

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 Utilities Division 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, satisfy debt service coverage requirements and maintain required reserves. Each utility is 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. Reserves are established for bond issuances, employee compensation liabilities, emergencies/stabilization and special purposes (e.g. Lakewood Pipeline Remediation Reserve).

Late in 2006, the city had contracted with Red Oak Consulting to conduct a review of the various financial reserves and reserve levels for each of the city's three utilities. This included a survey of the reserve policies of ten other utilities in the Front Range and Southwestern United States. The findings of the study were presented to the Water Resources Advisory Board (WRAB) in January 2007. Based on the study's findings, consultant's recommendation and the WRAB's input, staff has modified the reserve policies of each utility beginning in 2008. Each utility will show a 25% operating reserve (changed from a range of 20%-25%) and also establish a separate capital reserve. The amount of the capital reserve is based on the minimum annual renewal and replacement costs for capital. The capital reserves are initially set at: Water - \$2,000,000; Wastewater - \$500,000 and Stormwater/Flood Management - \$200,000.

Having both an operating and capital reserve will provide the utility with greater financial stability and flexibility should emergencies or revenue shortfalls occur and will function indirectly as a rate stabilization fund. 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. In addition, bond rating agencies favor higher reserve levels and this can contribute to higher bond ratings.

MONTHLY USER FEES

Additional revenue is needed in 2008 for all three utilities to meet each utility's financial requirements and to fund operation and maintenance costs. The following revenue increases for 2008 have been approved (in bold). The 2007 percentage increases are currently in effect.

<u>Year</u>	<u>Water</u>	<u>Wastewater</u>	<u>Stormwater/Flood Management</u>
2007	4%	6%	3%
2008	4%	3%	3%
2009*	10%	3%	3%
2010*	10%	10%	4%
2011*	12%	8%	3%
2012	2%	6%	3%

The rate increases for 2008 are primarily needed to cover inflationary increases for personnel and nonpersonnel items. These increases will also fund new costs associated with the improvements at the wastewater treatment plant, new water assessments to both the Northern Colorado Water Conservancy District and the Platte River Authority and increased energy costs at the treatment facilities.

*The projected 2009-2011 increases for water assume the city's participation in the Carter Lake Pipeline Project (without receipt of federal funding). If the city does not participate and construct the pipeline, the projected increases for water revenues for 2009-2011 are reduced to 5%, 5% and 6%, respectively. In addition, if the city were to receive federal funding for the project the rate increases would be decreased accordingly.

CUSTOMER BILL IMPACTS

The following table is a comparison of annual utility bills for a residential customer under the 2007 and 2008 rates. The 2008 rates will increase a typical residential customer's annual utility bill by approximately \$21.00. This is an increase of approximately \$1.75 per month.

	Annual Bill 2007 Rates	Annual Bill 2008 Rates	Difference
Water	\$340.10	\$349.60	\$9.50
Wastewater	218.88	227.52	8.64
Stormwater/ Flood Management	81.00	83.40	2.40
TOTAL	\$639.98	\$660.52	\$20.54

In June 2007 a survey of annual water and sewer bills was conducted for Front Range Communities. The bills were for a typical single-family, inside city residential customer with average winter water consumption of 5,000 gallons, total annual water consumption of 120,000 gallons, a lot size of 9,000 sq. feet and irrigable area of 5,200 sq. feet. Of the fifteen communities surveyed in 2007, Boulder

has the third lowest annual water-only bill; the fourth highest annual sewer-only bill and was in the middle (seventh lowest) for the combined water and sewer bills.

PROGRAMS AND PROJECTS WITH A POTENTIAL RATE IMPACT

In January 2007 a new water rate structure that uses water budgets was implemented. 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 actual revenues on a monthly basis in order to make adjustments, if needed. In addition any future changes to the water budget rate structure that are considered would also include an analysis of the impact to water revenues and water rates.

In addition, the Utilities' 2008-2013 fund financials reflect several bond issuances, 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)
- 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

- Biosolids Digester (\$3.0 million included in 2010 CIP, plus increase in operating budget; total project cost is \$6.0 million with \$3.0 million being cash financed)
- 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)

Cost estimates for these capital projects will likely be refined as the construction date approaches which could result in changes to projected rate increases.

PLANT INVESTMENT FEES

Utility Plant Investment Fees (PIFs) will increase by an inflationary amount (2.9%) for 2008. 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 and/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 began in the fall of 2007 and is anticipated to be completed by mid-year 2008.

The 2007 and 2008 PIFs for an average-size, detached, single family residence are shown below.

	<u>2007 PIF</u>	<u>2008 PIF</u>
Water	\$9,710	\$9,995
Wastewater	\$1,855	\$1,910
Stormwater/Flood Management	\$1,820	\$1,875

PIF assessments for other types of customers (i.e. small, large) are also being revised using the base amounts listed above. All adjustments for 2008 are reflected in 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.

All approved adjustments to the Utility rates will become effective January 1, 2008.