

**RESEACH & ANALYSIS SECTION – LEGISLATIVE REFERENCE BUREAU**

**2008 Proposed Budget – Sewer Maintenance Fund  
Executive Summary**

1. Proposed **operating funding** in the Sewer Maintenance Fund in 2008 is budgeted at \$40,087,619, an increase of \$700,448 (+1.8%) from the 2007 Budget. (Page 2)
2. **Capital projects** in the 2008 proposed Sewer Maintenance Fund budget are budgeted for \$29,950,000 an increase of \$5,450,000 (+18.2%); this increase reflects, in part, a decision to eliminate the Expansion of Capacity Program funded under the City's general capital budget in recent years. (Page 2)
3. The 2008 Proposed Budget provides \$5,388,524 for **salaries and wages**, a decrease of \$64,239 from the 2007 Budget due, in part, to the elimination of 6.34 actual FTE's including one Engineer Technician II. (Pages 4 and 5)
4. In 2008, net **authorized positions** are proposed to decrease by 10.0 units, from 189 to 179, a number equal to the 2007 decrease. (Page 5)
5. The 2008 Proposed Budget provides \$26.6 million for the **Relay Sewer Program**. (Page 6)
6. In 2008, Sewer Maintenance Fund total sources of **revenues** are projected to amount to \$65,489,894, an increase of \$1,602,723 (+2.5%) from the 2007 Budget. (Page 8)
7. The **Sewer Maintenance Fee** continues to be based on water use, and will increase by approximately 8% in 2008 after a reduction in 2007 due to the additional revenue generated by the **Storm Water Management Charge**, effective January 1, 2006. (Pages 8 and 9)
8. The Proposed **Sewer Maintenance Fee** is expected to generate \$25,382,000 in 2008, an increase of \$1,776,740 (+ 7.5%) from the budget projection for 2007. (Pages 8 and 9)
9. The **Storm Water Management Fee** is expected to generate \$12,600,000 in 2008, a decline of \$851,392 (-6.3%) from the budget projection for 2007. (Pages 8 and 9)
10. Regulatory changes and anticipated reductions in water usage may result in substantial changes to future operations, capital needs and revenue structuring for the Sewer Maintenance Fund. (Pages 11 and 12)

## **LEGISLATIVE REFERENCE BUREAU - RESEARCH & ANALYSIS SECTION**

### **2008 Proposed Budget Summary: Sewer Maintenance Fund**

<b>Expense Category</b>	<b>2006 Actual</b>	<b>2007 Budget</b>	<b>% Chg</b>	<b>2008 Proposed</b>	<b>% Chg</b>
Operating	\$31,134,316	\$39,387,171	+ 26.5%	\$40,087,619	+ 1.8%
Capital	\$15,054,609	\$24,500,000	+ 62.7%	\$29,950,000	+22.2%
Total	\$46,188,925	\$63,887,171	+ 38.3%	\$70,037,619	+ 9.6%
Positions	199	189	- 5.0%	179	- 5.3%

The Sewer Maintenance Fund (SMF) is an enterprise fund for sewer maintenance expenses. It funds the administration, operation and maintenance of the City's sewer system. This enterprise Fund recovers sewer maintenance costs through a user fee rather than through the property tax. Residents pay for the costs of sewer maintenance as part of their quarterly city services bills. The DPW-Infrastructure Services Division administers the Sewer Maintenance Fund, including oversight of personnel and activities. All revenues from this fee go to the Sewer Maintenance Fund.

#### **Mission**

The Mission of the SMF is to protect people, property, and the environment from sewage, flooding, erosion, and polluted runoff. It accomplishes this with 2 Sections: the Environmental Section plans and designs sewer replacement and repairs; the Underground Section inspects and cleans sewers, samples and tests storm water at outfalls, performs minor repairs of sewers, manholes, catch basins and outfalls. The SMF also funds the City's Street Sweeping and Leaf Collection Program.

