

COUNTY OF MILWAUKEE
INTEROFFICE COMMUNICATION

DATE : June 3, 2013

TO : Supervisor Michael Mayo, Chairman, Transportation, Public Works and Transit
Committee

FROM : Scott B. Manske, Comptroller

SUBJECT: Cost Analysis of Water Utility on Milwaukee County Grounds and Transfer of Seven
(7) Utility Customers to City of Wauwatosa (For Information Only) (File 13-513)

Summary of Cost Analysis

Due to the advent of the Zoo Interchange construction, and the associated utility work that is necessary on the County Grounds to prepare for this construction, the County is examining the transfer of seven water utility customers (Impacted Customers) to the City of Wauwatosa (City).

By transferring the customers to the City,

1. The County and State would avoid certain capital costs of \$1.7 million associated with Zoo Interchange construction, and future capital costs of \$1.36 million related to these customers. See Schedule H.
2. In addition, the County's water utility rate would drop for existing water utility customers. The 2012 water utility rate was \$4.38 per ccf (100 cubic feet of water). The water utility rate if the customers are not transferred would be \$4.57 per ccf, versus a rate of \$4.27 per ccf if they are transferred to the City of Wauwatosa. See schedules F and G.
3. The Impacted Customer's water utility payment would drop if they transferred to the City. The Impacted Customers costs would drop from \$77,000 per year to \$52,000 per year by being under City of Wauwatosa rates. See Schedule C.
4. The County may have to assume certain debt costs related to the outstanding debt on the West Water Tower, if these costs cannot continue to be charged to the remaining utility customers. See Schedule I.

It is understood that if no transfer takes place that the County water utility would have to incur the costs to maintain these customers. The additional capital cost of \$1.7 million, which includes \$1.4 million of County costs, could be allocated to water utility customers through interest and depreciation costs. The County Water Utility rate would increase from \$4.38 to \$4.57 per ccf (100 cubic feet). The City of Wauwatosa has a separate water utility, and therefore a separate water utility rate, which the seven impacted users would become customers. The City of Wauwatosa rate, if applied to County utility customers, would average \$2.46 per ccf.

Background

A report was done by the Public Policy Forum on the transfer of these Impacted Customers to the City. The report's conclusion indicated that certain matters needed to be evaluated before a final decision could be made on the transfer. However, the report also stated that the transfer of the impacted customers to the City would reduce overall costs and eliminate the need for redundant infrastructure.

When the Public Policy Forum Report was presented to the Public Works committee, the Comptroller stated that his office would look at the costs for the transfer and the annual utility cost impact.

A report requesting the transfer has been submitted by the Department of Administrative Services for consideration by the Transportation and Public Works Committee on June 5, 2013. The report includes an agreement with the City for the transfer and a resolution to approve that agreement.

County Costs for Water Utility (Schedule A)

The following schedule shows the current and projected costs for the Milwaukee County Water Utility. This schedule shows the costs of the utility.

Milwaukee County						
County Water Utility Cost Projections by Year for Major Expenditure Types						
	2012 Actual	2013 Proj	2014 Proj	2015 Proj	Pcntg	
Water Purchase	\$ 553,966	\$ 581,222	\$ 610,283	\$ 640,797	25.5%	
Other Services	130,576	154,010	158,630	163,389	6.4%	
Commodities	7,064	4,657	4,797	4,941	0.2%	
Facilities Labor and Fringes	648,079	553,604	586,820	622,029	25.0%	
Other Cross Charges	42,277	80,010	82,410	84,882	3.3%	
Capital Outlay	594,788	630,647	500,000	500,000	18.9%	
Depreciation	180,824	261,984	261,984	261,984	9.9%	
Interest	66,514	174,571	171,551	167,080	6.1%	
5% Charge for Reserves	111,204	122,035	118,824	122,255	4.8%	
Utility Cost Milwaukee County	\$ 2,335,292	\$ 2,562,740	\$ 2,495,299	\$ 2,567,358	100.0%	
Usage CCF for Milwaukee County Utility	533,239.65	533,239.65	533,239.65	533,239.65		
Milwaukee County Rate	\$ 4.38	\$ 4.81	\$ 4.68	\$ 4.81		

Comparison to City of Wauwatosa Water Rates (Schedule B)

The following is a comparison between the Milwaukee County Water Utility rates for customers on the County Grounds and the City of Wauwatosa water rates for all customers on the County Grounds. The rates are much lower for the City of Wauwatosa, since their charges are spread over a larger customer base, and the City pays a lower fee for water.

