



**Department of Administration
Budget and Management Division**

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MEMORANDUM

To: Finance and Personnel Committee Members

From: Nathaniel Haack, Budget and Management Analyst

Subject: City of Milwaukee Sewer Maintenance Fund; 2024 User Fees and Fund Transfers

History of the Fund

The Sewer Maintenance Fund (“SMF”) is an enterprise fund operated by the City of Milwaukee’s Department of Public Works. SMF was established in the 1998 budget to recover the costs of sewer maintenance and construction through user fees as opposed to the property tax levy. In 2006, a separate Stormwater Fee was created by city ordinance to distribute fees more equitably and to increase total revenues. SMF collects user fees from both taxable and exempt properties.

Applicable law

SMF is not reliant upon the property tax levy and generates its own revenues. Sewer utilities are not defined as a “public utility” under Wis. Stat. §196.01(5) Public Services Commission (“PSC”). As such, user fees are not subject to PSC approval. User fees are established by the Common Council per city ordinance 309-54-4. Although the city government can establish rates without state regulation, SMF’s user fees are statutorily limited to meet the costs of construction, reconstruction, improvement, extension, operation, maintenance, repair, and depreciation of the sewerage system. Milwaukee uses these fees to not only pay for SMF but also for Forestry as maintaining an urban forest reduces stress on the sewerage system by collecting rainwater and mitigating overflows and backups.

User fees over time

User fees have increased most years to keep up with inflation. Stormwater revenues have increased more rapidly than Sewer Fees as they are based on increasing development rather than Sewer Fees which are based on decreasing water consumption.

