

43



# City of West Allis Matter Summary

7525 W. Greenfield Ave.  
West Allis, WI 53214

File Number	Title	Status
R-2009-0170	Resolution	Introduced
Resolution authorizing staff to petition the Public Service Commission for a PWAC Rate Adjustment.		
Introduced: 8/4/2009		Controlling Body: Public Works Committee
Sponsor(s): Public Works Committee		

## COMMITTEE RECOMMENDATION ADOPT

ACTION DATE:	MOVER	SECONDER		AYE	NO	PRESENT	EXCUSED
<u>8-4-09</u>		<input checked="" type="checkbox"/>	Barczak				<input checked="" type="checkbox"/>
		<input checked="" type="checkbox"/>	Czaplewski	<input checked="" type="checkbox"/>			
			Kopplin				
			Lajsic				
			Narlock				
			Reinke				
	<input checked="" type="checkbox"/>		Roadt	<input checked="" type="checkbox"/>			
			Sengstock	<input checked="" type="checkbox"/>			
			Vitale				
			Weigel	<input checked="" type="checkbox"/>			
			TOTAL	<u>4</u>	<u>0</u>		<u>1</u>

## SIGNATURE OF COMMITTEE MEMBER

[Signature] \_\_\_\_\_  
 Chair Vice-Chair Member

## COMMON COUNCIL ACTION ADOPT

ACTION DATE:	MOVER	SECONDER		AYE	NO	PRESENT	EXCUSED
<u>AUG 04 2009</u>			Barczak				<input checked="" type="checkbox"/>
			Czaplewski	<input checked="" type="checkbox"/>			
			Kopplin	<input checked="" type="checkbox"/>			
			Lajsic	<input checked="" type="checkbox"/>			
			Narlock				<input checked="" type="checkbox"/>
			Reinke	<input checked="" type="checkbox"/>			
			Roadt	<input checked="" type="checkbox"/>			
			Sengstock	<input checked="" type="checkbox"/>			
	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	Vitale	<input checked="" type="checkbox"/>			
			Weigel	<input checked="" type="checkbox"/>			
			TOTAL	<u>8</u>	<u>-</u>		<u>2</u>



# City of West Allis

7525 W. Greenfield Ave.  
West Allis, WI 53214

## Resolution

**File Number: R-2009-0170**

**Final Action:**

**AUG 04 2009**

**Sponsor(s):** Public Works Committee

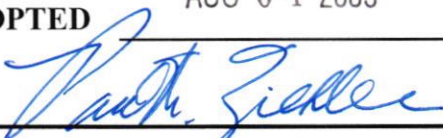
Resolution authorizing staff to petition the Public Service Commission for a PWAC Rate Adjustment.

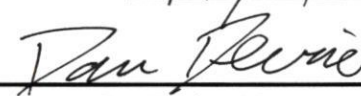
WHEREAS, the West Allis Municipal Water Utility's rate file includes a Purchased Water Adjustment Clause that allows the Utility to adjust it's rates to reflect an increase or decrease in the purchased water expense incurred by the Utility, and:

WHEREAS, the West Allis Water Utility purchases water from Milwaukee Water Works as a wholesale customer for distribution to West Allis Water Utility customers; and

WHEREAS, the Utility's wholesale supplier applied for and received a rate increase from the Public Service Commission effective for service rendered on and after September 1, 2009; and

NOW, THEREFORE, BE IT RESOLVED by the Common Council of the City of West Allis that the Finance Manager/Comptroller be and is hereby authorized and directed to file an application with the Public Service Commission of Wisconsin for a PWAC Rate Adjustment.

**ADOPTED**                     AUG 04 2009                      
  
\_\_\_\_\_  
Paul M. Ziehler, City Admin. Officer, Clerk/Treas.

**APPROVED**                     8/11/09                      
  
\_\_\_\_\_  
Dan Devine, Mayor

July 21, 2009

Board of Public Works:

As you may know, Milwaukee Water Works was recently granted a 3.8% rate increase effective September 1, 2009. Since the West Allis Municipal Water Utility purchases water from Milwaukee Water Works for resale to its customers, this will result in an approximate \$90,000 yearly increase in expenses to the Utility. A Purchased Water Adjustment Clause (PWAC) is included in the West Allis Municipal Water Utility's rate file. This adjustment clause protects the Water Utility from the financial impact of such an increase. Therefore, the West Allis Municipal Water Utility intends to submit a PWAC application to the Public Service Commission for their approval. The estimated new rates are as follows:

