



Office of the Comptroller  
June 8, 2009

W. Martin Morics, C.P.A.  
Comptroller

Michael J. Daun  
Deputy Comptroller

John M. Egan, C.P.A.  
Special Deputy Comptroller

Craig D. Kammholz  
Special Deputy Comptroller

Re: City of Milwaukee Water Works 3P Proposals

Dear

On November 25, 2008, the Milwaukee Common Council adopted a resolution authorizing the Comptroller to solicit proposals and recommend a team to assist the City of Milwaukee in exploring a public-private partnership (3P) regarding the future operation and management of the Water Works. This Council resolution also authorized the Comptroller to separately examine the issue of the potential for future Water Works dividends that could be generated for the benefit of City taxpayers under the current structure.

A communication from the Common Council President, the Chairs of the Council Finance & Personnel and Public Works Committees and Alderman Nic Kovac on May 29 requests that the Comptroller defer the start of the 3P study pending an evaluation of the maximum revenue potential available to the City under the current ownership/operational structure. Upon completion of this study, the Council would then decide which path to pursue.

The Common Council will formally consider the above communication on June 16<sup>th</sup>. If the Council concurs with the attached, I would intend to hold the 3P proposal evaluation process in abeyance pending the conclusion of the Water Works revenue analysis and the Council's subsequent action. Should the City subsequently authorize my Office to proceed with the 3P work, I will contact each of the firms which have submitted a proposal to inform them of the City's decision to proceed together with any RFP changes or new conditions, and request confirmation or update of the previously submitted proposals or, alternatively, withdrawal from the process. I intend to provide a reasonable time period needed to make any required proposal modifications.

The Common Council and I sincerely appreciate your interest in the City of Milwaukee and your efforts made to date. It is my hope that the City of Milwaukee will proceed in an expeditious manner.

Sincerely,

W. MARTIN MORICS  
Comptroller

Cc. President Willie Hines, Alderman Robert Bauman, Alderman Nic Kovac, City Attorney Grant F. Langley, Commissioner Jeff Mantes, Superintendent Carrie Lewis

**MICHAEL J. MURPHY**

ALDERMAN, 10TH DISTRICT

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**CHAIR:**

- Finance & Personnel Committee
- Milwaukee Arts Board
- Housing Trust Fund Advisory Board
- Employees' Retirement System Investment Committee

**MEMBER:**

- Zoning, Neighborhoods & Development
- Steering & Rules Committee

May 28, 2009

Mr. W. Martin Morics, City Comptroller  
Office of the Comptroller  
City Hall Room 404  
200 E. Wells Street  
Milwaukee, Wisconsin 53202

**Re: Options to Privatizing the Milwaukee Water Works**

Dear Mr Morics,

The Common Council appreciates the gravity of our current and projected future fiscal situation, and is glad that the Office of the Comptroller is initiating innovative thinking about potential revenue sources. One possibility your office had already begun exploring, with our approval, was the possible privatization of the Milwaukee Water Works. However, with your consent it appears more prudent to hold that study until we pursue future options. To ensure that the Common Council has a thorough understanding of this initiative, we ask that your office perform parallel analyses of relevant options to privatizing the water utility.

Specifically, we ask that the Office of the Comptroller investigate 2 options to privatization. Both these options hinge on the capacity of Water Works to pay the City of Milwaukee "dividends" from operations. We have requested the City Attorney's legal opinion on the possibility of such dividends and the circumstances of their payment (cc'd to the Office of the Comptroller). We believe some "what if" analysis will prove instructive.

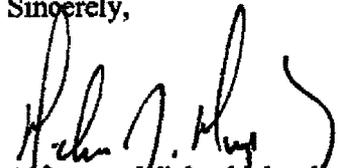
**Option #1** – What if the City raises water rates to the maximum currently allowable under Public Service Commission regulations and fully exploits the current dividend paying capacity of the Water Works? Based on the highest allowable water rates, current dividend paying capacity and current Water Works operations, and factoring in water sales to the "middle" section of New Berlin, we ask your office to analyze and project what additional revenues might be available to the City in the future and how these revenues might affect the City budget.

**Option #2** – What if the City was not bound by Public Service Commission regulations and could raise water rates significantly, and the dividend capacity of the Water Works

was redefined so dividends to the City could be increased without restriction so long as reasonable financial integrity of the utility was maintained? This option will require some judgment on the part of the Office of the Comptroller to generate reasonable scenarios, but should yield a snapshot of what the Water Works might look like if the City of Milwaukee was the "private" entity privatizing the utility under a long-term lease. Based on significant water rate increases, liberalized dividend guidelines and increased water sales to additional communities in the region, we ask your office to analyze and project what additional revenues might be available to the City in the future and how these revenues might affect the City budget.

We believe the analyses of these 2 additional options will help the Common Council better frame the issues of privatizing the Milwaukee Water Works and we thank you in advance for your office's prompt and thorough attention to this request.

Sincerely,



Alderman Michael Murphy  
10<sup>th</sup> Aldermanic District



Alderman Nik Kovac  
3<sup>rd</sup> Aldermanic District



Alderman Robert Bauman  
4<sup>th</sup> Aldermanic District



Alderman Willie Hines, Jr.  
15<sup>th</sup> Aldermanic District

cc: City Attorney Grant Langley