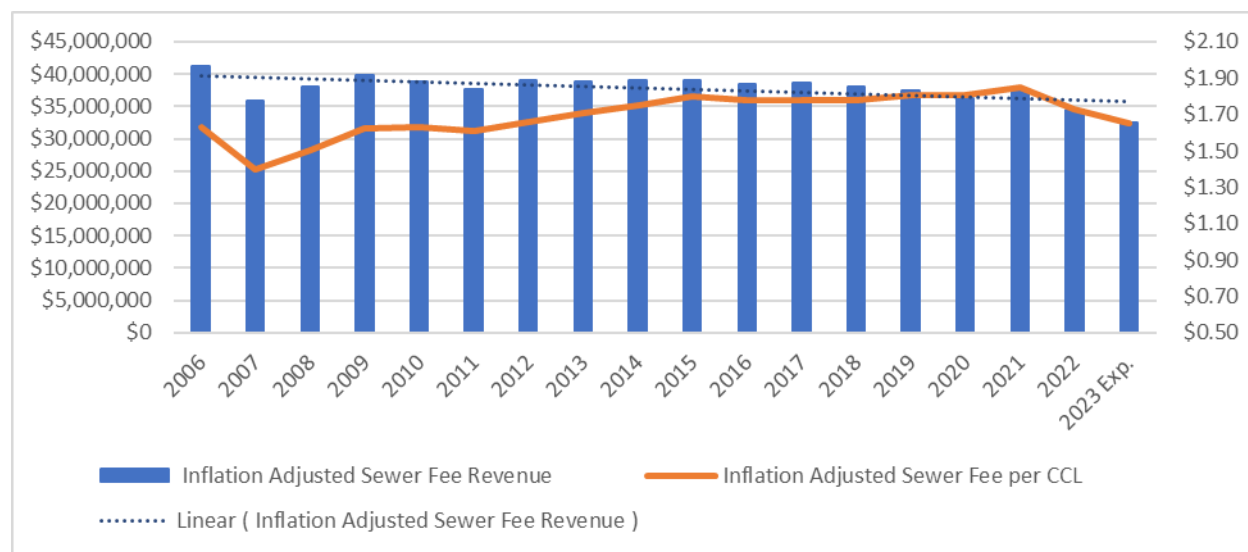


Figure 1 – Inflation Adjusted Sewer Fee and Revenue

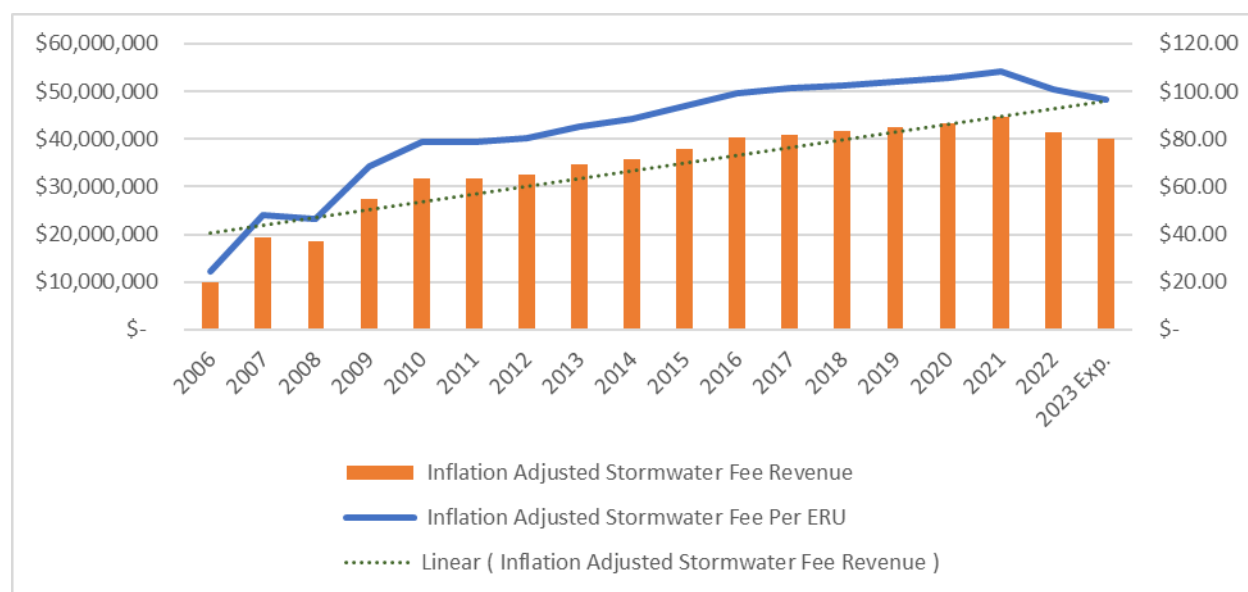


Figure 2 – Inflation Adjusted Stormwater Fee and Revenue

Fund Transfers

Revenues from SMF's user fees pay for all of the department's salaries, fringe costs, equipment, and operating budget. In addition, the fees are used to transfer money to both the General Fund and the Capital Fund. State statute requires that revenues be used for "construction, reconstruction, improvement, extension, operation, maintenance, repair, and depreciation of the sewerage system." SMF's transfers pay for the needs of the DPW-Operation's Forestry Section ("Forestry"), as maintaining a healthy urban forest keeps clearwater, leaves, and debris out of the sewer system.

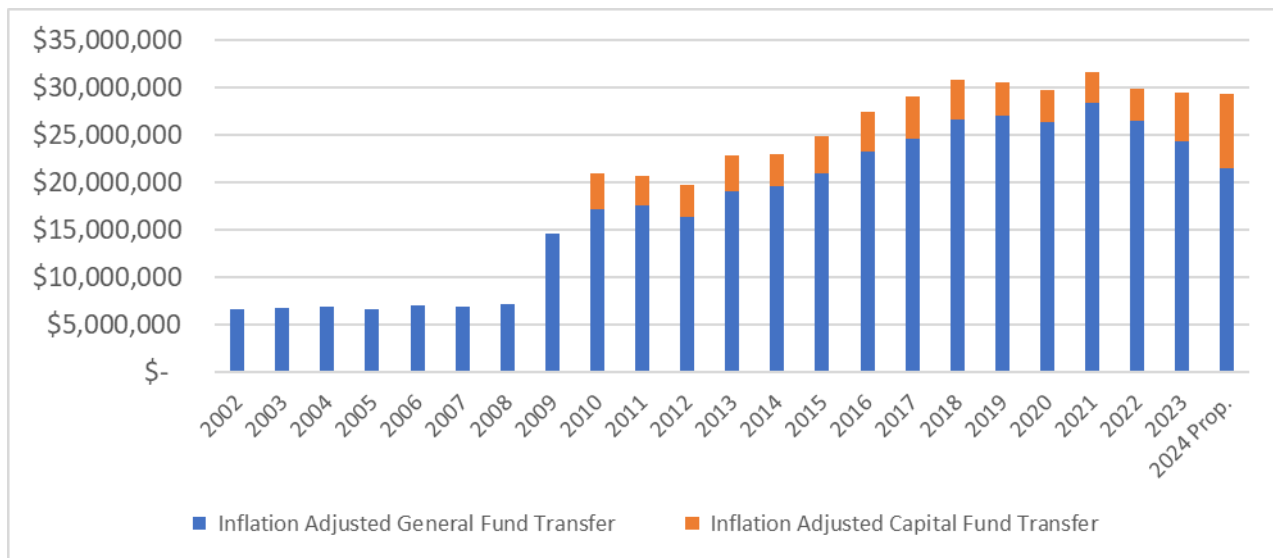


Figure 3 – Inflation Adjusted General and Capital Fund Transfers

2024 Needs and Fee Levels

Salaries, fringe expenses, and operating costs have increased in both SMF and Forestry from the 2023 budget, heightened by market studies of city laborers. Compounding the impact of increased expenses, SMF currently has few unreserved cash funds to cover budget shortfalls, which in 2023 already led to a reduction in Moody's SMF bond rating. As such, there are only 4 options to balance SMF's budget:

