

## 7. Financial Plan

This section presents an overview of the water system financial position that reviews the sources of funds (revenues) and applications of funds (expenses). The financial plan includes projected operating and capital costs of the system for the six-year projected period of calendar years (CY) 2010-2015. The 2009 end-of-year actual results are the basis for establishing water system expenses over the time period reviewed. The capital costs contained within this section utilize the capital plan developed in Chapter 6 of this WSP. The results of the financial plan determine if the current water revenues are sufficient to cover operating and capital costs.

### 7.1 Past Financial History

The financial statements of the City combine the water and sewer utility funds. However, the water utility operating revenues and expenses are accounted for separately. The past five years of financial information for the water utility were evaluated to gain an understanding of the past performance of the utility, and a perspective of its current financial status.

Provided in Table 7-1 is a summary of the six-year financial history (2004-2009) for the City's water utility.

**Table 7-1. City of Tumwater Water System Financial History (\$000)**

	Year					
	2004	2005	2006	2007	2008	2009
<b>Sources of Funds</b>						
Rate Revenues	\$2,482	\$2,386	\$2,846	\$2,733	\$2,835	\$2,998
Other Revenues	379	485	601	738	541	417
<b>Total Revenues</b>	<b>\$2,861</b>	<b>\$2,871</b>	<b>\$3,447</b>	<b>\$3,471</b>	<b>\$3,376</b>	<b>\$3,415</b>
<b>Application of Funds</b>						
Operating Expenses	\$1,519	\$1,703	\$1,756	\$1,815	\$2,424	\$2,612
Debt Service	539	482	465	464	467	469
Taxes/Transfers/Other Expenses	145	140	165	162	166	177
<b>Total Application of Funds before CIP</b>	<b>\$2,203</b>	<b>\$2,325</b>	<b>\$2,386</b>	<b>\$2,441</b>	<b>\$3,057</b>	<b>\$3,258</b>
Balance/(Deficiency) after O&M	\$658	\$546	\$1,061	\$1,029	\$319	\$157
<b>Additional CIP funding required</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
<b>Balance/(Deficiency) of Funds</b>	<b>\$658</b>	<b>\$546</b>	<b>\$1,061</b>	<b>\$1,029</b>	<b>\$319</b>	<b>\$157</b>

As can be seen from Table 7-1, the City's operating expenses were below operating revenues during the historical period. This combined with significant growth generated almost \$4.9 million in connection fee revenue during this historical period. Capital improvements during this same time period totaled \$7.5 million. During this historical period, the City did not utilize rate revenues to fund capital improvements, but rather relied upon its reserve fund and new connection fee revenue. To the extent the capital improvements were growth related improvements, connection fee revenue can be used to offset these costs, reducing the impact to rates.

## 7.2 Development of the Financial Plan

A financial projection was developed to determine the City’s ability to meet its capital improvement and operating needs over the six-year time period of 2010 through 2015. Fund balance and reserve levels were also analyzed as part of the financial projection. The financial plan was developed to review the projected revenues and expenses of the water system for 2010 through 2015. This time period is consistent with the six-year planning period contained within the other chapters of the Water System Plan. The City’s 2009 actual end-of-year data was used as a base and future years were escalated by applying inflationary factors and growth projections, which are described in more detail below. The full detailed technical analysis is presented in Appendix M of this Plan and is the basis for the tables contained within this chapter.

### 7.2.1 Revenue

The first component of the financial plan is a review of the sources of revenue of the water system. The different revenues received from operations are:

- Rate revenues – water sales to customer
- Other revenues – penalties, interest income, and cell tower leases.

Projections for future year rate revenues were developed by applying a projected growth rate to the 2009 actual rate revenue. The growth rate used was 3.5% as calculated in the City’s demand forecast.

Rate revenues are projected to be approximately \$3.3 million in CY 2010. With the assumed growth, rate revenues are anticipated to increase to \$3.9 million by CY 2015. Other revenues increase from approximately \$561,000 in CY 2010 to \$734,000 in CY 2015 primarily as a result of interest income from an assumed increase in the interest rates on the reserve accounts.

