

Milwaukee Water Works

May 29, 2020

To the Honorable Members of the Common Council

City of Milwaukee
200 East Wells Street, Room 205
Milwaukee, WI 53202

Subject: Common Council File Number 191432, Resolution directing the Water Works Superintendent to collaborate with the Department of Administration-Budget and Management Division to provide recommendations on establishing a program to facilitate lead water service line replacements by owner-occupants who do not qualify for the City's current cost-share program.

Milwaukee Water Works (MWW) has collaborated with the Department of Administration- Budget and Management Division (BMD) to evaluate the financial impact of establishing financial incentive for owner-occupied residential properties that are not currently mandated to replace their lead water service line. Milwaukee Code of Ordinances 225-22.5 allows a City subsidy to assist with the cost of replacing the privately owned section of the lead service line (LSL) for one- to four- family residential properties when the LSL is mandated to be replaced, including when

- a leak or failure has been discovered on either the privately-owned or utility-owned portion of the service line, or
- the utility-owned portion of the line is replaced on either a planned or emergency basis (water main replacement project).

The City subsidy is currently set to limit the property owners cost share to \$1,754, adjusted for March 1, 2020 based on the *Laspeyres* price index included in MCO 225-22.5-9-a-1. The City subsidy is only available to property owners that elect to use the City's contractor to replace their LSL. The \$1,754 can be paid over ten years as a special assessment.

Property owners not mandated to, but that elect to have their LSL replaced are currently required to pay the full amount of the replacement for the privately owned section. Milwaukee Water Works coordinates replacement of the publicly owned section of the LSL at the utility's expense.

In evaluating opportunities to expand the financial incentive, or City subsidy, to property owners that are not mandated, but elect to replace their LSL, Milwaukee Water Works evaluated available financial opportunities, including

- petitioning the Public Service Commission (PSC) to allow for rate payer revenues to fund 50% of the replacement of the privately owned section, and

- utilizing City General Fund to expand the City subsidy currently available to property owners that are mandated to replace the privately owned section of the LSL.

Utilizing Rate Payer Revenues

Through legislation passed in 2018, water utilities can petition the PSC to use rate payer revenues to fund a portion of the replacement of the privately owned section of the LSL. The legislation requires that all LSLs are mandated to be replaced, but allows the water utility to set the replacement schedule. Up to 50% of the cost of the privately owned section of the LSL could be funded by providing a grant to the property owner, funded by rate payer revenue. The other 50% could be funded by loan to the property owner, similar to the ten year payment allowance for the current City subsidy. MWW has evaluated the probable rate increases for the average residential customer under various replacement schedules. Water rates are set by the PSC based on a target rate of return; therefore a range of rate increases are included for the replacement schedules to represent possible rate or return scenarios determined by the PSC.

	Cost Per Line	Total Cost	20 Years	30 Years	40 Years	50 Years
MWW- Public - 100%	\$5,329	\$393,466,715	\$19,673,336	\$13,115,557	\$9,836,668	\$7,869,334
Property Owner - Grant 50%	2,727	201,348,045	10,067,402	6,711,602	5,033,701	4,026,961
Property Owner - Loan 50%	2,727	201,348,045	10,067,402	6,711,602	5,033,701	4,026,961
Total	\$10,783	\$796,162,805	\$39,808,140	\$26,538,760	\$19,904,070	\$15,923,256
Number of Lines Per Year			3,692	2,461	1,846	1,477
3.8% Rate of Return						
Estimated Rate Increase Needed			20%	16%	14%	13%
	Current Quarterly Bill					
One Family Home (15 CCF) - Total	\$60.15		\$72.18	\$69.95	\$68.81	\$67.97
Average Family Home (26 CCF) - Total	\$83.69		\$100.43	\$97.33	\$95.74	\$94.57
5.7% Rate of Return						
Estimated Rate Increase Needed			28%	24%	22%	21%
	Current Quarterly Bill					
One Family Home (15 CCF) - Total	\$60.15		\$76.75	\$74.53	\$73.38	\$72.72
Average Family Home (26 CCF) - Total	\$83.69		\$106.79	\$103.69	\$102.10	\$101.18

As shown above, the rate increase for all retail customers, regardless of the presence of a LSL at the property, will range from 13% to 28% in addition to other anticipated rate increases that would be typical for MWW and all water utilities. The rate increases do not include inflation because increases due to inflation may be offset by a decrease in the average cost of LSL replacement by incorporating geographical efficiencies. Replacement of an entire block or several blocks will be more cost effective with less contractor mobilization fees versus completing a singular LSL replacement on an emergency basis (a leak, for example).

