applying for and borrowing capital revenues from the State of Wisconsin Clean Water Fund. These amounts will be repaid using future Sewer Maintenance Fund revenues. The Clean Water Fund provides loans at a lower subsidized rate than other bond markets. The length of time required for applications, and requirements to apply individually for Relief and Relay capital projects,

has led to decisions by the Comptroller to issue short-term debt to assure sufficient ongoing revenues. This may result in costs not anticipated in 2008 and 2009 budgeting.

The Proposed Budget and Budget Plan for 2009 are explicit in prescribing that capital borrowing will be limited to the Wisconsin Clean Water Fund and, when eligible for this funding, from General Obligation bonding as opposed to General Revenue bonding, which is often more expensive and requires maintaining a cash reserve. The impact of the current downturn in credit markets on the ability of the City to borrow for capital projects and the costs of such borrowing are not clear.

Note: 2009 planning goals are for replacement of 17 miles of sewers. At this level of annual replacement, City of Milwaukee sewers are on a 145 year replacement cycle.

The Proposed 2009 Budget includes an amount of \$2,900,000 in cash financing of sewer capital to improve Fund sustainability in future years. Though estimates of sustainability somewhat differ between the Budget Office and the Office of the Comptroller, it is clear that, with declining water use and increased needs to meet federal, state and regional mandates, the fund will not be sustainable in future years without significant increases in fees and charges to cover capital costs.

REVENUES

Total revenues of the Sewer Maintenance Fund in 2007 were \$56,085,864. Budgeted revenues expected in 2008 are \$70,604,098, boosted by the Storm Water Charges and an 8% increase in the Sewer maintenance Fee. Primarily, however, these increased revenues are due to more than \$8,000,000 in increased borrowing.

SMF Revenues Other Than Borrowing and Retained Earnings					
<u>TYPES OF REVENUE</u>	<u>2007 actual</u>	<u>2008 Budget</u>	<u>2009 Proposed</u>	<u>CHANGE</u>	<u>% CHANGE</u>
Sewer Maintenance Fee	\$23,769,847	\$25,382,000	\$26,617,000	+ \$1,235,000	+ 4.9%
Storm Water Mgmt Charge	\$12,771,655	\$12,600,000	\$13,622,400	+ \$1,022,400	+ 8.1%
Charges For Services	\$1,215,558	\$768,800	\$1,200,000	+ \$431,200	+ 56.1%
Interest Revenue	\$413,959	\$290,000	\$370,300	+ \$80,300	+ 27.7%
Miscellaneous Revenue	-0-	\$5,000	-0-	- \$5,000	- 100%
TOTAL REVENUE	\$ 38,171,019	\$39,045,800	\$41,809,700	+ \$2,763,900	+ 7.1%

The local sewerage charge (Sewer Maintenance Fee) continues to be based on water use, and is increased from the 2008 level which is currently \$1.036 per one hundred cubic feet of water (CCF) to \$1.12 per CCF. The Sewer Maintenance fee peaked in 2006 at \$1.27 per CCF prior to implementation of the new storm water management charge. The new Storm Water Management Charge for a single residence is increased from \$8.00 per quarter to \$8.60 per quarter. Taking both charges together, a typical single-family residence will pay approximately 8% more in fees and charges in 2009.

The Storm Water Management Charge became effective July 1, 2006, and provides a Storm Water Management charge for each 1-4 unit dwellings (including condominiums) based on the citywide average impervious area per residential developed property. Charges for all other properties vary based on the amount of impervious surface area on

each property. The Storm Water Management Charge is calculated based on an "equivalent residential unit" (ERU) rate set annually by Common Council resolution. The charge first appeared on Municipal Services Bills in August 2006.

The 2009 Proposed Budget anticipates \$13,622,400 revenue from the Storm Water Management Charge compared to \$12,771,655 actually realized in 2007. This is an increase of \$850,745 (+6.7%).

