

Milwaukee Water Works

2017 Budget Overview

Finance & Personnel Committee

October 13, 2016

Performance Measures

Measure	2015 Actual	2016 Planned	2017 Estimated
Rank of highest rate /Ccf of water among Class AB utilities in the 7-county metro area	17/27	20/27	20/27
Rate of Return [PSC Annual Report]	3.92%	2.99%	1.57%
Percentage of days/year in full compliance with water quality parameters of Safe Drinking Water Act	100%	100%	100%
Main breaks	431	400	500

Budget Summary

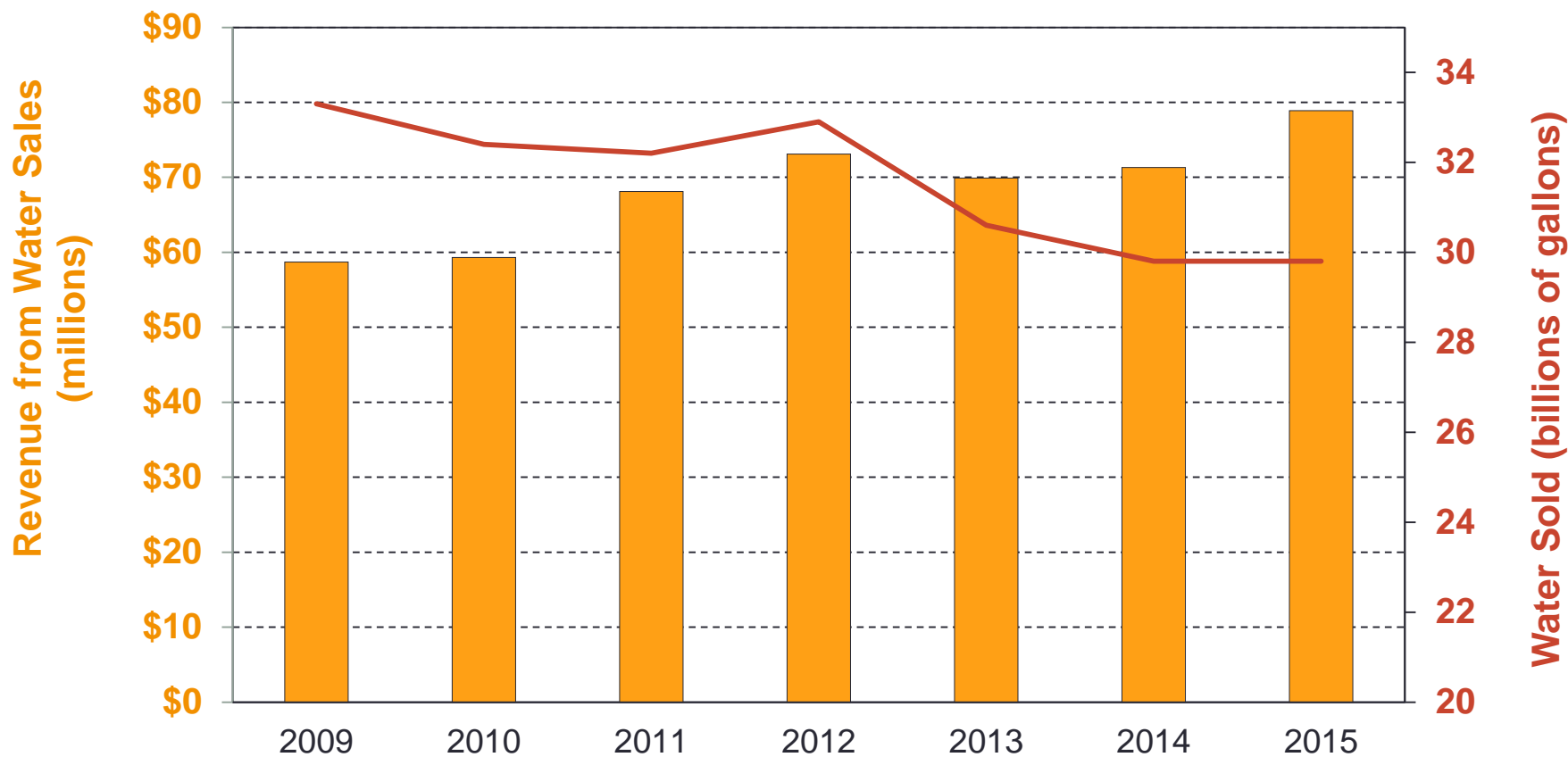
	2016 ADOPTED BUDGET	2017 PROPOSED BUDGET	DIFFERENCE (amount, %)
FTEs – O&M	349.48	358.95	+9.47 (+2.7%)
FTEs - Other	19.94	20.97	+1.03 (+5.2%)
Salaries & Wages	\$19,070,896	\$19,252,667	+\$181,771 (+0.1%)
Fringe Benefits	9,251,194	9,331,333	+80,139 (+0.1%)
Operating Expenditures	49,353,500	55,297,000	+5,943,500 (+12.0%)
Equipment	2,686,850	3,693,000	+1,006,150 (+37.4%)
Special Funds	7,387,000	7,191,000	-196,000 (-2.7%)
TOTAL	\$87,749,440	\$94,765,000	+\$7,015,560 (+8.0%)

