



Office of the Comptroller

June 30, 2008

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

Dear Mr. Nicolini:

At your request, I am writing regarding the unrestricted cash balance in the Sewer Maintenance Fund and the sustainability of the transfer to the Debt Service Fund. Consistent with my September 10, 2007 and August 28, 2006 letters on the same subject (enclosed), my office has updated our unrestricted cash balance projection, which includes updated revenue and expenditure assumptions for 2008 through 2013.

Unrestricted cash is the measure of working capital the Sewer Maintenance Fund has available to meet its ongoing commitments, including the proposed 2009 transfer to the Debt Service Fund for debt service related to the sewer expansion capital program. Unrestricted cash is distinguished from retained earnings, which includes illiquid assets not available to support a debt service payment.

Actual 2007 figures were used as starting point in developing the projection of unrestricted cash or working capital. These figures are found in Exhibits B2 and B3 (drafts enclosed) in the forthcoming 2007 Comprehensive Annual Financial Report. Using these 2007 actuals as a starting point, the unrestricted cash balance projection shows the transfer to be unsustainable for 2009 through 2013. The projection is largely based on the assumptions used in the 2007 projection. However, updated consumption figures and rates, which were assumed to increase at 6% per year from 2009 through 2013 for both the sanitary and storm water components, were provided by Erick Shambarger of your staff.

Enclosed with this letter is our unrestricted cash balance projection, my 2007 and 2006 letters on the Sewer Fund transfer and the related CAFR schedules. I would like the opportunity to meet with you to discuss in detail the Sewer Maintenance Fund cash flow projections. Please contact me should you have any questions.

Sincerely,

W. MARTIN MORICS
Comptroller

Enclosures (4)

