

UTILITY RATES

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 the 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 maintain required reserves and meet debt service coverage requirements. Currently, the city strives to maintain a 20%-25% operating reserve for each utility over a six-year planning period. Water revenues can be significantly lower during a wet weather year or a drought. It is financially prudent to have reserves available for years where there may be a revenue shortfall. The reserve level is also related to the capital-intensive nature of the Utilities operations. It is industry-standard to have three months of operating expenditures in reserves. An emergency or unanticipated capital failure can be costly, and a higher level of operating reserves can more readily fund these situations should they arise. Finally, rating agencies favor a higher level of operating reserve when rating any utility revenue bonds the city may issue.

Debt service coverage requirements are established as part of the utility's indenture or bond covenants. On an annual basis each utility is required to generate net revenues (total revenues minus operating expenditures) before debt service, equal to 1.25 times its annual debt service requirements.

Monthly User Fees

To meet these financial requirements and to fund necessary operation and maintenance costs, rate adjustments for 2004 are being recommended only for the wastewater and stormwater/ flood management utilities. The existing monthly user charges for these utilities do not generate revenues sufficient to maintain the financial goals relating to reserves and debt service coverage while funding operations and capital projects. In 2004 the additional revenue for the wastewater utility will fund general inflationary increases and debt service associated with several major capital projects. The projects are: construction of a Class A Biosolids Composting Facility, construction of a Biosolids Handling and Dewatering Facility and Wastewater Treatment Plant Improvements as mandated by the discharge permitting process. The rate increase to the stormwater/ flood management fee is needed to fund compliance with newly mandated federal stormwater regulations. In order to fund these projects and maintain financial thresholds, the following percentage increases in revenues are recommended (the 2003 percentage increases were implemented 1/1/2003, with a subsequent mid-year increase for water rates):

<u>Year</u>	<u>Water</u>	<u>Wastewater</u>	<u>Stormwater/ Flood Management</u>
2003	3%	12%	6%
2004	0%	6%	3%
2005	3%	5%	3%
2006	3%	5%	3%
2007	4%	5%	3%

The 2004 annual utility bill for a typical residential customer (annual consumption of 120,000 gallons) will be approximately \$627.00. This is an increase of approximately \$11.00 from a comparable 2003 bill or an additional \$0.90 per month. The following table is a comparison of annual bills under existing and recommended rates for the City's three utilities.

TYPICAL RESIDENTIAL CUSTOMER COMPARISON OF CURRENT AND PROPOSED ANNUAL UTILITY BILL			
Utility	2003	2004	Difference
Water	\$410.94	\$410.94	\$0.00
Wastewater	132.96	141.96	9.00
Stormwater/ Flood Management	72.60	74.40	1.80
TOTAL	\$616.50	\$627.30	\$10.80

Programs and Projects with Potential Rate Impacts

The development of the Utilities budget has been undertaken in a comprehensive manner. Some of the larger projects and programs that have a budgetary impact include:

Water Utility

- Betasso Water Treatment Plant Improvements (\$5.0 million included in 2006 CIP, plus increase in operating budget)
- Boulder Reservoir Water Treatment Plant Improvements (\$6.3 million included in 2006 CIP, plus increase in operating budget)

Wastewater Utility

- Class A Biosolids Composting Facility (\$10.0 million included in 2004 CIP, plus increase in operating budget)
- Biosolids Handling and Dewatering Facility (\$7.0 million included in 2004 CIP, plus increase in operating budget)
- Wastewater Treatment Plant Improvements related to the discharge permit renewal (\$11.0 million included in 2004 CIP, plus increase in operating budget)

Stormwater/ Flood Management Utility

- Initial improvements related to South Boulder Creek (\$3.0 million included in 2005 CIP)

Combined Water, Wastewater and Stormwater/ Flood Management Utilities

- Implementation of a new water rate structure and utility billing system (\$1.75 million included in 2004 CIP)

Plant Investment Fees

Utility Plant Investment Fees (PIFs) will increase by an inflationary amount (2.7%) for 2004. This amount is based on the percent change in the construction cost index. 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 current 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. Prior to 2002, PIFs were last revised in 1996, so the increase in 2002 was relatively large. Beginning in 2003 PIFs will be increased annually by a small percentage amount to offset any potential larger increases resulting from the periodic comprehensive rate reviews.

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

	<u>2003 PIF</u>	<u>2004 PIF</u>
Water	\$8,650	\$8,885
Wastewater	\$1,655	\$1,700
Stormwater/ Flood Management	\$1,620	\$1,665

PIF assessments for other types of customers (i.e. small, large) are also being revised using the base amounts listed above. PIFs for permanently affordable units will be adjusted to the final level of a three-year phase-in. In 2004 PIFs for permanently affordable units will be the same as all other attached residential units. All adjustments for 2004 will be 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. Currently 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, inclusion of related materials on the Public Works home 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, 2004. In January, an insert is included in customer's utility bills detailing the rate changes for monthly users.