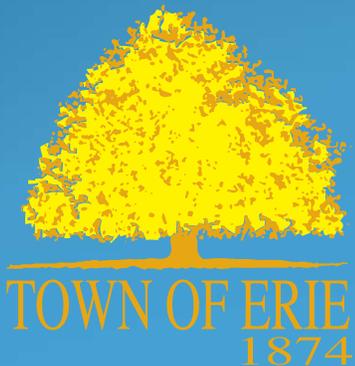


# Rate Study: Utility Rates & Fees

**Steve Felten, Town of Erie Finance Director**

**Kevin Burnett, Willdan Financial Services**

Board of Trustees Study Session  
August 26, 2014



# Objectives of the Review

- To ensure the financial strength of the utility funds
  - Operating expenses are covered
  - Capital requirements and debt service are provided for
  - Compliance with debt covenants (e.g., coverage ratio)
  - Adequate working capital levels are maintained
- To review the rate structure for equity and potential conservation incentives
- Required by policy at least every five years
  - Last study done in 2008 - Water and Wastewater only
  - Established rates for 2009-2013
    - No changes in 2014



# Funds Encompassed by the Review

1. Water Fund
2. Wastewater (Sewer) Fund
3. Storm Drainage Operating Fund
4. Storm Drainage Impact Fund



# Do We Really Need To Do This?

- Water & Storm Drainage Operating Funds - If no changes to fees/rates are made, working capital goes negative in 2016.
- Can not use tap/water resource fees to cover operating expenses due to strict state laws.
- Credit rating agencies and bond buyers do not like too much reliance on tap and water resource fees to meet debt service covenants. Without monthly rate increases it is likely that we would be limited on the amount of this type of revenue that could be counted in calculating our coverage ratios.



# Do We Really Need To Do This?

- It is also likely that we would pay a higher interest rate if we are too reliant on these development fees.
- It is probable that we would not be able to issue new debt or refinance existing debt without an adequate rate structure.



# Do We Really Need To Do This?

- If we ever fail to meet our debt service covenants we could expect:
  - The necessity for an emergency rate increase to meet debt service covenants
  - Much greater difficulty in being able to issue new debt or refinance existing debt
  - A downgrade in our credit rating, resulting in higher interest rates on future debt

# Fees Covered

- Water, Wastewater & Storm Drainage Monthly Fees
- Water and Wastewater Tap Fees
- Water Resource Fees



