

2016



Legislative Reference Bureau

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# WATER WORKS

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## 2016 Proposed Plan and Executive Budget Review

Prepared by: Aaron Cadle, Legislative Fiscal Analyst

Budget Hearing: October 15, 2015

Last Updated: October 9, 2015

Version 8.1



**\$87,749,440**

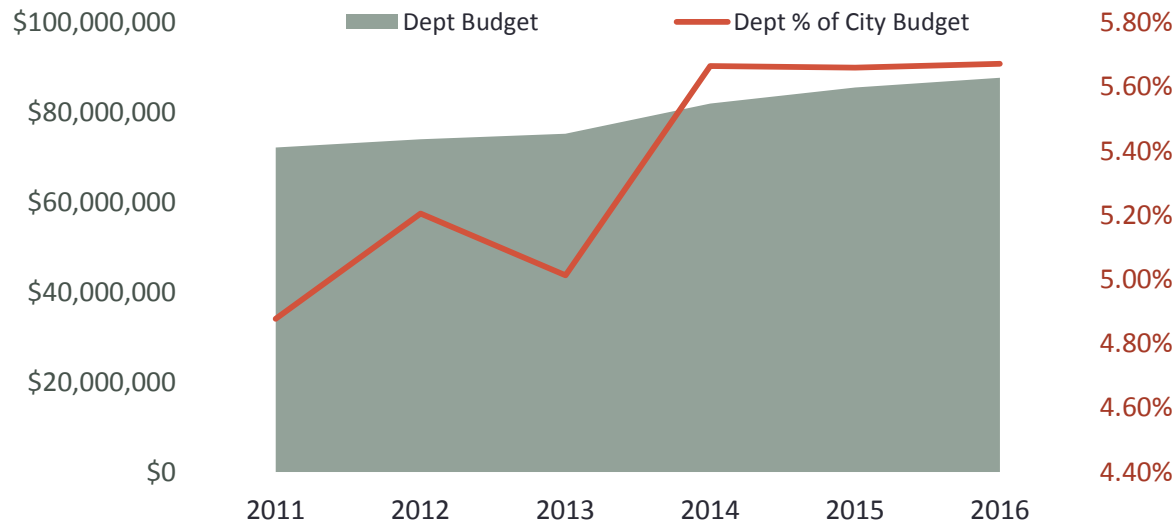
Proposed 2016 Budget

**\$2,165,037**

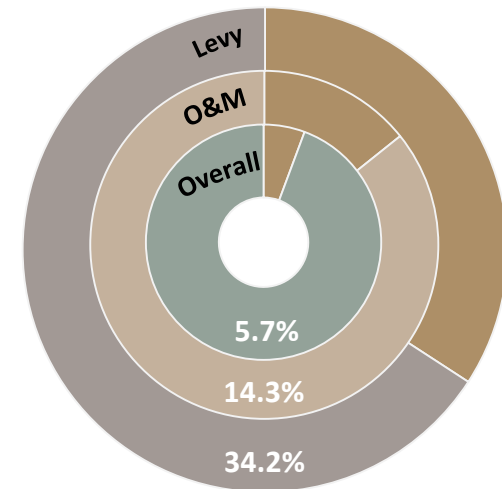
Change in Proposed Budget

**2.5%**

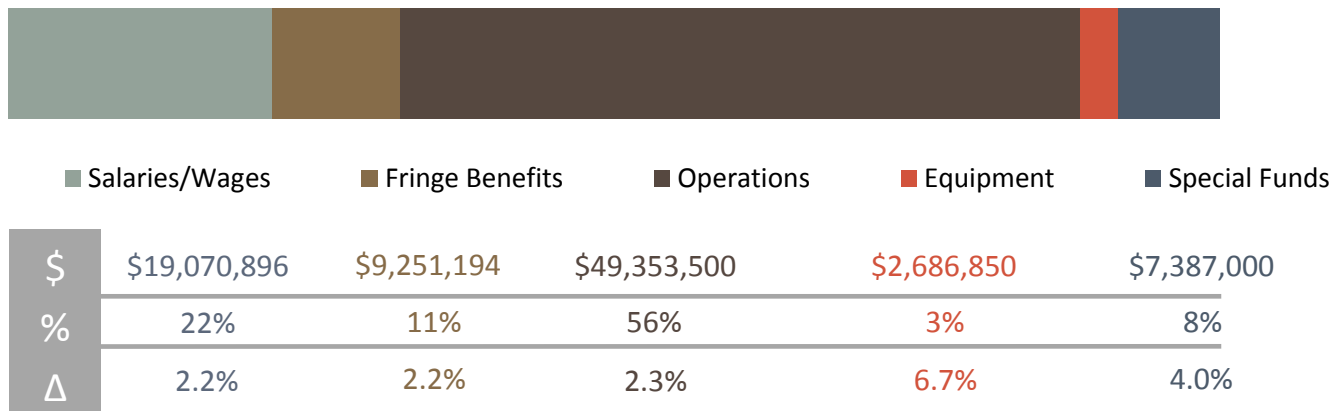
% Change in Proposed Budget



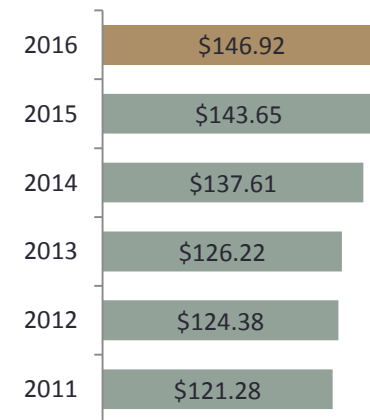
**Departmental Budget Impact**



**Departmental Budget Appropriation Category**



**Budget per Capita**



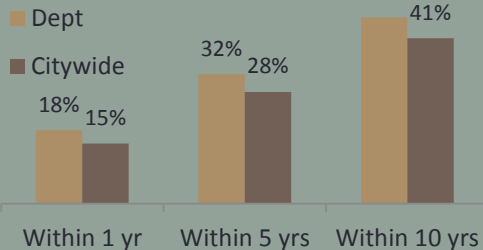
# \$496,818

Base salary increases for existing positions – an effective 3% across-the-board increase.

# \$ 433,210

Net cost to add authority for 16 new positions and to rescind authority for 6 positions.

## Retirement Eligible



# 10

Change in Positions