1. Raise user fees, each additional 1% increase generating an estimated \$717,810 of revenue
2. Reduce the general fund transfer, imposing budgetary pressure on the general fund's balance and reducing Forestry services
3. Reduce the capital transfer, delaying the purchase of needed DPW equipment used by Forestry and extending out the replacement cycle for equipment, imposing future costs on Fleet and department productivity
4. Cut sewerage services, imposing a direct impact on residents as our sewer system falls behind in maintenance and repair

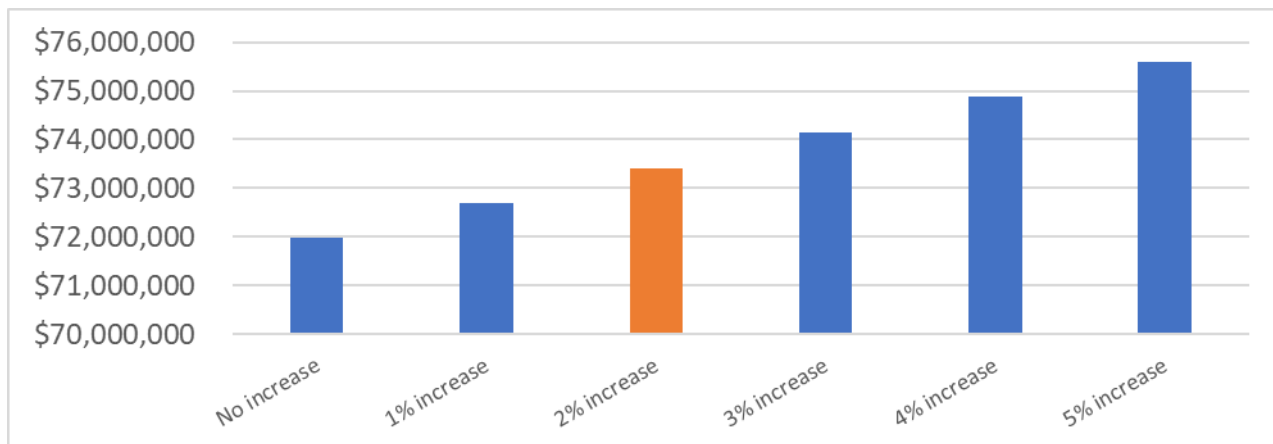


Figure 4 – Impact of User Fee Increases

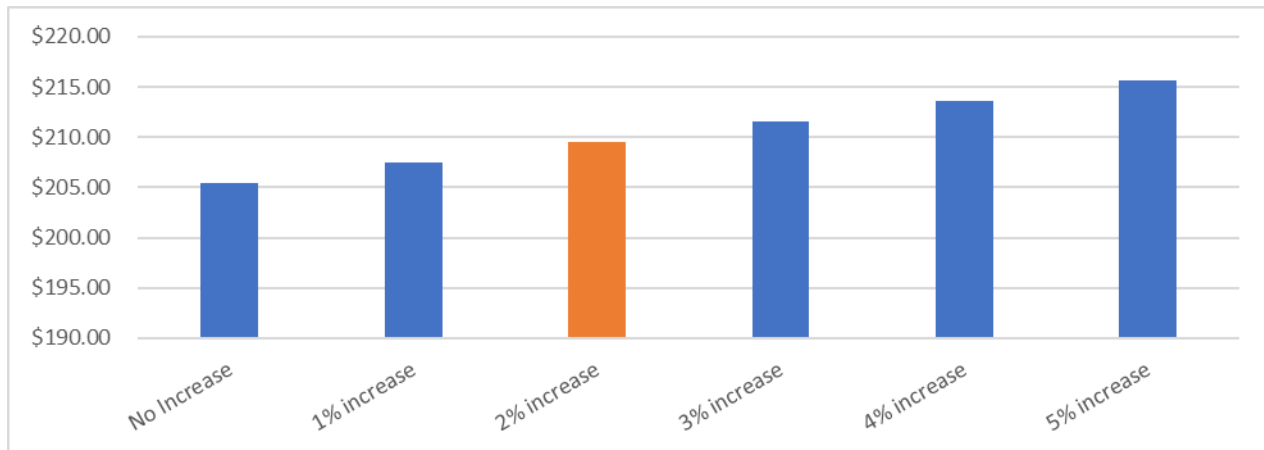


Figure 5 - 2024 Average Residential Fee

Conclusion

Failure to raise fees during a time of significant inflation and a DER market studies would require either significant cuts or reducing the transfer to the capital and/or general funds. Failing to raise fees would require a significant increase in fees next year and could result in another reduction of SMF's bond rating, making borrowing more onerous for the fund. Increasing fees by the proposed 2% would increase the average residential municipal fees by \$4.11 but would raise SMF's revenue by an estimated \$1,435,620, which is crucial to maintaining both sewerage and forestry services.

NH:awc

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