



# City of Milwaukee

City Hall  
200 East Wells Street  
Milwaukee, WI 53202

## Meeting Agenda PUBLIC WORKS COMMITTEE

*ALD. ROBERT BAUMAN, CHAIR*  
*Ald. Joseph Dudzik, Vice-Chair*  
*Ald. Willie Wade, Ald. Robert Donovan, and Ald. Robert Puente*

*Staff Assistant, Terry MacDonald, 286-2233*  
*Fax: (414) 286-3456, E-mail: tmacdo@milwaukee.gov*

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Thursday, July 23, 2009

1:30 PM

Room 301-B, City Hall

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### SPECIAL

**NOTE: If action is taken on the following file, it may be referred to the Common Council for action at its regular meeting to be held at 9:00 A.M. on Tuesday, July 28, 2009.**

1. 090239 Substitute resolution relative to a rate increase strategy for Milwaukee Water Works.  
**Sponsors:** THE CHAIR

This meeting will be webcast live at [www.milwaukee.gov/channel25](http://www.milwaukee.gov/channel25).

Members of the Common Council and its standing committees who are not members of this committee may attend this meeting to participate or to gather information. Notice is given that this meeting may constitute a meeting of the Common Council or any of its standing committees, although they will not take any formal action at this meeting.

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# City of Milwaukee

200 E. Wells Street  
Milwaukee, Wisconsin  
53202

## Master

File Number: 090239

File ID: 090239                      Type: Resolution                      Status: In Committee

Version: 1                              Reference:                              Controlling Body: PUBLIC WORKS COMMITTEE

Requester: WATER DEPARTMENT                      Cost:                              File Created: 06/16/2009

File Name:                              Final Action:

Title: Substitute resolution relative to a rate increase strategy for Milwaukee Water Works.

### Notes:

### Code Sections:

Indexes: WATER SALES, WATER WORKS

Sponsors: THE CHAIR

Attachments: Cover Letter ,Hearing Notice List ,Fiscal note

Drafter: jjm

Contact:

Agenda Date:

Agenda Number:

Enactment Date:

Enactment Number:

Effective Date:

Extra Date 2:

### History of Legislative File

| Ver- sion: | Acting Body:  | Date:      | Action:              | Sent To:               | Due Date:  | Return Date: | Result: |
|------------|---|------------|----------------------|------------------------|------------|--------------|---------|
| 0          | COMMON COUNCIL  | 06/16/2009 | ASSIGNED TO          | PUBLIC WORKS COMMITTEE |            |              |         |
|            | <b>Action Text:</b> This Resolution was ASSIGNED TO to the PUBLIC WORKS COMMITTEE |            |                      |                        |            |              |         |
| 0          | PUBLIC WORKS COMMITTEE  | 07/10/2009 | HEARING NOTICES SENT |                        | 07/15/2009 |              |         |
| 1          | CITY CLERK  | 07/21/2009 | DRAFT SUBMITTED      |                        |            |              |         |
|            | <b>Action Text:</b> This Resolution was DRAFT SUBMITTED                           |            |                      |                        |            |              |         |
| 0          | PUBLIC WORKS COMMITTEE  | 07/23/2009 |                      |                        |            |              |         |

### Text of Legislative File 090239

..Number  
090239  
..Version  
SUBSTITUTE 1  
..Reference  
  
..Sponsor  
The Chair

..Title

Substitute resolution relative to a rate increase strategy for Milwaukee Water Works.

..Analysis

This resolution grants authority to the proper City officials to apply to the Public Service Commission of Wisconsin for a second step water rate increase to be implemented no earlier than December 15, 2009.

