

**Term Sheet for Transfer of Water Assets****December 17, 2019**

The following is a discussion term sheet regarding the transfer of certain water system assets owned by the Milwaukee County Water Utility (the "County") to MRMC Water Service, Inc. ("MRMC Water"), and the transfer of the remaining water system assets held by the County to the City of Wauwatosa (the "City"). This is not meant to be, and shall not be construed as, a binding agreement. It is prepared solely for the purpose of reaching an understanding, in principle, of key points regarding the proposed transaction among the three parties. The concepts described in this term sheet shall be the basis for drafting, but shall be subject in all respects to definitive agreement(s) between the parties.<sup>1</sup>

**1. Key Transactions.**

(a) MRMC Water will acquire the County water assets located on the MRMC campus and on the MRMC Thermal property (see attached map). MRMC Water will also acquire the elevated storage tank east of the MRMC Thermal property. The purchase price will be (a) for assets not funded by the County with debt, the undepreciated book value, and (b) for assets funded with debt, the remaining outstanding debt amount. The assets acquired by MRMC Water will include, without limitation, water main, storage and distribution assets, storm water mains, sanitary disposal lines and sewer assets.

(b) The City will acquire all water assets held by the County that are not transferred to MRMC Water that are necessary for the provision of water or sewer services to existing customers and would otherwise be considered public infrastructure at no initial capital outlay to the City, but with the assurance that the County will receive appropriate compensation for the unamortized cost of improvements to the North Avenue Main (see also Section 4).<sup>2</sup>

(c) Funds in the County's Water Reserve Account will be used to facilitate the transaction between the parties. The balance in the account is comprised of funds derived from water rates charged to and paid by the customers of the County water system, and the funds were intended to be used for improvements to the County water system. Because the County will no longer have responsibility for improvements following the transfer of assets to MRMC Water and the City, these funds will applied to facilitate the transaction.

(d) The closing date will be thirty (30) days following Public Service Commission approval of the transaction.

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<sup>1</sup> Note: This term sheet is not intended to replace the existing draft letter of intent between MRMC Water and the County. Rather, this triparty term sheet is intended to address matters impacting all three parties.

<sup>2</sup> Note: It may be necessary for the County to retain "one foot" of water piping at certain connection points where regulatory or other considerations prevent MRMC Water from connecting directly to the City water system and/or MMSD, including the sanitary disposal connection points described in Section 8(a) below.

(e) The definitive agreement may contain end dates relating to maintenance obligations, specific arrangements with customers and matters relating to the North Avenue Main.

2. Post-Closing Supply of Water to Customers and Nearby Properties.

(a) MRMC Water will be the exclusive water provider with respect to the following customers/facilities on the MRMC campus: (a) all existing and future facilities owned by current MRMC members; (b) Kathy's House; (c) the new Center for Forensic Science and Protective Medicine and any other campus facility owned or operated by a governmental unit (state or local); and (e) new non-profits located on the MRMC campus that include, in part, one or more current MRMC members or their affiliates. Other non-profit entities that locate on the MRMC campus in the future would be reviewed on a case-by-case basis, with a presumption that entities which are affiliated with, or whose activities relate to and support, a current MRMC member, will be served by MRMC Water. For other tax exempt entities which do not meet those parameters, the City common council would determine whether the City or MRMC Water will provide service. Taxable entities shall be served by the City of Wauwatosa unless otherwise determined by the Common council.

(b) [Intentionally omitted]

(c) If financially viable, the Wisconsin Athletic Club building, Ronald McDonald House and D-18 building/s, will be a direct customer of the City via a direct connection from the North Ave. main (the "North Avenue Main") to such building(s) or via a water main extended from the City's existing water main at the intersection of Watertown Plank Road and Discovery Parkway. If these options are not financially viable these properties will be retail customers of the City and will be provided water through MRMC Water's system as outlined in 2(e).

(d) The City will withdraw its letters demanding (i) that Kathy's House connect to the City system and (ii) that all future connections be made to the City system.

