

# WATER & SEWER RATES

City Council Workshop  
February 28, 2012



## BACKGROUND

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- ◎ Completed Cost of Service Analysis last summer
- ◎ Adopted new rates last December
- ◎ Need new assumptions built into the financial model for future rates
- ◎ Begin dialogue about rates for 2013

# REVIEW PROCESS

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- © Revised CIP expectations
- © Updated financial models
- © Developed rate scenarios



# ASSUMPTIONS

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- ◎ Continued implementation of cost-based rates
  
- ◎ Debt reductions
  - Savings from refinancing
  - Excess cash due to dry irrigation season in 2011
  
- ◎ Water usage, operating, and capital costs in line with COSA projections
  
- ◎ Both funds remain above 1.25 DSCR

# SCENARIOS

- 1) Base Case
- 2) 3% O&M Reduction
- 3) CIP Shifts
  - a) No CIP Projects
  - b) Delay Growth Projects
- 4) No Growth Projects
- 5) No 2013 Rate Increase
  - a) Full CIP
  - b) No Growth Projects
- 6) Catch-Up Increases
- 7) Biennial Increases



# #1: BASE CASE

## Projected Revenue Increases

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Water</b>	5.0%	7.0%	7.0%	7.0%	5.0%	6.0%	5.0%	4.0%	4.0%	4.0%
<b>Sewer</b>	8.0%	7.0%	6.0%	5.0%	5.0%	5.0%	5.0%	5.0%	4.5%	4.5%
<b>Total</b>	<b>6.2%</b>	<b>7.0%</b>	<b>6.6%</b>	<b>6.2%</b>	<b>5.0%</b>	<b>5.6%</b>	<b>5.0%</b>	<b>4.4%</b>	<b>4.2%</b>	<b>4.2%</b>
<b>COSA</b>	6.2%	7.6%	7.2%	6.9%	5.6%	5.0%	5.0%	4.4%	3.6%	

## Highlights

- © Full CIP with level increases through 10 years
- © Continues COSA plan from 2011
- © Consistent and predictable rates

# #2: 3% O&M REDUCTION

## Projected Revenue Increases

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Water</b>	6.0%	6.0%	6.0%	7.0%	5.0%	5.0%	4.0%	4.0%	3.0%	3.0%
<b>Sewer</b>	8.0%	6.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
<b>Total</b>	<b>6.8%</b>	<b>6.0%</b>	<b>5.6%</b>	<b>6.2%</b>	<b>5.0%</b>	<b>5.0%</b>	<b>4.4%</b>	<b>4.4%</b>	<b>3.8%</b>	<b>3.8%</b>

## Highlights

- ◎ Fully funds growth and maintenance projects
- ◎ Assumes 3% reduction in current costs
- ◎ Predictable rates for customers

# #3A: NO CIP PROJECTS

## Projected Revenue Increases

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Water</b>	4.0%	4.0%	4.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Sewer</b>	0.0%	0.0%	0.0%	1.0%	2.0%	2.0%	0.0%	0.0%	0.0%	1.0%
<b>Total</b>	<b>2.4%</b>	<b>2.5%</b>	<b>2.8%</b>	<b>0.4%</b>	<b>0.7%</b>	<b>0.7%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.4%</b>

## Highlights

- ⦿ Shows necessary increases to support capital projects that have already been initiated
- ⦿ Unrealistic due to lack of infrastructure investment for 10 years

# #3B: DELAY GROWTH CIP

## Projected Revenue Increases

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Water</b>	6.0%	6.0%	6.0%	6.0%	4.0%	4.0%	4.0%	3.0%	3.0%	3.0%
<b>Sewer</b>	8.0%	8.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	6.0%	6.0%
<b>Total</b>	<b>6.8%</b>	<b>6.8%</b>	<b>5.6%</b>	<b>5.6%</b>	<b>4.4%</b>	<b>4.4%</b>	<b>4.4%</b>	<b>3.8%</b>	<b>4.2%</b>	<b>4.2%</b>

## Highlights

- ◎ Aligns growth projects with the current economic conditions
- ◎ Includes maintenance projects in each of the next 10 years

# #4: NO GROWTH PROJECTS

## Projected Revenue Increases

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Water</b>	4.0%	4.0%	4.5%	5.5%	2.0%	2.5%	2.5%	2.0%	2.0%	2.0%
<b>Sewer</b>	5.5%	5.0%	4.0%	3.0%	4.0%	4.0%	5.0%	7.0%	7.5%	6.0%
<b>Total</b>	<b>4.6%</b>	<b>4.4%</b>	<b>4.3%</b>	<b>4.5%</b>	<b>2.8%</b>	<b>3.1%</b>	<b>3.5%</b>	<b>4.0%</b>	<b>4.3%</b>	<b>3.7%</b>

## Highlights

- © Funds CIP projects that improve the existing system
- © Lower rate increases than Base Case Scenario
- © Potential for lost business opportunities

# #5A: No 2013 Rate Increase

## Projected Revenue Increases

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Water</b>	0.0%	9.5%	9.5%	9.5%	5.0%	5.0%	5.0%	3.0%	3.0%	3.0%
<b>Sewer</b>	0.0%	10.0%	9.0%	9.0%	5.0%	5.0%	4.0%	4.0%	5.0%	4.0%
<b>Total</b>	<b>0.0%</b>	<b>9.7%</b>	<b>9.3%</b>	<b>9.3%</b>	<b>5.0%</b>	<b>5.0%</b>	<b>4.6%</b>	<b>3.4%</b>	<b>3.8%</b>	<b>3.4%</b>

