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## Testimony of

Richard Abelson, Executive Director of District Council 48

American Federation of State, County and Municipal  
Employees (AFSCME)

for the hearing

“A Review of Innovative Financing Approaches for  
Community Water Infrastructure Projects”

before the

Subcommittee on Water Resources and Environment  
Committee on Transportation and Infrastructure

U.S. House of Representatives

March 21, 2012

American Federation of State, County and Municipal Employees, AFL-CIO

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Chairman Gibbs, Ranking Member Bishop and members of the Subcommittee, my name is Richard Abelson. I am the Executive Director of the American Federation of State, County and Municipal Employees' (AFSCME) Council 48 in Wisconsin. It is an honor to be here today to share with you AFSCME's experience with the privatization of water and wastewater systems, particularly in Wisconsin.

AFSCME's 1.6 million members are primarily public employees who work in areas such as health care, education, social services, transportation, law enforcement and water and wastewater treatment across the country. We have a broad range of experience and knowledge of the impact that the privatization of public services has had on communities and the public at large. AFSCME currently represents thousands of individuals who work for water and wastewater systems. Every day these workers perform vital work in protecting our nation's water supply and the environment.

Based on my work in the State of Wisconsin, I would like to give you my personal views on this issue. Faced with rising financial problems, the comptroller of the City of Milwaukee in 2008 proposed a long-term lease of the City's water works. The comptroller proposed a lease of 75 to 99 years, something that was unheard of in a city the size of Milwaukee. Leases I am familiar with in other large communities have been for up to 20 years. This proposal initiated a period of intense debate that lasted for about a year. A major coalition of community groups and individual citizens came together to examine the impact this proposal would have on the residents of Milwaukee. One of the things looked at was the impact water privatization has had on the residents of other cities in Wisconsin. We found several negative consequences for the residents of other Wisconsin cities that we desperately wanted to avoid. We discovered that customers of privatized water systems in Wisconsin pay as much as \$150 more a month for service than those who receive their water from a publicly-run system. We also discovered that customers in Wisconsin whose drinking water systems are privatized encounter more water quality issues and poor service problems. In the end, the plan to turn over our City's drinking water system to a private company for such a long period of time in return for an upfront payment was abandoned. Our community decided not to trust the claims of a private entity that it had the best solution to our budgetary woes. Nor were we willing to take the risk of subjecting our citizens to rate increases, water quality concerns and service problems that cities with privately-run water systems have endured.

During this process, we discovered some basic facts about privatization of drinking water. These are a few the facts that were shared with the public during the debate back in 2008, which ultimately helped us win the battle against privatization:

We understand and appreciate that there is a tremendous need to maintain and improve our public infrastructure. And that leads to the temptation to grab onto schemes that promise to take responsibility out of public hands in return for large upfront payments.

What we found in Milwaukee is not unique. Private investors, or public-private partnerships, whether in water and wastewater, highways or other capital assets, typically demand a high rate of return, and such provisions as lengthy contract terms, anti-compete clauses or guaranteed payments are not in the public interest. We believe that infrastructure is more appropriately financed through vehicles akin to fixed income instruments than to private equity, with long-term stable returns.

Given that interest rates are at historic lows, and many public entities have latitude to issue debt, bond financing is the best way to achieve this goal. Renewal of the Build America Bonds (BABs) program could save the federal government money, help put America back to work and revitalize the infrastructure that is critical to U.S. economic competitiveness. By providing access to tax-exempt investors such as pension funds, sovereign wealth funds and life insurance companies, BABs bring new sources of capital to state and local governments. New capital will permit states to finance construction of needed projects and avoid privatizing existing public sector assets. The broader field of potential investors provides greater demand, enhances market stability and improves investor confidence.

We should work together beyond considering these options. AFSCME and other labor unions are collaborating to explore financing structures in which a public pension fund or group of public pension funds hold majority control of an infrastructure asset, providing stable returns to the retirement system as well as providing an influx of badly-needed investment in public infrastructure.

I appreciate the opportunity to appear before the Subcommittee today. I would be pleased to answer any questions you may have.

# Mortgaging Milwaukee's Future

Why Leasing the Water System Is a Bad Deal for Consumers



food&waterwatch



# Mortgaging Milwaukee's Future

## Why Leasing the Water System Is a Bad Deal for Consumers

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## Key Findings

### Cost implications for the community

- A lease of the Milwaukee Water Works could cost the Milwaukee community a total of **\$17 million to \$31 million a year**.
  - By investing a concession fee into an endowment, the city could net between \$7 million and \$28 million a year for its general fund.
  - At the same time, because of the higher cost of private capital, a lease could increase the water utility's revenue requirement by \$38 million to \$45 million a year — 55 percent to 65 percent — resulting in higher water bills for the consumers.
- For every dollar that the city receives from an endowment, water users, as a whole, could have to pay approximately \$1.60 to \$5.40.

### High water bills

- In Wisconsin, private water service costs **59 percent** more than public water service.
- Long-term leases with large concession fees can result in significant increases in water rates, according to the U.S. Environmental Protection Agency.

### Loss of local control

- Because water utilities are natural monopolies, a long-term lease would reduce consumer choice.
- The leasing company may construct water main extensions that encourage sprawl.
- Although state regulators would oversee elements of the utility's operation, according to the Association of California Water Agencies, regulation "provides a poor substitute for marketplace discipline or ballot box accountability."
- Studies have found that competition for water system contracts is rare, and long-term contracts that require private capital further reduces the list of viable competitors.

