

COUNTY OF MILWAUKEE
INTEROFFICE COMMUNICATION

DATE: February 17, 2020

TO: Supervisor Theodore Lipscomb, Sr., Chairman, County Board of Supervisors

FROM: Aaron Hertzberg, Director, DAS – Economic Development Division

SUBJECT: **An Informational Report regarding potential transfer of the County water system servicing portions of the Milwaukee County Grounds to the City of Wauwatosa and the Milwaukee Regional Medical Center**

Background

Previous Legislation –

File 13-636 – A resolution authorizing the Department of Administrative Services to enter into a Memorandum of Agreement with the City of Wauwatosa for the transfer of seven Milwaukee County water utility customers and the West Water Tower to the City of Wauwatosa

File 14-310 – Informational Report from the Public Policy Forum, presenting “Milwaukee County Water Utility: Analyzing the issues surrounding a potential transfer in ownership to the City of Wauwatosa.”

File 18-764 – 2019 Recommended Budget (specifically attachments #16 and #18)

File 19-928 – An informational report on land combination, subdivision and rezoning in the northeast quadrant of the Milwaukee County Grounds

Note this item also relates to another report submitted to the County Board for consideration in the March 2020 cycle:

- An Informational Report regarding the sale of County owned land at 9201-9501 W. Watertown Plank Road and other lands at the Milwaukee Regional Medical Complex.

Report

Milwaukee County is in negotiations with the City of Wauwatosa and the Milwaukee Regional Medical Center (“MRMC”) to transfer portions of the County owned watery system. The proposed transfer includes water mains, storage and distribution assets, as well as, sanitary and storm sewer assets, collectively the (“Water System”). A tentative agreement has been secured, for Wauwatosa to acquire the water service lines from their connection points at Milwaukee Water Works distribution lines to the MRMC campus. MRMC would acquire the remainder of the system on the campus and ensure continued service to customers with connections coming from the campus.

Milwaukee County previously transferred the western portion of the County’s water system to the City of Wauwatosa (see File 13-636). The western portion of the system generally serviced the Milwaukee County Research Park, west of Interstate 41. While transfer of the full system

was previously discussed, the 2013 transfer was expedited to align with major infrastructure changes related to the rebuilding of the Zoo Interchange by the State of Wisconsin.

Following transfer of the western portion of the system, discussions continued as to the transfer of the remainder of the County's water system. A 2014 Public Policy Forum Report outlined many complications for transferring the remainder of water system (see File 14-310). Important issues complicating the transfer include, condition of the North Avenue main water line running from approximately 60th Street and North Avenue to the MRMC Campus, appropriate ownership of various sections of the system and future rate considerations if MRMC members were to receive water from Wauwatosa. A report was completed by engineering firm GRAEF in 2018 to evaluate the condition of the system and explore possible transfer scenarios.

At this time, it is contemplated that the City of Wauwatosa would acquire the northern portion of the system, connecting from the North Avenue Main to the MRMC Campus including connection lines along the way. Wauwatosa would also acquire the southern water connection at approximately W. Wisconsin Avenue and Elm Spring Avenue. They would become the sole water provider to the MRMC. Note that City of Wauwatosa ordinances require the City to be the sole water provider within City limits. The County currently operates as an exception to that law, based on historic service.

MRMC would acquire the system at or near their property line and take responsibility for managing the system on Campus. The water system on campus is rather complex. The City of Wauwatosa has expressed a desire not to own this section of the system. Through a separate agreement between MRMC and Wauwatosa, MRMC would provide water to properties that have historically had water connections through the campus. Those properties are immediately north of the campus across Watertown Plank Road, including the MRMC Thermal Plant, D-18 site, Ronald McDonald House and the mixed-use building at 8700 W. Watertown Plank Road.

Note that, while the County had previously considered transferring the entirety of the system or sections to either MRMC or Wauwatosa, the current proposal would be for a three-party transaction with all parties consenting to the transfer.

The Public Service Commission (PSC) will need to approve Wauwatosa's acquisition of their portion of the system. Additionally, the Wauwatosa will seek approval from the PSC for a special rate status for MRMC, based on the unique circumstances of the transfer and costs to continue service. MRMC will also seek a declaratory ruling that under the terms of the transfer they will not be regulated as a public utility. Milwaukee County has historically operated as a water system, not a public utility.

County staff, along with MRMC and the City of Wauwatosa, have maintained communication with PSC staff throughout discussions of the transfer. PSC staff has previously encouraged the County to pursue transfer of the system to resolve public utility status for the remaining County owned portions of the system. Early indications from PSC staff suggest the planned three-party transaction is worthy of consideration, though any PSC approvals would be subject to details and final consideration by the PSC Commissioners.

Board Consideration

The Office of Corporation Counsel has advised that the County Executive has the authority to transact the water system. Prior to closing, the buyers of the system are likely to require easements for on-going care and maintenance of the water system once its under their control. The water system crosses the Menomonee River Parkway at approximately Kenyon Avenue, servicing Hoyt Pool on its way south to 87th Street. Sections of the system also cross lands recently rezoned as park and added to County Grounds park, near the wooded area commonly referred to as “Sanctuary Woods”. Note that lines are currently in place, with no immediate plans to disturb these areas. If the transaction moves forward, County staff will seek approval for easements through Park land as required by Wisconsin State Statute (59.17). Easements are not yet prepared but are anticipated for consideration later this year.