<b>Quarterly Service Charge</b>	<b><u>Previous Rate</u></b>	<b><u>New Rate</u></b>
(Based on Meter Size): 5/8 or 3/4 inch	\$31.95	\$32.36
1-inch	\$45.60	\$46.20
1 1/4-inch	\$63.60	\$64.45
1 1/2-inch	\$76.80	\$77.83
2-inch	\$115.20	\$116.75
3-inch	\$185.70	\$188.35
4-inch	\$249.00	\$252.60
6-inch	\$366.00	\$371.52
8-inch	\$438.00	\$444.67
10-inch	\$588.00	\$597.19
12-inch	\$747.00	\$758.88

**Plus Volume Charges:**

	<b><u>Previous Rate</u></b>	<b><u>New Rate</u></b>
First 100 ccf's used per quarter	\$1.730	\$1.732
Next 4,900 ccf's used per quarter	\$1.600	\$1.602
Next 5,000 ccf's used per quarter	\$1.550	\$1.552
Over 10,000 ccf's used per quarter	\$1.480	\$1.482

*NOTE: 1 ccf is approximately 748 gallons*

# Milwaukee Water Works

*Safe, Abundant Drinking Water.*

## Background information for proposed water rate increase

The Milwaukee Water Works provides safe, abundant drinking water to Milwaukee and 15 neighboring communities. This service protects public health, provides for fire suppression, supports our regional economy, and contributes to the high quality of life we enjoy. Milwaukee is a national leader in producing high quality water and monitoring water quality. We have an ample source – a natural advantage -- in Lake Michigan, and water treated and returned is returned to the lake. Diligent, efficient, and energy conscious operations and a sound capital improvement program are the basis for this reliable

The last rate increase in 2007 was 3.3%. The Public Service Commission recommends a rate of return to the utility of 7.5% for municipally-owned drinking water utilities. A rate of return of 6 and 10% in 2002. Previous rate increases would have required a 39% rate

Attachments  
for  
R-2009-0170

Since 2007 there have been an increase in costs that adversely affect MWW finances

- wages and benefits
- electric power
- fuel
- maintaining aging infrastructure

and also unexpected pressures

- continued decreasing water usage by customers
  - Water usage has decreased 12% in the past three years alone, and is down an additional 2.3% to date this year compared with 2008 at this time
- cross connection control program, an unfunded mandate by the Department of Natural Resources
  - Cost near \$1 million per year
- increases in cost of chemicals used in water treatment
  - 144% overall increase in cost of chemicals from 2008 to 2009, ranging from 45% increase in the cost of ammonia to 261% increase in the cost of fluoride. MWW uses about 18 million pounds of chemicals annually
- increases to Payment in Lieu of Taxes (PILOT)
  - Up \$2.9 million relative to 2006, and climbing
- contribution to the City Pension Fund
  - Unanticipated \$1.1 million expense in 2010

Major and unavoidable planned projects in the near future include replacing the batteries in all 160,000 residential water meters so remote reading can continue and billing will be accurate, installation of backup power at critical facilities so water will be available in the event of localized or widespread

power outages, switchgear upgrades at a water treatment plant to coincide with We Energies system improvements and at pumping stations to ensure reliability.

Cash reserves have been used in recent years in which cash outflows have exceeded revenues: \$2.6 million in 2007, \$9.6 million in 2008. Projections show use of cash reserves of \$4.8 million in 2009 and, without an additional rate increase, \$18 million in 2010, which would deplete the utility's cash reserves.

A rate increase of 20%, effective for water sold after Dec. 30, 2009, would balance the utility's cash flows to about the middle of 2011. A rate increase of about 30%, effective Dec. 30, 2009, followed by regular, modest increases to keep the rate of return stable, would rebuild the utility's cash reserves and facilitate a sustainable payment to the City General Fund of \$3 million per year. This \$3 million would be over and above payments already made to the city, which totaled \$20.6 million in 2008. To maintain the rate of return in future years, this overall rate increase of about 30% should be implemented late in calendar year 2009.

The rate increase will be generated by asking the PSC to develop the rate structure with City of Milwaukee accounts' rates based on a 5.0% rate of return and wholesale accounts based on a 6.5% rate of return. This means wholesale accounts would bear a slightly greater proportion of the overall rate increase than City of Milwaukee accounts. It is estimated that City of Milwaukee accounts would see a 28.5% rate increase and wholesale accounts would see a 36% increase. Suburban retail accounts pay 125% of City of Milwaukee rates by state statute, so the rate would be expected to increase approximately 28.5%. "Estimated" is used until the PSC issues the rate structure.