The function of the sewer system is to transport sanitary sewage to the Milwaukee Metropolitan Sewerage District (MMSD) and to carry storm water to lakes and rivers without pollutants. Approximately two-thirds of the City's sewer system functions as a "separated" system with one conduit for sanitary sewage and another for storm water. The remaining system is "combined" and must transport combined sanitary and storm water to MMSD.

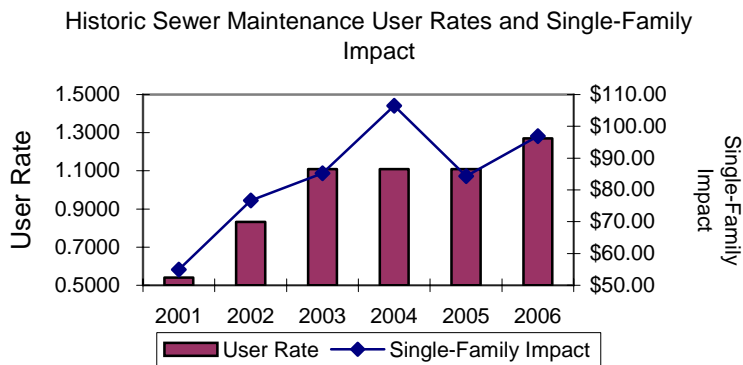
Because of the essential health and environmental concerns affected by the handling of sewage and water, a variety of agencies regulate or provide oversight for the activities of the SMF including the U.S. Environmental Protection Agency (EPA), the Wisconsin Department of Natural Resources, the Wisconsin Justice Department, the Southeastern Wisconsin Regional Planning Commission (SEWRPC) and MMSD.

#### **Historical and Background Information**

1. The 1998 Budget created the Sewer Maintenance Fund by transferring two decision units from DPW-Infrastructure Services: (1) Environmental and (2) Underground

Operations. Included at that time was the transfer of 188 positions.

2. The 2000 Adopted Budget transferred the Relief and Relay Sewer capital program from the City's capital program to the Sewer Maintenance Fund. The Relief and Relay Sewers are to be financed through issuance of revenue or general obligation bonds and paid for through the Sewer Maintenance Fee. Before 2000, the Relief and Relay Sewers were largely cash financed.
3. The 2000 budget authorized a \$14,560,000 Sewerage System Revenue Bond issuance and the 2001 budget authorized an addition \$14,535,000 bond issuance for financing costs of improvement to the City's sewerage system. An additional bond issue was June 20, 2003 for up to \$33,885,000.
4. In 2001, a cash conversion policy was developed for the Sewer Maintenance Relay Program for realizing substantial long-term savings through debt service avoidance. The intent is to balance current costs and future savings thereby making annual fee increases manageable and acceptable. Cash financing, and not borrowing, for capital improvement projects was eliminated in the 2005 budget to avoid raising the sewer rate in 2005, and, to avoid using debt to pay for the debt included in the proposed \$7 million transfer of pre-2000 tax levy debt service to the Fund. It appears likely that future Sewer Maintenance Fees will be adjusted upwards to service the debt incurred on general obligation borrowing prior to the creation of the fund, the debt incurred outside the SMF since its inception, and new debt incurred within the SMF.
5. In 2001, the department began purchasing its own equipment fleet. Prior to 2001, the enterprise fund rented equipment from DPW – Buildings & Fleet.
6. Since 2001, the average residential sewer user rate has increased by \$0.5693 from \$0.5401 per one hundred cubic feet (CCF) to \$1.1094 per 100 CCF, and, annual average single-family property owner billings ranged from \$30.31 to \$106.52 per year in 2004.



7. In 2002, Special Funds began providing for the first time a \$4,372,001 Payment to the General Fund for the Street Sweeping and Leaf Collection services. The Department of Public Works (Buildings & Fleet and Sanitation) delivers those services to City of Milwaukee property tax payers as well as tax exempt entities.