The City subsidy is currently funded primarily through General Obligation (GO) borrowing. While some grant funding for LSL replacements was made available in prior years, City GO borrowing is currently the largest funding source and the default funding source for the LSL replacement subsidy moving forward. Continuing the current subsidy program with 1,100 replacements requires approximately \$4,000,000 of GO borrowing each

year. If Milwaukee Water Works implements a rate payer-funded subsidy, the City would be able to either reduce overall GO borrowing or reallocate the funds to other capital needs in the City.

Expanding the Current City Subsidy

Currently, the cost for replacement of the privately owned section of the LSL is limited to \$1,754 for one- to four-family properties only when the replacement is mandated under the scenarios noted above. When a property owner initiates the replacement of a LSL, they are responsible for the full cost of replacement of the privately owned section; MWW pays for the replacement of the utility owned section of the LSL.

MWW evaluated the financial requirements to expand the City subsidy under various replacement schedules. Under this scenario, the City's General Fund would continue to pay the cost share for the privately owned section, and any property owners would be limited to the currently \$1,754 share of the cost of replacement.

	Cost Per Line	Total Cost	20 Years	30 Years	40 Years	50 Years
MWW- Public - 100%	\$5,329	\$393,466,715	\$19,673,336	\$13,115,557	\$9,836,668	\$7,869,334
Property Owner - Private \$1754	1,754	129,506,590	6,475,330	4,316,886	3,237,665	2,590,132
City Contribution - Private	3,700	273,189,500	13,659,475	9,106,317	6,829,738	5,463,790
Total	\$10,783	\$796,162,805	\$39,808,140	\$26,538,760	\$19,904,070	\$15,923,256
Number of Lines Per Year			3,692	2,461	1,846	1,477

The table above shows the amount of the City contribution under each replacement timeframe. The 2020 Budget included \$4,000,000 for the City subsidy for LSL replacements. The gap between the \$4,000,000 in the 2020 Budget and the City contribution amount under each scenario would need to be filled by City GO borrowing, grant funds, or other funding when available. It is important to note that while there are opportunities for obtaining grant funding to supplement the cost of the subsidy, the default funding source is City GO borrowing. Given the long timeframes involved, the City should not rely on grant funding for the duration of the LSL replacement program. Increasing GO borrowing for the LSL replacement subsidy would either require reductions to other areas of the capital budget or an increase to the City's overall amount of borrowing which adds to future debt service costs.

Since the inception of MCO 225-22.5 mandating full replacement of LSL under various scenarios, MWW and BMD have worked to identify opportunities for funding to offset the contributed cost by the City's General Fund. In previous years, the State's Safe Drinking Water Loan Program (SDWLP) allowed municipalities to apply for forgivable loans to pay for LSL replacements. Between 2017 and 2018, the City of Milwaukee was awarded and utilized \$6.4 million dollars to pay for LSL replacements at child care facilities and residential properties that were mandated for replacement. The Wisconsin Department of Natural Resource (WDNR) has recently announced their intention to make funding available again in 2021 for LSL replacements. The application process is expected to open in September 2020, and Milwaukee may be eligible for up to \$15 million over the anticipated three year period. MWW will be closely monitoring the availability of these funds and already indicated the City's intent to apply to WDNR. More detailed information will be available from WDNR through this summer.

In addition to the information above, MWW and BMD remain diligent in exploring opportunities to expand the LSL replacement program toward the eventual removal of all LSLs within the MWW service area. The scenarios presented must be considered within the current budgetary constraints the City of Milwaukee is already facing and anticipated further budgetary concerns recently presented by the COVID-19 pandemic. Despite the

financial constraints, opportunities exist in possible utilization of rate payer revenue and SDWLP forgivable loans.

Please contact Karen Dettmer or Dennis Yaccarino if you have questions.

Sincerely,

A handwritten signature in black ink, appearing to read "Karen Dettmer". The signature is fluid and cursive, with the first name "Karen" written in a larger, more prominent script than the last name "Dettmer".

Karen Dettmer, P.E.
Water Superintendent
Milwaukee Water Works