

For more information:

Rob Henken
President
Public Policy Forum
414-276-8240 or 414-708-4392
rhenken@publicpolicyforum.org

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MMSD's ambitious water quality agenda faces fiscal hurdles

Addressing infrastructure needs may require mix of MMSD, municipal, private resources

MILWAUKEE, Wisconsin – Monday, June 13, 2011 – A comprehensive assessment of the Milwaukee Metropolitan Sewerage District's (MMSD) fiscal condition – released today by the Milwaukee-based Public Policy Forum – reveals “a set of long-term challenges that may test the ability of community leaders to reach consensus on the desired level of water quality and the means by which to pay for it.”

The 67-page report uses a fiscal monitoring methodology employed previously for reports on Milwaukee County, the City of Milwaukee, and Milwaukee Area Technical College (MATC) to examine fiscal trends, compare MMSD with other wastewater treatment agencies nationally, and analyze emerging fiscal challenges.

The good news, according to the report, is that MMSD has experienced few of the severe financial problems faced by other Milwaukee-area local governments. It notes that MMSD's decision in the late 1990s to outsource most of its operations has greatly reduced operating budget pressures and risk, while its capital program has benefited from careful planning and prudent debt management practices.

“Overall, as measured by commonly used fiscal indicators, MMSD enjoys sound fiscal health and appears well-positioned for the future,” says Forum President Rob Henken. “A closer look, however, also reveals that the cost to maintain the existing sewer system and achieve MMSD's

water quality goals could amount to many billions of dollars, and that the district may struggle to identify the means to fund both basic infrastructure repairs and watershed planning strategies.”

Key findings from the Forum report include:

- MMSD’s well-funded reserve accounts and long-term operations contract with Veolia Water, as well as its user-based revenue structure, provide a level of operating budget stability not enjoyed by most local governments. MMSD also has escaped the burden of skyrocketing benefit costs due to manageable long-term retirement liabilities.
- The net value of MMSD’s capital assets is nearly \$3.5 billion, which means the district’s residents have invested more in MMSD’s property, plant and capital equipment than in the facilities of Milwaukee County, the City of Milwaukee and MATC *combined*. In addition, an analysis of data from nearly 100 wastewater districts nationally finds that MMSD has among the highest asset value per resident.
- National data show MMSD has benefited from its financial investment in sewage infrastructure and its comparatively high user rates. Its sewage and treatment capacity offers greater protection from sewage overflows than most other districts and provides higher-quality effluent discharges. MMSD also ranks high in comparisons on operating efficiency.
- After decades of aggressive capital spending – spurred in part by legal settlements and new regulatory requirements – MMSD’s capital projects will decline significantly under the district’s six-year capital financing plan in order to stabilize a rise in debt service expenditures. Project funding may be further affected by state budget actions. These developments may hamper MMSD’s efforts to work with local municipalities to reduce stormwater runoff and infiltration and inflow from laterals on private property.
- MMSD’s long-term operations contracts have been a financial success and may be worthy of replication by other public entities. Commonly, contracting out services with a private firm takes place for specific functions or activities, and savings occur because of cheaper labor

costs. In this case, however, MMSD has contracted out the core of its operations, and savings are attributed more to the contractor's expertise and streamlined operations.

Looking to the future, the report explains that completion of the Deep Tunnel and its extensions allows MMSD to shift its focus from a relatively narrow, legally-mandated agenda to broader long-term strategies with multiple emphases. These emphases include attending to the repair and maintenance needs of district treatment plants that received less attention during Deep Tunnel construction; providing technical support and financial assistance to repair deteriorating private sewer laterals; and funding "green" projects aimed at reducing stormwater runoff, now the major source of regional water pollution.

"Increased policy flexibility also may bring increased conflict, however, particularly over the question of who should pay," says Henken. "For example, there are more than 3,000 miles of private property laterals within the district, and the district's efforts to partner with municipalities to improve infrastructure on private property raise new questions about the financial responsibility of both local governments and individual homeowners for repair costs."

The report also notes that under a watershed planning approach, it may be argued that the responsibility for improving water quality lies generally with all residents of the region who contribute to non-point source pollution, as opposed only to the MMSD communities.

The full report can be accessed at the Forum's web site, www.publicpolicyforum.org. The report was made possible with grant funding from the Northwestern Mutual Foundation.

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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