# 2.7%

% Change in Positions

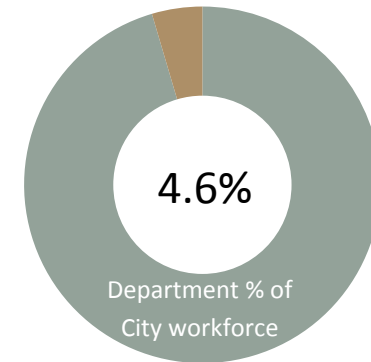
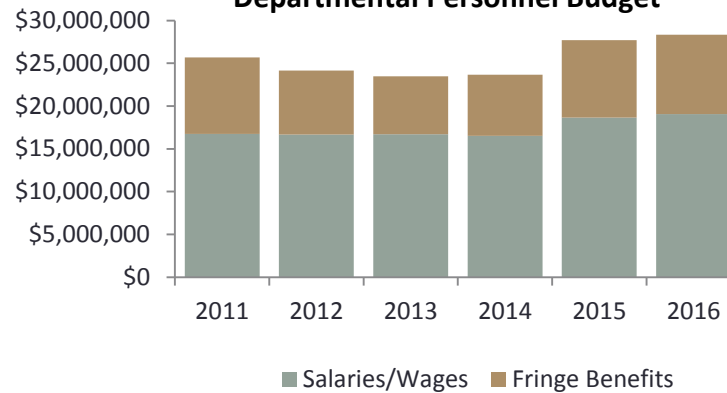
# 59

Current Vacancies

# 27

Voluntary Separations

## Departmental Personnel Budget



## 59 Vacancies, including

- 10 Meter Technicians.
- 14 Distribution personnel.
- 10 Plant personnel.
- 4 Engineering personnel.
- 11 positions under department evaluation.

## Difficulties in Filling Vacant Positions

- Uncompetitive salaries.
- Inadequately-qualified applicants.



Department Positions  
2011-2016

## \$-15.7 million

Net 2014 fund decline – “loss” – after cash financing \$22.6 million in capital improvements.

## \$4,938,408

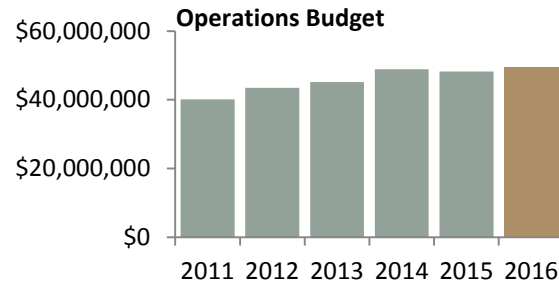
Increase in total revenues from 2014 actual revenues to 2016 projected.

## \$6,093,547

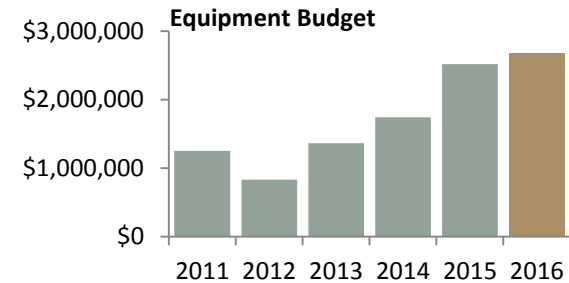
Increase in operating costs (77% salary & benefits) from 2014 actual to projected 2016.

## \$11 million

129% increase in water main replacement & relining budget from actual 2014 to projected 2016.



