



Office of the Comptroller
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Comptroller

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Mayor Tom Barrett,
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Milwaukee Common Council
City of Milwaukee
City Hall Room 205
Milwaukee, WI 53202

SUBJECT: Potential New Revenue Source

Honorable Members:

Over the last several budget cycles, it has become clear to me that the City of Milwaukee is in the midst of a long term structural financial *deficit*. The City's largest non property tax revenue source, State Shared Revenue, has been frozen over the past decade. The ability to offset the shrinking value of this revenue source through the property tax is constrained by both State imposed limits as well as the ability of our taxpayers to shoulder this burden. The ability to increase the City's overall revenue through new taxes and fees is likewise constrained.

During the Finance and Personnel Committee 2008 Budget Hearings, I testified that the City desperately needed long term major, reliable revenue source(s) in order to preserve its services and restore financial well-being.

The purpose of this communication is to suggest that there may potentially be an avenue to establish that meaningful, new ongoing revenue source for the City of Milwaukee. I am proposing we explore this option as a financial solution. I am well aware that this avenue may raise significant non-financial policy issues. Those, appropriately, should be dealt with by the Mayor and Common Council. However, as a financial solution, I need to emphasize strongly, that what I am proposing is the creation of an ***ongoing*** annual revenue source. I need to further emphasize that I would vigorously oppose utilizing these resources in any other manner.

The City of Milwaukee owns and operates the Milwaukee Water Works. It would be my initial suggestion that we explore the value of leasing the operations of the Water Works, on a long term basis. Such a lease could be flexible and provide for job security of the current work force, prohibit expansion of service to any municipality without our express consent, continue existing payments to the City from the Water Works, continue high maintenance standards for the physical plant and assets, high water quality standards, funding to audit compliance with the terms of the lease, etc. This is by no means a complete list of the policy items which could be of importance to you as policy makers, but is rather to illustrate that lease terms could accommodate policy concerns which you may have.

The City would receive a lump sum payment at time of lease execution. These funds in their entirety would be invested as an Endowment. Our preliminary investigations into this matter have indicated sufficient potential value to provide an ongoing revenue source in excess of \$30 million annually.

Such an amount represents an opportunity to provide substantial ongoing revenue to the City, but only if these funds are set aside so that only future interest earnings are used. Otherwise this initiative will create a more destabilized situation, ultimately making our structural deficit worse. Therefore, the City cannot use the lump sum it receives to cover ongoing City government costs. The Endowment requirement will assure long term preservation of the original funds received by the City of Milwaukee under this Agreement.

If the City of Milwaukee proceeds in this direction, it should only do so if we are to set up such an Endowment. It is therefore critical from the outset that if we explore leasing the Water Utility, we do so with the understanding that these funds we receive be “banked”, that is, set aside in some type of Endowment, or investment trust arrangement. The management of our own pension system has shown that intelligent, prudent investment management can yield significant returns. Likewise, the trustees of this Endowment should be fiduciaries, managing the funds under the “prudent investor” standard, with the goal of maximizing long term returns consistent with the preservation of principal. Again, these objectives are not unlike the long term goals of the pension system. Funds would be disbursed to the City annually based upon a formula tied to the Endowment’s investment return. Thus the annual payment from this Endowment would be formula driven and a function of market returns rather than an annual discretionary withdrawal. To avoid large annual fluctuations in disbursements to the City, I believe some type of smoothing formula, such as a 7-10 year moving average of investment returns would be appropriate. Again, this would avoid sharp income fluctuations caused by a particularly volatile up or down year. Finally, it would be desirable if the composition of the Endowment or trustee board included representation and investment expertise from the private sector. My initial proposed members would be the Mayor, President of the Common Council, the City Comptroller (or their representatives), a representative from the Greater Milwaukee Committee and a representative from the Milwaukee Metropolitan Association of Commerce.

An arrangement such as the one just described will create an annual, predictable ongoing revenue stream for the City.

I have attached a brief outline of the steps which need to be taken if we are to further explore this proposal. I must reiterate that it makes financial sense to proceed only if we establish a permanent Endowment or investment trust, and utilize only the income generated therefrom. Any other path is eventually financially destabilizing. But properly executed, this proposal has the potential to permit the City to meet its financial obligations, and provide some meaningful relief from the burden of a growing residential property tax.

I am requesting your permission to put together a team of professionals, and begin the process outlined in the attachment. I will keep you apprised of progress both on a regular basis and as milestones are achieved. I am hopeful that the professional fees incurred would be paid at the finalization of a master lease agreement from the proceeds of the transaction. This issue will become clearer when we go through the Request-for-Proposal process for the project team.

This concept is presented primarily as a financial solution. As I noted there are a myriad of policy issues, some of which I may have touched upon, others I may have missed. These are the matters which you as policymakers must work through, and get incorporated into the lease if we are to proceed successfully.

I see this effort as a major opportunity to help close the structural deficit we face and urge your serious consideration of this proposal.

Sincerely,



W. Martin Morics
Comptroller

Members of the Common Council

Timothy R. Sheehy, President, Metropolitan Milwaukee Association of Commerce

Julia H. Taylor, President, Greater Milwaukee Committee

10-01-08/WMM/Mjd

**APPROACH & TIMETABLE: IMPLEMENTING A WATER UTILITY
MASTER LEASE CONCESSION AGREEMENT**

TASK

TIME REQUIRED

I Engage an Advisor Team

- Prepare, present and get CC adoption of resolution to fund and hire advisors and report back to CC
- Prepare RFP (s) for financial/engineering/legal advisors
- Oral bidders' conference(s)
- Receive and evaluate bids
- Present recommendations to the CC
- Award contracts with advisors

3-4 months

II Transaction Team Prepare Provider term sheet and RFP

- Draft and achieve consensus regarding 'Endowment' Policy
- Inventory potential legal (statutory) and regulatory (PSC) issues/constraints
- Present alternatives regarding retained, delegated and transferred rights & related concessions such as:
 1. Capital mandates and operating, quality and customer service standards. Inventory / document current system physical scope and condition and establish capital mandates and operating, quality and customer service standards
 2. Other transferred, delegated and retained rights and responsibilities
 3. Clarify and refine structure of arrangement including City reversion and other City of Milwaukee rights to remedial action.
 4. Enumerate major operational issues: employee related, future service customers, etc.
- Review-update as necessary City Goals and Criteria for a successful Master Lease Agreement
- Evaluate Restructuring Options, feasibility, regulatory issues, compare to Goals- confirm whether to proceed with transaction
- Re-estimate cost & time to successfully complete transaction
- Initiate any required State legislation and f/up thru State adoption

- Draft City - provider term sheet and RFP
- Prepare, present and request CC adoption of resolution to approve term sheet and RFP

8-14 months

III Select Provider, negotiate Long Term Master Lease Concession Contract

- Pre-qualify bidders
- Hold pre-bidders' conference to clarify issues
- Evaluate and rank proposals
- Interview winning proposer or 2-3 finalists
- Present preferred bidder to CC for approval
- Negotiate contract with selected bidder
- Finalize and implement Endowment policy and supporting structure.
- Recommend award of contract – get CC approval.

3-8 months

TOTAL TIME REQUIRED

14-26 months

Wmm/Mjd9-24-08