Assets for Transfer

In addition to the water lines previously mentioned, other water assets are anticipated for transfer. MRMC would take ownership of the water spheroid (central water tower) on campus, the water tower north of Watertown Plank Rd. (East Tower), sanitary sewer mains, and other associated assets. MRMC partners would also assume maintenance responsibility for the stormwater management pond north of Watertown Plank Road. With consent of the transferring parties, Milwaukee County may retain ownership of the sewer connection points to MMSD’s main line sewers. MMSD only accepts connections from public entities. In any such scenario that Milwaukee County retained any portion of the system to help facilitate the transaction, the County would expect another party to be fully and completely responsible for any on-going service, maintenance or replacement responsibilities.

As noted in the complimentary report submitted for consideration in the March 2020 cycle, “An informational report regarding the sale of County owned land at 9201-9501 W. Watertown Plank Road and other lands at the Milwaukee Regional Medical Complex”, if the water transaction is completed MRMC would have the ability to acquire stormwater management ponds on the MRMC campus and land north of Watertown Plank Road, associated with a water tower (East Tower) that would also be transferred to MRMC. The land associated with the tower was recently subdivided from a larger parcel that allocated approximately 107.8 acres, including a wooded area commonly referred to as “Sanctuary Woods”, to be rezoned to park land and land combined to County Grounds park (File 19-928).

Transfer Price

With these transaction, Milwaukee County will receive full value for its prior investments and no longer be responsible for operating the water system or billing customers. The City of Wauwatosa and MRMC will take responsibility for future maintenance and operation of the system and will bill customers directly for services. These two sales would complete the disposition of all of Milwaukee County’s water system operation responsibilities.

Public utilities and utility systems are operated for the benefit of users and are generally regulated against unduly profiting from operations. Both portions of the system would therefore be sold for a net neutral price. Assets not funded by debt would be sold for their undepreciated book value. Assets funded by debt would be sold for their remaining outstanding debt. Because

the sale price is variable depending on the date of transfer, actual transfer prices are not yet known. The transfer values were last calculated in 2018 and were between \$1-\$3.3 million for each transaction. Updated transaction amounts are currently being updated, but may not be available prior to reporting to the Board. Again, note that all sale proceeds would be used to pay off outstanding debt or undepreciated value.

Milwaukee County also maintains a Water Asset Reserve Account, with a current balance of \$1,234,175.20. These funds have been previously collected from water customers and are held in reserve to maintain and invest in the system as necessary. As part of the transaction, Milwaukee County intends to apply these funds to help facilitate the transaction. This may include paying off outstanding debt or book value to the County or to pay for infrastructure needs that are necessary to transfer the system.

Revenue Implications

While the County currently retains ownership of the water system and related assets on the MRMC campus, in October 2019 the responsibility for operation and maintenance of the system was transferred by formal agreement to the MRMC. This O&M agreement paved the way for MRMC to undertake significant capital changes to the water system needed to complete their reconstruction of 87th Street through the campus. These capital changes resulted in the approved removal of some County assets for which County was reimbursed at book value. The transfer of operation and maintenance responsibilities from County to MRMC is a step in the direction of completing the transfer of ownership, and the agreement will remain in place until the water system is sold. County continues to supply water to the campus and recover all related costs for this service. This transition resulted in no service disruptions. County resources have been redirected towards core, mission-critical activities.

Complete disposal of the water system via the contemplated sales will result in some further indirect administrative savings to the County. Savings will be fully realized upon complete of both transactions. The Public Policy Forum report noted potential issues to Milwaukee County DAS – Facilities Management Division regarding the allocation of costs from the Director’s Office. Cost allocations would simply be reallocated to the remaining Facilities Management footprint. The reallocation in 2020 would be \$1,588.

Other considerations

Through the sale, Milwaukee County seeks to retain or receive market value for all existing sources of revenue associated with the water system. This includes continued billing of fire service charges billed to MRMC members and affiliates.

Milwaukee County currently maintains three cell tower leases on the East Water Tower. The leases currently generate average approximately \$176,000 annually with revenue retained by the DAS – Economic Development Division, (115-1191-4993), to reduce reliance on tax levy.

Under the proposed terms, MRMC would compensate the County for the full value of said contracts during the existing term of any such contract entered prior to closing. MRMC would

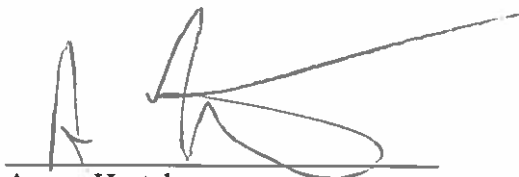
also compensate the County for half of the value of any such contracts during the next available extension. Thereafter, MRMC would be solely responsible and benefit from such contracts.

Existing contract terms end in 2020, 2022 and 2023. Extensions remain available in two of the three leases with terms ending in 2025 and 2027. The Economic Development Division is currently negotiating an additional cell leases on site, with an estimated annual rent of approximately \$42,000, initial term through 2025 and extension through 2030. Staff is also exploring extensions of other contracts prior to closing to help lengthen the revenue period and ensure a smooth ramp down of revenue over time.

RECOMMENDATION

The Director of the Department of Administrative Services – Economic Development Division respectfully requests that this informational report be received and placed on file.

Prepared by: Aaron Hertzberg, Director, DAS – Economic Development Division



Aaron Hertzberg
Director, DAS – Economic Development Division

Exhibit A: Water Three Party Term Sheet

- cc: Chris Abele, County Executive
Scott Manske, Comptroller
Raisa Koltun, Chief of Staff, County Executive's Office
Kelly Bablitch, Chief of Staff, County Board of Supervisors
Steve Cady, Research and Policy Director, Office of the Comptroller
Teig Whaley-Smith, Director, DAS
Guy Smith, Director, Parks Department
Stuart Carron, Director, DAS – Facilities Management Division
Joseph Lamers, Director, DAS – Performance, Strategy and Budget