..Body

Whereas, Resolution 090142 authorized the proper city officials to apply to the Public Service Commission of Wisconsin for a water rate increase of 3.8% and to return to the Common Council with a strategy for a second step rate increase; and

Whereas, The 3.8% increase will be effective for water sold after September 1, 2009 and will generate an estimated \$850,000 in revenue in 2009 and \$2.5 million annually thereafter; and

Whereas, Due to decreasing water consumption, increasing costs, and modest rate increase in 2007, the Milwaukee Water Works is not currently operating on a profitable basis, with a rate of return of less than 1% and utilizing \$9 million in cash to cover expenses in 2008 and is projected to use an additional \$5 million in 2009 to cover expenses and requires approximately a 20% water rate increase simply to close the gap between revenues and expenses; and

Whereas, The initiative to privatize the Milwaukee Water Works has been supplanted by efforts to increase the financial contribution of the Milwaukee Water Works to the city's general fund while maintaining the existing governance structure of the utility; and

Whereas, An increase in the rate of return to 5.4% would generate sufficient cash for the Water Works to continue to produce high quality drinking water and properly operate and maintain its extensive infrastructure and also contribute a \$3 million dividend to the city general fund in 2010; and

Whereas, A multi-year strategy of regular rate increases and cost containment could make a \$3 million dividend a sustainable annual payment from the Milwaukee Water Works to the general fund; and

Whereas, The rate increase process begins with the Milwaukee Water Works requesting a specified rate of return from the Public Service Commission of Wisconsin, and requesting rates of return of 5.0% for City of Milwaukee customers and 6.5% from suburban wholesale customers would be an overall rate of return of approximately 5.4%; now, therefore, be it

Resolved, By the Common Council of the City of Milwaukee, that the Superintendent of the Milwaukee Water Works is authorized and directed to submit to the Public Service Commission of Wisconsin an application for a rate increase specifying rates of return to City of Milwaukee and suburban wholesale customers of 5.0% and 6.5%, respectively; and, be it

Further Resolved, That the water rates resulting from the full rate review that are recommended by the Public Service Commission be submitted to the Common Council for review prior to implementation, recognizing that the Public Service Commission is the ultimate regulatory authority for the financial condition of municipal water utilities in Wisconsin and may impose a rate different from that requested; and, be it

Further Resolved, That the Common Council and Mayor's Office will work together to develop a long-term rate strategy which will avoid volatile rate changes, maintain a reliable, high quality, competitively-priced water supply, and facilitate a sustainable dividend from the Milwaukee Water Works to the general fund.

..Requestor

Department of Public Works  
Milwaukee Water Works

..Drafter

Administration  
Carrie M. Lewis

July 17, 2009

June 9, 2009

Mr. Jim Owczarski  
Council Administration Manager  
Common Council  
City Hall – Room 205

Dear Mr. Owczarski:

Please introduce a "Title Only" Common Council Resolution file at the next Common Council meeting. The title only resolution should be as follows:

"Resolution relative to a rate increase strategy for the Milwaukee Water Works".

Very truly yours,

Carrie M. Lewis, Superintendent  
Milwaukee Water Works

Jeffrey J. Mantes, Commissioner  
Department of Public Works

CML:JJM:pa  
Attachment  
Doc: Res Title Only rate increase strategy090906

**CITY OF MILWAUKEE FISCAL NOTE** CC-170 (REV.6/86)

Ref: GENFISCALNT.MST

A) DATE: July 17, 2009

FILE NUMBER:  
Original Fiscal Note  Substitute

SUBJECT: Resolution relative to a rate increase strategy for Milwaukee Water Works

B) SUBMITTED BY (name/title/dept./ext.): Carrie Lewis/Superintendent/DPW- Water Works/x2801

|               |  |
|---------------|--|
| C) CHECK ONE: | <input checked="" type="checkbox"/> ADOPTION OF THIS FILE AUTHORIZES REVENUES.<br><input type="checkbox"/> ADOPTION OF THIS FILE DOES NOT AUTHORIZE EXPENDITURES; FURTHER COMMON COUNCIL ACTION NEEDED.<br>LIST ANTICIPATED COSTS IN SECTION G BELOW.<br><input type="checkbox"/> NOT APPLICABLE/NO FISCAL IMPACT. IN CURRENT YEAR |
|---------------|--|

