



MEMORANDUM

September 30, 2014

DATE: September 30, 2014

TO: Board of Mayor and Aldermen

FROM: Eric Stuckey, City Administrator
Russ Truell, Assistant City Administrator
Mark Hilty, Water Management Director

SUBJECT: Supplemental Information Regarding Water and Sanitary Sewer Rate Design.

Purpose

The purpose of this memorandum is to provide requested information to the Board of Mayor and Aldermen (BOMA) regarding the proposed rate adjustments for water and sanitary sewer. The requested information includes:

- Item 1: rate design using Option A as presented to the BOMA on September 23, 2014 for FY 2015 through FY 2019 and
- Item 2: supplemental information related to the surplus revenues during initial years of financial plan.

Item 1

The tables below present customer bill values based on service volumes of 1,000 and 7,000 gallons. The bill values were developed by adjusting volumetric rates as follows:

- Water: Inside of the City Limits - Annual increase of \$0.24/1,000 gallons for five years
- Sanitary Sewer: Inside of the City Limits - Annual increase of \$0.46/1,000 gallons for five years

Description	Residential			Commercial		
	Sanitary Sewer	Water	Combined	Sanitary Sewer	Water	Combined
2014 INSIDE - 1K	\$16.55	\$11.86	\$28.41	\$41.98	\$18.49	\$60.47
2015 INSIDE - 1K	\$16.55	\$11.86	\$28.41	\$41.98	\$18.49	\$60.47
2016 INSIDE - 1K	\$16.55	\$11.86	\$28.41	\$41.98	\$18.49	\$60.47
2017 INSIDE - 1K	\$16.55	\$11.86	\$28.41	\$41.98	\$18.49	\$60.47
2018 INSIDE - 1K	\$16.55	\$11.86	\$28.41	\$41.98	\$18.49	\$60.47
2019 INSIDE - 1K	\$16.55	\$11.86	\$28.41	\$41.98	\$18.49	\$60.47
2014 INSIDE - 7K	\$41.57	\$35.74	\$77.31	\$70.30	\$42.25	\$112.55
2015 INSIDE - 7K	\$44.33	\$37.18	\$81.51	\$73.06	\$43.69	\$116.75
2016 INSIDE - 7K	\$47.09	\$38.62	\$85.71	\$75.82	\$45.13	\$120.95
2017 INSIDE - 7K	\$49.85	\$40.06	\$89.91	\$78.58	\$46.57	\$125.15
2018 INSIDE - 7K	\$52.61	\$41.50	\$94.11	\$81.34	\$48.01	\$129.35
2019 INSIDE - 7K	\$55.37	\$42.94	\$98.31	\$84.10	\$49.45	\$133.55

The proposed rate adjustment being considered at the October 14, 2014 BOMA meeting is for 2015 and 2016. The combined rate increases for both water and sanitary sewer result in a \$4.20/month increase per year based on a 7,000 gallon customer and an increase of \$0/month for a 1,000 gallon customer. Future rate increases, consistent with the five year financial plan, will be designed based on BOMA input for years 2017 through 2019 and may differ from the information presented above.

Item 2

Consistent with Resolution 2014-57, the proposed rate design uses a measured five year approach to achieve anticipated revenue requirements through annual rate increases of 3.5% for water and 6.75% for sanitary sewer. A stated concern is that using this methodology will initially result in a surplus of revenue as presented in the following table.

Year	Water	Sanitary Sewer
FY 2015	\$685,164	\$2,402,331
FY 2016	\$790,960	\$3,019,571
FY 2017	\$221,941	\$3,607,980
FY 2018	\$155,940	(\$506,695)
FY 2019	\$47,553	\$181,807
Totals	1,901,558	8,704,994

Some factors that will impact these projections include:

- Actual revenues and expenditures relative to projected revenues and expenditures,
- Operational cost increases in excess of assumed expense assumptions,
- Actual construction costs of the Water Treatment and Water Reclamation Facilities relative to current opinion of probable costs,
- Cash flow needs throughout construction of Water Treatment and Water Reclamation Facilities (the model assumed no capital requirements until the projects are completed and debt service begins),
- Recommendations and decisions made by the BOMA based on cost of service analyses conducted during five year planning period,
- The use of accrued system development fees to offset capital expenditures,
- The use of surplus funds to offset capital expenditures.

It is understood that the initial years are projected to result in surplus revenues however the City is prepared to make adjustments to rate designs based on the factors above and as implementation of projects proceed.