Revenue and Consumption

- ❑ Water consumption continues to decline
 - Consumption down 22% from 2005 to 2015
- ❑ Recent history of rate increases
 - Conventional Rate Case- November 2014: 11.4%
 - Simplified Rate Case- September 2016: 3.0%
- ❑ Declining consumption, accelerated main replacement program, lead service line replacement make future rate increases necessary

Annual Water Sales

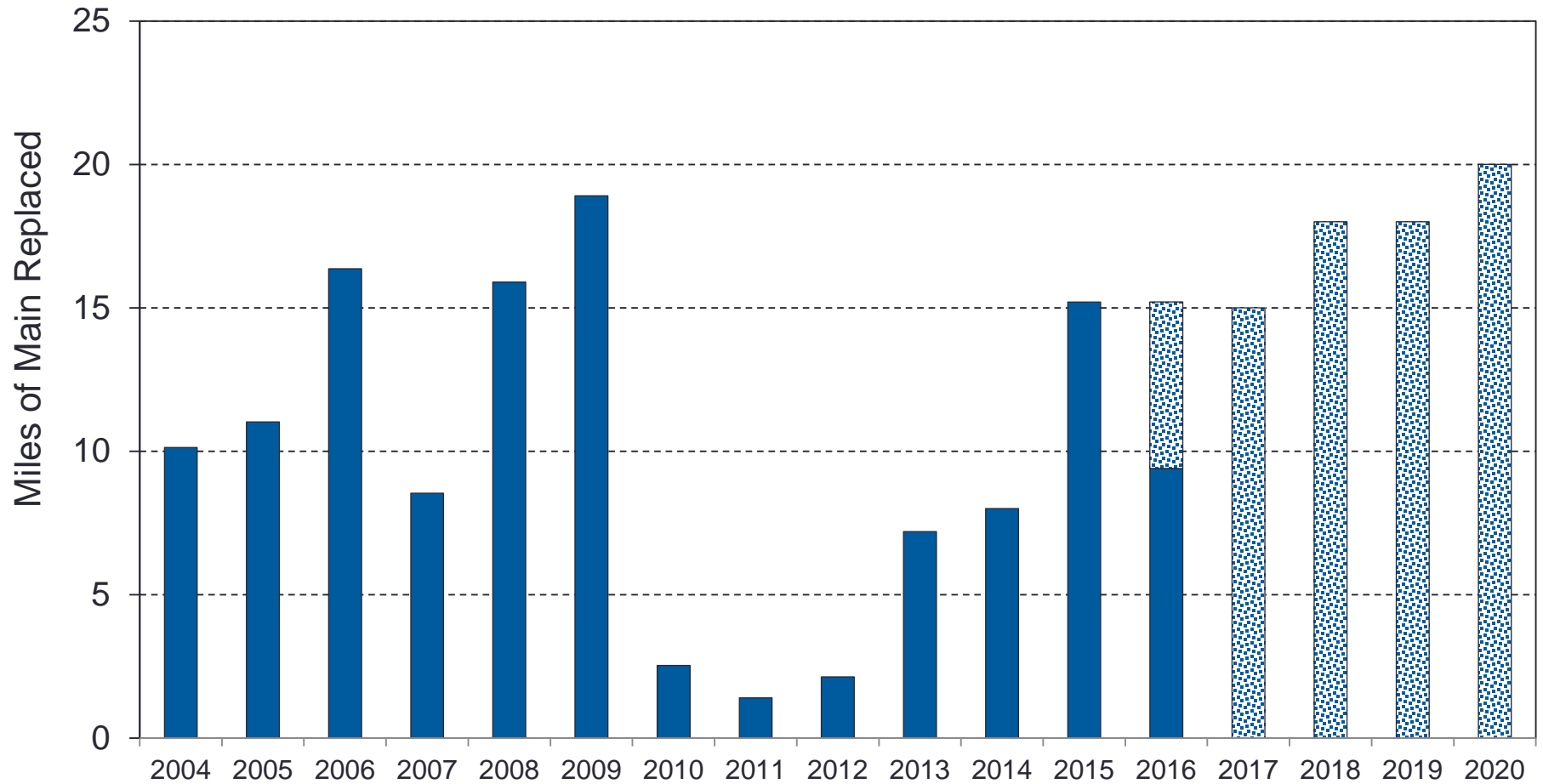
2009 through 2015



Water Works Capital

Program	2016 Adopted	2017 Proposed
Water Main Replacement	\$19,500,000	\$22,740,000
Linnwood Plant Building Improvements	\$425,000	\$750,000
Linnwood Plant Treatment Improvements	\$775,000	\$500,000
Howard Plant Building Improvements	\$0	\$150,000
Howard Plant Treatment Improvements	\$750,000	\$450,000
Pump Facilities Improvements	\$200,000	\$125,000
Storage Facilities Improvements	\$2,000,000	\$2,300,000
Meter Shop Repair	\$0	\$175,000
Capital Project Contingencies	\$2,000,000	\$2,000,000

Water Mains Replaced



Key Capital Budget Changes and Highlights

- ❑ Water Main Replacement Program (+\$3.2m)
 - Replace 15 miles in 2017; increase to 18 miles in 2018
- ❑ Linnwood Plant Repairs
 - Roof replacements (\$450k), steel pipe replacement (\$500k)
- ❑ Repair and painting of water storage tank at Florist (\$1.8m)