### Service concerns

- Poor performance by private operators is the number one reason why cities decide to bring previously contracted-out services in house.
- Private operators can have a financial incentive to neglect system maintenance and upkeep.



Residents in Milwaukee protest the privatization of their water system at a city council meeting, June 2009. Photo by Jon Keesecker/Food & Water Watch.

## Introduction

**M**ilwaukee's fiscal crisis is serious. City officials predicted that its long-term structural budget deficit would exceed \$100 million by 2010. The value of its share of state aid, its largest single revenue source, had been shrinking for the past decade, and laws restrict tax increases. With its revenue raising ability limited, and with pension and other costs growing, the city considered cutting services and increasing user fees.

In October 2008, with these constraints and the looming budget gap in mind, Milwaukee Comptroller W. Martin (Wally) Morics wrote to the common council and recommended an alternative course of action: Leasing the Milwaukee Water Works.<sup>1</sup>

Typically, in a lease, a private entity pays a city a sizable concession fee for the right to control a municipal water system for decades. These concession fees resemble expensive loans. In a 1997 report, the U.S. Environmental Protection Agency called them "comparable to the 'home-equity' loans popular with home owners across the country."<sup>2</sup>

After a lessee pays a large fee, it is basic business for it to want to recover that amount plus profit. It would have to generate additional revenue by cutting services or raising

water rates, perhaps worsening the financial hardship of cash-strapped households and local businesses. While eviction for overdue water bills may seem extreme, for residents in several cities, it is a very real threat.<sup>3</sup>

Overall, lease-concessions of water utilities are rare in the United States,<sup>4</sup> but in the aftermath of the housing market collapse, a few local governments, primarily in the long-suffering Rust Belt, considered privatizing their utilities. In 2008 Akron residents voted against their mayor's initiative to lease their sewers, and in 2009 Chicago and Indianapolis reportedly were pursuing lease arrangements for their water systems.<sup>5</sup>

Milwaukee's proposal, in particular, is remarkable. It was for a lease of a size and scope unprecedented in the United

## Milwaukee Water Works: A Well-Run Operation

Milwaukee considered leasing its Water Works not because the utility is a burden and liability, but because it is one of its most valuable assets. When Morics first presented the proposal to a committee of the common council, he acknowledged, "If we had another asset to sell, we wouldn't be talking about this." He added, "It's not about the quality. It's excellent. It's managed well. They turn out a fantastic product."<sup>23</sup>

The Milwaukee Water Works is a well-run operation. It has taken a proactive stance on monitoring for potential contamination, going above and beyond the legal requirements. It tests for more than 500 unregulated pollutants, in addition to the 90 compounds required by law, and it was one for the first utilities to monitor for endocrine disruptors and pharmaceuticals.<sup>24</sup>

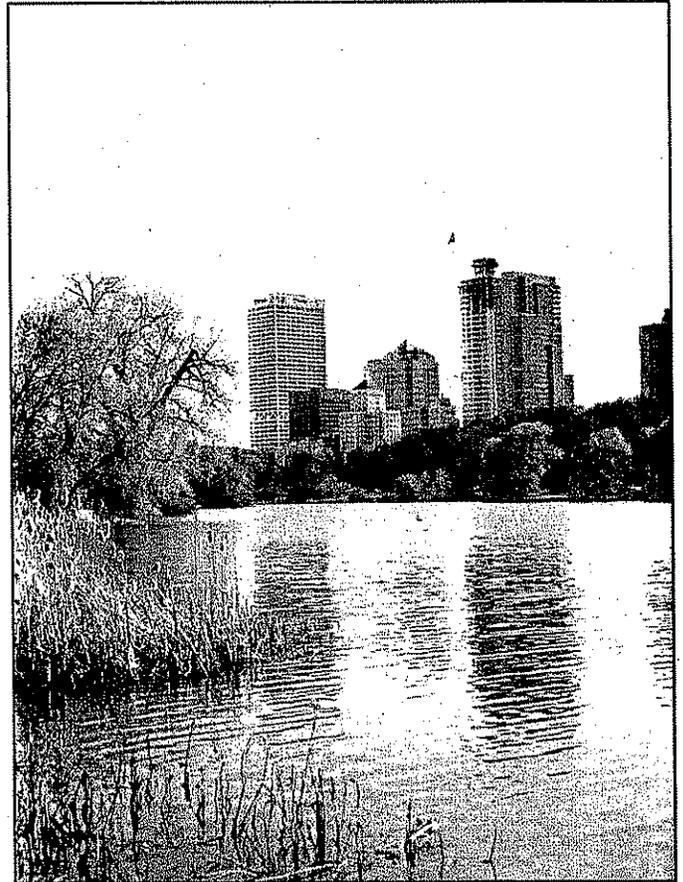
The results of these analyses, available online in an accessible format, show that Milwaukee meets or exceeds federal and local water quality regulations. For example, in 2008, the utility had no violations, and it detected neither hormones nor endocrine disruptors in its drinking water.<sup>25</sup>

What's more, Milwaukee residents receive this high quality water service for one of the lowest prices in the state,<sup>26</sup> and in the nation. In 2008 the Water Works charged 22 percent less than peer utilities across the country did. Yet, despite their lower water bills, households in Milwaukee spent around the same portion of their income on water service as the typical household nationwide spent. That's because Milwaukee household incomes tend to fall below the national average.<sup>27</sup>

Privatization could affect the quality and the cost of water service.

