



THE LEAGUE OF WOMEN VOTERS
OF MILWAUKEE COUNTY

TO: Steering and Rules Committee, City of Milwaukee
RE: Leasing of the City of Milwaukee Water Works
DATE: June 15, 2009, 1:30p.m.

The League of Women Voters believes that "governmental bodies must protect the citizen's right to know by giving adequate notice of proposed actions *and* holding open meetings"¹ and thanks the City for the opportunity to speak today. The League also believes that "government policies must promote stewardship of natural resources,"² which includes resource conservation.

With these ideas in mind, the League believes many questions need to be answered before the Milwaukee Common Council considers undertaking a study of the leasing of the City of Milwaukee Water Works. Our questions arise from the following thought scenario about the options for any company that might lease the Water Works for 99 years for the up-front price of \$600,000,000.

The City must ask itself the same questions a for-profit company must ask. "Will investing \$600,000,000 in the Water Works yield the best return on its investment compared to any other investment?" Assuming that a for-profit company would want at a minimum a conservative 5% yearly return or \$30,000,000 (the return proposed by the City of Milwaukee comptroller, Mr. Morics), the question arises, how could such a return be achieved? Actually, the company will want a better return, but let us use the 5% figure for discussion.

In its 2006 report, the Water Works reported approximate \$10,000,000 net revenue based on income of \$72,000,000 and costs (current expenditures and capital distribution) of \$62,000,000.

If, instead of investing its \$600,000,000 at 5%, a company leased the Water Works, it would need to more than triple the annual net revenues of the utility to achieve the \$30,000,000 return it would reap from an alternative investment. Moreover it would need to increase its return by another \$6,000,000 per year to recover the initial outlay of \$600,000,000. Therefore, the lease arrangement would need to provide at least \$36,000,000 per year in net revenue, more than three times the present net revenue. This means that a huge change in the revenue-expenditure picture would need to occur. What does this mean for the City and its residents?

To triple the return the lessee can only increase revenues (increase water rates or increase water sales) or cut costs.

- Increasing water rates could be done by the current utility; what is the virtue of leasing the Water Works so that a private company can raise rates?
- Increasing water sales can also be done by the Water Works. But this approach runs into three problems.
 - The first is that the Milwaukee Metropolitan Sewerage District is already at capacity

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for treating area wastewater. So if water sales increased significantly, MMSD would need to build additional infrastructure at cost to users, thereby defeating the purpose of the lease – offsetting costs.

- The second is that increasing water sales will largely come from sales to the suburbs. Such water transfers simply foster further dispersal of population from Milwaukee to other taxing districts and continues the problem of inadequate tax revenues described by Mr. Morics.
 - The third, and most critical in the long run, is that it is unsustainable environmentally to continue to increase water use. Instead, we need water conservation.
- Cutting costs is similarly problematic since expenses are now (2006) approaching \$60,000,000 per year and the lessee needs to recover about \$26,000,000 in additional revenue. General cost cutting tactics would likely include reductions in maintenance, capital investments, staff or wages. Certainly, energy costs will not decline. All of these have enormous down sides. By all accounts the Water Works is very well run; so cutting operational costs will be an unlikely source of significant added revenue.


Another concern is that the lessee could in turn lease the Water Works to another entity. After years of depreciation and accompanying federal tax breaks, the federal and state governments will have essentially subsidized the lessee.

The Water Works is a key City asset that helps define the central importance of the City for the region. Before opening up this issue and risking hi-jacking by special interests, the League asks the Steering and Rules Committee to do the thought exercise described here. There is no evidence that leasing the Water Works will net the City residents significant benefit in the short or long term. The lessee has to make money. Try to maintain tight regulation and the lessee will not come. Loosen control and the City will lose control.

In closing, water pricing might be an opportunity for the City to do what the lessee would surely do as well. Right now, for example, Milwaukee is not charging another city the rate for water that the Public Service Commission has authorized. More broadly, creative differential water pricing offers the opportunity to increase revenue, insure that basic water needs are met at lower cost, and at the same time foster conservation through higher prices for optional uses.

Before forwarding this item to the Common Council, the League urges the Steering and Rules Committee to carefully review the proposal in light of the foregoing thought exercise and the fact that Lake Michigan is essentially a non- renewable resource of fossil water bequeathed to current users from the Ice Age. It is the City's duty to be exemplary stewards of this bequest.

Respectfully,


Louise Petering, President

Helga Guequierre, Director

1. p. 20, "Impact on Issues, 2006-2008, A Guide to Public Policy Positions," League of Women Voters of the United States.
2. p. 43, "Impact on Issues, 2006-2008, A Guide to Public Policy Positions," League of Women Voters of the United States.

Thought Exercise