8. The MMSD grant that offsets costs related to monitoring and studying the sanitary sewer system expired on December 31, 2002. No comparable grant sources have been identified to replace this revenue stream.
9. In 2002, the DNR charged that the city failed to adequately enforce erosion control ordinances. Future resources must be dedicated to correcting those areas of noncompliance.
10. Beginning in 2003, the DPW-Sewer Maintenance Fund no longer lists Depreciation on budget documents based on a Budget Office decision.
11. In 2006 a reorganization related to relocating Sewer Maintenance Fund operations to the Tower Automotive site at N. 35<sup>th</sup> Street and W. Capitol Drive resulted in eliminating 1 of 3 field districts and select vacant positions and entering into long term lease agreement with the Redevelopment Authority for the property. Annual lease payments are in excess of \$840,000.
12. The Sewer Maintenance Fund has its own contingent fund, to finance future wage settlements, fluctuations in revenue sources, and unknowns. No contingency financing has been budgeted since 2004 when contingencies funding totaled \$900,000, a \$275,000 decrease from the \$1,175,000 provided in 2003.

## **PERSONNEL**

The 2008 Proposed Budget provides \$5,388,524 for salaries and wages, a \$14,239 decrease (-0.26%) from the \$5,402,763 provided in the 2007 budget.

In August of 2008, the SMF reported the following vacancies:

Civil Engineer III	3/20/07	Fill
Civil Engineer II	5/18/07	Fill
Engineering Technician II	11/22/06	Eliminate in 2008 Budget
Office Assistant II	6/15/07	Fill
Sewer Repair Crew Leader – 3 positions		Fill as needed
Sewer Mason – 2 positions		Eliminate in 2008 Budget
Sewer Crew Leader I - 6 positions		Fill as needed
Sewer Laborer II – 12 positions		Fill as needed
Sewer Laborer I – 13 positions		Fill as needed

The proposed budget provides for the elimination of 10 authorized positions, 7 of which are deemed Excess Auxiliary positions, all vacant. The 3 other eliminated positions are the vacant position for Engineering Technician II in the Environmental Decision Unit and 2 vacant positions for Sewer Mason in the Underground Decision Unit. The actual effect of changes, based in large part upon adjustments made as a result of experience with a variety of positions, is to increase O&M FTEs by 3.15 to 113.80 FTEs, and to reduce Non O&M FTEs by 6.34 to 25.49 FTEs.

The 2007 Budget provides a Capital Services Deduction of \$1,005,227 for personnel services performed by the Environmental Decision Unit. The 2008 Proposed Budget increases this Capital Services Deduction to \$1,247,603 reducing the salary and wages amount of \$2,791,188 for the Unit to a net amount of \$1,543,585.

The 2007 Budget provides a Capital Services Deduction of \$386,548 for personnel services performed by the Underground Decision Unit. The 2008 Proposed Budget reduces this amount to \$139,322 resulting in a net salary and wages amount for the Unit of \$3,844,939.

## **OPERATING EXPENDITURES**

The 2008 Proposed Budget Total Operating Expenditures provides \$7,396,275 compared to \$8,083,448 provided in 2007, a \$687,173 (-8.5%) decrease.

<b>Operating Expenditures</b>	<b>2006 Actual</b>	<b>2007 Budget</b>	<b>2008 Requested</b>	<b>2008 Proposed</b>
General Office Expense	\$18,453	\$36,000	\$28,000	\$28,000
Tools & Machinery Parts	\$17,477	\$45,000	\$45,000	\$45,000
Construction Supplies	\$559,322	\$550,000	\$550,000	\$550,000
Energy	\$37,410	\$41,500	\$41,000	\$41,000
Other Operating Supplies	\$11,196	\$100,000	\$100,000	\$100,000
Vehicle Rental	\$1,987,450	\$1,600,000	\$2,000,000	\$2,000,000
Non-vehicle Equip. Rental	\$2,951	\$7,000	\$4,000	\$4,000
Professional Services	\$143,864	\$160,000	\$887,000	\$178,000
IT Services	\$18,262	\$23,000	\$20,000	\$10,000
Property Services	\$279	\$843,546	\$14,000	-0-
Infrastructure Services	\$1,742,400	\$3,100,000	\$2,320,000	\$1,920,000
Other Operating Services	\$469,137	\$515,000	\$1,387,275	\$525,000
Reimburse Other Depts.	\$880,346	\$1,062,402	-0-	\$883,000
<b>TOTAL</b>	<b>\$5,988,547</b>	<b>\$8,083,448</b>	<b>\$7,396,275</b>	<b>\$6,284,000</b>