*"I feel this lease is a terrible idea for Milwaukee. To give public property to private for-profit entities is not smart."*

*– Chip Wall, president of AFSCME Local 952*



## Cost Analysis

"We have one bullet left," Morics told a committee of the common council, "and that's the Water Works."<sup>28</sup>

Milwaukee faces a considerable revenue shortfall and needs to find a new source of income in order to maintain city services, but a water system lease will not be the silver bullet that solves the city's budgetary problems. In fact, a lease could increase costs and aggravate the community's financial predicament.

An analysis by Food & Water Watch found that a lease could cost the Milwaukee community at least \$17 million a year (see table 1).

The analysis looked at two scenarios: a best case and a worst case. The best case began by maximizing the city's revenue through a large concession fee and then it minimized the resulting costs. The worst case assumed a smaller concession fee and took the upper bound of expected costs. Both scenarios predicted that the community would sustain multimillion losses, from \$17 million to \$31 million a year (see table 1 and table 11 in appendix).

## Food & Water Watch Analysis: A Lease of the Milwaukee Water Works Could Cost the Milwaukee Community at Least \$17 Million a Year

Table 1. NET COST OF LEASING MILWAUKEE WATER WORKS

	Best Case	Worst Case
<b>REVENUES TO MILWAUKEE'S GENERAL FUND</b>		
(millions of 2008 dollars)		
<b>(a) Concession fee</b> The city expects to receive a large upfront concession fee from the lessee. The comptroller estimated this fee would be as much as \$600 million, which is taken as the best-case estimate. The worst-case concession fee is an approximation of the utility's 2008 rate base.	\$600	\$300
<b>(b) Defeasance of outstanding debt</b> The city could have to retire the unpaid portions of municipal bonds used to finance improvements to the water utility.	-\$27	-\$27
<b>(c) Transaction costs</b> Planning, negotiations, arbitration and arrangement of the contract typically cost 2 to 10 percent of total project costs, which is assumed to be the concession fee. See table 2 in appendix.	-\$12	-\$30
<b>(d) Net proceeds from the lease (lines a + b + c)</b>	\$561	\$243
<b>(e) Net rate of return on endowment</b> The comptroller planned to invest the net proceeds of the lease into an endowment to generate revenue for city services. The endowment could have a net rate of return of as much as 5 percent, based on early projections by the comptroller. The return could be 3 percent, which is the 10-year annualized return on Wisconsin's Local Government Investment Pool as of August 2009.	5%	3%
<b>(f) Annual return on endowment (line d X line e)</b> See table 3 in appendix.	\$28	\$7
<b>(g) Additional tax revenue to general fund</b> The city should continue to receive payments in lieu of taxes equivalent to the amount paid by the municipally operated utility, and it would not receive additional income tax revenue from the lessee.	\$0	\$0
<b>(h) Subtotal annual revenue to the city's general fund (lines f + g)</b> See table 4 in appendix.	\$28	\$7
<b>EXPENSES PAID BY WATER USERS</b>		
Private capital usually is more expensive than public capital, and the lessee would pass on its added capital costs to water users during rate design. Milwaukee Water Works' rate base was \$281 million and its capital structure was approximately 10 percent debt and 90 percent equity in 2008. This analysis assumed that a lessee's rate base would be the concession fee and its capital structure would be 65 percent debt in the best case and 50 percent debt in the worst case.		
<b>(i) Increase in cost of debt</b> Private debt costs more than public debt. Milwaukee Water Works' consolidated cost of debt was 3.5 percent. The interest rate on private debt is assumed to be 5 percent in the best case and 7 percent in the worst case. See table 5 in appendix.	-\$19	-\$10
<b>(j) Increase in return on equity</b> Private utilities can earn larger returns on their equity investment. Milwaukee Water Works had an estimated 0.69 percent return on municipal equity in 2008. The lessee could earn an 8 percent to 12 percent return on equity, based on the return of a large private water utility in Wisconsin. See table 6 in appendix.	-\$15	-\$16
<b>(k) Corporate income taxes</b> Unlike the municipal utility, the lessee would have to pay federal and state income taxes on its equity return, its profit, which is grossed up to include these taxes. The state income tax rate is 7.9 percent and the federal corporate income tax rate is 35 percent, for a composite tax rate of 40.1 percent. See tables 7, 8 and 9 in appendix.	-\$11	-\$12
<b>(l) Subtotal additional annual expenses paid by water users (lines i + j + k)</b> The increase in capital costs could be fully recoverable through water charges, so it could be included in the utility's revenue requirement during ratemaking. Water users, as a whole, could have to pay \$38 million to \$45 million a year more in their bills. See table 10 in appendix.	-\$45	-\$38
<b>Net Annual Cost to the Community (lines h + l)</b> See table 11 in appendix.	-\$17	-\$31

Note: Figures based on Milwaukee Water Works' 2008 financial statements. See appendix for methodology.

expansion.<sup>39</sup> Because a water corporation has different goals than a city does, it will make its decisions using a different set of criteria, often one that emphasizes profitability. This would have important equity and environmental implications.<sup>40</sup> For example, a company may construct water main extensions that encourage sprawl.

