

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 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 maintain required reserves and meet debt service coverage requirements. Reserves are needed for bond issuances, accrued employee benefits liability, post-flood property acquisition and operational emergencies. 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 either a wet or drought year. It is financially prudent to have reserves available for years where there may be a revenue shortfall. The operating reserve level is also related to the capital-intensive nature of the utilities operations. 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.

The 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

Rate increases for all three utilities are proposed for 2005 to meet the utility's financial requirements and to fund necessary operation and maintenance costs. The following percentage increases in revenues are recommended: (the 2004 percentage increases are currently in effect):

<u>Year</u>	<u>Water</u>	<u>Wastewater</u>	<u>Stormwater/ Flood Management</u>
2004	3%	6%	3%
2005	3%	20%	3%
2006	3%	20%	3%
2007	4%	20%	5%
2008	4%	8%	5%

The rate increases in the water and stormwater/flood management funds are primarily needed to cover inflationary increases for personnel and nonpersonnel items. The increase in the water fund will also fund three ongoing budget additions. Two of these additions will fund improvements to treatment operations at the Boulder Reservoir Water Treatment Plant and the other will fund an increase in the city's annual assessments for Windy Gap water delivered through the Northern Colorado Water Conservancy District.

The rate increase in the wastewater utility will fund general inflationary increases and debt service associated with several major capital projects. The projects are: improvements to the Wastewater Treatment Plant, construction of a Biosolids Handling and Dewatering Facility and possible construction of a Class A Biosolids Composting Facility. The 20% rate increase for 2005 is tied primarily to the improvements at the Wastewater Treatment Plant. The plant improvements must be done in order for the city to comply with State mandated effluent discharge requirements. As more exact cost estimates are developed for these projects and the suitability of the Valmont Butte site for the Biosolids projects is determined, the timing and/or amount of future wastewater rate increases (2006-2008) may change.

If the proposed rate adjustments are approved for 2005, the annual utility bill for an average residential customer (annual consumption of 120,000 gallons) will increase from \$621.80 to \$671.60. This is an increase of approximately \$4.15 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	2004	2005	Difference
Water	\$405.44	\$424.64	\$19.20
Wastewater	141.96	170.76	28.80
Stormwater/ Flood Management	74.40	76.20	1.80
TOTAL	\$621.80	\$671.60	\$49.80

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 (\$6.2 million included in 2005-2010 CIP, plus increase in operating budget)

Wastewater Utility

- Wastewater Treatment Plant Improvements related to the discharge permit renewal (\$29.8 million included in 2005 CIP, plus increase in operating budget)
- Biosolids Handling and Dewatering Facility (\$6.0 million included in 2005 CIP)
- Class A Biosolids Composting Facility (\$14.4 million included in 2005 CIP, plus increase in operating budget)

Stormwater/ Flood Management Utility

- Initial improvements related to South Boulder Creek (\$3.0 million included in 2007 CIP)

PLANT INVESTMENT FEES

Utility Plant Investment Fees (PIFs) will increase by an inflationary amount (3.3%) for 2005. 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 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. Prior to 2002, PIFs were last revised in 1996, so the increase in 2002 was relatively large. 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 current and proposed PIFs for an average-size, detached, single family residence are:

	<u>2004 PIF</u>	<u>2005 PIF</u>
Water	\$8,885	\$9,180
Wastewater	\$1,700	\$1,755
Stormwater/ Flood Management	\$1,665	\$1,720

PIF assessments for other types of customers (i.e. small, large) are also being revised using the base amounts listed above. All adjustments for 2005 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. Two new fees are proposed for 2005. One is a fee for resuming water service after 3 p.m., weekends or holidays and the other is a fee to repair a bent or broken transponder wire used for automated meter reading. Both are intended to recover the costs of providing these services. It is also recommended that the current fee for special water meter reads be assessed not only for final reads when a property is purchased or sold, but also for final reads for tenant changes and other special meter read requests.

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, 2005. In January, an insert is included in customer's utility bills detailing the rate changes for monthly users.