The total sources of funds available to fund the operating and capital needs of the water system total \$3.9 million in CY 2010, increasing to \$4.7 million by CY 2015. A summary of the water utility’s revenues is provided in Table 7-2.

**Table 7-2. Summary of the City’s Projected Six-year Revenue (000s)**

Sources of Funds	Projected					
	2010	2011	2012	2013	2014	2015
Rate Revenue	\$3,320	\$3,436	\$3,557	\$3,681	\$3,810	\$3,944
Miscellaneous Revenue	562	575	615	649	717	732
<b>Total Sources of Funds</b>	<b>\$3,882</b>	<b>\$4,011</b>	<b>\$4,172</b>	<b>\$4,330</b>	<b>\$4,527</b>	<b>\$4,676</b>

## 7.2.2 Application of Funds

The second component of the financial plan is a projection of the applications of funds, or expenses of the utility. Applications of funds include O&M expenses, taxes/transfer payments, debt service, and capital improvement projects funded from rates.

### Operations and Maintenance Expenses

The CY 2009 actual end-of-year results were used as a starting point for projecting O&M expenses in future years. O&M expenses were categorized into salaries and wages, benefits, supplies, intergovernmental services and taxes, other services and charges, and interfund payments for services. Escalation factors were developed based on the type of the expense and applied to the budgeted CY 2009 costs to obtain projected costs. Escalation factors ranged between 3 and 4%. No out of the ordinary operation and maintenance costs were anticipated for the City's water utility during the time period reviewed. O&M expenses are projected to range from approximately \$2.7 million in CY 2010 to \$3.2 million in CY 2015.

### Taxes/Transfers

The water system has two tax obligations. The first is the State utility excise tax calculated as 5.029 percent of the rate revenues of the utility. This expense is reflected in the Administration Expense category as "Intergovernmental Services & Taxes". The second tax is a city utility tax of 6 percent on gross operating revenues. The projected tax payments for the period assume no tax rate change over time. There is also an assumed amount of transfers to/from the City's working capital fund each year. In CY 2010 through CY 2012, and again in CY 2014, revenues exceed total revenue requirements creating a transfer to the working capital fund. In CY 2013 and CY 2015, the utility will need to make transfers from the working capital fund to balance revenue requirements. Total taxes based upon a combined tax rate of 11.029 percent of current gross revenue combined with the transfers to/from the working capital fund average approximately \$328,000 per year from CY 2010 through CY 2015.

### Debt Service

There are currently five outstanding debt issues related to the water system. Four of these are Public Works Trust Fund (PWTF) Loans. The combined PWTF loans have a debt obligation of approximately \$97,000 in CY 2010. The first three PWTF loans retire in CY 2010 (PWTF #1), 2011 (PWTF #2), and 2012 (PWTF #3), leaving only PWTF #4 by the end of the planning period, in the amount of approximately \$56,500 per year. The fifth outstanding debt issue is a revenue bond issued in CY 2003 that consolidated previous bond obligations. It matures in CY 2015 and carries annual debt service of \$383,000. The financial analysis in the WSP has assumed the City will not fund any additional projects with PWTF loans. However, there are assumptions of new revenue bond debt to fund the necessary capital projects in each year of the planning period due to the significant reduction in connection fees due to slowed growth. A total of \$12.8 million is estimated to be needed to accomplish the City's capital improvement plan. Using revenue bonds is a worst case scenario for determining the adequacy of rates to fully cover costs; however it is the most likely source of additional funding for capital improvements given the lack of PWTF funding availability. If, however, the City is successful at obtaining State financed low-interest loans, the overall annual debt service will be lower.