The projected impact to City of Milwaukee customers (estimated 28.5% increase) is:

	Volume of water billed		Quarterly cost as of 9/1/09	Increase due to proposed rate change	Quarterly bill including proposed rate change	Gallons per penny at proposed rates	Cost per day at proposed rates
	Ccf	Gallons					
<b>Residential (Average Single Family)</b>	17	12,717	\$38.95	\$11.10	\$50.05	2.5	55 cents
<b>Residential (Overall average including up to 4-family)</b>	29	21,694	\$55.03	\$15.68	\$70.71	3.1	78 cents
<b>Commercial (Average)</b>	180	134,650	\$325.68	\$92.82	\$418.50	3.2	\$4.60
<b>Industrial (Average)</b>	1,103	825,501	\$1,675.36	\$477.48	\$2,152.84	3.8	\$23.65

The projected impact to suburban retail and wholesale customers is:

<b>Customer Class</b>	<b>Communities Impacted</b>	<b>Rate Increase</b>
<b>Retail Suburban</b>	Greenfield, Hales Corners, St. Francis, West Milwaukee, portion of Franklin	Estimated 28.5%
<b>Wholesale Suburban</b>	Brown Deer, Butler, Greendale, Menomonee Falls, Mequon, Milwaukee County Grounds, New Berlin, Shorewood, Thiensville, Wauwatosa, West Allis	Estimated 36%

The proposed rate increase will slightly change the proportion of revenue generated by each of these groups, as shown below:

	<b>Millions of Dollars Annually</b>		<b>Percent of Annual Revenue</b>	
	<b>Current Rates</b>	<b>Proposed Rates</b>	<b>Current Rates</b>	<b>Proposed Rates</b>
<b>City of Milwaukee</b>	\$50.2	\$64.2	75.9%	75.4%
<b>Suburban Retail</b>	\$6.9	\$8.9	10.5%	10.4%
<b>Suburban Wholesale</b>	\$9.0	\$12.1	13.6%	14.2%

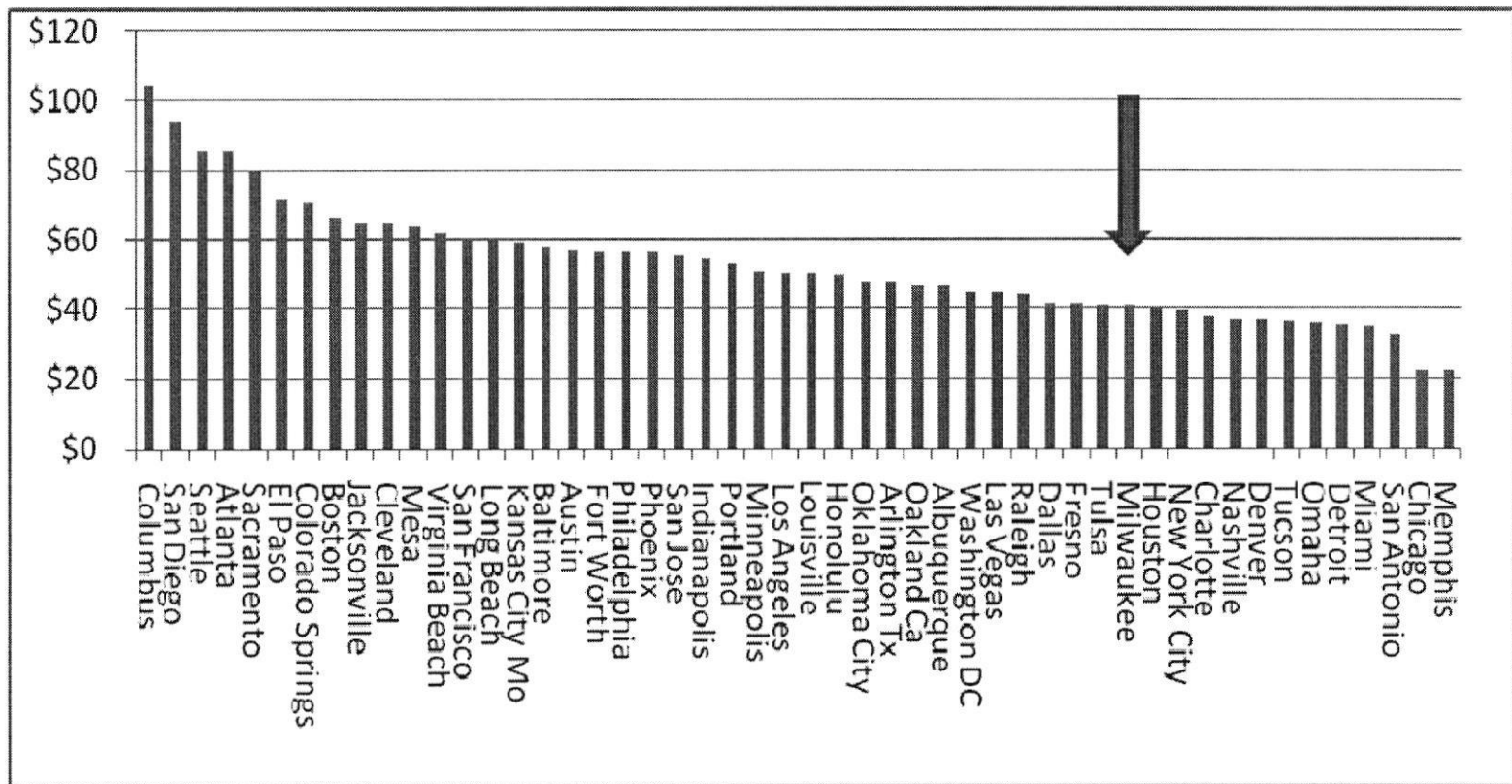
The impact of the rate increase on Milwaukee Water Works' competitive position both nationally and locally is shown on pages 4 and 5, respectively, of this summary.

