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Mayor and Common Council:

CITY OF WEST ALLIS
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We wanted to share with you the enclosed *Milwaukee Journal Sentinel* article dated March 10, 2013 entitled "Milwaukee Siphons Water Revenue to General Fund" to explain how this \$12 million fund transfer is detrimental to your community. Our 76-year old contractor association can be located on the Internet at www.wuca.org

- The city of Milwaukee receives water revenue from 16 area communities to provide clean and safe water for public health, safety, and fire services. We believe that Milwaukee has an *obligation* and *responsibility* to maintain the water infrastructure to ensure delivery of a quality product to your community. Although Milwaukee takes in your suburban water revenue, Milwaukee Water Works replaced only 5.2 miles of 1,956 miles of water main in the past three years!
- The Milwaukee Water Works reports upward of 850 water main breaks every winter causing major disruption to area business and residential customers.
- Without an annual water main repair and replacement program, we have less opportunity to hire unemployed trades people that reside in your community. The average age of our existing trade's people is 46 years of age. Our industry cannot train replacement workers if there is no water main work for on-the-job training.
- The Milwaukee area has a long history of sinkholes in their community. They have occurred on Humboldt, Cleveland, Juneau, North Avenue, and Oakland Avenue to name a few. These sinkholes are becoming more frequent at unpredictable locations. Sinkholes serve as an omen of things to come in the Milwaukee area when the water infrastructure is not maintained. We predict that sinkholes will start popping up with more frequency if the Milwaukee Water Works refuses to maintain the water infrastructure on an annual basis.
- Due to this severe construction recession these past five years, the Milwaukee Water Works receives upwards of ten to twelve bidders on their water main replacement work. If the Milwaukee Water Works did bid more water main work, the water department could benefit from current low bid prices.
- When Milwaukee Water Works ignores the water infrastructure, the local fire departments are at risk by not having an adequate water pressure.

We ask that you to write the Milwaukee Mayor and their common council to maintain the water infrastructure and not transfer your rate paying money to their general fund.

Very truly yours,

Richard W. Wanta
Executive Director



Milwaukee siphons water revenue to general fund

Rate increase sought to catch up on water main replacement

By Don Behm of the Journal Sentinel
March 10, 2013

The City of Milwaukee will take more than \$12.1 million this year in water rate revenue generated by the Milwaukee Water Works and deposit the cash in the city's general fund, where it can be spent on other municipal services.

At the same time, the Water Works this year is asking to raise rates because it is short of cash to do one of its primary jobs: replacing old and break-prone water distribution mains.

The city's cash withdrawal is one of the largest single expenditures in the Water Works' budget each year, though it has nothing to do with treating water for drinking or distributing the product to customers. And while everyone agrees the payments have been part of rate-setting guidelines for water utilities for nearly a century in Wisconsin, the Wisconsin Public Service commission has found that the cash transfers are taking up "a substantial portion" of rate-based revenue in recent years.

In an investigation of payments by publicly owned water utilities to municipalities throughout the state in 2010 and 2011, the PSC concluded: "A large portion of a customer's water bill is actually being paid to support local government operations rather than water production and distribution."

Now comes a proposed 3% rate increase which, if imposed in the second half of the year, would generate an extra \$1.2 million for mains this year, according to utility officials. Replacing one mile of small mains beneath neighborhood streets costs \$1 million.

Why doesn't Milwaukee reduce its 2013 transfer of \$12.1 million to eliminate the need for the 3% rate increase?

City Budget Director Mark Nicolini reiterated what is in the PSC report - that money from water revenue has become a stable stream of non-property tax revenue.

"We're not in a position to voluntarily deviate from that," Nicolini said.

The city has lost tens of millions of dollars in state shared revenue and other payments since 2003 and must operate under strict property tax levy limits, he said.

Dipping into water

To compensate, the city has been steadily increasing its use of water rate revenue since 2006, records

show. The payment that year totaled \$7.46 million.

In comments to the Public Service Commission during its investigation, the League of Wisconsin Municipalities recalled that cash transfers were established to ensure municipalities received the equivalent of a tax payment from a publicly owned utility. The transfers, in part, have been considered reimbursement for services like police and fire protection, and snowplowing.

The League also echoed Nicolini, saying "municipalities took a \$100 million hit in the 2011-2013 state budget to help resolve the state's fiscal difficulties."

Most municipalities wouldn't be able to get by without taking money from water payments, especially with limits on property taxes.

"In an era of strict property tax levy limits, any further attempt to cut non-property tax revenue sources will have direct service impacts on most communities," the League said.

Cities lose other revenue

In the PSC's report released publicly last month, regulators found municipal water utilities made a total of \$87.4 million in payments in 2010. This figure represented 14.9% of total municipal water utility rate revenue that year - nearly \$15 of every \$100 collected.

The total grew to \$92.9 million in 2011, but the overall percentage of revenue requirements remained about the same, at 14.8%, the report said.

Milwaukee generally withdraws the maximum amount of water rate revenue allowed under state regulations. City, school district and technical college tax rates are applied to the gross value of the utility's assets, Nicolini said. The annual payment is not shared with the other districts.

How did the Milwaukee Water Works fare in the years scrutinized by PSC staff?

In 2010, the Water Works budgeted 14.8% of its annual rate-based operating revenue as its payment to the city's general fund.

That meant \$10.15 million went to the city's general fund. That same year, the utility replaced only 2.5 miles of mains, far short of its 10-mile goal.

The Water Works payment for 2011 was nearly \$1 million more, or \$11.15 million. That transfer was equal to 13.9% of the utility's annual rate-based operating revenue for that year, according to the PSC study. The utility was left with enough funds to replace only 1.4 miles of mains in 2011, making even less progress.

The trend continued in 2012. The utility's tax equivalent payment reached \$11.89 million, though the utility was able to repair only 1.3 miles of mains last year.

* In sum, over those three years, the utility made payments to the general fund of more than \$33 million, and repaired just 5.2 miles of mains.

Milwaukee Water Works Superintendent Carrie Lewis acknowledged the city is behind the main replacement pace of 10 miles a year it set for itself.

The utility has targeted six miles of mains for replacement in 2013, she said.

The Milwaukee Water Works' proposed 3% rate increase was endorsed unanimously last week by the Common Council's Public Works Committee, and the proposal now goes to the full council March 21. If authorized, Lewis would go to the PSC after April 1 and ask to raise rates as soon as possible.

The average single-family residence in Milwaukee pays \$55.56 a quarter for water, or \$222.24 a year.

A 3% increase would add \$1.67 to the quarterly bill, pushing that portion up to \$57.23. The full-year impact of \$6.68 amounts to less than 2 cents a day for water, according to Lewis.

Find this article at:

<http://www.jsonline.com/news/milwaukee/milwaukee-siphons-water-works-revenue-to-citys-general-fund-s791nrh-196380041.html>

Check the box to include the list of links referenced in the article.