### **Regulation Is Inadequate**

Although the Wisconsin Public Service Commission would oversee the privatized utility, much as it currently does for the city operation, regulation fails to compensate for the loss of local control. As the Association of California Water Agencies noted, regulation is "imperfect" and "often provides a poor substitute for marketplace discipline or ballot box accountability."<sup>41</sup>

By its nature, regulators cannot give the same attention to Milwaukee's specific needs as local, elected officials can give. The governor of Wisconsin appoints the three commissioners who direct the Public Service Commission. Their offices are not in downtown Milwaukee but more than an hour west in Madison, and they must oversee 1,110 public utilities and make hundreds of decisions a year.<sup>42</sup>

Milwaukee's common council may have to make only a couple major water-related decisions a year, and residents can visit their alderperson and directly express their concerns about the water operation. If the alderperson fails to respond, the community can vote them out of office. The public lacks similar mechanisms to address their concerns with private utilities and regulators.<sup>43</sup>

### **Lack of Disclosure**

A lack of disclosure further complicates public oversight. Corporations may refuse to reveal certain data by claiming they are confidential or trade secrets, and the general public often is not privy to the same level of information as regulators are. A lack of disclosure impedes public participation.

The initial stages of Milwaukee's lease process are telling of this. There was such little public disclosure about the advisor selection that a column in the *Milwaukee Journal Sentinel* had the headline: "Water consultant deal as clear as mud."<sup>44</sup>

Members of KPOW would agree. According to Royster of the Institute for Wisconsin's Future, the city wanted to keep the lease out of the "spotlight."<sup>45</sup> Indeed, there were no formal public meetings to inform the community, gauge their opinion or address their concerns.<sup>46</sup> Fortunately, KPOW organized and shed light on the issue. "KPOW was the spotlight," Royster said. Its efforts forced the council to delay the lease, she said, "because there was too much noise and attention on the proposal."<sup>47</sup>

### **Service Concerns**

Without strong public oversight, a private operator could cut corners and sacrifice service quality to increase its profits. Such neglect could result in low pressure or discolored water.

Poor performance is the number one reason why cities bring previously contracted services in house. In a survey of 245 municipalities, nearly three-quarters of cities ended privatization because of the contractor's unsatisfactory service.<sup>48</sup>

Private sector performance is usually driven by competition, but municipalities rarely have any real competition for water privatization deals,<sup>49</sup> largely because there are few competitors remaining. Since the 1990s, the market has been consolidating rapidly,<sup>50</sup> and over the last decade, the number of major U.S. contract operators fell from 16 to six.<sup>51</sup>

Despite the lucrative nature of a long-term lease, Milwaukee could receive a limited number of qualified bids. Veolia Water and Suez-owned United Water are two possible bidders. Only the largest water corporations tend to have access to private capital,<sup>52</sup> particularly an amount needed to pay Milwaukee a sizable concession fee.

With little competition, Milwaukee has few choices and less room to negotiate a good contract that protects the interests of its residents. The larger and longer the contract, the narrower the list of viable competitors, which one expert said results "in an oligopolistic market."<sup>53</sup>

*"Water is one of Milwaukee's primary resources. I am generally against privatization but this proposal represents a real capitulation by the city to private interests with long term damage to the community."*

*—Karen Royster, Institute for Wisconsin's Future*

## Appendix: Methodology of Cost Estimations

The sections below describe the cost estimates from table 1 on page 5 in more detail. These figures are based on Milwaukee Water Works' 2008 financial statements and are expressed in 2008 dollars.

Revenues and expenses are estimated based on two scenarios:

**The best-case scenario** maximizes the revenue to the city's general fund. It assumes a large concession fee and rate of return on the endowment. It then minimizes costs by taking the lower bound of the range of expected transaction and capital costs.

**The worst-case scenario** assumes a smaller concession fee, a more typical endowment return and the upper bound of the range of expected transaction and capital costs.

## Income to Milwaukee's General Fund *Debt Defeasance*

### *Concession Fee*

It is difficult to estimate the market value of a long-term concession of the Milwaukee Water Works for two main reasons: (1) There is no known concession or sale of a U.S. municipal water utility of comparable size; and (2) there is no known lease-concession of a water system in a state that regulates publicly owned utilities. Rate of return regulation could limit the size of the concession fee.

According to news reports, Morics estimated that Milwaukee could receive a concession fee of as much as \$600 million.<sup>57</sup> That is greater than the utility's total assets, which was \$434 million at the end of 2008,<sup>58</sup> so this analysis uses \$600 million as the best-case concession fee.

A standard purchase price for a state regulated utility is the original cost of the utility less depreciation,<sup>59</sup> which is similar to another benchmark for an acquisition price, the rate base.<sup>60</sup> In 2008 the Milwaukee Water Works had a rate base of \$281 million. This is the value of the utility financed by the utility or the city, plus materials and supplies, less depreciation and regulatory liability. It excludes the contributed utility plant assets, which the city and utility did not finance.<sup>61</sup> In ratemaking, regulators apply a rate of return to this value to determine the utility's return.