## Highlights

- © Includes full CIP projects
- © No City Council action until December 2013
- © Raises level of rates needed through 2016

# #5B: No 2013 Rate Increase

## Projected Revenue Increases

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Water</b>	0.0%	6.0%	6.0%	7.0%	2.0%	2.5%	2.5%	2.0%	2.0%	2.0%
<b>Sewer</b>	0.0%	7.0%	7.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
<b>Total</b>	<b>0.0%</b>	<b>6.4%</b>	<b>6.4%</b>	<b>6.2%</b>	<b>3.2%</b>	<b>3.5%</b>	<b>3.5%</b>	<b>3.2%</b>	<b>3.2%</b>	<b>3.3%</b>

## Highlights

- ⊙ Excludes growth capital projects
- ⊙ No rate votes until December 2013
- ⊙ Could stunt new development

# #6: CATCH-UP INCREASE

## Projected Revenue Increases

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Water</b>	20.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
<b>Sewer</b>	23.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
<b>Total</b>	<b>21.2%</b>	<b>3.0%</b>								

## Highlights

- ◎ Features large increase in 2013 followed by mostly inflation-based increases thereafter
- ◎ Eliminates the need for any other large increases after next year

# #7: BIENNIAL INCREASE

## Projected Revenue Increases

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Water</b>	12.0%	0.0%	14.0%	0.0%	10.0%	0.0%	8.0%	0.0%	6.0%	0.0%
<b>Sewer</b>	15.0%	0.0%	11.0%	0.0%	8.0%	0.0%	9.0%	0.0%	10.0%	0.0%
<b>Total</b>	<b>13.2%</b>	<b>0.0%</b>	<b>12.8%</b>	<b>0.0%</b>	<b>9.2%</b>	<b>0.0%</b>	<b>8.4%</b>	<b>0.0%</b>	<b>7.6%</b>	<b>0.0%</b>

## Highlights

- ◎ Rate increases once every two years
- ◎ Substantially higher rates when increased
- ◎ Includes full CIP

# COMPARISON OF SCENARIOS

2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b><u>Scenario #1: Base Case</u></b>									
6.2%	7.0%	6.6%	6.2%	5.0%	5.6%	5.0%	4.4%	4.2%	4.2%
<b><u>Scenario #2: 3% O&amp;M Reduction</u></b>									
6.8%	6.0%	5.6%	6.2%	5.0%	5.0%	4.4%	4.4%	3.8%	3.8%
<b><u>Scenario #3a: No CIP Projects</u></b>									
2.4%	2.5%	2.8%	0.4%	0.7%	0.7%	0.0%	0.0%	0.0%	0.4%
<b><u>Scenario #3b: Delay Growth Projects for Two Years</u></b>									
6.8%	6.8%	5.6%	5.6%	4.4%	4.4%	4.4%	3.8%	4.2%	4.2%
<b><u>Scenario #4: No Growth Projects</u></b>									
4.6%	4.4%	4.3%	4.5%	2.8%	3.1%	3.5%	4.0%	4.3%	3.7%
<b><u>Scenario #5a: No 2013 Rate Increase (Full CIP)</u></b>									
0.0%	9.7%	9.3%	9.3%	5.0%	5.0%	4.6%	3.4%	3.8%	3.4%
<b><u>Scenario #5b: No 2013 Rate Increase (Non-Growth Projects Only)</u></b>									
0.0%	6.4%	6.4%	6.2%	3.2%	3.5%	3.5%	3.2%	3.2%	3.3%
<b><u>Scenario #6: Catch-Up Increase</u></b>									
21.2%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
<b><u>Scenario #7: Biennial Increase</u></b>									
13.2%	0.0%	12.8%	0.0%	9.2%	0.0%	8.4%	0.0%	7.6%	0.0%
<b><u>Cost of Service Analysis (COSA)</u></b>									
6.2%	7.6%	7.2%	6.9%	5.6%	5.0%	5.0%	4.4%	3.6%	

# EFFECT OF BNR PROJECT

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- ◎ EPA mandate to remove phosphorous and nitrogen from wastewater effluent
- ◎ Consultant study in 2009 specified three levels of treatment likely to be required by EPA

Tier	Level	Capital Costs *	Annual O&M
#1	Nitrogen: 8 mg/L   Phosphorous: 1.5 mg/L	\$101.1 million	\$980,000
#2	Nitrogen: 5 mg/L   Phosphorous: 0.5 mg/L	\$107.8 million	\$1,300,000
#3	Nitrogen: 3 mg/L   Phosphorous: 0.3 mg/L	\$146.0 million	\$1,800,000

\* Includes debt issuance costs

# TIMELINE

<b>Action</b>	<b>Date</b>
City Council Workshop	Feb 28 <sup>th</sup>
Additional Financial Analysis	March – May
Assumptions Built Into Proposed Budget	June – July
Community Dialogue on Potential Rates	August – October
Council Deliberations	November
Final Decision on 2013 Rates	December