## Capital Improvement Plans

Capital improvement Plans (CIPs) are related to the replacement and upgrade of existing infrastructure of a utility. The analysis performed for this Plan identified a number of projects for infrastructure improvements. The CIP also contains a number of renewal and replacement, growth-related, and regulatory related projects. Renewal and replacements are, as the name suggests, the replacement of existing and worn out (depreciated) facilities. Some of the renewal and replacement projects are also major maintenance projects, such water main replacements. Some projects are also due to regulatory requirements (e.g., safe drinking water act). Growth-related facilities, on the other hand, are those related to system expansion for new customers. Funding sources are determined, in part, by what type of improvements the project provides.

As a practical matter, and prudent practice, a utility should fund a portion of its capital improvements from rates on an on-going basis. In addition, the balancing of funding projects between existing and future customers is necessary as the improvements benefit both. The analysis developed herein assumes that the City is funding capital projects through a mix of long-term debt financing, existing reserve funds, and rate revenues. The amount funded through rate revenues is set at a minimum level of annual depreciation expense for the water utility. CY 2008 depreciation is approximately \$575,000. This amount of funding should increase over time as new plant is added and the average annual depreciation figure increases. The funding of capital improvement projects from rates at a minimum of depreciation expense provides a mechanism for existing customers to pay for refurbishment of the facilities they use and benefit from. By funding depreciation from rates, the depreciated cost is funded. Optimally, the utility will move toward funding an amount greater than annual depreciation, thus funding closer to actual replacement cost.

Another source of funds available to the City to fund capital projects are connection fees. Connection fees provide the means of balancing the cost requirements for new utility infrastructure to meet customer growth between existing customers and new customers. This charge is assessed to new customers as they “buy-in” to the system. By allocating capital improvement costs on the basis of benefit derived from new infrastructure, fair and equitable connection fees can be developed to share the costs between existing and future customers. The City is performing an internal review of its current connection fees to determine if they are set at the appropriate level. Any revenue received from connection fees is an additional revenue source that helps offset growth related capital costs, or annual debt service for growth related projects. For this financial plan, connection fees are based upon 2008 realized connection fees escalated by the growth factor of 3.5 percent. Revenue from connection fees is estimated between \$492,000 in CY 2010 and \$584,000 in CY 2015.

This financial plan has incorporated the capital projects outlined in Chapter 6 of this Plan. Capital project costs for the six-year plan range from \$1.6 million to \$7.7 million per year, with an average annual expenditure of \$4 million. Based upon the City’s past connection fees collections which funded a significant reserve amount for capital improvements, it was assumed that \$2.1 million of the funding necessary for the \$24 million capital plan will be funded with reserves, \$3.2 million will be funded with future connection charge revenue, \$12.8 million will be funded with new revenue bonds, and \$6.2 million will be funded with rate revenue during the six-year planning period. A summary of the capital improvement projects planned and their funding sources is presented in Table 7-3.

**Table 7-3. Summary of Water Capital Improvement Projects (\$000)**

	2010	2011	2012	2013	2014	2015
<b>Capital Outlays</b>						
Water Supply	\$3,325	\$3,564	\$277	\$6,110	\$254	\$133
Water Storage	0	0	0	61	0	999
Water Pump Stations	0	0	0	0	51	720
Water Distribution Systems	325	418	1,939	1,501	1,283	1,945
Water Maintenance & Operations	115	680	231	18	0	313
To Capital Reserve	0	0	0	0	50	0
<b>Total Cap. Outlays</b>	<b>\$3,765</b>	<b>\$4,662</b>	<b>\$2,447</b>	<b>\$7,690</b>	<b>\$1,638</b>	<b>\$4,110</b>
<b>Less: Outside Funding Sources</b>						
Connection Charges	\$492	\$509	\$527	\$545	\$564	\$584
New Revenue Bonds	800	3,000	1,000	6,000	0	2,000
PWTF Loan	0	0	0	0	0	0
Capital Reserve	1,800	300	0	0	0	0
<b>Total Outside Funding</b>	<b>\$3,092</b>	<b>\$3,809</b>	<b>\$1,527</b>	<b>\$6,545</b>	<b>\$564</b>	<b>\$2,584</b>
<b>Add'l CIP Funding Required From Rates</b>	<b>\$673</b>	<b>\$853</b>	<b>\$920</b>	<b>\$1,145</b>	<b>\$1,073</b>	<b>\$1,526</b>

The funding of capital from rates, shown at the bottom of Table 7-3, is targeted at funding at a minimum the amount approximately equal to annual depreciation expense.

