



Office of the Comptroller

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Mr. Mark Nicolini, Director
DOA - Budget and Management Division
City Hall - Room 307
Milwaukee, WI 53202

Dear Mr. Nicolini:

This letter is in response to your request for information concerning the unrestricted cash balance in the Sewer Fund and the sustainability of the transfer to the Debt Service Fund. As you are aware, staff from both the Budget Office and the Comptroller's Office have worked together in determining the sustainability of an annual Sewer Fund transfer – a transfer for the retirement of sewer purpose General Obligation debt issued prior to the creation of the Sewer Fund.

The ongoing sustainability of the transfer can only be supported by ongoing revenues from operations and not from proceeds from debt issued to support Sewer Fund capital infrastructure. The use of sewer revenue bond proceeds to abate the debt service tax levy is prohibited.

Your letter specifically asked whether unrestricted cash built up over time could be drawn upon to support an increase in the transfer. Unrestricted sewer fund cash can be used for transfer to the Debt Service Fund. However, tax levy or "cash" financed capital and reserves for the 2001 and 2003 sewer revenue bond issues are not sources of unrestricted cash. Therefore, neither of these items increases the Sewer Fund's unrestricted cash balance. Funds used to support cash financed capital were expended to finance capital infrastructure. Bond proceeds issued to fund reserve requirements for the 2001 and 2003 sewer revenue bonds have been transferred to the bondholders' fiscal agent and are reflected as restricted cash in the Sewer Fund.

Attached is our unrestricted cash balance projection, which includes Budget Office's most recent revenue and expenditure assumptions for 2007 through 2010. The projection shows the assumed transfer amounts to be unsustainable for 2007 through 2009. However, sewer rate increases in 2009 and 2010 combined with decreases in the transfer in each of those years would restore sustainability by 2010. Our conclusion is predicated on the attached spreadsheet, which both our offices participated in developing. The challenge will be to define to the users the rationale for a 2007 decrease in sewer rates, followed by increases over the next three years.

Please contact me should you have any questions.

Sincerely,

W. MARTIN MORICS
Comptroller

WMM:MJD:CDK
REF: SewerFund Response.doc

Sewer Fund Operations Pro Forma Cashflows

CAFR Cash Balance 10,800
 Adj. for A/R, AP Fiscal Agent Interest (1,600)

Year	2006	2006	2007	2008	2009	2010
Beginning Cash Balance	9,300	9,139	11,245	9,679	7,266	7,161
Fee on Water Consumption						
Total Consumption	27,200	25,940	25,519	25,136	24,759	24,388
Growth - Consumption	-1.03%	-4.63%	-1.62%	-1.50%	-1.50%	-1.50%
Rates on Water Consumption	1,1084	1,0640	0,9260	0,8620	1,0600	1,1000
Growth - Rates	0.00%	-4.08%	-13.06%	4.00%	10.19%	3.77%
Revenues						
Total Fee	30,533	27,600	23,605	24,181	26,245	26,627
Storm Water Fee on Impervious Surface						
ERU Base (thousands)		405	405	405	405	405
STORM RATE PER ERU	\$	16.00	\$ 32.00	\$ 32.00	\$ 36.00	\$ 40.00
Growth in Rate		0%	100%	0%	13%	11%
STORM FEE	0	6,480	12,960	12,960	14,580	16,200
Other	857	874	1,900	927	955	984
Total Operating Revenues	31,390	34,954	37,485	38,068	41,780	44,010
Residential Impact (Annual)	\$ 84.31	\$ 96.66	\$ 102.30	\$ 105.11	\$ 116.56	\$ 123.60
	0.0%	14.9%	5.6%	2.7%	10.9%	6.0%
Growth - Expenses	29.51%	3.00%	3.00%	3.00%	3.00%	3.00%
Salaries	(4,941)	(5,367)	(5,374)	(5,535)	(5,701)	(5,872)
Salaries-Cap. Exp.	(408)	(377)	(386)	(396)	(406)	(416)
Employee Benefits	(2,099)	(2,254)	(2,257)	(2,048)	(2,109)	(2,173)
Employee Benefits-Cap. Exp.	(164)	(141)	(145)	(148)	(152)	(156)
Operating Expenses	(6,960)	(7,301)	(8,083)	(8,325)	(8,575)	(8,833)
Operating Expenses-Cap. Exp.	(155)	(93)	(96)	(98)	(101)	(103)
Equipment	(1,040)	(724)	(122)	(126)	(129)	(133)
Equipment-Cap. Exp.	976	570	564	599	614	629
Water Works Payment	(350)	(350)	(350)	(361)	(371)	(382)
Street Sweeping & Leaf Collection	(4,200)	(4,600)	(4,600)	(4,138)	(4,262)	(4,390)
Amortization of Insurance Costs	(64)	(63)	(75)	(75)	(75)	(75)
Transfer for Old GO Debt	(7,000)	(7,000)	(9,000)	(9,000)	(8,000)	(7,000)
SMF Debt Service	(5,152)	(5,147)	(9,128)	(10,828)	(12,628)	(14,518)
Total Expenses	(31,551)	(32,848)	(39,032)	(40,481)	(41,884)	(43,423)
Cash Receipt Over/(Under) Disbursements	(161)	2,108	(1,557)	(2,413)	(114)	588
Capital Borrowing						
Capital Expenditures						
Ending Cash Balance	9,139	11,245	9,679	7,266	7,161	7,739