In summary, the proposed rate increase would generate sufficient revenue for the Milwaukee Water Works to continue to provide safe, high quality drinking water and properly operate and maintain its extensive infrastructure while keeping its pricing competitive both nationally and locally, and facilitate a sustainable dividend from the Milwaukee Water Works to the City General Fund.

The proposed rate increase continues to maintain Milwaukee Water Works' competitive cost structure both nationally and locally. The quarterly cost of water to the average single family customer using 17 Ccf of water was compared.

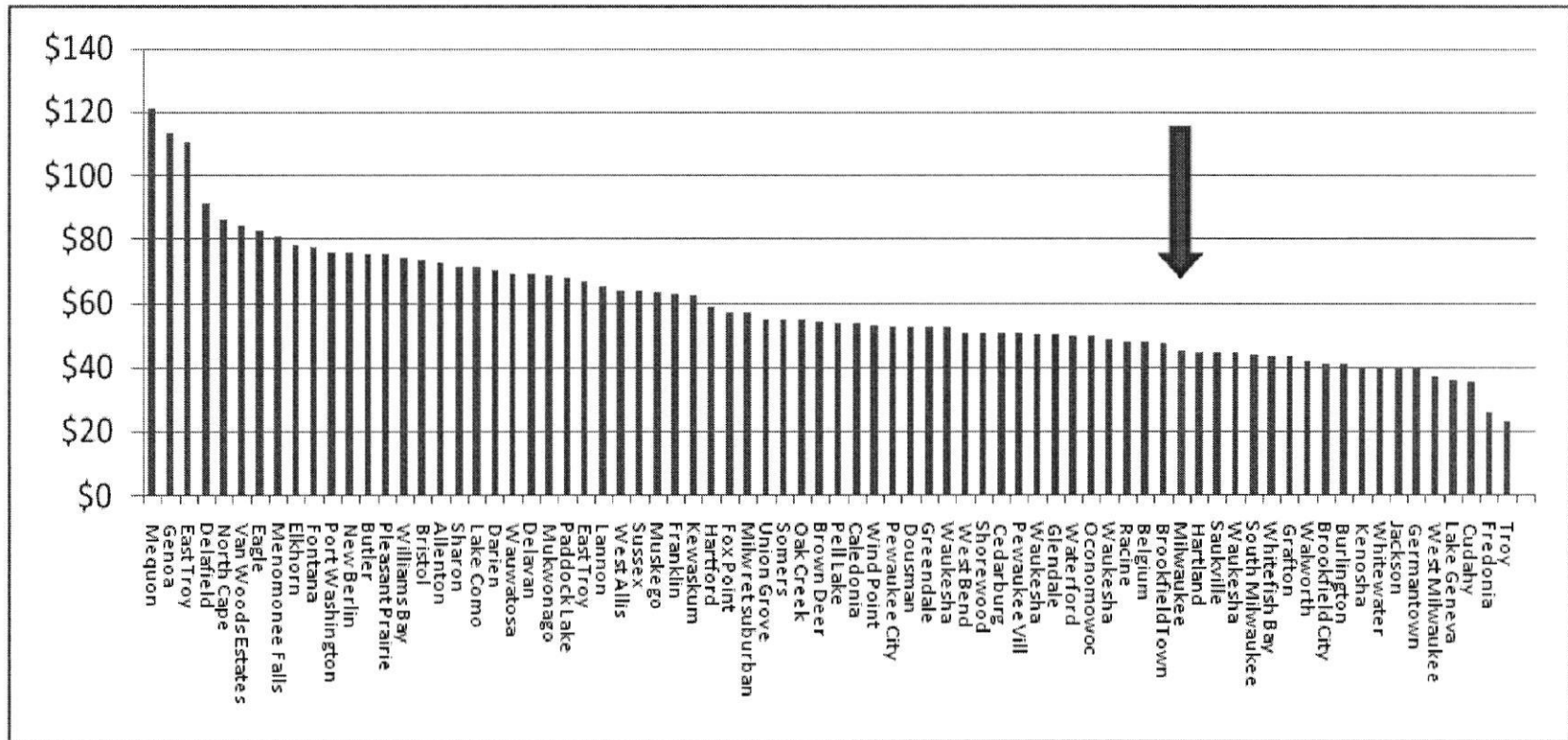
Nationally: Milwaukee would move from the 46<sup>th</sup> lowest of 50 cities to 37<sup>th</sup> lowest of 50 cities with the proposed rate increase in place, assuming no increases by the other 49 cities. (These data are based on the survey of water rates for the 50 largest cities in the U.S. conducted by Badger Meter, Inc. President Richard Meeusen in March 2009, and are used with permission.)