Charges for Services and Miscellaneous Revenues

The various services provided under Charges for Services and Miscellaneous Revenue include: (1) deferred sewer assessments, (2) unused sewer life, (3) certified survey plat review, (4) storm water management manual sales, (5) sewer maintenance non-city services, (6) sewer maintenance plat and reviews, (7) sewer user penalty for transfers to property tax roll.

CHALLENGES AND FUTURE ISSUES

MMSD 2020 Facilities Plan and SEWRPC Planning

In December 2007, the DNR approved a draft plan developed by MMSD titled the 2020 Facilities Plan. The Plan affects wastewater and flood management services for 28 municipalities, including the City of Milwaukee, serving 1.1 million people in a 411-square-mile area. The Plan has been developed in conjunction with a Court-ordered stipulation signed with the State of Wisconsin, MMSD and other Milwaukee County municipalities. The Plan document is integrated with a companion document prepared by the Southeastern Wisconsin Regional Planning Commission (SEWRPC) entitled, "The SEWRPC Regional Water Quality Management Plan Update (RWQMPU)." This second document is referred to as a Section 208 Plan. Under federal and state requirements, the Facilities Plan, referred to as a Section 201 Plan, must conform to the RWQMPU. Public hearings on the proposed 2020 Facilities Plan were held in April of 2007 and the Plan has been submitted to the Wisconsin Department of Natural Resources. When finalized, likely this Fall, the Plan may require a number of changes in SMF processes and sewer infrastructure. For example, the Plan identifies Urban Nonpoint Stormwater as the major contributor (56%) to estimated annual bacteria loads in the Greater Milwaukee Area watersheds. This may require that particular attention be paid to storm water systems and outfall monitoring. The SEWRPC RWQMPU included in its key findings that "...reducing (or even eliminating) combined sewer overflows and sanitary sewer overflows will result in little or no water quality improvement."

Costs and program changes resulting from a new Facilities Plan are not yet apparent.

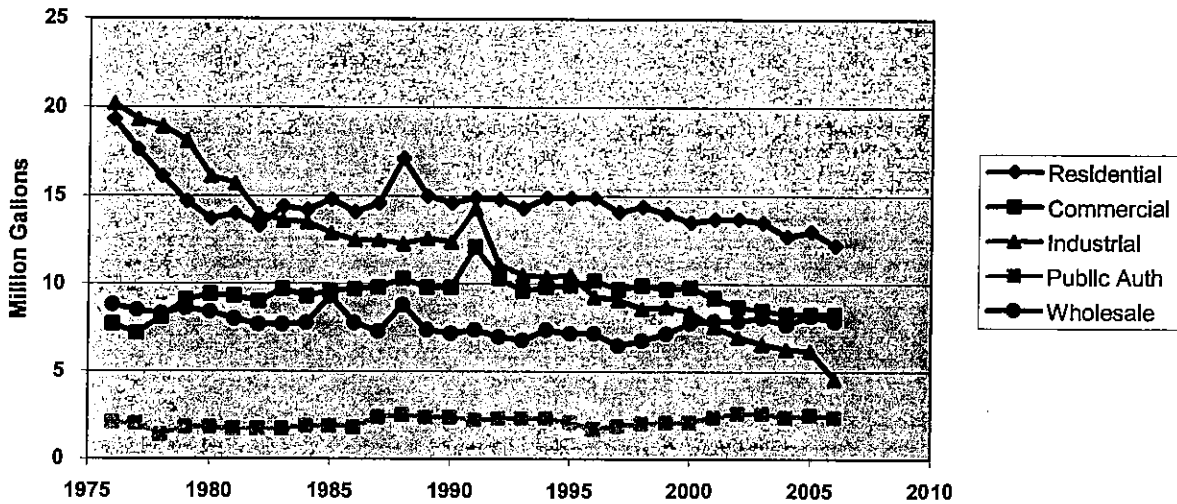
Reduced Water Usage

Reliance upon water usage, that is, volume of consumption for establishing a revenue calculation not only provides an incentive for lower usage, but, taken with changes away from heavy industrial usage, undermines the long-term revenue stream intended to support sewer maintenance. The recently implemented Storm Water charge certainly

