

UTILITY RATES

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Overview:

The city owns and operates three utilities: water, wastewater, and stormwater/flood management. Each utility assesses a variety of rates, fees, and charges to ensure that revenues are sufficient to meet operating and maintenance costs and to maintain the financial integrity of each utility. The Public Works Department annually reviews the financial and operation performance of each utility and, as appropriate, makes recommendations to City Council regarding adjustments to user charges and other related fees. The recommendations are reviewed and approved by City Council as part of the annual budget process.

The recommended rate and financial plan is designed to fund programs and projects, maintain required reserves and satisfy debt service coverage requirements. Reserves are established for bond issuances, employee compensation liability and post-flood property acquisition. In addition, each utility maintains a 20-25% operating reserve over a six-year planning period. Water revenues especially can be significantly lower during either a very wet or very dry year and it is financially prudent to have reserves available in years when there may be a revenue shortfall. The level of operating reserve is also related to the capital-intensive nature of the utilities. It is industry-standard to keep three months of operating expenditures in reserves. A higher level of operating reserve can more readily fund an emergency or unanticipated capital expenditure should they occur. In addition, bond rating agencies favor higher levels of operating reserves.

Each utility is also required to generate net revenues (total revenues minus operating expenditures) before debt service, equal to 1.25 times its annual debt payment requirements on an annual basis. These debt service coverage requirements are established as part of the utility's bond covenants.

Monthly User Fees:

Additional revenue is needed in 2007 for all three utilities to meet each utility's financial requirements and to fund operation and maintenance costs. The following percentage increases in revenues are recommended: (the 2006 percentage increases are currently in effect):

<u>Year</u>	<u>Water</u>	<u>Wastewater</u>	<u>Stormwater/ Flood Management</u>
2006	3%	20%	3%
2007	4%	6%	3%
2008	10%	4%	3%
2009	10%	4%	3%
2010	6%	10%	3%

Of particular note is the proposed Wastewater increase of 6%. During development of the 2005 budget, three consecutive years (2005, 2006 and 2007) of rate increases, each year being 20%, was anticipated because of improvements at the Wastewater Treatment Plant and in constructing a Biosolids Composting Facility. In August 2005, Council decided not to construct a Biosolids

Composting Facility, thereby reducing the third year (2007) rate increase to 12%. Since August 2005, staff has re-evaluated the construction schedule for the third digester, which is needed for biosolids treatment, and decided that it can be delayed until 2010. As a result, the rate increase for 2007 was further reduced to 6%.

The rate increases in the water and stormwater/flood management funds are primarily needed to cover inflationary increases for personnel and nonpersonnel items. These increases will also fund new costs associated with the new utility billing system (annual maintenance fees and technical support) and water budget rate structure (administrative support) along with establishing a water meter replacement program.

Programs and Projects with Potential Rate Impacts:

The development of the Utilities budget has been undertaken in a comprehensive manner. The utilities fund financials reflect several bond issuances over the next six years, and the associated rate increases, to fund the following capital projects:

Water Utility

- Boulder Reservoir Water Treatment Plant Improvements (\$3.0 million included in the 2009 CIP)
- Barker Reservoir Dam Outlet Improvements (\$3.0 million included in the 2009 CIP)
- Northern Colorado Water Conservancy District Conveyance - Carter Lake Pipeline (\$25.0 million included in the 2009 CIP)
- Betasso Water Treatment Plant Improvements (\$5.0 million included in the 2012 CIP)

Wastewater Utility

- Wastewater Treatment Plant Improvements – new Digesters (\$8.5 million included in 2010 CIP, plus increase in operating budget)
- Wastewater Treatment Plant Improvements (\$10.0 million included in the 2010 CIP)
This project is for possible additional improvements to the plant, depending upon effective regulatory limits for the 2008 discharge permit.

Stormwater/ Flood Management Utility

- Initial improvements related to South Boulder Creek (\$3.0 million included in 2010 CIP)

New Water Rate Structure:

In December 2004 City Council directed staff to implement a new water rate structure beginning January 2007 that uses water budgets. Monthly water budgets will be established for each customer. Water budgets will vary by customer class and are described below.