Regulators could decide against adjusting the rate base to allow the lessee to earn a return on the full value of its investment, the concession fee. As a result, it is possible that a lessee would pay a concession fee only up to the municipal utility's rate base. For that reason, this analysis takes an approximation of the rate base, \$300 million, to be the worst-case concession fee.

In the past, the city has financed large water projects with loans from Wisconsin's Drinking Water State Revolving Fund or general obligation bonds that are exempt from federal income taxes.

A private water utility in Wisconsin typically cannot do the same. The lease agreement could cause the water utility to lose access to tax-exempt bonding and low-interest loans from the state's Safe Drinking Water Loan Program. Although the City of Milwaukee could issue private activity bonds for the lessee, these bonds are subject to restrictive regulations, including a state volume cap.<sup>62</sup>

As of the end of 2008, Milwaukee Water Works had approximately \$27 million in outstanding debt: \$10 million in Safe Drinking Water State Revolving Fund loans and \$17 million in general obligation bonds.<sup>63</sup> The lease could force the utility to retire or defease this debt. To do that, the city would have to place enough cash into an irrevocable escrow account to pay off the bonds as they become due. The trust would purchase essentially risk-free government obligations to the amount, timing and collection of the interest and principal of the defeased bonds.<sup>64</sup> This analysis assumes that the cost of defeasance is approximately \$27 million, the outstanding principal of the utility's debt.

Other municipalities have used part of their concession fees to rid their utilities of existing debt during the privatization process. For example, when Cranston, R.I., leased its wastewater utility for 20 years, it used \$25 million of the \$48 million concession fee to retire the system's outstanding municipal bonds. After meeting all of these obligations, the city had less than half of the concession fee remaining for its general fund.<sup>65</sup>

This analysis assumes that the concession fee would have an initial reduction of \$27 million to cover debt defeasance.

**Tax Revenue**

The Milwaukee Water Works, as a public utility, is exempt from property taxes, so it makes payments in lieu of taxes to the city. Under a long-term lease, the utility should retain this tax-exempt status, since the city would remain the property owner.<sup>80</sup> In this case, the lessee should continue to make property tax equivalent payments equal to the amount the municipally run utility would make. This analysis assumes no change in these revenues to the city.

Indeed, Morics said that he presumed these payments would continue because the city could require it as part of the lease agreement.<sup>81</sup> However, there is a possibility that the city could forfeit this revenue during contract negotiations, possibly in exchange for a larger upfront concession fee. If Milwaukee decides to pursue a lease, city officials must protect residents and negotiate a strong contract that preserves the tax-equivalent payments.

Milwaukee should not see any additional tax revenue from the deal. Although the lessee would have to pay federal and state income taxes, the city does not levy income taxes. In fact, Wisconsin law expressly forbids municipalities from levying tax on incomes.<sup>82</sup>

Further investigation is required to determine whether the city would lose any of its state shared revenue as a result of the lease. At least one alderperson expressed concern about how a lease would affect that revenue source.<sup>83</sup>

**Net Income to General Fund**

The net income to the general fund is the revenue from the endowment plus additional tax revenue to the city. In the best case, the city could net \$28 million for its general fund, and in the worst case, it could net \$7 million (see table 4).

**Table 4. Estimated Annual Income to the General Fund of the City of Milwaukee (in millions of 2008 dollars)**

	Best Case	Worst Case
(a) Annual return on investment (see table 3, line f)	\$28	\$7
(b) Additional tax revenue	\$0	\$0
(c) Total annual income (line a + line b)	\$28	\$7

**Annual Cost to Water Users**

Water users could see their rates increase to cover the added cost of private capital.

**Cost of Capital**

State regulation allows utilities to earn a return on their capital investment. When regulators set water rates, they include interest payments, profits and income taxes in the revenue requirement. This allows utilities to pass on the full economic cost of capital to water users.

**Investment Rate Base**

The Milwaukee Water Works earns a return on the value of the utility that it or the city financed, plus materials and supplies, less depreciation and regulatory liability. This value, called the rate base, was \$281 million in 2008. It does not include the value of the utility assets that were contributed.<sup>84</sup>

Assuming that regulators would adjust the rate base up to the concession price to allow the lessee to recover its investment, the rate base would be \$600 million in the best case and \$300 million in the worst case.

**Capital Structure**

Milwaukee Water Works' capital structure was approximately 90 percent municipal equity and 10 percent debt in 2008.<sup>85</sup>

The weighted average capital structure in the water industry is approximately 50 percent equity to 50 percent debt.<sup>86</sup> The Wisconsin Public Service Commissions indicated that this is considered to be the optimum capital structure.<sup>87</sup> However, because private equity usually is costlier than private debt, a smaller equity to debt ratio tends to have a smaller revenue requirement.<sup>88</sup> Therefore, this analysis assumes that the capital structure would be 35 percent equity to 65 percent debt in the best case,<sup>89</sup> and 50 percent equity to 50 percent debt in the worst case.

**Income Taxes**

Milwaukee Water Works as a municipal utility pays no income taxes. It reinvests its earned return into the water utility or the city. A leasing company would have to pay income taxes.

Wisconsin levies a 7.9 percent tax on corporate income,<sup>100</sup> and the federal income tax rate is 35 percent on corporations making more than \$18.3 million a year.<sup>101</sup> Assuming that the leasing company or its parent has a consolidated taxable income that falls in this highest tax bracket, the composite tax rate would be 40.1 percent (see table 7).