# Utility Customer Classifications

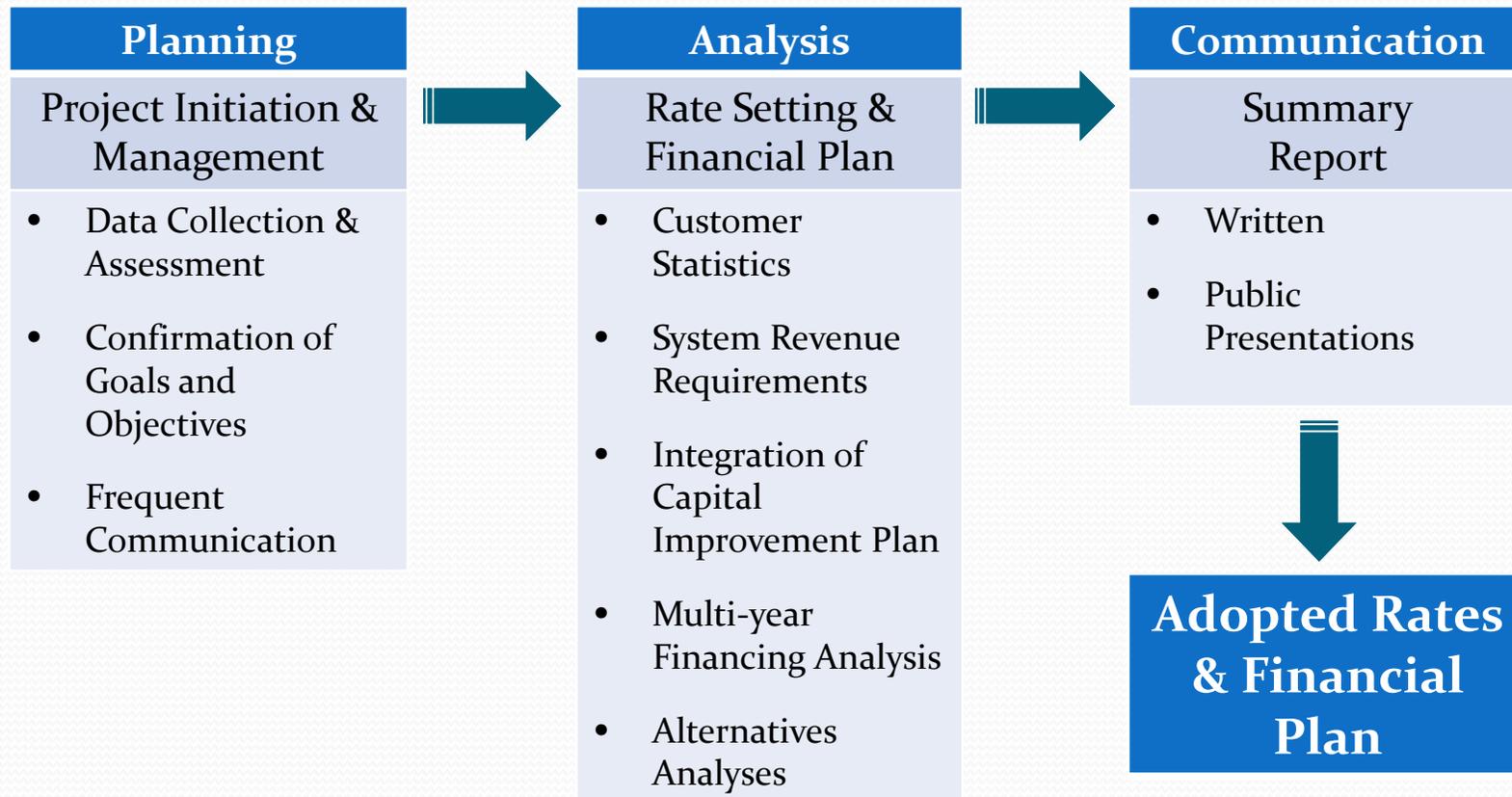
- Residential: 4 usage tiers
  1. Up to 5,000 gallons
  2. 5,001 – 15,000 gallons
  3. 15,001 – 25,000 gallons
  4. Over 25,000 gallons
- Commercial
- Irrigation
- Multi-Family → *New class being proposed*

# Initial Data Gathering & Preparation for Willdan

- 10-year Capital Plan
- 5-Year Operating Expense Projections
- New Customer Projections:
  - 300 customers in 2014
  - 400 in each of 2015-2019
- Actual Volume Usage by Customer/Month for last 2 years