The capital projects listed above assume that all the projects outlined in this Plan will be completed. In addition, in CY 2014, the anticipated capital projects, less the funding sources do not yield a capital improvements amount funded with rate revenue that promotes funding a minimum of annual depreciation expense. Therefore, a small amount of funds (\$50,000) is assumed to be transferred to the capital reserve fund to bring the CIP funded with rate revenue in line with the planning assumptions. This money is also then available for use in future years to offset capital costs. The major funding sources for the capital projects are assumed to be a combination of rates, reserves, revenue bonds and customer contributions (connection fees including contributions from developers). It should be noted that the City may have other funding sources available to fund capital improvements. These other funding sources are discussed below.

### 7.2.3 External Sources of Funds

The City has in the past been effective at securing grant and loan funds and will continue to closely monitor future opportunities to obtain these potential funding sources. Table 7-4 provides a summary of the contacts for the various funding agencies. It is important to note that these sources rarely provide full funding of a construction project. The City will need to supplement these funds with other sources of revenue to ensure that implementation of the planned capital improvement projects occurs.

**Table 7-4. Funding Agency Contacts**

<b>Program</b>	<b>Address</b>	<b>Phone</b>	<b>Fax</b>	<b>Internet</b>
Drinking Water State Revolving Fund	Department of Health DWSRF PO Box 47822 Olympia, WA 98504-7822	(360) 236-3095	236-2253	<a href="http://www.doh.wa.gov">www.doh.wa.gov</a>
Public Works Trust Fund	Public Works Board P.O. Box 48319 Olympia, WA 98504-8319	(360) 586-7186	664-3029	<a href="http://www.cted.wa.gov">www.cted.wa.gov</a>
Centennial Clean Water Fund	Department of Ecology P.O. Box 47600 Olympia, WA 98504-7600	(360) 407-6566	407-6426	<a href="http://www.wa.gov/ecology">www.wa.gov/ecology</a>
USDA Rural Development	Rural Utilities Service USDA, Rural Development 1908 N. Dale Lane Spokane, WA 99212	(509) 924-7350	353-2135	<a href="http://www.rurdev.usda.gov">www.rurdev.usda.gov</a>
Infrastructure Database (over 200 funding programs)	Infrastructure Assistance Coordinating Council (IACC)	360) 725-5002		<a href="http://www.infracfunding.wa.gov">www.infracfunding.wa.gov</a>

**Drinking Water State Revolving Fund (DWSRF)**

The Washington Department of Health (DOH) manages these funds. In August 1996 Congress reauthorized the Safe Drinking Water Act (SDWA) and appropriated funding for states to develop their Drinking Water State Revolving Fund (DWSRF) loan programs. Each state receives annual allocations in the form of a Capitalization Grant. In Washington State, the DWSRF is jointly managed by the Department of Health (DOH), Division of Drinking Water and the Public Works Trust Fund Board (Board), along with its partner, the Department of Community, Trade and Economic Development.

DWSRF loans are available to all community public water systems, and non-profit, non-community public water systems, except federally owned systems. The loans may be used to address SDWA health standard violations, replace infrastructure for SDWA compliance, or consolidate supplies and acquire property if needed for SDWA compliance.

The terms of the loan are generally one percent less on interest than municipal utility revenue bonds, and life of the loan can extend for the life of the facility up to a 20-year maximum. A ten percent local match is required on all projects. In addition, eligible systems must demonstrate “adequate operational, technical, and financial capability to maintain compliance,” have an approved water system plan (WSP) to ensure the applicant project is included in the WSP Capital Improvement Program, and meet other eligibility criteria.