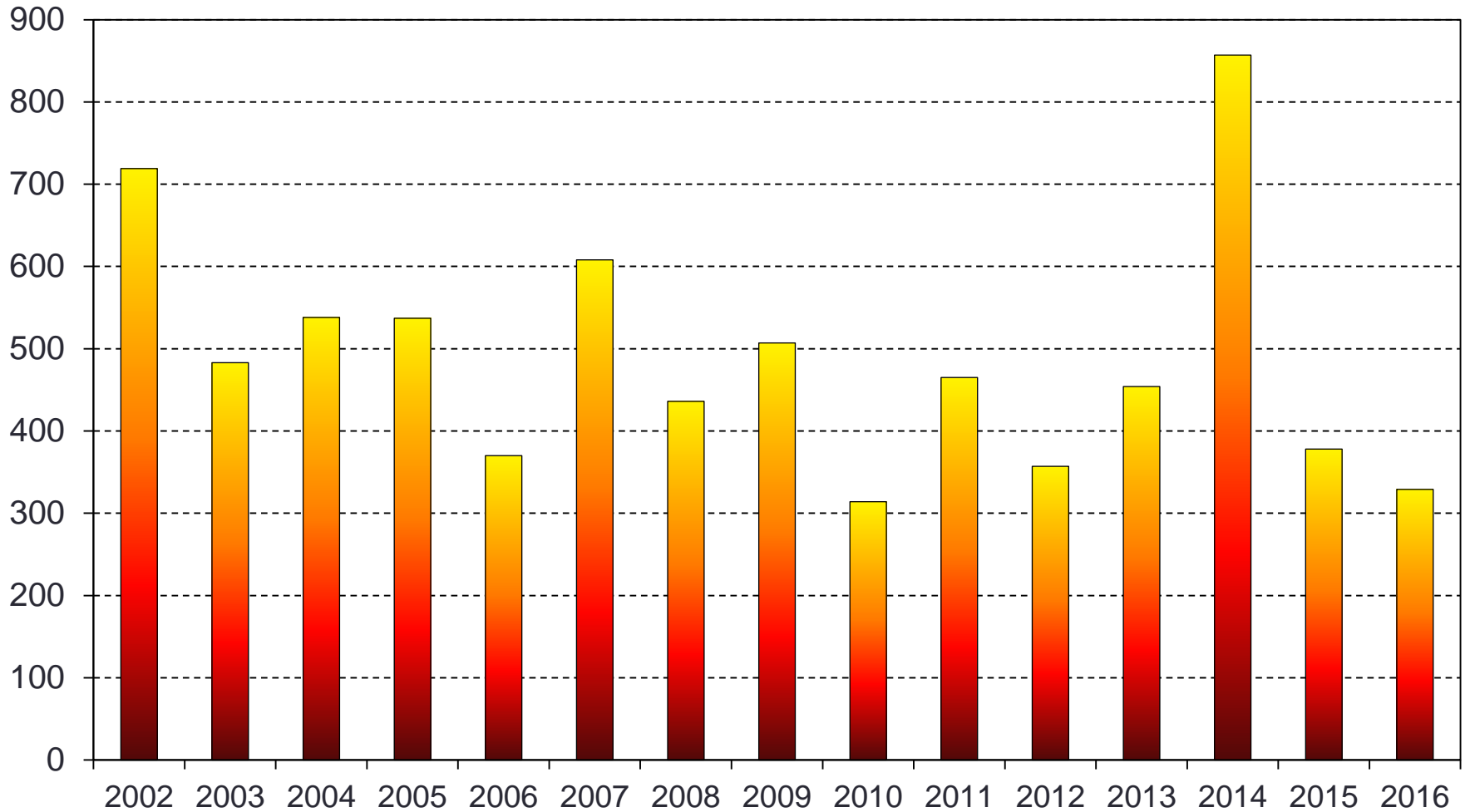
Automatic Meter Reading Project



- 100,287 meters replaced
- 64.3% complete (55,713 to go....)

Water Main Breaks

Through Sept. 30th of Each Year



Key Operating Budget Changes and Highlights

- ❑ Increased frequency of cross connection surveys (+\$800k)
- ❑ \$1 million increase in equipment budget
- ❑ \$6.5 million for Lead Service Line Replacement
 - \$3.6m to replace utility-owned portion of 300 schools/daycares and 300 leaks
 - \$2.6m “pass-through” for upfront costs of privately-owned portion of 300 schools/daycares and 300 leaks to be reimbursed by DNR
 - \$340k for coordination, testing and outreach
 - One Water Construction Coordinator
 - One Chemist for additional testing

Lead Service Line Replacement Program: Key Elements

- ❑ Require replacement of private portion of lead service line when:
 - Privately owned or utility owned portion of a lead service lines leak; or
 - The utility owned portion of a lead service line is replaced
- ❑ Subsidy for eligible property owners
- ❑ Moratorium on partial lead service line replacement
 - When leaks are encountered on utility owned or privately owned portion of lead service line, the entire service line will be replaced
- ❑ Prioritize replacement of lead service lines serving daycares and schools

Lead Service Line Replacement Program: Financing

- ❑ Estimated average cost to replace lead service line: \$11,000
 - Estimated cost to replace utility portion: \$6,000
 - Funded through revenues from water sales
 - Will require significant rate increases
 - Estimated cost to replace privately owned portion: \$5,000
 - Eligible property owners will receive a City subsidy and special assessment financing

Lead Service Line Replacement Program: Financing

- ❑ 1-4 unit residential properties meeting certain criteria are eligible for subsidy
- ❑ In order to receive the City subsidy the property owner must:
 - Sign “Hold Harmless” agreement
 - Grant temporary construction easement
 - Agree to have private side work performed by MWW contractor