- The SMF reports that the reduction in General Office Expense is based upon actual operating expenditures experienced in recent years.
- Amounts in the SMF Requested Budget for Professional and Information Technology Services are reflected in the amount in the Proposed Budget for Reimbursement of Other Departments.
- The amount budgeted for Property Services in 2007 of \$843,546 is for Tower Facility lease. In the Proposed 2008 Budget this lease amount appears in a different account, Special Funds, and is budgeted at \$844,000.
- The Sewer Maintenance Fund pays equipment rental fees to DPW. The rental payments are funded in the Vehicle Rental account. The yearly payments (rounded) are as follows:

- 2003 actual - \$1,544,805
- 2004 actual - \$1,358,693
- 2005 actual - \$1,739,688
- 2006 actual - \$1,987,450
- 2008 proposed - \$2,000,000

## **EQUIPMENT EXPENDITURES**

The 2008 Proposed Budget Equipment Purchases Total provides \$126,800 compared to \$362,944 expended in 2006 and \$206,800 budgeted for 2007.

## **SPECIAL FUNDS**

The 2008 Proposed Budget Special Funds provides \$26,079,000 compared to \$23,425,000 provided in 2007, an increase of \$2,654,000 (+11.3%). Historically, the Special Funds budget category provided for debt service, payment to the general fund, contingencies and depreciation. Sewer user fees provide funding for the following special fund line items:

### **Special Funds Reserved For Debt Payments**

Sewer capital is categorized as (1) Relief and Relay (replacement or rehabilitation of existing sewer systems) and (2) Expansion of Sewer Capacity (installation of new sewer systems). General obligation borrowing provides for replacement and rehabilitation projects and also provides for expanding the existing sewer system. Pre-2000 borrowing, and its debt service, was supported by the property tax levy. Post-2000 relay projects have been funded by user fees collected by the Sewer Maintenance Fund. The Budget Office has adopted an approach that places all annual debt service for sewer related projects, regardless of age, on SMF accounts paid for by consumers and property owners through quarterly Sewer Maintenance and Storm Water Fees.

Authorized expenditures for the Sewer Relay program is proposed to increase to \$26,600,000 within the SMF budget for 2008.

**The 2008 Special Funds budget provides for the following uses:**

**Title and Cost    Description**

*Debt Service-  
SMF*

**\$10,500,000:**    The 2000 Budget transferred the Relief and Relay Sewer capital program from the City's capital improvement budget to the Sewer Maintenance Fund. This budget line provides for repayment of debt incurred within the Fund after its inception. In 2007, the proposed Debt Service-SMF was listed as \$9,400,000, a \$1,374,635 or 17.2% increase compared to the \$8,025,365 provided in 2006. The amount proposed for 2008 is \$10,500,000, an increase of 11.7%.

*Debt Service-  
Prior G.O.  
Debt*

**\$9,310,000:**    All pre-2000 sewer projects were financed using general obligation borrowing as tax levy supported debt. The 2005 Budget provided for the initial annual payment, converting \$7 million in pre-2000 sewer related tax levy supported debt to the Fund, with the expectation of reducing the 2005 property tax levy approximately \$1 million (2005 Budget Summary). Another \$7 million debt was transferred from the tax levy to the Sewer Maintenance Fund budgeted in 2006. In 2007, the transfer increased by \$2,000,000 from \$7,000,000 to \$9,000,000. In 2008 this special fund payment will increase to \$9,310,000. Transfers of tax levy debt may contribute to increases in sewer user rates in future years.