**Public Works Trust Fund**

The Public Works Trust Fund (PWTF) loan program is a loan set up by the Legislature to assist cities, towns, counties, or special districts with funding for different types of public works projects. The projects can include streets, roads, bridges, drainage systems, water systems, and sanitary sewer systems. The emphasis of allocating funds is for replacement and/or repair of existing systems. No funds are allocated to install a new system. Rather, loans are provided to rehabilitate or replace an existing system serving an existing population.

The loans are issued at up to one percent interest rate for a maximum term of 20 years for applications requesting 95 percent funding of the project. The interest rate decreases to 0.5 percent when the local government provides 15 percent of the project funding. A debt service coverage requirement is not imposed on the PWTF loan. Given the status of the State's current budget, the funding for the next biennium is in jeopardy. If the State does fund this program, it most likely will be much more competitive and as a result much less available.

### **Centennial Clean Water Fund (CCWF)**

Managed by the Department of Ecology (Ecology) – The CCWF is available to local governments and tribes for measures to prevent and control water pollution. Both grants and loans are available on a yearly funding cycle.

CCWF is the largest State Grant Program for water projects. It provides grants for planning, design, and construction of facilities and other activities related to water quality. The primary focus of the program is pollution prevention and funding projects with a quantifiable water quality benefit. The CCWF funding cycle requires that applications be submitted by mid-February.

Funds are available to protect a source of water supply, as well as funding of water conservation or water reuse projects, if they can be shown to be the cost-effective alternative to solve a water quality problem. Funding from this program is not available to provide excess capacity, but must be used to meet existing customer needs. Funding can also not be used to provide a source of supply. Grants and loans from this program are also available for the wellhead protection activities.

Each public body is limited to a maximum of five funded projects per year, with a maximum of \$2.5 million available for each of two projects, and a limit of \$250,000 per project for the remaining three projects. Grant funding of 50 to 75 percent of a project's cost is available depending on the type of project.

### **U.S. Department of Agriculture, Rural Development (RD)**

Loan monies are available through RD for the preliminary engineering, design, construction, and start-up of new water system facility projects. The application process allows for a thorough review of the engineering, environmental, and financial impacts of proposed projects before extending a loan offer. The RD loan program offers interest rates lower than municipal bonds and up to a 40-year term. The RD loan program requires some form of interim financing, as loan monies are made available after completion of the construction activity.

### **Revenue Bonds**

Revenue bonds are an external source of funding for capital projects. The sale of revenue bonds is the most common source of funds for construction of major utility improvements. Water rates and charges are the main source of funds for debt service (principal and interest) payments. A key benefit of revenue bonds is the exemption of interest paid on them from federal income taxes. A determination of the utility's ability to repay debt is an important consideration. A debt service coverage ratio (total revenue, less O&M and tax expenses, divided by debt requiring a coverage ratio) is calculated and the utility's finances are reviewed in order to verify payments are feasible. Coverage ratios of 1.25 (25 percent more than the debt payment) are typical, but coverage of 1.5 is a more prudent financial target.

Similar to revenue bonds, other bond financing approaches include utility local improvement districts (ULIDs), special assessment districts (SADs) and other funding for projects that serve and benefit a limited service area within the City total service area. Then the costs of those improvements are shared only by those customers benefiting from those improvements.

While the above list of possible grant and loan opportunities for the City is not exhaustive, it does however, highlight the most probable outside funding sources, excluding revenue bonds, available to the City for its capital improvement program.

**Infrastructure Assistance Coordinating Council**

One key resource in identifying other funding programs is the Infrastructure Assistance Coordinating Council (Council). The Council is comprised of state and local organizations whose function is to provide funding for infrastructure repair and development. The purpose of the Council is to assist local governments in coordinating funding efforts for infrastructure improvements. This is an important resource as the Council will be aware of any new funding opportunities that may arise.

**7.3 Summary of the Financial Projections**

A summary of the financial plan and resulting financial status of the water system is provided in Table 7-5. This is an abbreviated summary of the actual detailed analysis (see Appendix M for full analysis), but it does summarize the major elements of the City’s analysis, along with its findings.