Milwaukee County Rate and Revenues	<u>2012 Actual</u>	<u>2013 Proj</u>	<u>2014 Proj</u>	<u>2015 Proj</u>
Milwaukee County Rate	\$ 4.38	\$ 4.81	\$ 4.68	\$ 4.81
Customer Revenues	\$ 2,335,290	\$ 2,562,740	\$ 2,495,300	\$ 2,567,360
City of Wauwatosa Rates and Revenues				
City Rate	\$ 2.20	\$ 2.46	\$ 2.70	\$ 2.97
Customer Revenues	\$ 1,174,970	\$ 1,309,130	\$ 1,440,280	\$ 1,584,250

Impacted Customers Utility Rate Comparison (Schedule C)

The following is a comparison between the Milwaukee County Water Utility rates for the impacted customers on the County Grounds and the City of Wauwatosa water rates for the impacted customers on the County Grounds. Rates vary for the City of Wauwatosa due to a meter charge that is assessed to customers under the City Utility rate, plus the regular water rate per 100 cubic feet.

Comparison of Water Costs for Seven Customers Under City and County Water Rates								
	Water Usage 2012	City of Wauwatosa Cost			Milwaukee County			
Phase 1	<u>CCF</u>	<u>Dollars</u>	<u>Rate CCF</u>	<u>Pcntg</u>	<u>Dollars</u>	<u>Rate CCF</u>	<u>Pcntg</u>	
Parks Admin	141.7	\$ 975	\$ 6.88	0.07%	\$ 621	\$ 4.38	0.03%	
Wil-O-Way	470.1	1,903	\$ 4.05	0.15%	2,059	\$ 4.38	0.09%	
Wi Lutheran	7,691.6	23,741	\$ 3.09	1.81%	33,686	\$ 4.38	1.44%	
UW Extension gardens	1,454.9	5,908	\$ 4.06	0.45%	6,372	\$ 4.38	0.27%	
	<u>9,758.3</u>	<u>32,526</u>	<u>\$ 3.33</u>	<u>2.48%</u>	<u>42,737</u>	<u>\$ 4.38</u>	<u>1.83%</u>	
Phase 2								
Fleet	2,276.0	\$ 7,214	\$ 3.17	0.55%	\$ 9,968	\$ 4.38	0.43%	
Res Park	680.7	2,938	\$ 4.32	0.22%	2,981	\$ 4.38	0.13%	
Children's Court	3,758.0	12,833	\$ 3.41	0.98%	16,458	\$ 4.38	0.70%	
	<u>6,714.7</u>	<u>22,985</u>	<u>\$ 3.42</u>	<u>1.75%</u>	<u>29,408</u>	<u>\$ 4.38</u>	<u>1.26%</u>	
Seven Customers Total	16,473.0	55,512	\$ 3.37	4.24%	72,145	\$ 4.38	3.09%	
Total All County Custs	533,239.6	\$ 1,309,859	\$ 2.46	100.00%	\$ 2,335,355	\$ 4.38	100.00%	

Recent Capital Purchases by the County Water Utility (Schedule D)

The County has made several capital improvements in the last five years including the repair of the East and West Water Tower and the building of a new water tower near the County BHD facility. The new water tower is called a spheroid. The following are these costs and the annual depreciation and interest costs on these capital assets.