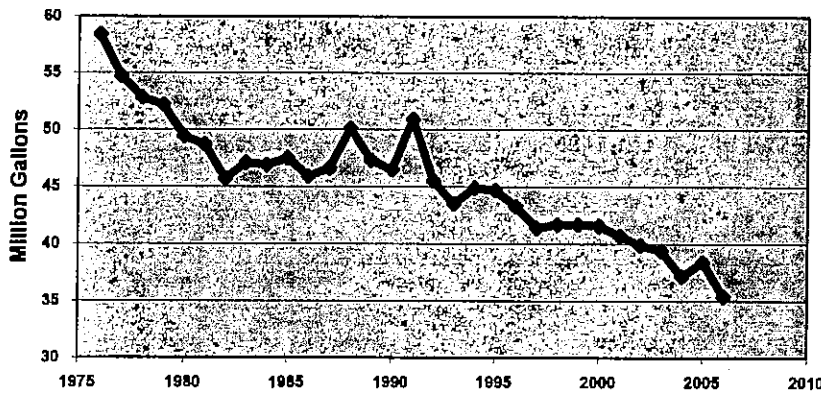
assists the SMF in meeting its federal, state and regional mandates. But lower water consumption will continue to present a revenue challenge.

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

**Milwaukee Water Works
Metered Sales by Category**



**Milwaukee Water Works
Metered Water Sales**



Water consumption trends in Milwaukee are expected to continue to decline.

Unforeseeable Events

The heavy snowfall experienced this past winter, and flooding due to June's record rainfall are examples of unanticipated stresses upon the City's sewer systems. Basement backups such as those experienced in areas affected by Lincoln Creek (resulting in numerous claims against the City) are being addressed by the SMF particularly in planning maintenance and reconstruction coinciding with DNR and MMSD priorities. New technologies and approaches for addressing toxic and biohazard pollution are also being explored.

Laterals

Though the City is responsible for its 2,446 miles of sewers, meeting the objectives of federal, state and regional authorities to prevent pollution is complicated by the fact that maintaining lateral sewer conduits is the responsibility of property owners and not the City. Maintenance, repair or replacement of compromised laterals is costly and, during depressed economic conditions, it is less likely that property owners will make this a priority. Strategies involving incentives or potential punishments for property owners may need to be considered to assure that City efforts to meet mandates are not undermined by failures of private parties in a collective responsibility to reduce or prevent water pollution.

Fund Sustainability

As a variety of expenditures related to sewer construction, repair and maintenance have been transferred from City O&M tax levy funding and City capital borrowing over the past decade, it has become increasingly clear that sometime within the next 3 to 6 years, borrowing and debt service will make the Sewer Maintenance Fund unsustainable without a significant restructuring of revenues. Projections by the Budget Office and the Office of the Comptroller differ on when, but not whether this will occur.

The Office of the Comptroller is exploring a proposal to conduct a detailed audit of the Sewer Maintenance Fund, and its complicated capital, borrowing, revenues, reimbursement and expenditure mechanisms. It would appear to be a timely effort and should not interfere with the necessary work on the ground (and in the ground) that the Environmental and Underground Units of DPW are engaged in.

Regulatory Pressures

Regulatory and judicially adjudicated requirements result in significant policy-making decisions that are outside the control of the City. The Sewer Maintenance Fund continues to work with DNR and MMSD to adjust requirements to reflect the City's needs and capacities while assuring that the health and safety of the public are protected and improvements of environmental quality are sustained. The City is also exploring ways in which it may receive 'credit' for innovative storm water and pollution management.

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