|               |  |  |
|---------------|--|--|
| D) CHARGE TO: | <input type="checkbox"/> DEPARTMENTAL ACCOUNT (DA) WATER<br><input type="checkbox"/> CAPITAL PROJECTS FUND (CPF)<br><input type="checkbox"/> PERM. IMPROVEMENT FUNDS (PIF)<br><input type="checkbox"/> OTHER (SPECIFY) | <input type="checkbox"/> CONTINGENT FUND (CF)<br><input type="checkbox"/> SPECIAL PURPOSE ACCOUNTS (SPA)<br><input type="checkbox"/> GRANT & AID ACCOUNTS (G & AA) |
|---------------|--|--|

| E) PURPOSE  | SPECIFY TYPE/USE | ACCOUNT | EXPENDITUR | REVENUE      | SAVINGS |
|---|------------------|---------|------------|--------------|---------|
| SALARIES/WAGES:   |                  |         |            |              |         |
| SUPPLIES:   |                  |         |            |              |         |
| MATERIALS:  |                  |         |            |              |         |
| NEW EQUIPMENT:  |                  |         |            |              |         |
| EQUIPMENT REPAIR:   |                  |         |            |              |         |
| OTHER:  |                  |         |            |              |         |
| <i>Revenue to Milwaukee Water Works in 2010 (graduated implementation in first quarter)</i> |                  |         |            | \$15,000,000 |         |
| <i>Revenue to Milwaukee Water Works in 2011 and future years</i>                            | <i>Annually</i>  |         |            | \$20,000,000 |         |
| <i>Dividend to City General Fund in 2010</i>  |                  |         |            | \$3,000,000  |         |
| <b>TOTALS</b>   |                  |         |            |              |         |

**F) FOR EXPENDITURES AND REVENUES WHICH WILL OCCUR ON AN ANNUAL BASIS OVER SEVERAL YEARS CHECK THE APPROPRIATE BOX BELOW AND THEN LIST EACH ITEM AND DOLLAR AMOUNT SEPARATELY.**

|                                    |                                    |  |
|------------------------------------|------------------------------------|--|
| <input type="checkbox"/> 1-3 YEARS | <input type="checkbox"/> 3-5 YEARS |  |
| <input type="checkbox"/> 1-3 YEARS | <input type="checkbox"/> 3-5 YEARS |  |
| <input type="checkbox"/> 1-3 YEARS | <input type="checkbox"/> 3-5 YEARS |  |

**G) LIST ANY ANTICIPATED FUTURE COSTS THIS PROJECT WILL REQUIRE FOR COMPLETION:**

|  |
|--|
|  |
|--|

**H) COMPUTATIONS USED IN ARRIVING AT FISCAL ESTIMATE:**

|  |
|--|
|  |
|  |
|  |

PLEASE LIST ANY COMMENTS ON REVERSE SIDE AND CHECK HERE

## LRB-Research & Analysis Section

**Public Works Committee**  
**File: 090239**

**July 23, 2009**  
**Aaron Cadle**

### **Title**

Substitute resolution relative to a rate increase strategy for Milwaukee Water Works.

### **Introduction**

This resolution grants authority to the Milwaukee Water Works to apply to the Public Service Commission of Wisconsin “PSC” to increase water rates to a level which will result in a 5.4% blended rate of return for the Water Works. Specifically, Water Works will petition the PSC to set water rates for City of Milwaukee customers to provide a rate of return of 5% and to set water rates for suburban wholesale to provide a 6.5% rate of return.

Differentiated pricing – setting different water rates for City of Milwaukee customers and suburban wholesale customers – is a new pricing strategy for the Milwaukee Water Works. In the past, Water Works has charged one rate for both City and suburban customers. This new pricing policy will charge a higher water rate to suburban wholesale customers and a lower rate for City of Milwaukee customers.

