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Report finds water and sewer infrastructure costs growing

A report released today by the Public Policy Forum finds that addressing the repair and replacement needs of sewer, water, and wastewater treatment assets owned by Milwaukee's largest governments will require a substantial taxpayer and ratepayer commitment in the coming years.

"Simply put, it is expensive to appropriately care for water and sewer pipes and treatment facilities," says the report. "That is particularly true when the infrastructure is aging (as it is in Milwaukee), as standards for clean water become more ambitious...and as the public health implications associated with lead service lines become better understood."

The report is the second in a multi-part series of reports by the Forum on local government infrastructure in metro Milwaukee. The first report, released in September 2016, focused on local roads, bridges, and buses owned by Milwaukee County and the City of Milwaukee.

The new report explores water, sewer, and wastewater treatment infrastructure owned by the Milwaukee Metropolitan Sewerage District (MMSD), the City of Milwaukee's Department of Public Works (DPW), and the City-owned Milwaukee Water Works (MWW), a self-financing water utility. The examination first assesses the general condition of that infrastructure, and then analyzes the capacity of each government to cover future costs while complying with capital budgeting and debt management policies.

Each of the forms of infrastructure examined in the report – MMSD sewers and wastewater treatment facilities, DPW sewers, and MWW water mains, service lines, and treatment plants – are found to have growing challenges.

The report cites MMSD as being in the strongest position to address those challenges, which is "not surprising...given that it is a freestanding governmental entity whose primary purpose is to oversee the integrity of its infrastructure and the means to finance it." It finds that Milwaukee's DPW and its Sewer Maintenance Fund also appear to be relatively well-positioned to meet upcoming five-year needs, thanks (in part) to increased investment from 2011-16 after severe rainfalls exposed deficiencies.

MWW is seen to face the "most formidable set of challenges," in part because of the need to substantially increase the pace of water main replacement, as well as a need to address lead service lines. Concerns about those lines have surfaced in the aftermath of a public health crisis in Flint, Michigan, where it was discovered that lead particles from improperly treated water drawn from the Flint River had leached into the water supply.

About 45% of MWW's 169,000 service lines are composed of lead. Since 1996, MWW has added a corrosion-inhibiting chemical to its drinking water to prevent lead pipes from corroding to the point that lead particles would seep into the water, and it has not previously pursued an aggressive policy to replace lead service lines. Increased public health concerns now have created an impetus for a more aggressive approach.

"MWW has a daunting capital finance challenge on its hands," says the report. "It needs to increase its annual capital spending by nearly 50% between now and 2020, which may require it to issue \$20 to \$25 million of new debt annually for the foreseeable future." The report indicates that "sizable" rate increases likely will be required to accommodate the needed spending, though it is impossible to project the precise size because rates and other financial determinants must be approved by the Public Service Commission.

Specific key findings emanating from our review of water, sewer, and wastewater infrastructure owned by MMSD and the City of Milwaukee include the following:

- **MMSD's capital assets largely are in good condition, but keeping them that way demands a healthy commitment from property taxpayers.** MMSD conducts intensive capital planning and has a firm handle on how it should finance its infrastructure challenges. However, its annual capital expenditures are projected to surge to \$128 million in 2021 (up 38% from the \$92.6 million budgeted in 2017), and addressing the needs of its capital assets could require annual property tax levy increases of 4% in each of the next five years.
- **The age and condition of DPW's sewers demands an ambitious lining and replacement schedule that will continue to put pressure on sewer and stormwater fees.** We find that over a quarter of the City's rated sewer pipes (104 miles) should be considered for replacement. That is a manageable amount given the City's goal of lining or replacing 27 miles of sewers per year, but meeting that goal likely will require annual rate increases in sewer and stormwater fees of 3-5% going forward.
- **MWW must aggressively ramp up capital spending to address the condition of its aging water mains.** MWW needs to increase the annual miles of water main replacement from the current 15 to 20 three years from now. This will necessitate \$29 million in capital spending in 2020, which is an \$8.2 million (36%) increase from 2017 and more than triple the amount spent in 2013. Meeting that threshold may require MWW to substantially increase annual borrowing, which could necessitate sizable rate increases to cover required debt service.
- **Replacement of MWW's lead service lines may take decades to accomplish and will impose a significant and prolonged impact on ratepayers and taxpayers.** MWW intends to expedite its replacement of its 76,000 lead service lines in light of public health concerns, with current plans calling for an increase from the current 300-400 replacements per year to 1,250 by 2022. Such an effort – which could last more

than 50 years – could cost ratepayers an additional \$7 million annually for the public portion of the service lines.

The report notes that these challenges could be alleviated by actions in Madison and Washington. For example, aid programs for municipalities seeking to replace lead service lines have been established and/or are under consideration at both the state and federal levels. In addition, development of new technologies could alleviate the burden on local governmental entities to replace certain assets. At the same time, the financial outlook could worsen considerably if new environmental or public health regulations create a need for more expensive or faster repair and replacement of lead service lines and other types of water and wastewater infrastructure.

Overall, the report concludes that "there is little question that local taxpayers and ratepayers will be called upon to dedicate substantial and growing amounts of resources to taking care of their water and wastewater systems for the foreseeable future. An important lesson is that while water and sewer infrastructure needs receive far less attention than those related to higher-profile cultural facilities and entertainment venues, these needs must be a higher priority for local governments and undoubtedly will be more expensive to address."

The full report can be downloaded at the Forum's web site, www.publicpolicyforum.org.

Milwaukee-based Public Policy Forum, established in 1913 as a local government watchdog, is a nonpartisan, nonprofit organization dedicated to enhancing the effectiveness of government and the development of southeastern Wisconsin through objective research of public policy issues.

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