Milwaukee County Water Utility Before Zoo Interchange Capital Project			
Existing Fixed Assets	<u>Fixed Asset</u>	<u>Accum Deprec</u>	<u>Deprec Exp</u>
West Water Tower	891,310	262,111	89,131
East Water Tower	673,951	237,757	67,395
New Spheroid Water Tower	2,868,639	15,178	72,139
Other Water Assets	2,853,812	2,713,888	8,850
Total	7,287,712	3,228,934	237,514
Existing Fixed Assets	<u>Remaining Debt</u>	<u>2013 Prin</u>	<u>2013 Int</u>
West Water Tower	756,685	44,098	29,560
East Water Tower	646,400	36,909	26,200
New Spheroid Water Tower	2,868,639	84,552	118,811
Other Water Assets	-	-	-
Total	4,271,724	165,559	174,571

Capital Cost Comparison Based on Maintaining Impacted Customers or Transferring Customers to the City of Wauwatosa. (Schedule E)

The following comparison shows the capital costs that would have to be incurred under two scenarios. The first scenario is the County maintaining the seven impacted customers. The second scenario is the County transferring the seven customers to the City of Wauwatosa. The first scenario will cost \$1.7 million more than the transfer to Wauwatosa: \$1.4 million for the County and \$0.3 million to the State.

Zoo Interchange Costs for Water Utility				
County Cost maintaining customers				
		<u>County</u>	<u>WisDOT</u>	<u>Total</u>
Committed		497,000	161,000	658,000
Phase I		1,051,000	-	1,051,000
Phase II		560,000	465,000	1,025,000
		2,108,000	626,000	2,734,000
County Cost with Transfer of Service to Wauwatosa				
		<u>County</u>	<u>WisDOT</u>	<u>Total</u>
Committed		497,000	161,000	658,000
Phase I		85,000	-	85,000
Phase II		153,000	124,000	277,000
		735,000	285,000	1,020,000
Variance in Capital Cost				
Committed		-	-	-
Phase I		966,000	-	966,000
Phase II		407,000	341,000	748,000
Variance		1,373,000	341,000	1,714,000
Phase I - Eastern side of freeway including Parks Admin, Wil-o-Way, and UW Ext Gardens				
Phase II - Western side of Freeway including Fleet Bldg, Childrens Court and M-1 Research Park Bldg				
Committed - Costs that have to be incurred by County and State regardless of decision.				

Annual Cost Impact on County Water Utility for the Transfer of Seven Utility Customers to the City of Wauwatosa (Schedule F)

The following is a comparison between the Milwaukee County Water Utility rates for customers on the County Grounds if the seven utility customers are transferred to the City of Wauwatosa.

Cost Change if Customers in Phase I and Phase II are transferred to Wauwatosa					
	Water Usage 2012 CCF	City of Wauwatosa Cost		Milwaukee County	
		Dollars	Rate	Dollars	Rate
2012 Final Costs	533,239.6	\$ 1,309,859	\$ 2.46	\$ 2,335,355	\$ 4.38
Less Phase I and II cust	(16,473.0)	(55,512)			
Lower Cost to maintain Phase I				(70,000)	
Lower Cost to maintain Phase II				(20,000)	
Contribution from Wauwatosa				(20,000)	
Reduced Water Cost				(18,000)	
Cell Tower Revenue (No Change)				-	
2012 Costs adj for Transfer	<u>516,766.6</u>	<u>\$ 1,254,347</u>	<u>\$ 2.43</u>	<u>\$ 2,207,355</u>	<u>\$ 4.27</u>
There is a possibility that the depreciation on the West Tower asset and West Tower debt interest may have to be paid by the County, instead of the Utility. The depreciation is \$90,000 for seven years and the interest is \$15,000 for ten years. The offset to this cost is a \$20,000 contribution from the City for ten years, plus the City would pay for the demolition of the west water tower at \$60,000 for one year.					

Annual Cost Impact on County Water Utility for maintaining the seven impacted customers with the County Utility. (Schedule G)

If the County maintains the seven customers, the annual cost for all County utility customers would increase by \$0.19 per ccf, due to the depreciation and interest costs for the County's capital cost to maintain customers as a result of the Zoo interchange work. The capital cost would be amortized over a thirty year period, and the interest costs would be paid over a fifteen year period.