### **Background**

The PSC indirectly sets the rates for water sold by Water Works by authorizing rates of return for the utility based on what it costs Water Works to provide water services. PSC’s current benchmark rate of return is 7.5% for municipal water utilities.

Water Works may petition the PSC for 2 types of rate increases; a Simplified Rate Case (“SRC”) for changes in cost of living as determined by the PSC which is somewhat easier to apply for, and a Conventional Rate Case (“CRC”) for which Water Works must submit a lengthy and complex application for a specifically requested rate of return and be audited and studied by the PSC. New CRC’s can be submitted at the 1-year anniversary of the last CRC, while SRC increases can be sought at any time, but only 5 SRC increases can be obtained before the PSC must audit operations before granting a new rate increase.

Water Works was granted a 3.4% SRC rate increase effective September, 2006 and a 6% CRC rate increase effective June, 2007.

Resolution File #090142 authorized the Water Works on June 25, 2009, to seek a 3.8% SRC increase. Water Works expects this rate increase to take effect on September 1, 2009, and generate an estimated \$850,000 revenue in 2009 and \$2.5 million annually in subsequent years.

Water sales volume has been decreasing approximately 2% annually in recent years. Water sales to new suburban wholesale customers such as the middle third of New Berlin, which began receiving water services from the Milwaukee Water Works on July 14, 2009, and potential sales to Waukesha, will lessen this decline somewhat. Water Works expects the general trend to continue for the foreseeable future. In theory, a baseline per capita consumption level will be eventually reached and volume sales per capita should stop declining, but no one at Water Works can predict when, or if, this will occur.

The Water Works has not been profitable in recent years (2007 & 2008) after factoring in the cost of capital projects as an expense. Expenses, including capital projects, exceeded revenues in 2007 by \$2.6 million when capital projects ran \$14.3 million, and the deficit of expenses exceeding revenues in 2008 was \$9.6 million after spending \$19.7 million on capital projects.

Expenses for 2009 which include \$14.0 million in capital projects are projected to exceed revenues in 2009 – including the \$850,000 increase from the SRC rate increase and water sales to the middle third of New Berlin – by \$4.8 million.

The Water Works is required at intervals to service and replace its Automatic Meter Reading (“AMR”) equipment and will be embarking on a 7-year program in 2010 to replace all its AMR equipment. The project is projected to cost \$3.5 million in 2010 and \$5 million annually from 2011-2016. Roughly half the cost is for equipment and the other half for installation and service.

## **Discussion**

Water Works predicts authorization by the PSC for a 5.4% blended rate of return will allow the utility to increase water rates by a blended 30% - 28.5% for the City of Milwaukee customers accounting for 80% of the Water Works’ revenues, and 36% for the suburban wholesale customers who make up the other 20% of revenues.

Water Works expects these higher revenues to enable the utility to pay the City of Milwaukee an annual dividend of \$3,000,000 beginning in 2010 in addition to its annual PILOT (“Payment in Lieu of Taxes”) which is \$10.4 million in 2009 and projected for \$11.4 million in 2010.

Payment of such a dividend, at least in the early years, will require a Charter Ordinance change. Section 14-08 of the city charter requires Water Works to maintain 2 years of debt service in cash reserves. Water Works’ projects cash reserves in years 2010-2013



will be less than twice the debt service as a result of paying the City a dividend of \$3 million and recommends that this be changed so only one year of debt service will be required in cash reserves. Even with this recommended change, cash reserves in 2011 will dip below the one year debt service threshold. Either the dividend in 2010 would have to be foregone, or the provision would have to be changed further if possible.

Notwithstanding the city charter, Water Works is bound by covenants that require a cash reserve of 110% of debt service for the utility’s Revenue Bonds. Even in 2011, when Water Works predicts cash reserves will be at their nadir, Revenue Bond debt service is approximately \$1.2 million while cash reserves after dividend are projected at \$3.1 or 258% of debt service.