 - Allow access into home to connect new service to meter
- ❑ When these conditions are met:
 - The City will subsidize 2/3 of the cost of replacing the private portion (approx. \$3,400)
 - Property owner pays for the lesser of \$1,600 or 1/3 of the cost of replacing the private portion
 - Property owner’s special assessment would be approx. \$167 annually for 10 years which is less than \$14 per month

Lead Service Line Replacement Program: 2017 Plan and Budget

- ❑ Replace lead service lines serving 300 daycares and schools
 - \$1.8 million Water Works ratepayer funds (utility side)
 - \$1.6 million Safe Drinking Water funding (private side)

- ❑ Replace lead service lines that experience leaks- approx. 300
 - \$1.8 million Water Works ratepayer funds (utility side)
 - \$1 million Safe Drinking Water funding (private side)
 - \$500,000 Special Assessment from property owners (private side)

Lead Service Line Replacement Program: Long-term Outlook

- ❑ Estimated cost to replace the utility and privately owned portions of 70,000 lead service lines: **\$500 million to \$770 million** (in 2016 dollars)
- ❑ \$1 million annual Safe Drinking Water funding uncertain beyond 2018
- ❑ City is aggressively pursuing State and Federal funds
- ❑ City subsidy funded through levy-supported borrowing in the absence of State/Federal funding

Lead Service Line Replacement Program: Long-term Outlook

- ❑ In 2018 and beyond, program will be scaled up to include proactive replacement of lead service lines in conjunction with water main replacement or other infrastructure projects
- ❑ Factors that will affect how quickly the City can scale up the program:
 - Approval of water rate increases
 - Pressure on levy-supported capital budget
 - Private sector capacity to perform the work

Lead Service Line Replacement Program: Employment Opportunities

- ❑ Insufficient private resources to meet the demand for service line replacement
- ❑ Long-term nature of program will create need for permanent employment
- ❑ Opportunity to employ City residents
 - RPP
 - Plumbers