Cost Change with No Transfer of Customers					
	Water Usage 2012 CCF	City of Wauwatosa Cost		Milwaukee County	
		Dollars	Rate	Dollars	Rate
2012 Final Costs	533,239.6	\$ 1,309,859	\$ 2.46	\$ 2,335,355	\$ 4.38
Addl Debt Cost for Phase I				70,840	
Addl Debt Cost for Phase II				29,880	
Cell Tower Revenue (No Change)				-	
2012 Costs adj for Addl Constr	<u>533,239.6</u>	<u>\$ 1,309,859</u>	<u>\$ 2.46</u>	<u>\$ 2,436,075</u>	<u>\$ 4.57</u>

Capital Costs Avoided by Transferring Impacted Customers (Schedule H)

The following schedule shows the Zoo interchange phase I and phase II costs, plus the replacement cost of the West water tower that would be avoided by transferring the customers to the City of Wauwatosa. The Phase I and Phase II work would occur in 2013, and the replacement of the West water tower would have to occur in ten years. The estimated cost is based on 2013 dollars.

Capital Cost Avoided if Phase I and Phase II Customers Occurs			
	County	State WisDOT	Total
Phase I - 2013	\$ 966,000	\$ -	\$ 966,000
Phase II - 2013	\$ 407,000	\$ 341,000	\$ 748,000
Demo of West Water Tower 2020	\$ 60,000	\$ -	\$ 60,000
New West Water Tower 2020	\$ 1,300,000	\$ -	\$ 1,300,000
	\$ 2,733,000	\$ 341,000	\$ 3,074,000

Debt Cost for Existing West Water Tower Schedule (Schedule I)

The following schedule shows the principal and interest costs on the West water tower, from when it was repaired in 2008 – 2009. As of the end of 2012, there was \$756,685 of principal costs that were remaining to be paid on the maintenance costs. If the seven customers are transferred to the City of Wauwatosa, the County would have to examine if it could continue to charge these costs to the remaining utility customers of Milwaukee County Ground water utility.

Funding for WG00301xx - West Water Tower				
	Principal	Interest	Annual DS	O/S Debt
2007				
2008	\$0			\$875,789
2009	\$21,418	\$33,431	\$54,849	\$854,371
2010	\$37,954	\$32,735	\$70,689	\$816,417
2011	\$29,866	\$31,501	\$61,367	\$786,551
2012	\$29,866	\$30,531	\$60,397	\$756,685
2013	\$44,098	\$29,560	\$73,658	\$712,587
2014	\$60,578	\$28,017	\$88,595	\$652,009
2015	\$76,382	\$25,896	\$102,278	\$575,627
2016	\$76,382	\$23,032	\$99,414	\$499,245
2017	\$76,382	\$20,168	\$96,550	\$422,863
2018	\$76,382	\$17,112	\$93,494	\$346,481
2019	\$76,382	\$14,057	\$90,439	\$270,099
2020	\$76,382	\$11,002	\$87,384	\$193,717
2021	\$76,382	\$7,947	\$84,329	\$117,335
2022	\$76,382	\$4,891	\$81,273	\$40,953
2023	\$40,953	\$1,741	\$42,694	\$0
Total	\$875,789	\$311,620	\$1,187,409	

Committee Action

This is a cost analysis of the impact of maintaining seven water utility customers on the County Grounds, or transferring them to the City of Wauwatosa water utility and is for informational purposes only.



Scott B. Manske
Comptroller

cc: Chris Abele, County Executive
Supervisor Marina Dimitrijevic, Chairwoman, County Board of Supervisors
Don Tyler, Director, Department of Administrative Services
Julie Esch, Director of Operations, Department of Administrative Services
Gary Waszak, Facilities Maint. Coordinator, Department of Administrative Services
Jodi Mapp, Committee Clerk, County Board

The following map depicts where the seven customers are that are impacted by the construction for the zoo interchange. The customers in Phase I are the Parks Administration building, the Wisconsin Lutheran Athletic facilities, the Wil-o-Way building, and the UW-Extension Gardens. The customers impacted by Phase II are the Fleet facility, the Childrens Court Center, and the M-1 Research Park Facility. The water towers serving the customers on the County Grounds are noted with a 'T'.