At year end 2007, 36% of Water Works’ total bond debt of \$31.1 million was in Revenue Bonds while the remaining 64% came from General Obligation Bonds secured by the full faith and unlimited taxing power of the City of Milwaukee.

Water Works has prepared preliminary projections through 2016 predicated on a blended 30% CRC rate increase beginning April 1, 2010 and follow-up CRC rate increases of 14%, 6% and 7% in years 2012, 2014 and 2016. These projections assume an annual \$3 million dividend paid to the City and capital projects expenditures to maintain the utility’s infrastructure of \$14 million in 2009 and \$18 million for years 2010-2016. AMR expenditures are also included as is a switchover from quarterly to monthly customer billing beginning in 2011 to take some of the sticker-shock out of the increased water bill. The switchover to monthly billing is expected to increase costs by approximately \$2 million annually.

Following are highlights of Water Works’ 2009-2016 preliminary projections:

| <b>Water Works Projection Highlights 2009-2016</b> |                          |                    |                |                      |
|--|--------------------------|--------------------|----------------|----------------------|
| Year   | Projected Total Revenues | Net Revenue Change | Earnings *     | Ending Cash Reserves |
| 2009   | \$ 73,159,000            | 0.12%              | \$ (4,755,716) | \$ 14,797,096        |
| 2010   | \$ 88,283,570            | 20.67%             | \$ 5,991,538)  | \$ 8,805,558         |
| 2011   | \$ 94,136,584            | 6.63%              | \$ (5,721,007) | \$ 3,084,550         |
| 2012 (a)   | \$ 106,239,706           | 12.86%             | \$ 5,424,239   | \$ 8,508,790         |
| 2013   | \$ 104,284,912           | -1.84%             | \$ 2,213,157   | \$ 10,721,947        |
| 2014 (b)   | \$ 110,032,007           | 5.51%              | \$ 6,083,842   | \$ 16,805,788        |
| 2015   | \$ 108,001,366           | -1.85%             | \$ 2,952,433   | \$ 19,758,222        |
| 2016 (c)   | \$ 115,066,462           | 6.54%              | \$ 10,457,374  | \$ 30,215,596        |

\* Revenues minus expenses - includes capital projects & dividend payments  
 (a) 14% CRC rate increase  
 (b) 6% CRC rate increase  
 (c) 7% CRC rate increase

The Water Works prepared analysis indicating authorization by the PSC for a 5.4% rate of return will accommodate the 30% blended water rate increase beginning in April, 2010, used in its projections. No such analysis has been done for CRC rate increases proposed for years 2012, 2014 and 2016 which are needed to ensure the utility's financial strength and its ability to continue paying the City a \$3 million annual dividend., but the Water Works is confident authority for such future water rate increase will be granted the utility based on Water Works' average investment.

The Water Works, like most publically regulated utilities, is assured a rate of return based on investment regardless of declining sales or increasing costs. The key to gaining authority from the PSC to raise water rates is to maintain a high level of reinvestment which the Water Works does through its capital projects and by operating at a profit. As long as the utility's investment remains high, its return on investment remains high, regardless of deteriorating water sales volume or increasing costs, and as long as the utility is granted the authority for a fixed rate of return based on its investment, the Water Works can raise water rates to compensate for declining sales or rising costs or both.

### **Fiscal Impact**

It is estimated the City will receive additional annual revenue beginning in 2010 of \$3 million through a dividend from the Water Works as a result of this resolution, and annual revenue increases to the Milwaukee Water Works are projected as follows:

| <b>Water Works Predicted</b> |                |
|------------------------------|----------------|
| Annual Revenue               |                |
| Year                         | Changes        |
| 2009                         | \$ 84,212      |
| 2010                         | \$ 15,124,570  |
| 2011                         | \$ 5,853,014   |
| 2012                         | \$ 12,103,122  |
| 2013                         | \$ (1,954,794) |
| 2014                         | \$ 5,747,095   |
| 2015                         | \$ (2,030,640) |
| 2016                         | \$ 7,065,096   |