*Payment to  
the General  
Fund*

**\$5,000,000:**    The 2007 amount of \$4,600,000 in Payment to the General Fund will be increased to \$5,000,000 in 2008. The payment reduces the tax levy impact related to the costs of providing street sweeping and leaf collection services through the DPW Operations Sanitation and the Buildings & Fleet decision units. The payment amount is sensitive to annual fluctuations in operating expenditures, debt service, and revenue stream changes.

*Water  
Administration*

**\$350,000:**    The Milwaukee Water Works provides a fee-based service to the Sewer Maintenance Fund for billing, adjusting, collecting and remitting sewer fees through the users' Municipal Services Bills. The annual fee increased from \$100,000 in 1998 to \$355,000 in 2003. In 2004, the service fee decreased to \$350,000 and remains at that level in 2008.

Tower  
Facility  
Lease

**\$844,000:** A new "Lease Payment for Tower Facility" special fund is created in the Proposed 2008 Budget in an amount of \$844,000. In the current 2007 budget, lease payment is included in Operations as Property Services.

**CAPITAL BUDGET**

In 2008, in part to avoid "reserve" requirements, the Sewer Maintenance Fund will borrow for much of the program utilizing below market interest loans from the State of Wisconsin Clean Water Fund, which will be repaid using future Sewer Maintenance Fund revenues. Several relief and relay projects could qualify as uses for the State's Clean Water Fund, but they must be listed separately in annual capital budgets.

The City has included \$22,100,000 in temporary borrowing in 2008 General City Debt for the Sewer Maintenance Fund due to the unanticipated length of time necessary to process applications to the Wisconsin Clean Water Fund.

**REVENUES**

In 2008, estimated revenues are \$39,045,800, a \$1,496,162 (+4.0%) increase from the \$37,549,638 estimated for 2007.

<b>SEWER MAINTENANCE FUND – Revenues &amp; Other Funding Sources</b>				
<u>TYPES OF REVENUE</u>	<u>2007</u>	<u>2008</u>	<u>CHANGE</u>	<u>% CHANGE</u>
Sewer Maintenance Fee	\$23,605,260	\$25,382,000	+ \$1,776,740	+ 7.5%
Storm Water Mgmt Charge	\$13,451,392	\$12,600,000	- \$851,392	- 6.3%
Charges For Services	\$211,122	\$768,800	+ \$557,678	+ 264.1%
Interest Revenue	\$255,150	\$290,000	+ \$34,850	+ 13.7%
Miscellaneous Revenue	\$26,714	\$5,000	- \$21,714	- 81.3%
<b>TOTAL REVENUE</b>	<b>\$ 37,549,638</b>	<b>\$39,045,800</b>	<b>+ \$1,496,162</b>	<b>+ 4.0%</b>
Proceeds From Borrowing	\$24,500,000	\$27,700,000	+ \$3,200,000	+ 13.1%
Withdrawal From Retained Earnings	\$1,837,533	\$3,291,819	+ \$1,464,286	+ 80.0%
<b>TOTAL OTHER FUNDING SOURCES</b>	<b>\$ 26,337,533</b>	<b>\$30,991,819</b>	<b>+ \$4,654,286</b>	<b>+ 17.7%</b>
<b>TOTAL</b>	<b>\$ 63,887,171</b>	<b>\$70,037,619</b>	<b>+ \$6,150,448</b>	<b>+ 9.6%</b>

The local sewerage charge (Sewer Maintenance Fee) continues to be based on water use, but is reduced from 2006 levels to reflect the additional revenue generated by the



Storm Water Management Fee, which, effective July 1, 2006, is based on every developed property and vacant, improved property's impervious surface area.

### **Sewer Maintenance Fee Rate and the Storm Water Management Charge**

Various customer classes pay into total Sewer user fee revenues. Assuming an increase in estimated Sewer Maintenance Fee revenues from \$23,605,260 budgeted in 2007 to \$225,382 in 2008, the Sewer maintenance (user) rates have increased from \$0.2316 per hundred cubic feet of water (CCF) in 1998 to \$1.036 per CCF in 2008. The charge peaked in 2006 at \$1.27 per CCF prior to implementation of the new storm water management charge. The new Storm Water Management Charge for a single residence is \$8.00 per quarter. Taking both charges together, a typical single-family residence will pay between \$100 and \$115 in 2008 for sewers.

