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Waukesha and Oak Creek approve terms for Great Lakes water supply

Regional cooperation benefits both communities

An historic letter of intent for Waukesha to purchase Great Lakes water from Oak Creek's water treatment facility, and return that water to Lake Michigan, was approved tonight by the Common Councils of both communities.

"This is a great example of the benefits of regional cooperation," Waukesha Ald. Paul Ybarra said. "Waukesha will have a sustainable supply of healthy water and Oak Creek will benefit from increased revenues for both the water utility and the city."

The capital cost of the project is estimated at \$183 million, substantially less than the \$261 million estimated in Waukesha's application for Great Lakes water. "Oak Creek was creative in finding ways to utilize existing infrastructure more efficiently, which cut the length of the pipeline and deferred other improvements required by Waukesha," Ybarra said. "We greatly appreciate the leadership of Oak Creek Mayor Steve Scaffidi and utility General Manager Steve Yttri in developing a proposal that works for both communities."

A contract between Waukesha and Oak Creek will be prepared by attorneys, with final action coming after approval of Waukesha's application for Great Lakes water by the Wisconsin Department of Natural Resources and the Governors of the Great Lakes states under the Great Lakes Compact.

The proposed sale will benefit homeowners and businesses in Oak Creek, Franklin and Caledonia from a significant reduction in wholesale and retail rates that are projected to be as much as 25% on the retail side. In addition, the City of Oak Creek will receive payments in lieu of taxes from the Oak Creek Water and Sewer Utility on the additional infrastructure that will need to be built within Oak Creek. Initial payments of \$300,000 per year are projected to reach \$1.2 million per year by 2030.

A unique aspect of the Oak Creek proposal was its offer to discuss shared governance of its water treatment facility, according to Dan Warren, president of the Waukesha Water Utility Commission. Oak Creek, Waukesha, Franklin and Caledonia would potentially develop a Regional Water Authority to purchase and oversee the operations of the water treatment plant. "The goal is to explore reducing the costs for all ratepayers through regional cooperation," Warren said. A successful

agreement would mean the communities would jointly own and operate the treatment facility, along with the existing wholesale customers of Franklin and Caledonia.

Ybarra also commended Racine Mayor John Dickert and Racine Water Utility General Manager Keith Haas for their efforts to sell water to Waukesha. “Mayor Dickert recognized the positive impacts a water deal would have for Racine and for surrounding areas. Racine was also able to substantially reduce the capital costs by working with existing customers and existing infrastructure to reduce the length of the pipeline and other improvements needed to supply Waukesha. However, in the end, the costs of building infrastructure over a greater distance put Racine at a disadvantage compared to Oak Creek,” he said.

Water Supply Costs and Rate Impacts

Waukesha’s capital cost for an Oak Creek water supply is only \$8 million more than the \$175 million cost estimated for a water supply from Milwaukee. However, Duchniak said the Oak Creek cost difference may be reduced even further, based on discussions with the City of Franklin about the potential to utilize existing infrastructure to optimize the delivery of water to the City of Waukesha through Franklin’s existing facilities.

The Milwaukee cost estimate was recently increased after preliminary discussions with engineers from the Milwaukee Water Works indicated an additional \$6 million in water main, booster pump stations and other facilities would be needed. In addition, the Milwaukee cost estimate includes \$5 million for a one-time payment that Milwaukee was requesting. The \$5 million estimate is based on a recent water sale agreement for New Berlin, but Milwaukee may have requested a higher amount for Waukesha.

Milwaukee may have also added additional requests regarding housing and transportation issues to negotiations, but those costs were not included in estimates.

Waukesha Water Utility General Manager Dan Duchniak said average monthly residential bills in 2022 are estimated to be \$58.26 with an Oak Creek water supply, compared to \$26 today. All 2022 estimates also include unrelated Waukesha Water Utility cost increases, such as local water main replacements, but do not include potential savings possible through discussions with Franklin.

Additional Letter of Intent Details

The letter of intent approved by the two councils outlines the terms of the water sale and directs staff to negotiate exclusively with Oak Creek to be Waukesha’s wholesale supplier of water, unless Oak Creek makes substantial changes to the agreement. Oak Creek will make sufficient treatment plant capacity available to meet Waukesha’s drinking water supply needs. Waukesha will be responsible for the transmission of the water from the border of Oak Creek to Waukesha and for the return of the water back to the Great Lakes basin, as required by the Compact.

Wholesale water rates are estimated at \$1.90 per 1,000 gallons of water, based on 2012 dollars, for between 7 million and 11 million gallons per day.

The agreement is for an initial term of 40 years with four additional 10-year terms that automatically renew. However, even after an agreement expires, a water supplier cannot terminate service to an existing customer without the customer's consent. Rates continue to be governed by the state Public Service Commission and must be based on the actual cost of providing service.

The DNR has said Waukesha must have its letter of intent with a supplier before its application can be sent to the other states, which is expected to occur early next year, after the DNR completes its own review.

Waukesha's Need for a New Water Supply

The letter of intent represents a major milestone in Waukesha's effort to obtain Lake Michigan water to replace its existing water supply. Continued use of the city's current deep well water supply, which has dropped 500 to 600 feet, is unsustainable. The water is also contaminated with radium, which the water utility is under a court order to reduce by June 2018.

Duchniak said every alternative for a new water supply is expensive. "There is no cheaper alternative for a water supply that we can depend on," he said. "Even more importantly, all our alternatives are less sustainable, less protective of the environment, less protective of public health and less reliable."

Water conservation alone cannot solve Waukesha's water supply problem, Warren said. "We will continue to make conservation a priority, but there is no avoiding the need for a new water supply," he said. Waukesha has been a leader in conservation, enacting the state's first daytime sprinkling ban, first toilet rebate program, and the first water conservation rates, along with public education and outreach.

The Great Lakes Compact requires Waukesha to recycle treated water back to Lake Michigan, preventing any negative impact on lake levels.

Unlike the City of Milwaukee, Oak Creek and Racine proposed to serve the entire area the DNR said Waukesha must be able to serve. Under Wisconsin's Great Lakes Compact implementation law, service areas are determined by regional planning agencies and approved by the DNR. In Waukesha's case, the Southeastern Wisconsin Regional Planning Commission included the City of Waukesha, along with portions of the City of Pewaukee and portions of the Towns of Waukesha, Delafield and Genesee in the service area. The area is largely identical to the existing sewer service area, as required by law.

Population in the recommended water supply service area is only expected to grow by 0.52% per year, with build-out in about 2050. Only 15% of the land in the recommended service area is available for new development, with the rest having already been developed or designated as environmentally protected.

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