

COUNTY OF MILWAUKEE
Inter-Office Communication

DATE: July 5, 2013

TO: Supervisor Marina Dimitrijevic, Chairwoman
Milwaukee County Board of Supervisors

FROM: Supervisor Jim 'Luigi' Schmitt
Don Tyler, Director of Administrative Services

**SUBJECT: Transfer of Seven Milwaukee County Water Utility Customers
and West Water Tower to the City of Wauwatosa**

History

As Milwaukee County (County) government's presence on the County Grounds has diminished over the years, the County has considered the possible transfer of its water utility (County Utility) to the City of Wauwatosa (Wauwatosa). Likewise, Wauwatosa has considered consolidation of the two water systems due to unnecessary redundancies in water service infrastructure. The Zoo Interchange mitigation projects for Swan Boulevard and Watertown Plank Road have revived these discussions largely due to the significant costs that would be borne by the County's Utility customers for the relocation of water mains and other related infrastructure that is located within the Watertown Plank Road and Swan Boulevard rights-of-way.

Background

In the fall of 2012, the County and the City met to discuss the possibility of transferring the County Utility to the City. Representatives of the County and City agreed to engage the Public Policy Forum (PPF) in a professional services agreement for the analysis of the pros and cons of transferring the County Utility to the City. The County and City agreed to share equally in the \$20,000 cost of the contract. Originally, the County and City requested that the PPF provide an analysis of the entire water system. However, the Wisconsin Department of Transportation's (WisDOT) deadlines for submission of plans and specifications related to the reconstruction of Swan Boulevard and Watertown Plank Road forced the PPF, with the permission of the County and City, to analyze those parts of the water system (described as Phase I and Phase II) directly impacted by the Swan Boulevard and Watertown Plank Road mitigation projects immediately. The remainder of the County Utility (described as Phase III) would be analyzed separately in order for the County to meet WisDOT deadlines.

In January of 2013, the County and City executed separate professional service agreements with the PPF for the analysis. Staff from the Department of Administrative Services (DAS), including Facilities Management and Fiscal Affairs and the Office of the Comptroller participated in meetings and provided data to the PPF for the analysis. The final report was presented to the County and City in April of 2013. Subsequently, the County and City agreed to commence negotiations for the transfer of seven customers and the west water tower (Tower) to the City.

Analysis

Transfer of the seven County Utility customers, which include the UWM Real Estate Foundation's Innovation Park LLC, Milwaukee County's Camp Wil-O-Way building on Underwood Parkway, UW Milwaukee County Cooperative Extension's Urban Gardens, Milwaukee County's Fleet building, Wisconsin Lutheran College, Milwaukee County Research Park Corporation (MCRPC) and Milwaukee County's Children's Court Center, will result in a positive fiscal impact to Milwaukee County.

This positive fiscal impact is achieved, in part, by the County receiving an annual minimum of \$25,000 from the City based upon the net revenue the City expects to realize from gaining the seven customers. The \$25,000 is based on Wauwatosa's projected total annual net revenue of \$38,077. In addition, County departments transferred to the City's water service are projected to realize a water charge savings of approximately \$7,079 due to lower water rates. Those County departments remaining on the County Utility are anticipated to see an increase of approximately \$3,977¹. Overall, the County is projected to achieve an estimated annual net savings of \$28,102.

Additionally, County and non-County users of the County Utility are anticipated to benefit from cost-avoidance due to the transfer of the County Utility to the City. This includes costs related to annual maintenance, future demolition and reconstruction of the Tower estimated at \$1,418,000 in 2013 dollars. Cost avoidance of approximately \$1,714,250 is projected as a result of County Utility relocation costs associated with the construction of the Zoo Interchange project. Overall, total estimated cost avoidance for all utility users is \$3,132,250.

Importantly if the County does not transfer the County Utility to the City there is a likelihood that the County construction project to route new water lines to accommodate the Zoo Interchange project would:

- Disrupt water to the Urban Gardens and Wil-O-Way, potentially during the Wil-O-Way Summer Day Camp, providing respite and recreation to 65 campers and their care providers. There are also more than 35 community events scheduled through December for approximately 4,000 attendees.

¹ Remaining County departmental users of the Utility include DHHS-BHD, CATC, and Parks.

Additionally, the Family Care unit housed at the Underwood Center encompassing approximately 15 staff members would need to be relocated to other Milwaukee County locations.

- Potentially disrupt the protected butterfly zone as construction crews will be digging 15-25 foot trenches to place pipes through portions of the area. A map is attached to this report.