Cash financing, and not borrowing, for capital improvement projects was eliminated in the 2005 budget to avoid raising the sewer rate in 2005, and, to avoid using debt to pay for debt included in the proposed \$7 million transfer of pre-2000 tax levy debt service to the Fund. The Sewer Maintenance Fund transferred \$7 million to support general levy debt service in years 2005 and 2006. The transfer amount increased to \$9,000,000 in 2007, and will increase to \$10,500,000. Ongoing transfer of debt service of this magnitude will impact future sewer rates, likely resulting in increases to cover annual expenses and maintain a responsible level of cash reserves for emergencies (contingencies).

The Storm Water Management Charge became effective July 1, 2006, and allows for charging standardized amounts in Storm Water Management charge for each 1-4 unit dwellings (including condominiums) based on the citywide average impervious area per residential developed property. Charges for all other properties vary based on the amount of impervious surface area on each property. The Storm Water Management Charge is calculated based on an "equivalent residential unit" (ERU) rate set annually by Common Council resolution. The charge first appeared on Municipal Services Bills in August 2006. A flat rate of \$8 per quarter per ERU is charged all residential properties.

The 2008 Proposed Budget estimates \$13,339,424 total revenue from the Storm Water Management Charge compared to \$13,541,392 budgeted in 2007. This small decrease is based on actual experience.

### **Charges for Services and Miscellaneous Revenues**

The various services provided under Charges for Services and Miscellaneous Revenue include: (1) deferred sewer assessments, (2) unused sewer life, (3) certified survey plat review, (4) storm water management manual sales, (5) sewer maintenance non-city services, (6) sewer maintenance plat and reviews, (7) sewer user penalty for transfers to property tax roll.

### **Retained Earnings**

The 2007 Budget provides for withdrawal of \$1,837,533 from Retained Earnings. In 2008, anticipated withdrawal from Retained Earnings is \$3,291,819.

## **CHALLENGES AND FUTURE ISSUES**

### **MMSD 2020 Facilities Plan and SEWRPC Planning**

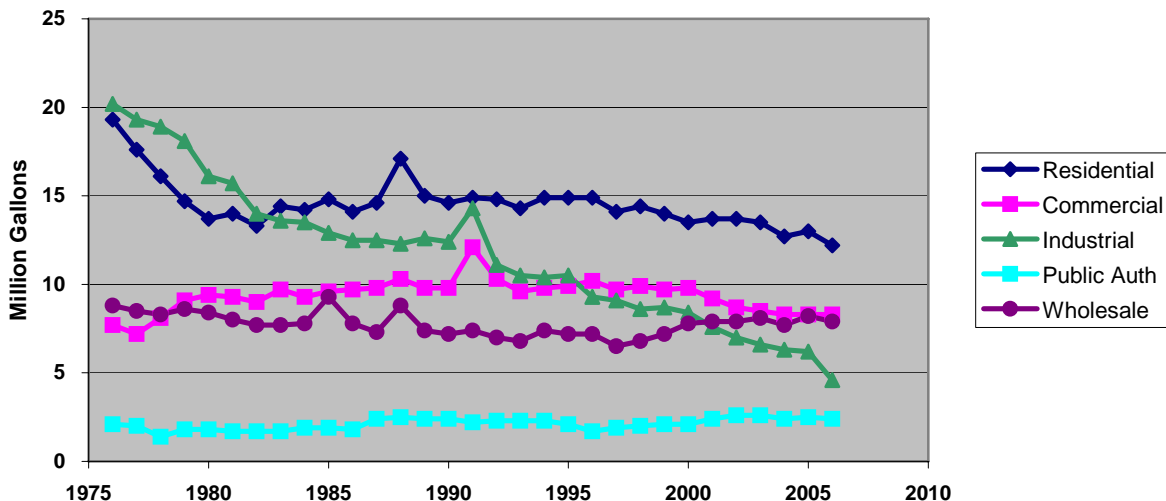
In March 2007, the MMSD released a draft of a proposed 2020 Facilities Plan. The Plan will affect wastewater and flood management services for 28 municipalities, including the City of Milwaukee, serving 1.1 million people in a 411-square-mile area. The Plan has been developed under a Court-ordered stipulation signed with the State of Wisconsin. The Plan document is integrated with a companion document entitled prepared by the Southeastern Wisconsin Regional Planning Commission (SEWRPC) entitled, "The SEWRPC Regional Water Quality Management Plan Update (RWQMUP)." This second document is referred to as a Section 208 Plan. Under federal and state requirements, the Facilities Plan, referred to as a Section 201 Plan, must conform to the RWQMUP. Public hearings on the proposed 2020 Facilities Plan were held in April of 2007 and the Plan has been submitted to the Wisconsin Department of Natural Resources. When finalized, likely this Fall, the Plan may require a number of changes in SMF processes and sewer infrastructure. For example, the Plan identifies Urban Nonpoint Stormwater as the major contributor (56%) to estimated annual bacteria loads in the Greater Milwaukee Area watersheds. This may require that particular attention be paid to storm water systems and outfall monitoring. The SEWRPC RWQMUP included in its key findings that "...reducing (or even eliminating) combined sewer overflows and sanitary sewer overflows will result in little or no water quality improvement."