**Table 7-5. Summary of the City’s Six-Year Financial Plan (\$000)**

	2010	2011	2012	2013	2014	2015
<b>Sources of Funds</b>						
Rate Revenues	\$3,320	\$3,437	\$3,557	\$3,681	\$3,810	\$3,944
Miscellaneous Revenues	562	574	614	649	716	732
<b>Total Sources of Funds</b>	<b>\$3,882</b>	<b>\$4,011</b>	<b>\$4,171</b>	<b>\$4,330</b>	<b>\$4,526</b>	<b>\$4,676</b>
<b>Applications of Funds</b>						
Operating Expenses	\$2,701	\$2,792	\$2,887	\$2,985	\$3,087	\$3,192
Debt Service (P+I)	547	780	854	1,343	1,343	1,510
Taxes/Transfers/Other Expenses	404	308	454	46	485	210
<b>Total Applications of Funds before CIP</b>	<b>\$3,652</b>	<b>\$3,880</b>	<b>\$4,195</b>	<b>\$4,375</b>	<b>\$4,915</b>	<b>\$4,912</b>
Balance/(Deficiency) after O&M	<b>\$230</b>	<b>\$131</b>	<b>(\$24)</b>	<b>(\$45)</b>	<b>(\$389)</b>	<b>(\$236)</b>
<b>Additional CIP funding required</b>	673	853	920	1,145	1,073	1,526
<b>Balance/Deficiency of Funds</b>	<b>(\$443)</b>	<b>(\$722)</b>	<b>(\$944)</b>	<b>(\$1,190)</b>	<b>(\$1,462)</b>	<b>(\$1,762)</b>
Plus: Additional Taxes	(55)	(89)	(117)	(147)	(181)	(219)
<b>Net Balance/(Deficiency) of Funds</b>	<b>(\$498)</b>	<b>(\$811)</b>	<b>(\$1,061)</b>	<b>(\$1,337)</b>	<b>(\$1,642)</b>	<b>(\$1,981)</b>
<b>Balance as a % of Rates</b>	<b>15.0%</b>	<b>23.6%</b>	<b>29.8%</b>	<b>36.3%</b>	<b>43.1%</b>	<b>50.3%</b>

When interpreting the results of Table 7-5 it is important to understand that the “Balance as a % of Rates” is a **cumulative** figure. Any rate adjustments made in one year will reduce the required adjustment in the following years. If no adjustments are made prior to CY 2015, a 50.3% adjustment would be required. However, if no adjustments are made before CY 2015, many of the assumptions such as funding of reserves for use in future fiscal periods and capital improvement funding would be erroneous since funds do not presently exist to accomplish these assumptions under current rate levels.

For example, the City is anticipating extensive capital improvements in CY 2011 and CY 2013 that require the issuing of new revenue bonds. This increases annual debt service payments. Additional sources of funds will be necessary to satisfy the additional debt service payments and bond coverage requirements, which are necessary to implement and construct the planned level of capital improvements.

The basic conclusion of the analysis is that the City has a deficiency of funds based upon current planning assumptions, indicating that current rate levels are not sufficient throughout the time period under review. It is important to note that the financial plan presented in this section is predicated upon an assumed level of growth in the system, and assumptions related to inflation. Should growth exceed the assumed level, slow down, or not occur, the level of rate adjustment required will be affected. Likewise, if costs escalate faster or slower than indicated in this plan, the projected deficiency of funds shown in Table 7-5 would also be affected.

## 7.4 Reserve Levels

Another key indicator of a utility's financial health and viability is its reserve levels. Because a portion of the utility's revenue is consumption based, and therefore dependent upon weather conditions and usage patterns, maintaining adequate reserve levels is important for stable fiscal management of the utility. A discussion of the utility's reserves is provided below.