Income taxes are included in a utility's revenue requirement. The return on equity is adjusted, grossed up, to account for them (see table 7 and table 8, line d).<sup>102</sup> This analysis found that income taxes would be \$11 million in the best case and \$12 million in the worst case (see table 9).

**Total Added Cost to Water Users**

The economic cost of capital under a lease is the sum of the cost of debt, return on equity and taxes on corporate income. State regulators add these costs to the revenue requirement during rate design, so with all else equal, any increase in capital costs would correspond to higher rates for water users.

In the best-case scenario, the economic cost of capital would be \$48 million. That means the lease would add \$45 million onto the revenue requirement (see table 10).

In the worst-case scenario, the economic cost of capital would be \$38 million. That means the lease would add \$35 million onto the revenue requirement (see table 10).

Based on this analysis, a lease could increase the utility's revenue requirement by \$38 million to \$45 million a year. This would be an increase of 55 percent to 65 percent over the Milwaukee Water Works' operating revenues in 2008.<sup>103</sup>

**Table 7. Tax Factor**

Whole return on equity	100.0%
- State tax rate	7.9%
	92.1%
X Federal tax rate	35.0%
Effective federal tax rate	32.2%
+ State tax rate	7.9%
Composite tax rate	40.1%
Gross up factor = $1 / (1 - \text{composite tax rate})$	
Gross up factor:	1.67043

**Table 8. Weighted Economic Cost of Capital**

Financial Capital Structure	Best Case				Worst Case			
	Amt (millions)	Ratios	Cost	Wgt'd Cost	Amt (millions)	Ratios	Cost	Wgt'd Cost
(a) Equity	\$210	35%	8%	2.80%	\$150	50%	12%	6.00%
(b) Debt	\$390	65%	5%	3.25%	\$150	50%	7%	3.50%
(c) Capital investment	\$600	100%		6.05%	\$300	100%		9.50%
(d) Income taxes [(gross up tax factor - 1) X line a]				1.88%				4.02%
(e) Economic cost of capital (line c + line d)				7.93%				13.52%

**Table 9. Income Tax Calculation (in millions of 2008 dollars)**

	Best Case	Worst Case
(a) Total capital	\$600	\$300
(b) Weighted cost of income taxes (see table 8, line d)	1.88%	4.02%
(c) <b>Income taxes</b> (line a X line b)	<b>\$11</b>	<b>\$12</b>

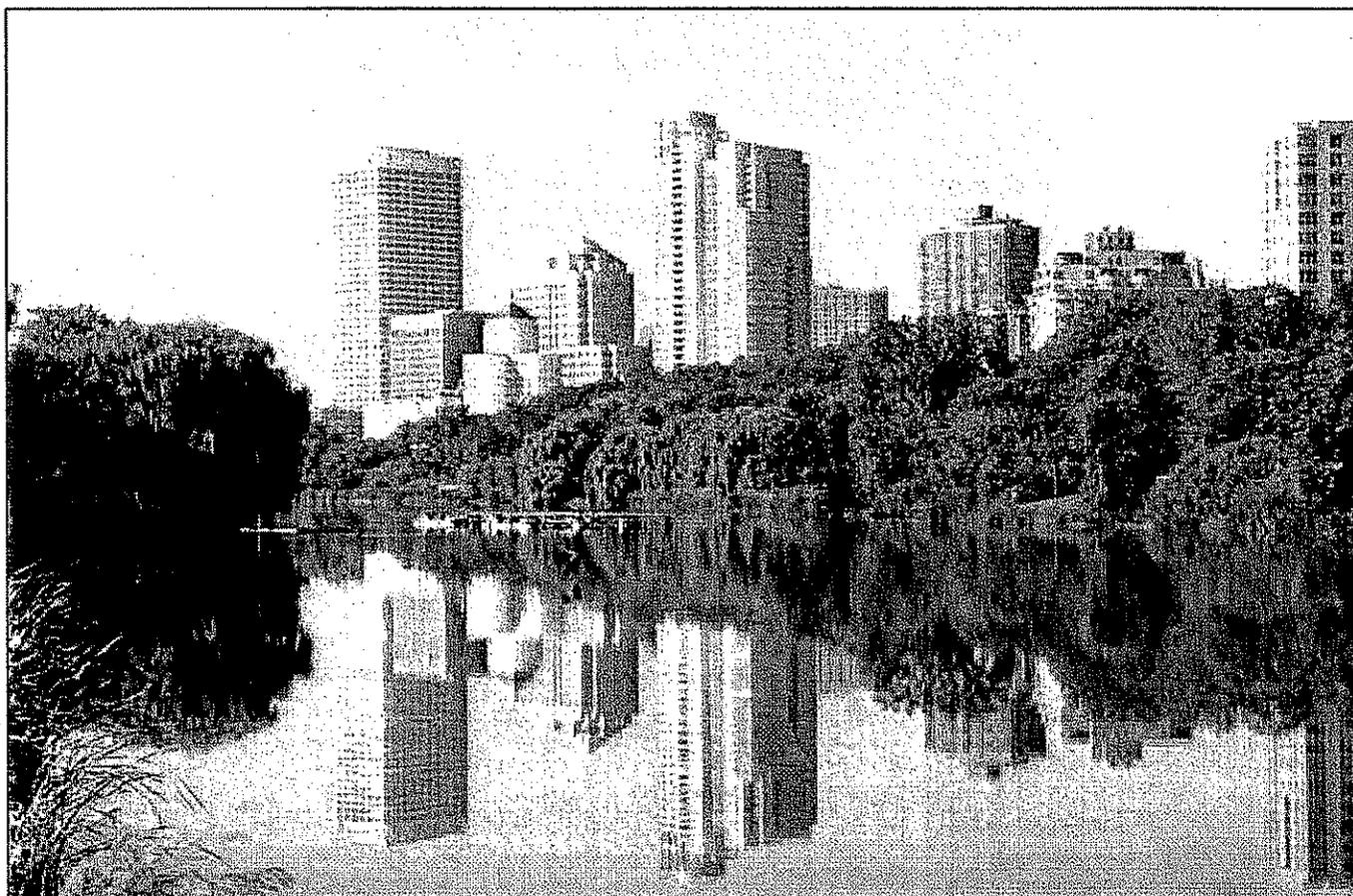
**Table 10. Estimated Added Economic Cost of Capital (in millions of 2008 dollars)**