WMM:CDK
REF: SewerFundSustainRev6-27-08.doc

Comptroller's Office
Revised SMF Cash Flow Projections

Year	PER CAFR			PROJECTED					
	2005	2006	2007	2008	2009	2010	2011	2012	2013
Beginning Unrestricted Cash Balance	\$13,097	(\$0)	\$12,383	\$0	\$6,246	(\$345)	(\$6,918)	(\$13,364)	(\$19,621)
Beginning Restricted Cash Balance	\$7,513	\$7,762	\$8,116	\$8,885	\$8,197	\$8,279	\$8,362	\$8,446	\$8,530
Fee on Water Consumption									
Total Consumption ²	28,003	28,000	25,519	25,136	24,759	24,388	24,022	23,662	23,307
Growth - Consumption	-1.03%	-0.01%	-8.86%	-1.50%	-1.50%	-1.50%	-1.50%	-1.50%	-1.50%
Rates on Water Consumption ^{3,4}	1.1094	0.9720	0.9250	1.0360	1.0982	1.1640	1.2339	1.3079	1.3864
Growth - Rates	0.00%	-12.39%	-4.84%	6.58%	6.00%	6.00%	6.00%	6.00%	6.00%
Revenues									
Total Fee (Water Works)	31,067	27,216	23,605	26,041	27,190	28,389	29,641	30,948	32,312
Comptroller Adjustment for actual cash rec'd	0.989	0.989	0.971	0.971	0.971	0.971	0.971	0.971	0.971
Sewer Fee Collected	30,725	26,915	22,921	25,286	26,401	27,565	28,781	30,050	31,375
Storm Water Fee on Impervious Surface									
ERU Base (thousands)		405	400	400	400	400	400	400	400
STORM RATE PER ERU ⁴		\$ 16.00	\$ 32.00	\$ 32.00	\$ 33.92	\$ 35.96	\$ 38.11	\$ 40.40	\$ 42.82
Growth in Rate		0%	0%	100%	6%	6%	6%	6%	6%
STORM FEE	0	6,480	12,800	12,800	13,568	14,382	15,245	16,160	17,129
Comptroller Adjustment for actual cash rec'd			0.971	0.971	0.971	0.971	0.971	0.971	0.971
Sewer Fee Collected			12,429	12,429	13,175	13,965	14,803	15,691	16,633
Total Operating Revenues	\$30,725	\$33,395	\$35,351	\$37,715	\$39,576	\$41,530	\$43,584	\$45,741	\$48,008
Residential Impact (Annual)	\$ 84.31	\$ 89.87	\$ 102.30	\$ 110.74	\$ 117.38	\$ 124.42	\$ 131.89	\$ 139.80	\$ 148.19
TOTAL RECEIPTS FROM CUSTOMERS	\$30,725	\$33,395	\$35,351	\$37,715	\$39,576	\$41,530	\$43,584	\$45,741	\$48,008
Growth - Expenses									
Employee Costs	(7,418)	(7,251)	(7,171)	(7,386)	(7,608)	(7,836)	(8,071)	(8,313)	(8,563)
Payments to Suppliers, Services, Materials	(9,455)	(7,066)	(11,018)	(9,313)	(9,593)	(9,880)	(10,177)	(10,482)	(10,797)
Payments (To)/From Other Funds ⁵	8,416	(8,416)	5,451	(5,451)	0				
NET CASH PROVIDED BY OPERATING	\$22,268	\$10,662	\$22,613	\$15,564	\$22,375	\$23,814	\$25,336	\$26,946	\$28,649
NON-OPERATING EXPENSES									
Street Sweeping & Leaf Collection	(4,200)	(4,600)	(4,600)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)
Cash Transfer to General Fund ⁷	(7,000)	(7,000)	(9,000)	(9,160)	(9,160)	(8,779)	(8,162)	(7,876)	(7,259)
CASH USED FOR NON CAP FINANCING	(\$11,200)	(\$11,600)	(\$13,600)	(\$14,160)	(\$14,160)	(\$13,779)	(\$13,162)	(\$12,876)	(\$12,259)
CASH FINANCED CAPITAL									
Debt Service on Existing Borrowing ⁵	(5,152)	(5,147)	(27,964)	(8,464)	(9,731)	(10,100)	(10,694)	(10,954)	(11,545)
Estimated Debt Service on New Borrowing				(333)	(3,393)	(4,775)	(6,157)	(7,539)	(8,921)
Proceeds from Refunding In/(Out)		10,000		0					
Capital Borrowing ¹		23,990	26,194	36,600	22,000	22,000	22,000	22,000	22,000
Capital Expenditures	(19,089)	(15,540)	(19,250)	(22,000)	(22,000)	(22,000)	(22,000)	(22,000)	(22,000)
CASH USED FOR CAPITAL FINANCING	(\$24,241)	\$13,303	(\$21,020)	\$3,803	(\$15,124)	(\$16,875)	(\$18,851)	(\$20,493)	(\$22,466)
CASH FLOWS FROM INVESTING ACTIVITIES	325	372	393	350	400	350	315	250	100
NET INCREASE (DECREASE) IN CASH	(12,848)	12,737	(11,614)	5,557	(6,509)	(6,490)	(6,362)	(6,173)	(5,976)
ENDING CASH BALANCE	7,762	20,499	8,885	14,443	7,934	1,444	(4,918)	(11,091)	(17,067)
Cash Reserved for Bond Covenant ⁸	(7,762)	(8,116)	(8,885)	(8,197)	(8,279)	(8,362)	(8,446)	(8,530)	(8,615)
Ending Unrestricted Cash Balance	(\$0)	\$12,383	\$0	\$6,246	(\$345)	(\$6,918)	(\$13,364)	(\$19,621)	(\$25,682)

Financial Statements
Exhibit B-3

5,451
5,451

ASSUMPTIONS

- 1.) All capital expenditures borrowed in year expended, with exception of 2008. It is anticipated that Clean Water Fund and other borrowing will become current in 2008. This results in proceeds exceeding capital expenditures in 2008. There after, it is anticipated that capital will be funded on a much more current basis.
- 2.) Consumption declines slowly over time at a rate of 1.5%. 2007 base water consumption of 25,519 ccfs and 400 ERUs confirmed with Budget staff.
- 3.) Prior rate increases fully established in 2008.
- 4.) Rate increases for sanitary and storm components assumed to be 6% per year for 2009 through 2013, per Budget staff.
- 5.) Estimated based upon Budget Office projected Budget Authority and Debt Specialist estimates of when actual borrowings will be accomplished.
- 6.) At end of 2005, the SMF was short of cash so the Gen Fund "loans" cash. In 2006, SMF returns the "borrowed" cash. This also occurred again at the end of 2007, resulting in GF "fronting" cash to SMF and SMF returning those funds in 2008.
- 7.) Transfer reflects actual sewer-related GO debt service for years 2010-2013.