Single-Family Residential Accounts

Monthly Water Budget = Indoor (7,000 gals per month) + Outdoor (based on customer specific irrigable area)

Multi-Family Residential Accounts

Monthly Water Budget = Indoor (4,000 gals per month per living unit) + Outdoor (based on customer specific irrigable area)

Metered Irrigation Accounts

Monthly Water Budget = Outdoor (based on customer specific irrigable area)

The outdoor component of the monthly water budget may be different from month to month to reflect differing watering requirements throughout the year (i.e. this allows for more water in the summer months and less water in the winter months).

Commercial/Industrial Accounts

Monthly Water Budget = 100% of average monthly use (initially based on 2005 actual water usage)

Customers will continue to pay a monthly service charge based on meter size and a quantity charge based on the amount of water used compared to their monthly water budget. In general, the quantity charges will increase as the amount of water used increases or exceeds the monthly water budget amount. The price blocks are defined as follows:

Block	Quantity Charge (per 1,000 gal)	2007 Approved Quantity Charge (per 1,000 gal)	Number of Gallons billed in each Block
Block 1	3/4 x Base Rate	\$1.88	Usage up to 60% of total monthly water budget
Block 2	Base Rate	\$2.50	Usage between 61-100% of total monthly water budget
Block 3	2 x Base Rate	\$5.00	Usage over monthly budget up to 150% of total monthly water budget
Block 4	3 x Base Rate	\$7.50	Usage between 151-200% of total monthly water budget
Block 5	5 x Base Rate	\$12.50	Usage over 200% of total monthly water budget

Changing to a new rate methodology will provide a bit of uncertainty to revenue projections for the next several years. Revenue forecasts have been made with the best available information and staff will monitor and evaluate 2007 actual revenues on a monthly basis in order to make adjustments, if needed.

Customer Bill Impacts:

The following table is a comparison of annual utility bills for a residential customer under the existing 2006 rates and approved 2007 rates. The 2007 rates, in conjunction with the new water rate structure, will decrease a typical residential customer's annual utility by approximately \$46.00. This is a decrease of approximately \$3.85 per month.

	Annual Bill 2006 Rates	Annual Bill 2007 Rates	Difference
Water	\$408.14	\$345.10	(\$63.04)
Wastewater	238.56	253.88	15.32
Stormwater/ Flood Management	78.60	81.00	2.40
TOTAL	\$725.30	\$679.98	(\$45.32)

Plant Investment Fees:

Utility Plant Investment Fees (PIFs) will increase by an inflationary amount (1.9%) for 2007. This amount is based on the percent change in the construction cost index for the Denver area. PIFs are a one-time fee collected when a property is annexed, developed, or redeveloped and requires access (capacity) into the existing water, wastewater or stormwater/ flood management systems. PIFs were recalculated, based on the replacement value of the utility assets, as part of the 2001 Utility Rate and Plant Investment Fee Review conducted by Integrated Utilities Group, Inc. and became effective January 2002. Beginning in 2003, PIFs are increased annually by a small percentage amount to offset any potential larger increases resulting from the periodic comprehensive rate reviews. The next comprehensive study and analysis of the plant investment fees will begin in 2007.

The current and proposed PIFs for an average-size, detached, single family residence are:

	<u>2006 PIF</u>	<u>2007 PIF</u>
Water	\$9,530	\$9,710
Wastewater	\$1,820	\$1,855
Stormwater/ Flood Management	\$1,785	\$1,820

PIF assessments for other types of customers (i.e. small, large) are also being revised using the base amounts listed above. All adjustments for 2007 are reflected in the update to Section 4-20 Fines and Fees of the Boulder Revised Code (B.R.C).

The Utilities also assess fees for specific utility related services. These are reviewed annually as part of the budget process and any changes are submitted as part of the update to section 4-20 Fines and Fees of the B.R.C. These fees are designed to fully recover the direct costs of providing services and most indirect overhead costs.

Public Process:

Public process and information disbursement regarding utility rate adjustments include: submittal to and recommendation from the Water Resources Advisory Board, notification on customers utility bill and/or utility bill inserts, inclusion of related materials on the Public Works web page, Planning and Development Services' Schedule of Fees and public hearings during Council consideration of the annual budget. Public Works also held three public meetings in September 2006 to discuss the new water rate structure that is being implemented for 2007.

All approved adjustments to the Utility rates will become effective January 1, 2007.