	Milwaukee Water Works (2008)	Lease Estimates	
		Best Case	Worst Case
(a) Capital investment	\$281	\$600	\$300
(b) Economic cost of capital (see table 8, line e)	0.97%	7.93%	13.52%
(c) Economic cost on capital (line a X line b)	\$3	\$48	\$41
(d) <b>Added economic cost of capital</b> (line c - Milwaukee Water Works economic cost of capital)		<b>\$45</b>	<b>\$38</b>

## End Notes

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COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE  
*Truth in Testimony Disclosure*

Pursuant to clause 2(g)(5) of House Rule XI, in the case of a witness appearing in a nongovernmental capacity, a written statement of proposed testimony shall include: (1) a curriculum vitae; and (2) a disclosure of the amount and source (by agency and program) of each Federal grant (or subgrant thereof) or contract (or subcontract thereof) received during the current fiscal year or either of the two previous fiscal years by the witness or by an entity represented by the witness. Such statements, with appropriate redaction to protect the privacy of the witness, shall be made publicly available in electronic form not later than one day after the witness appears.

(1) Name:

RICHARD W. ABELSON

(2) Other than yourself, name of entity you are representing:

MILWAUKEE DISTRICT COUNCIL 48, AFSCME, AFL-CIO

(3) Are you testifying on behalf of an entity other than a Government (federal, state, local) entity?

YES

If yes, please provide the information requested below and attach your curriculum vitae.

NO

(4) Please list the amount and source (by agency and program) of each Federal grant (or subgrant thereof) or contract (or subcontract thereof) received during the current fiscal year or either of the two previous fiscal years by you or by the entity you are representing:

None

  
Signature

3/15/12  
Date

# **RICHARD W. ABELSON**

## **RECENT EMPLOYMENT HISTORY**

### ***(1997-Present)* Executive Director, AFSCME Council 48**

Chief administrative and executive officer of Council 48. Subject to the Council 48 Constitution and the policies established by the Executive Board, the duties include:

- Hires, supervises, trains, assigns and engages staff for the purposes of organizing, service, education, research, legislative, political action, and other Council activities.
- Acts as the Council's official spokesperson.
- Establishes priorities and directs all organizing activities.
- Responsible for the content of all Council publications.
- Retains professional consultants.
- Prepares and submits the proposed budget to the Finance Committee and Executive Board of the Council, and implements the budget adopted by the Executive Board.
- Signs all contracts and other official documents of the Council.
- Acts as the Council's delegate to all meetings of the State and Local AFL-CIO and other affiliated organizations.
- In accordance with the guidelines set by the Council 48 Executive Board, makes recommendations regarding policy issues affecting Council 48 and its members and implements policy decisions.
- Directs the legislative program and serves as the primary lobbyist for the Council.
- Networks with labor and community organizations to develop support for the policies and programs of the Council.

### ***(1989-1997)* Assistant Director, AFSCME Council 31.**

As an Assistant Director and a member of the Senior Staff of Council 31 my principal responsibilities included:

- Overseeing the contract administration for all labor agreements (includes State, County, Municipal, and University contracts) negotiated by Council 31.
- Union Administrator of the Master Contract between AFSCME and the State of Illinois covering 43,000 State employees.
- Direct supervision of a professional staff involved in contract administration consisting of five attorneys and up to four other employees involved in hands-on contract administration, labor-management relations, and research; and direction of the Council 31 field staff regarding all contract administration functions.
- Coordinator of the Union/Management relations between the Union and State Agencies.
- Primary responsibility for preparation for negotiation of the State of Illinois Master Contract and one of the negotiators in collective bargaining.
- Negotiator for the State of Illinois Correctional Supervisor Contract covering 800 employees.
- Direct handling of all priority grievances (Discharge and Layoff) under the State of Illinois Master Contract at the pre-arbitration level.
- Overseeing all grievances (includes State, County, Municipal, and University contracts) at the pre-arbitration level, and screening of all grievances advanced to arbitration.
- Selection of arbitrators for all grievance and interest arbitrations.
- Attorney and/or field staff assignment and scheduling of all arbitration, police board, civil service commission, personnel board, and human rights cases.
- Scheduling, staff assignment and coordination of all Council 31 litigation including unfair labor practices, unit determination proceedings, unit clarification proceedings, and court cases.
- Preparation and presentation of special grievance arbitration cases.
- Preparation and presentation of interest arbitration cases for AFSCME peace officers and correctional employees pursuant to the Illinois Public Employee Labor Relations Act.
- Teaching responsibilities for labor education programs conducted for the Council 31 membership.