Costs and program changes resulting from a new Facilities Plan are not yet apparent.

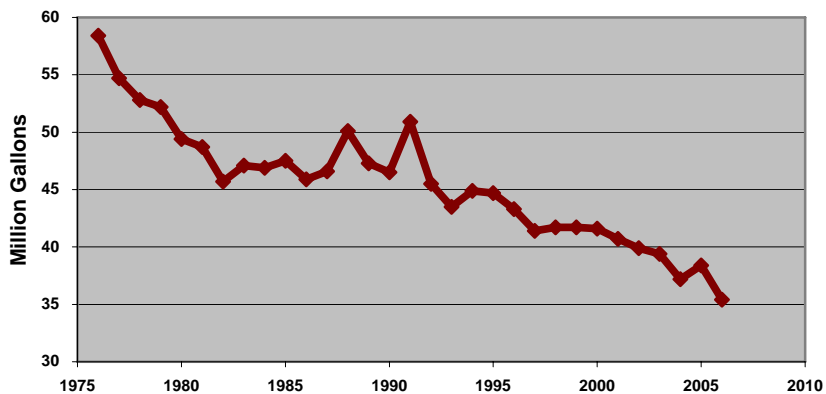
### **Reduced Water Usage**

The following graphs, prepared by Milwaukee Water Works, illustrate water sales by residential, commercial, industrial, public authority and wholesale customer, and total metered water sales from 1975 to present:

### Milwaukee Water Works Metered Sales by Category



### Milwaukee Water Works Metered Water Sales



Efforts to reduce water consumption over the last 30 years have been successful and are likely to continue. Current levels of industrial water usage are less than 25% of 1975 usage, due in part to the trends away from major manufacturing to a service economy. Assuming these trends continue, the current formula for funding the SMF through rates based on water consumption may not provide the revenues necessary to fully support the Fund. Further examination of non-point water run-off may be an appropriate direction for future planning.

### Polychlorinated biphenyls - PCBs

The closure in July of 2007 of 4 County Parks and 25 Milwaukee Public School Ground play areas due to contamination of MMSD produced fertilizer containing high levels of

toxic PCBs is an example of the challenges face by the SMF. It is difficult to determine whether this pollution was the result of sewer cleaning activities that dislodged contaminated sludge, an illegal industrial discharge, or both. Responsive measures to prevent similar future contamination will likely require a commitment of resources for monitoring and abatement that are not currently contemplated in the budget.

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