56% | 59% | 60% | 60% | 56% | 56%  
Operations percent of department budget



2% | 1% | 2% | 2% | 3% | 3%  
Equipment percent of department budget

### Reliance on Cash Financing

57% of capital improvements are cash-financed in the 2015 Budget, as are 50% in the Proposed 2016 Budget. In 2014, 94% were cash financed.

### Cash Financing of Capital Improvements Triggers “Losses”

Fund declines – “losses” of \$6.3 million (2015) and \$6.7 million (2016) are projected after cash financing \$14 and \$12 million in capital improvements for 2015 and 2016, respectively.

### Revenues Grow Slower than Costs

Total revenues for 2016 are projected to grow only \$4.9 million from actual 2014, while operating expenses for the same period are projected to increase \$6.9 million, eroding operating “earnings.”

### Possible Rate Increase

After a Full Rate Increase of 11.5% in 2014, no rate increase was pursued in 2015. The utility is eligible for a Simplified Rate Increase (usually 3%) in 2016, but has not signaled a definite intent to pursue one.

# \$37 million

LRB-projected year-end 2016 debt.

# \$ -630,000

Reduction in debt service expense projected for 2016 (\$5.59 million) from actual 2014 (\$6.22 million).

# \$ -1.8 million

LRB projected year-end 2016 cash and cash-equivalent reserves.

# - 40%

Decline in current ratio, from actual 2011 (1.5:1) to LRB-projected year-end 2016 (0.9:1).

## Low Debt to Equity Ratio

Despite \$23.5 million in capital improvements borrowing projected for 2015 and 2016, LRB projects the utility's year-end 2016 debt-to-equity ratio will be 0.09 (i.e., \$0.09 in debt per \$1 in equity).

## Debt Service Coverage Declines

The utility's debt service coverage, a measure of its ability to make debt payments, was 3.19 in 2013 (\$3.19 of operating earnings per \$1 of debt service). In 2016, the ratio is projected to be 2.41.

## Cash Reserves

Based on a 2014 cash and cash-equivalent reserve of \$11.7 million and "losses" in 2015 and 2016 totaling \$13 million, the Water Works could run out of cash sometime in 2016.

## Current Ratio

LRB's projected Water Works year-end 2016 current ratio, a measure of the utility's liquidity and ability to meet current obligations, of 0.9:1 (\$0.90 of current assets for each \$1 of current liabilities) could impinge operations.

## Rates of Return

The Water Works' rates of return on investment for 2013, 2014 and projected for 2015 are less than half the Wisconsin Public Service Commission's "target" rates of return.

## Billing System Upgrade

The utility plans a \$1.3 million software and hardware upgrade of its "off-the-shelf" billing system for 2016.

Income Statement Summary	2011	2012	2013	2014	'15 Adopted	'16 Proposed
<b>Total Gen. Purpose Revenues</b>	\$ 86,392,436	\$ 89,850,703	\$ 86,831,543	\$ 88,906,594	\$ 93,485,000	\$ 93,845,000
<b>Operating Expenses</b>						
Salaries & Benefits	\$ 25,022,388	\$ 24,164,647	\$ 23,484,905	\$ 23,662,401	\$ 27,710,003	\$ 28,322,090
Operating Expenses	\$ 40,122,616	\$ 43,513,998	\$ 45,162,110	\$ 48,862,495	\$ 48,256,700	\$ 49,353,500
Equipment	\$ 1,251,614	\$ 831,879	\$ 1,364,319	\$ 1,743,997	\$ 2,517,700	\$ 2,686,850
Debt Service	\$ 6,273,000	\$ 6,208,000	\$ 5,250,000	\$ 6,220,000	\$ 5,300,000	\$ 5,587,000
Other	\$ 12,040	\$ 61,144	\$ 29,963	\$ 55,554	\$ 200,000	\$ 200,000
<b>Operating Fund Increase</b>	\$ 13,710,778	\$ 15,071,035	\$ 11,540,246	\$ 8,362,147	\$ 9,500,597	\$ 7,695,560
<b>Capital Improvements</b>						
Total Budgeted	\$ 12,004,175	\$ 10,232,691	\$ 15,217,228	\$ 23,930,090	\$ 24,950,000	\$ 25,660,000
Borrowing	\$ 11,625,000	\$ 4,000,000	\$ 46,131	\$ 1,311,125	\$ 10,736,000	\$ 12,842,000
Cash Financed	\$ 379,175	\$ 6,232,691	\$ 15,154,901	\$ 22,590,129	\$ 14,214,000	\$ 12,808,000
Net after Capital Improvements	\$ 13,331,603	\$ 8,838,344	\$ (3,614,655)	\$ (14,227,982)	\$ (4,713,403)	\$ (5,112,440)
Transfer to General Fund	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Pension Contribution	\$ -	\$ -	\$ -	\$ 1,467,296	\$ 1,600,000	\$ 1,600,000
<b>Net Fund Change</b>	\$ 13,331,603	\$ 8,838,344	\$ (3,614,655)	\$ (15,695,278)	\$ (6,313,403)	\$ (6,712,440)