Quarterly water cost to average single family residential account in 50 largest US cities



Locally: Milwaukee would move from 76th lowest of 78 utilities to 59<sup>th</sup> lowest of 78 utilities in the seven-county area including Kenosha, Milwaukee, Ozaukee, Racine, Walworth, Washington, and Waukesha. These data are based on rate tariffs on the Public Service Commission website in June 2009.

Quarterly water cost to average single family residential account in 7 county region of SE Wisconsin





**Impacts to Customers of Proposed Rate Increase**  
**Quarterly Charges except Monthly Charges for Suburban Wholesale**  
**City of Milwaukee Rate of Return 5.0%; Wholesale Rate of Return 6.5%**

Based on MWW projections; actual amounts calculated by Public Service Commission may differ

<u>Milwaukee: 28.5% Increase</u>		<u>Usage</u>	<u>Service</u>	<u>Public Fire</u>	<u>Total</u>	<u>\$ Increase</u>
Residential: Average Single Family	9/1/09	22.78	12.14	4.03	38.95	
17 Ccf	New	29.27	15.60	5.18	50.05	11.10
Residential: Overall average including 2-4 family	9/1/09	38.86	12.14	4.03	55.03	
29 Ccf	New	49.94	15.60	5.18	70.71	15.68
Commercial (average)	9/1/09	234.00	49.82	41.86	325.68	
180 Ccf with 1.5" meter	New	300.69	64.02	53.79	418.50	92.82
Industrial (average)	9/1/09	1,387.75	158.81	128.80	1,675.36	
1,103 Ccf with 3" meter	New	1,783.26	204.07	165.51	2,152.84	477.48

<u>West Milwaukee: 28.5% Increase</u>		<u>Usage</u>	<u>Service</u>	<u>Public Fire</u>	<u>Total</u>	<u>\$ Increase</u>
Residential: Average Single Family	9/1/09	13.41	15.19	13.14	41.74	
17 Ccf	New	17.24	19.52	16.88	53.64	11.90
Residential: Overall average including 2-4 family	9/1/09	22.88	15.19	13.14	51.21	
29 Ccf	New	29.40	19.52	16.88	65.81	14.60
Commercial (average)	9/1/09	139.94	62.28	65.39	267.61	
180 Ccf with 1.5" meter	New	179.82	80.03	84.03	343.88	76.27
Industrial (average)	9/1/09	844.19	198.52	196.18	1,238.89	
1,103 Ccf with 3" meter	New	1,084.78	255.10	252.09	1,591.97	353.08