(e) With respect to other facilities not outlined in 2(a) serviced by assets to be acquired by MRMC Water, MRMC Water will lease certain water distribution assets to the City to enable the City to be the direct supplier to such facilities. Lease rates for these distribution assets will be based on a linear foot methodology comparable to the City's conveyance rate methodology. MRMC will share its methodology and data where appropriate for how the conveyance rate is calculated. If MRMC Water incurs costs to extend on-campus connections to customers that will be served by City water, the costs will be recouped by MRMC Water in a manner acceptable to MRMC Water.

3. Primary Water Supply. The City will be the sole provider of potable water to the MRMC campus. Any other potable water source would require City approval. The City will own and control the main supply to the MRMC Water system (located at the intersection of Elm Spring Ave. and Wisconsin Ave.). However, the City will not acquire any of the current Milwaukee Water Works assets that connect directly to the MRMC campus meter pit. The

parties will determine the specifics of this connection, which will likely be reflected in a separate contract between the City and Milwaukee Water Works.

4. North Avenue Main.

(a) For so long as the North Avenue Main is the secondary water supply source to the MRMC campus, MRMC Water will assume financial responsibility for major main breaks on the North Avenue Main. What constitutes a "major main break" will be defined by the parties in the definitive agreement(s).

(b) The North Avenue Main will continue to be the secondary source of water to the MRMC Campus; provided, the parties will agree to work collaboratively to determine the best long-term secondary source, and the City will permit MRMC Water to have substantial input into the determination. The precise timeframe for establishing a permanent solution will be based on objective criteria (to be agreed-upon and set forth in the definitive agreement(s)), such as a number of breaks within a certain period of time, the cost of such breaks borne by MRMC Water, road assessments of North Avenue, and independent third-party condition assessments of the North Avenue Main.

(c) So that the County is made whole with respect to any unamortized cost of improvements to this North Avenue Main (such costs being distinct from MRMC Water's responsibility for major main breaks as described in 4(a) above), the parties agree that the County will receive appropriate compensation.

(d) If the parties mutually determine that it is needed, MRMC Water will pay the entire cost of a meter pit and related equipment at the connection point of the North Avenue Main to the MRMC Water system. A meter pit may not be necessary if some other mutually accepted alternative can be agreed to. The parties will work collaboratively to study the issue before a final decision is made.

(e) City may develop plan to move existing non-MRMC customers off North Avenue main water supply, to be funded through rate structure or other non-City source as part of a larger plan whether or not to retire all or portions of North Avenue main.

5. Rates.

(a) The City will apply to the Public Service Commission for a separate customer classification for water service to MRMC Water, and for a rate class for City water supplied to MRMC Water based on a proposed conveyance methodology plus a standby charge, with the conveyance rate calculated on the basis of linear feet. (This rate methodology assumes the North Avenue Main remains the secondary source to the MRMC campus and may need to be adjusted if, in the future, the North Avenue Main is decommissioned.) MRMC will support the application and request a determination that the transactions contemplated by this term sheet will not result in MRMC becoming classified as a public utility.

(b) Future rate increases will be tied to actual increases in Milwaukee Water Works wholesale water rate charged to the City and the City's conveyance costs.

6. Additional Improvements. The City and MRMC Water will commit to evaluating and if necessary improving the existing two-way emergency connection at 95<sup>th</sup> & Watertown Plank Rd. This may include adding metering to measure flows in both directions, making the interconnection automatic and enabling maximum flow in both directions. Costs of these improvements will be shared 50/50.

7. Stormwater Management.

(a) Subject to the credits referenced in subparagraph 7(c) below, MRMC Water will pay storm water fees to the City in accordance with applicable ordinances.

(b) The County will retain ownership of detention basin #1, but MRMC Water will assume responsibility for normal maintenance costs (but excluding costs to expand or reconfigure the basin, which shall be the responsibility of the owner or the party creating the need for the expansion or reconfiguration).

(c) The City will provide MRMC Water with credits against stormwater fees per City ordinance and/or City stormwater fee adjustment policy.

8. Sanitary Disposal System.

(a) Provided that the County owns the sanitary disposal connection points to MMSD facilities, the City will charge the County for sanitary discharge at no mark-up from the MMSD cost to the City. The County will pass along the City's billing at no mark-up. In addition, any maintenance, repair or replacement of the County-owned sanitary disposal connection point shall be the responsibility of MRMC Water.

(b) With respect to the sanitary disposal lines serving MRMC Thermal, the County will maintain ownership of the lines as it currently does.