# TYPICAL UTILITY RATE-SETTING PROCESS



# UTILITY RATE SETTING PROCESS

## Evaluate Current Financial Condition

### Operating Revenues

less Operating Expenses

less Debt Service

less Transfers

less Capital Expenditures

less Reserve Requirements

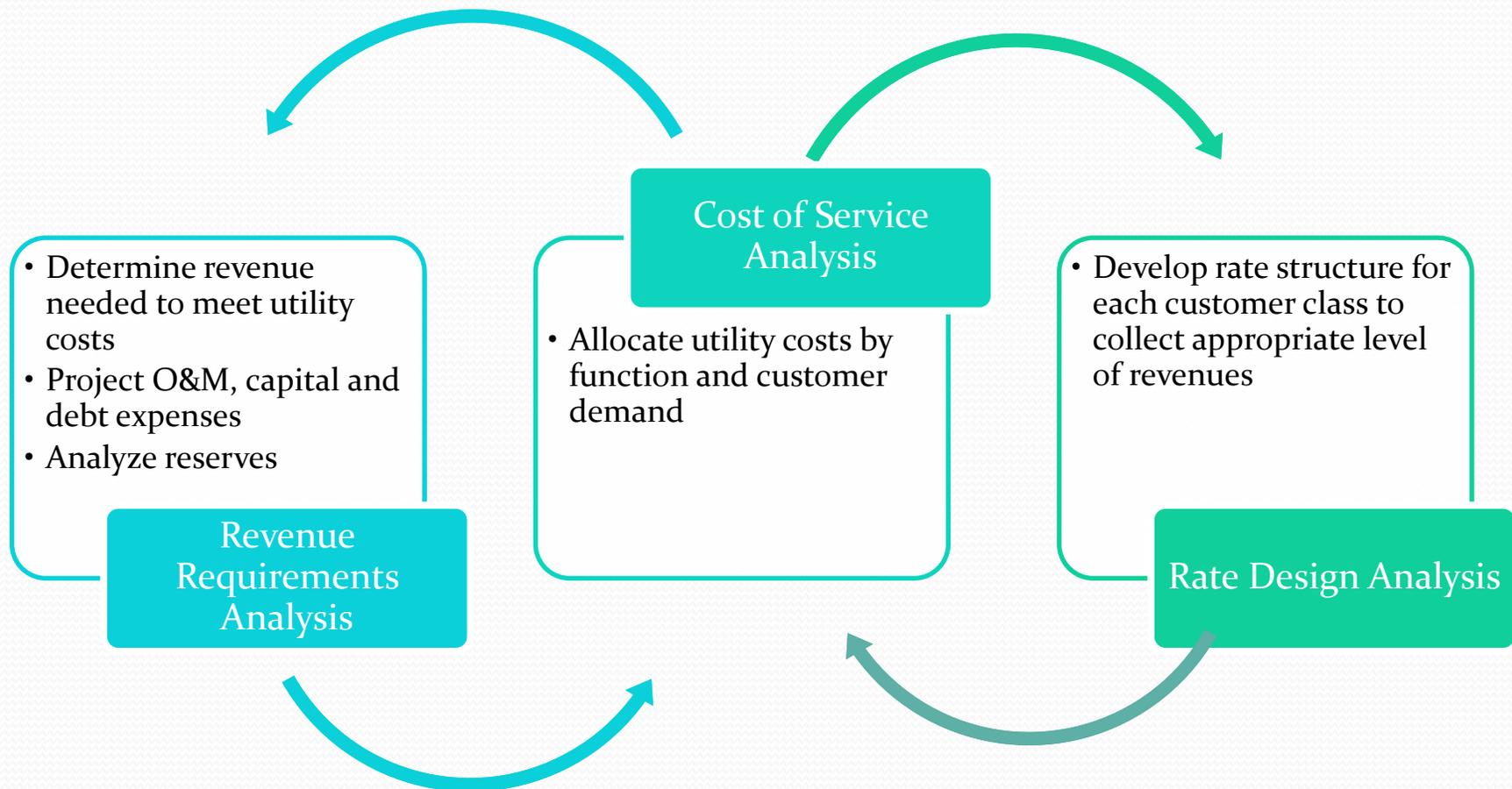
= Total Available Resources

vs. Needed Capital Additions and O&M

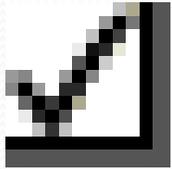
**Identify Optimum Funding Strategy**

# UTILITY RATE SETTING PROCESS

## Holistic Approach to Rate Design:



# Costs Fundable by Development Fees



## Expenses



Excess Capacity of Existing Facilities (Recoupment)

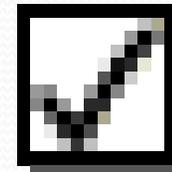


Maintenance and Repairs

Improvements Required to Service Existing Development (Deficiencies)

■ Cash Funded CIP    ■ Debt Service Payments

Improvements Required to Service New Development



# Capital and Financial Planning Process

## Evaluate Factors Affecting Capital Requirements

Customer Demand

Economic Development

Environmental Regulations

Declining Federal Assistance

Deteriorating Infrastructure

Improved Service Quality

Utility and Community Philosophy

Identify Capital Requirements and Evaluate Alternative Financing

Develop Capital Plan

Calculate Development Fees & Other Revenue Sources

Project Revenues and Financing to Meet Goals

Approved Plan

# Review of Alternatives by Staff

- More than 15 scenarios were prepared by Willdan, using varying pricing assumptions to achieve the goals described previously.
- Staff reviewed the results of these scenarios, assessing their impact on customers and development.
- Staff reviewed the impact of the options recommended on a sample of customers to determine their impact at various levels of usage.
- The options to be presented represent those believed by staff to best provide a balance in achieving the various goals of the study.