<u>Suburban Retail: 28.5% Increase</u>		<u>Usage</u>	<u>Service</u>	<u>Public Fire</u>	<u>Total</u>	<u>\$ Increase</u>
Residential: Average Single Family	9/1/09	28.48	15.19	0.00	43.67	
17 Ccf	New	36.59	19.52	0.00	56.11	12.44
Residential: Overall average including 2-4 family	9/1/09	48.58	15.19	0.00	63.76	
29 Ccf	New	62.42	19.52	0.00	81.94	18.18
Commercial (average)	9/1/09	292.54	62.28	0.00	354.82	
180 Ccf with 1.5" meter	New	375.91	80.03	0.00	455.94	101.12
Industrial (average)	9/1/09	1,735.19	198.52	0.00	1,933.71	
1,103 Ccf with 3" meter	New	2,229.72	255.10	0.00	2,484.82	551.11

	<u>Suburban Wholesale - 36% Increase</u>			
	<u>Monthly charges</u>		<u>Service Charge</u>	<u>Fire Protection</u>
	<u>9/1/09</u>	<u>9/1/09</u>	<u>New</u>	<u>New</u>
Brown Deer	20,760	4,448	28,234	6,049
Greendale	32,463	5,190	44,150	7,058
Shorewood	18,347	5,569	24,952	7,574
Wauwatosa	68,197	12,492	92,748	16,989
West Allis	62,415	13,593	84,884	18,486
County Institutions	12,664	0	17,223	0
Butler	5,366	4,017	7,298	5,463
Menomonee Falls	37,160	8,896	50,538	12,099
Mequon	7,266	2,252	9,882	3,063
New Berlin	19,987	4,448	27,182	6,049
	<u>Ccf</u>	<u>Per 1,000 Gallons</u>	<u>Ccf</u>	<u>Per 1,000 Gallons</u>
Volume Charge	\$0.519	\$0.694	\$0.706	\$0.944

Prepared: 7/20/09



# 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.

Upon reasonable notice, efforts will be made to accommodate the needs of persons with disabilities through sign language interpreters or auxiliary aids. For additional information or to request this service, contact the Council Services Division ADA Coordinator at 286-2998, (FAX)286-3456, (TDD)286-2025 or by writing to the Coordinator at Room 205, City Hall, 200 E. Wells Street, Milwaukee, WI 53202.

Limited parking for persons attending meetings in City Hall is available at reduced rates (5 hour limit) at the Milwaukee Center on the southwest corner of East Kilbourn and North Water Street. Parking tickets must be validated in Room 205, (City Clerk's Office) or the first floor Information Booth in City Hall.

Persons engaged in lobbying as defined in s. 305-43-4 of the Milwaukee Code of Ordinances are required to register with the City Clerk's Office License Division. Registered lobbyists appearing before a Common Council committee are required to identify themselves as such. More information is available at [www.milwaukee.gov/lobby](http://www.milwaukee.gov/lobby).



# City of Milwaukee

200 E. Wells Street  
Milwaukee, Wisconsin  
53202

## Master

File Number: 090239

<b>File ID:</b> 090239	<b>Type:</b> Resolution	<b>Status:</b> In Committee
<b>Version:</b> 1	<b>Reference:</b>	<b>Controlling Body:</b> PUBLIC WORKS COMMITTEE
<b>Requester:</b> WATER DEPARTMENT	<b>Cost:</b>	<b>File Created:</b> 06/16/2009
<b>File Name:</b>	<b>Final Action:</b>	
<b>Title:</b> 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: GEN\FISCAL\NT.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:  ADOPTION OF THIS FILE AUTHORIZES REVENUES.  
 ADOPTION OF THIS FILE DOES NOT AUTHORIZE EXPENDITURES; FURTHER COMMON COUNCIL ACTION NEEDED.  
 LIST ANTICIPATED COSTS IN SECTION G BELOW.  
 NOT APPLICABLE/NO FISCAL IMPACT. IN CURRENT YEAR

D) CHARGE TO:  DEPARTMENTAL ACCOUNT (DA) WATER  
 CAPITAL PROJECTS FUND (CPF)  
 PERM. IMPROVEMENT FUNDS (PIF)  
 OTHER (SPECIFY)

CONTINGENT FUND (CF)  
 SPECIAL PURPOSE ACCOUNTS (SPA)  
 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