- Design and training responsibilities for training programs involving contract administration, labor/management relations, and arbitration handling for Council 31 Staff.

**(1975-1988) Staff Representative, AFSCME Council 40, Wisconsin Council of County and Municipal Employees.**

As a regional Staff Representative my responsibilities within my District included:

- Chief negotiator, strategist and spokesperson in the collective bargaining for approximately 34 bargaining units ranging in size to over 800 employees.
- Preparation and analysis of all information needed for collective bargaining.
- Preparation and presentation of interest arbitration cases held pursuant to Wisconsin Statutes, §111.70 and 111.77.
- Presentation of grievances before municipal governmental bodies.
- Preparation and presentation of grievance arbitration cases.
- Assisting affiliated local unions in internal organizing, and administrative and/or constitutional matters.
- Preparation and presentation of unfair labor practices, unit clarifications, and other litigation before the Wisconsin Employment Relations Commission.
- Planning and conducting educational training sessions and workshops for Local Unions and members.
- Public relations relative to Union matters including collective bargaining, community action, political action, and other matters.
- Lobbying at various levels of government, including the Wisconsin State Legislature.
- Organizing new members.

**OTHER RELATED EXPERIENCE**

(1975-1988) I have been an instructor and guest lecturer in labor relations programs at the University of Wisconsin-Extension, School for Workers. Specific courses taught included

*Interest Arbitration, Comparable Worth/Pay Equity, Health Insurance Issues in Collective Bargaining, Economic Factors in Collective Bargaining, Contract Costing, Corporate Campaigns and In-Plant Strategies, and General Steward Training.*

(1985-88) I was a lecturer at Marquette University, Adult Education Department, in the "Certificate in Labor Relations" Program. I taught the required course entitled *Collective Negotiations*.

## **PREVIOUS EMPLOYMENT EXPERIENCE**

(1974-1975) As a graduate student at the University of Wisconsin, I received a Research Assistantship assigned to AFSCME Council 24, the Wisconsin State Employees Union. My duties included the analysis of bargaining demands in preparation for negotiations, preparation of data necessary for negotiations, active participation in collective bargaining, writing informational bargaining bulletins for the membership during negotiations, surveying members on preferences and priorities for negotiations, research for negotiations and other matters, and organizing unorganized employees.

## **EDUCATION**

South Shore High School, Chicago, IL.

The University of Illinois, Champaign-Urbana, IL. **Bachelor of Arts** degree in Liberal Arts and Sciences with a major in Economics and History.

The University of Wisconsin, Madison, WI. **Master of Science** degree in Industrial Relations.

## **COMMITTEES AND COMMUNITY ACTIVITIES**

(1993-1997) Appointed by Governor Jim Edgar to the legislatively created *Illinois Labor-Management Cooperation Committee*.

(1994-1997) Board member of the *United Way of Central Illinois*, Department Head of the AFL-CIO Community Services Department, Chairperson of the Finance Committee, and member of the Personnel Committee.

(1993-97) Board member of the *United Way of Central Illinois*. (1996-97) Chairperson of the *Finance and Audit Committee of the United Way of Central Illinois*.

(1992-1997) Member of the *Springfield, Illinois Area Trades and Labor Council*.

*(1997-Present) Member of the Milwaukee County Labor Council. (2001-2005)(2009-Present) Board Member to Milwaukee County Labor Council.*

*(1998-2001) Board member of Wisconsin Citizen Action.*

*(1998-2006)(2009-2011) Member of the United Way of Greater Milwaukee Board of Directors. (2003-2011) Member of the Campaign Cabinet of the United Way of Greater Milwaukee and former Co-Chair of the Labor Campaign Sub-Committee and former Co-Chair of the Public Sector Campaign Sub-Committee. (2005-2008) Member of the United Way of Greater Milwaukee Audit Committee*

*(1999-2005) Member of Board of Directors of the Private Industry Council of Milwaukee, a Workforce Development Board. (2003-2008) Member of the Executive Committee of the Private Industry Council of Milwaukee, a Workforce Development Board, and Chairperson of the Selection and Monitoring Committee which allocated all funding of the PIC.*

*(1999-2000) Citizen member of the Milwaukee County Strategic Planning Steering Committee.*

*(2009-2012) Member of the Milwaukee County Long-Range Strategic Planning Committee.*

*(2002-2004, 2007-2008) Commissioner of the Social Development Commission.*

*(2006) Member of the Governor's Special Commission on Milwaukee County Finances.*

*(2006-2007) Member of the Special Legislative Committee on Airport Authorities.*

*(2008-Present) At-large member of the Milwaukee Jewish Council for Community Relations.*

*(2008-Present) Member of the Wisconsin State AFL-CIO Executive Board.*

*(1975-Present) I have served, and continue to serve, as a volunteer and elected Board member to numerous labor, community service, political, and religious organizations.*