# Water Fund Rate

## Options for Consideration

- Residential Customers – 3 options to consider
- Commercial Customers – 1 option to consider
- Irrigation Customers – 1 option to consider
- Multi-Family Customers – 1 option to consider

# Water Fund Rate Options

## Residential - 2015 Changes

	<u>Current</u>	<u>Option 1</u>	<u>Option 2</u>	<u>Option 3</u>
<b>Monthly service charge</b>	\$ 25.41	\$ 25.41	\$ 26.68	\$ 26.68
% change from current		0.0%	5.0%	5.0%
<b>Volume charges (per 1,000 gallons)</b>				
Up to 5,000 gallons	\$ 3.65	\$ 3.75	\$ 3.65	\$ 3.83
% change from current		2.7%	0.0%	5.0%
5,001 - 15,000 gallons	\$ 4.56	\$ 4.68	\$ 4.56	\$ 4.79
% change from current		2.6%	0.0%	5.0%
15,001 - 25,000 gallons	\$ 5.70	\$ 7.03	\$ 6.84	\$ 5.99
% change from current		23.3%	20.0%	5.0%
Over 25,000 gallons	\$ 8.55	\$ 10.54	\$ 10.26	\$ 8.98
% change from current		23.3%	20.0%	5.0%

- Options 1 and 2 increase upper tiers to encourage conservation.
- Option 2 increases the monthly fixed portion by 5%, holds the 2 lower volume tiers flat and increases the two upper tiers.
- Option 3 increases all components by 5.0%, which is the required revenue increase from existing customers.



# Residential Customers

## Monthly Changes - 2015

	<u>Option 1</u>		<u>Option 2</u>		<u>Option 3</u>	
	\$ Change	% Change	\$ Change	% Change	\$ Change	% Change
Top 20%, by use	\$ 7.03	7.4%	\$ 6.28	6.6%	\$ 4.75	5.0%
Middle 60%, by use	\$ 1.50	2.7%	\$ 1.91	3.4%	\$ 2.83	5.0%
Bottom 20%, by use	\$ 0.56	1.4%	\$ 1.40	3.4%	\$ 2.07	5.0%
Average - all customers	\$ 2.02	4.0%	\$ 2.24	4.4%	\$ 2.55	5.0%

- Based on review of sample of customers using 2013 as the base.

# Water Fund Rate Options

## Commercial – 2015 Changes

	# of A/C's	Current	Proposed	\$ Change	% Change
3/4 inch tap	71	\$ 25.41	\$ 26.68	\$ 1.27	5.0%
1 inch tap	29	\$ 25.41	\$ 26.68	\$ 1.27	5.0%
1 1/2 inch tap	20	\$ 34.78	\$ 36.52	\$ 1.74	5.0%
2 inch tap	10	\$ 56.94	\$ 59.79	\$ 2.85	5.0%
3 inch tap	5	\$ 68.20	\$ 71.61	\$ 3.41	5.0%
4 inch tap	-	\$ 68.20	\$ 71.61	\$ 3.41	5.0%
6 inch tap	-	\$ 68.20	\$ 71.61	\$ 3.41	5.0%
<hr/>					
Per 1,000 gallons		\$ 5.73	\$ 6.02	\$ 0.29	5.1%



# Water Fund Rate Options

## Irrigation – 2015 Changes

	# of A/C's	Current	Proposed	\$ Change	% Change
3/4 inch tap	63	\$ 25.41	\$ 26.68	\$ 1.27	5.0%
1 inch tap	26	\$ 25.41	\$ 26.68	\$ 1.27	5.0%
1 1/2 inch tap	23	\$ 34.78	\$ 36.52	\$ 1.74	5.0%
2 inch tap	19	\$ 56.94	\$ 59.79	\$ 2.85	5.0%
3 inch tap	2	\$ 68.20	\$ 71.61	\$ 3.41	5.0%
4 inch tap	-	\$ 68.20	\$ 71.61	\$ 3.41	5.0%
6 inch tap	-	\$ 68.20	\$ 71.61	\$ 3.41	5.0%
<hr/>					
Per 1,000 gallons		\$ 6.03	\$ 6.33	\$ 0.30	5.0%

# Water Fund Rate Options

## Multi-Family - 2015

- Currently subject to the same rate structure as residential accounts.
- Propose creating new class for multi-family.
- Both the monthly service charge and the volume charges to increase 5% for all accounts.