Finally, approximately 10,000 square feet of land would be transferred to Wauwatosa. Recent appraisals for adjacent parcels average about \$6.00/sq.ft., for an estimated value of \$60,000 in 2013 dollars. In comparison, the net present value of the annual \$25,000 payments to the County (over a 10-year period) is estimated to be \$207,915 in 2013 dollars. As a result, the \$60,000 estimated land value does not exceed the total of the annual (minimum) payments the County will receive from Wauwatosa.²

² Based on data from the U.S. Labor Department - Bureau of Labor Statistics' Consumer Price Index-All Urban Consumers (CPI) for the Milwaukee Metropolitan Statistical Area, the average year-to-year CPI increase has been under 3.0% for the past 10 years. Considering the volatility resulting from the downturn in the economy, the CPI from the past five years was also reviewed. The average year-to-year CPI change for the past five years is also under 3.0%.

The net present value (npv) calculation (shown above) assumes a slightly more conservative discount rate (i.e. inflation) of 3.5%. For instance, a 3.0% discount rate returns an estimated npv of \$170,600 while the 3.5% returns an NPV of approximately \$166,300.

Net Annual Expenditure Increase/(Decrease)	Explanation
<u>(\$25,000)</u>	Payment from Wauwatosa to County (i.e. Net Revenue from 7 transferred County customers).
<u>(\$7,079)</u>	Net savings realized from the County users transferred to the Wauwatosa water utility.
<u>\$3,977</u>	Increase in Milwaukee County water charge due to lower user base.*
<u>(\$28,102)</u>	Total County Levy Increase/(Decrease)

**As a result of the transferred user to the Wauwatosa water system, Milwaukee County water rates to the remaining users will increase.*

Cost Avoidance to All Users	Explanation
<u>\$58,000</u>	Ongoing Maintenance of West Water Tower.
<u>\$1,300,000 (2013 dollars)</u>	Building a new West Water Tower in 10 yrs.
<u>\$30,000-\$60,000 (2013 dollars)</u>	West Water Tower Demolition.
<u>\$1,714,250</u>	Construction Costs Related to Zoo Interchange.
<u>\$3,132,250</u>	Total Cost Avoidance to All Users

Therefore, based on the Public Policy Forum's report on the Phase I and Phase II transfer of the seven water utility customers and Tower from the County to the City and the subsequent negotiation of the proposed Memorandum of Agreement, the following terms are proposed:

1. This Agreement shall be for a term of ten years. Ten years represents that length of time required to defease the general obligation bonds ("the Bonds") issued by the County to finance the Tower (See Attachment A). Upon the conclusion of year ten, ownership of the Tower and underlying land shall be transferred to WAUWATOSA at a cost of \$1.00.
2. During the term of the Agreement, WAUWATOSA shall pay MC an annual sum, which will be the greater of \$25,000 or forty-percent (40%) of the total net revenue realized by WAUWATOSA from the transfer of the seven water utility customers to WAUWATOSA's water utility system. The payment shall be made by April 1 for the preceding year.
3. During the term of this Agreement, MC will retain the current cell antenna revenue collected at this location. Any additional revenues from the siting of additional cell tower equipment on the Tower will accrue to WAUWATOSA.
4. WAUWATOSA will maintain the Tower and MC shall provide WAUWATOSA with technical support as necessary to effectuate transference of the Tower and seven water utility customers.
5. As part of the transfer, MC agrees to execute an easement agreement with Wauwatosa for the water mains that will become part of the WAUWATOSA

Water Utility through the transfer of the seven customers (as named in the recitals) and the Tower.

6. MC and WAUWATOSA will negotiate costs for the capping, abandonment, valve adjustments and cross-connections needed to complete Phases I and II.
7. Neither MC nor the seven customers transferred to WAUWATOSA shall be responsible for any costs not directly associated with the provision of water service or other services actually provided by WAUWATOSA to MC or those customers.
8. MC and WAUWATOSA agree to discuss the fire protection fee charged to MC government as part of the next phase the water utility transfer.
9. WAUWATOSA will not take any action, omit to take any action, cause any action to be taken or cause the omission of any action that would adversely affect the exclusion of the interest on the Bonds from the gross income of the owners of the Bonds for federal income tax purposes, including without limitation any private use of the Tower (or the water stored therein); provided that WAUWATOSA is not responsible for the effect that the continuation or renewal of any existing contracts or use arrangements made by MC with respect to the Tower have on the tax-exempt status of the interest on the Bonds.
10. IN WITNESS WHEREOF, the Parties have caused this instrument to be executed on the stated day and year.

Recommendation

The Department of Administrative Services respectfully requests authorization to transfer the seven water utility customers and the west water tower from the Milwaukee County Water Utility to the City of Wauwatosa's water service by entering into the above referenced Memorandum of Agreement. Because the Agreement is for the sale or lease of property, and pursuant to Wisconsin State Statute 59.17(2)(b)3, the County Executive's action must be consistent with established County Board policy and the Agreement must be approved by the County Board in order to take effect. Per that same statute, the County Board may only approve or reject the contract as negotiated by the County Executive.