# Water Fund

## Annual Average Rate Increases

	2015	2016	2017	2018	2019
Residential - Option 1 <sup>(1)</sup>	4.0%	5.0%	5.0%	4.0%	3.0%
Residential - Option 2 <sup>(1)</sup>	4.2%	5.0%	5.0%	4.0%	3.0%
Residential - Option 3 <sup>(1)</sup>	5.0%	5.0%	5.0%	4.0%	3.0%
Commercial	5.0%	5.0%	5.0%	4.0%	3.0%
Irrigation	5.0%	5.0%	5.0%	4.0%	3.0%
Multi-Family	5.0%	5.0%	5.0%	4.0%	3.0%

<sup>(1)</sup> Represents average increase for all customers. Total revenue increase from all customers is the same as that for the other classes.



# Wastewater Fund Rate

## Option for Consideration

- No changes necessary to existing rates, which are the same for all customers.
- Irrigation customers do not pay a wastewater charge.
- Monthly Service Charge = \$15.68
- Per 1,000 gallons = \$8.20
  - Residential charge based on 3-month average from December – February. Commercial based on monthly water usage.

# Storm Drainage Operating Fund Rate Proposal

- No change to this fee since 1/1/04
- Current - \$5.00 monthly fee for all accounts
- Proposed - Base fee on non-permeable square footage
- Residential – 2015 rate \$5.41 per month
- Commercial – 2015 average rate approximately \$45.00 per month
- Irrigation – Charge to be eliminated

# Residential Rates

## Projected Monthly Change for Average Account 2014-2019

	<u>Water</u> <sup>(1)</sup>	<u>Wastewater</u>	<u>Storm</u>	<u>Total</u> <sup>(2)</sup>	<u>\$ Change</u>	<u>% Change</u>
2014	\$ 56.50	\$ 48.48	\$ 5.00	\$ 109.98		
2015	58.00	48.48	5.41	111.89	1.91	1.7%
2016	60.90	48.48	6.60	115.98	4.09	3.7%
2017	63.95	48.48	8.05	120.48	4.50	3.9%
2018	66.51	48.48	9.82	124.81	4.33	3.6%
2019	68.51	48.48	11.98	128.97	4.16	3.4%

(1) Assumes Option 1 chosen for purposes of table.

(2) Based on middle 60% of customers.



# Tap, Water Resource and Impact Fees

<u>Single-Family Residence</u>	Last Changed	Current	Proposed	\$ Change	% Change	Indexed <sup>(2)</sup>
Water tap fee <sup>(1)</sup>	1/1/2009	\$8,680	\$10,416	\$1,736	20%	
Water resource fee	1/1/2009	\$12,850	\$15,300	\$2,450	19%	
Wastewater tap fee	1/1/2009	\$4,290	\$5,200	\$910	21%	
Total water/wastewater fees		\$25,820	\$30,916	\$5,096	20%	
Parks impact fee	9/18/2002	\$2,165	\$2,165	-	0%	\$3,248
Public facilities impact fee	9/18/2002	\$1,808	\$1,808	-	0%	\$2,712
Storm drainage impact fee	Pre-2000	\$1,300	\$1,300	-	0%	\$1,300
Transportation impact fee	9/18/2002	\$1,678	\$1,678	-	0%	\$2,517
Tree impact fee	?	\$300	\$300	-	0%	\$300
Total impact fees		\$7,251	\$7,251	-	0%	\$10,077
Use taxes/building permit		\$6,600	\$6,600	-	0%	
<b>TOTAL</b>		<b>\$39,671</b>	<b>\$44,767</b>	<b>\$5,096</b>	<b>13%</b>	

(1) To increase to \$11,582 in 2016; \$12,748 in 2017; \$13,914 in 2018; and \$15,080 in 2019

(2) Based on permitted increases pursuant to a construction index.

Storm drainage and tree impact fees are not subject to indexing as provided for in the code.

# Rates: How Do We Compare?

	WATER	SEWER	STORM	TOTAL
<b>Erie – Option 3</b>	\$69.78	\$48.48	\$5.41	\$123.67
<b>Erie – Option 2</b>	\$67.63	\$48.48	\$5.41	\$121.52
<b>Erie – Option 1</b>	\$67.56	\$48.48	\$5.41	\$121.45
<b>Erie – Current</b>	\$66.46	\$48.48	\$5.00	\$119.94
Parker	\$53.06	\$43.27	\$6.59	\$102.92
Castle Rock (Irrigation Season)	\$54.20	\$35.66	\$6.65	\$96.51
Aurora	\$64.76	\$16.44	\$8.61	\$89.36
<b>Average w/o Erie – Proposed</b>	-	-	-	\$82.58
Broomfield	\$62.05	\$14.56	\$0	\$76.61
Superior (Louisville Sewer Rates)	\$47.78	\$22.97	\$5.79	\$76.54
Windsor	\$50.51	\$20.00	\$5.41	\$75.92
Denver	\$33.38	\$14.72	\$17.84	\$65.94
Northglenn	\$45.80	\$15.32	\$2.00	\$63.12
Lafayette (2015 Water Rates)	\$36.84	\$17.79	\$4.27	\$58.90

- Assumes 10,000 gallons of usage for all months – no adjustment for higher usage months.



# Tap/Water Resource Fees: How Do We Compare?

	WATER TAP	WATER RESOURCE	SEWER TAP	STORM IMPACT FEE	TOTAL
Broomfield	\$22,454	-	\$12,559	-	\$35,013
Lafayette <sup>(1)</sup>	\$9,360	\$15,766	\$6,360	\$1,089	\$32,575
<b>Erie – Proposed</b>	<b>\$10,416</b>	<b>\$15,300</b>	<b>\$5,200</b>	<b>\$1,300</b>	<b>\$32,216</b>
Superior	\$20,991	-	\$4,320	\$2,682	\$27,993
<b>Erie Current</b>	<b>\$8,680</b>	<b>\$12,850</b>	<b>\$4,290</b>	<b>\$1,300</b>	<b>\$27,120</b>
Aurora <sup>(2)</sup>	\$15,756	-	\$9,924	\$705	\$26,385
Parker	\$13,475	\$5,000	\$5,850	\$800	\$25,125
Castle Rock	\$2,330	\$14,388	\$3,056	\$490	\$20,264
Denver <sup>(3)</sup>	\$10,653	-	\$8,014	-	\$18,667
Northglenn	\$11,600	-	\$3,675	\$525	\$15,800
Windsor <sup>(4)</sup>	\$6,725	-	\$3,700	\$975	\$11,400
<b>Average w/o Erie Proposed</b>	<b>\$12,202</b>	<b>\$12,001</b>	<b>\$6,175</b>	<b>\$1,149</b>	<b>\$31,527</b>

- (1) Water resource fee 0.75 acre feet dedicated or \$16,000 per acre cash in lieu plus Windy Gap/NISP fee of \$5,021 per acre
- (2) Water fee indoor \$5,509, outdoor \$0.941 per sq. ft. of lot size (assumes ¼ acre lot); Sewer fee: \$2,400 City, MWRD fee of \$7,524 for ¾" meter, Storm fee: \$2,818 per acre
- (3) Water base fee of \$3,030 plus \$0.70 per square foot, sewer fee of \$410 plus MWRD fee of \$7,524 for ¾" meter
- (4) New developments are required to dedicate water rights associated with the development
- Storm fee of \$0.1838 of impervious area (assumes 5,306 sq. ft. of impervious area)

# Pending Changes by Surrounding Communities

- **Boulder**
  - Water up 5%, Wastewater up 25%, Storm up 71%
- **Northern Colorado Water Conservancy District**
  - Serves Fort Collins and Berthoud, among others
  - Up 9% in 2015, up a total of 90% thru 2018
- **Broomfield**
  - Water up 7% and Wastewater up 13% in 2013; but additional increases of approximately 18% for water and increases of 15-20% per year for wastewater over the next several years possible



# Next Steps

- Follow-up based on questions/requests from the Board
- Guidance from the Board as to which options they favor
- Presentation of new fee structure for approval as part of the 2015 budget process
- All changes proposed to be effective 1/1/15