Industry standards recommend that utilities maintain working capital reserves at a level adequate to handle unexpected occurrences, including unexpected cash flow fluctuations. A minimal balance for working capital, or operating reserve, is recommended to be a minimum of 45 days (12% of annual) of operations and tax expenses. This is more typical for monthly billing cycles. Some utilities with bi-monthly billing cycles will use 60 or 90 days as their minimum target to maintain for cash flow purposes. Minimum balance of 45 days for the utility would equate to approximately \$411,000 average over the six-year period. The City currently maintains a single reserve fund. Due to historical operations and connection fee collections versus capital improvements, it is assumed that the current reserve funds are all capital and no current operating fund exists. Therefore, in this analysis the City begins with a balance of \$0 in operating reserves at CY 2010. The financial plan assumes that this reserve is funded over the 6 year planning horizon and reaches \$372,000 by CY 2015. This is slightly short of the average used to determine a minimum target level, however, the next 6 year plan can continue to assume funding this reserve until the target is met or exceeded.

Similarly, industry standards for a capital reserve are equal to one year's capital projects based upon an average of the planning period. Based upon the CIP established in Chapter 6 of this plan, this amount is \$4 million per year. The current reserve amount reflected in the City's financial statements is \$6.1 million. The current reserve already exceeds the minimum target level and allows the City to use reserves to balance rate adjustment requirements while still fulfilling its plans for capital improvements over the planning period. The balance by CY 2015 for the capital reserve is right at \$4 million.

## 7.5 Review of the City's Existing Water Rates

There are various "generally accepted" water rate structures that can be used to establish rates. The initial starting point in considering a rate structure is the relationship between fixed costs and variable costs. Fixed costs are generally collected as a fixed charge on a monthly basis (e.g. \$5.00 per month/meter). This charge may be called by various names (e.g. customer

charge, meter charge, base charge, etc.) but in all cases, it is intended to collect those fixed costs that the utility incurs.

The utility's rate structure for metered customers consists of a minimum charge by meter size regardless of the usage classification (residential, multiple unit, or non-residential). Consumption rates are then applied per hundred cubic feet for all usage based upon a block-rate structure for residential and multiple unit customers and a flat consumption rate to all non-residential customers. The typical monthly bill for a City residential customer, with a 5/8" x 3/4" meter and 1,000 cubic feet of usage, would be approximately \$23.35 per month. Provided in Table 7-6 are the current adopted water rates of the utility.

**Table 7-6. Overview of the City's Current Monthly Water Rates**

	Meter Size	Charge
<b>Residential</b>		
Minimum Charge	¾ inch	\$5.73
	1 inch	9.72
	2 inch	30.38
	3 inch	57.31
Consumption Charge	0-600 cubic feet	\$1.69/ccf
	601 to 1,200 cu ft	1.87/ccf
	1,201 to 2,400	2.23/ccf
	Over 2,400	2.92/ccf
<b>Multiple Unit Users</b>		
Minimum Charge	¾ inch	\$5.73
	1 inch	9.72
	2 inch	30.38
	3 inch	57.31
Consumption Charge	0-500 cubic feet	\$1.69/ccf
	501 to 1,000 cu ft	1.87/ccf
	1,001 to 2,000	2.23/ccf
	Over 2,000	2.92/ccf
<b>Non Residential User</b>		
Minimum Charge		<i>Same as other rate categories</i>
Consumption Rate	all	\$1.87/ccf

Rate design is an important factor in allowing rates to support the City's goals and objectives for its water utility. At the time of a future rate review, alternative rate design options may be proposed in order to meet the goals and objectives of the City, as well as ensure that rates are contemporary in nature and equitable.

## 7.6 Overview of Future Water Rates

Based upon the results of the financial analysis, the City will require adjustments in rates in future years to meet the on-going operational and capital needs of the water utility system, as identified within this document. Table 7-7 shows the level of rate adjustment needed for the six-year projected period to fully meet operating and capital costs as identified within this plan.

**Table 7-7. Projected Rate Adjustments Needed 2010 through 2015**

	2010	2011	2012	2013	2014	2015
Proposed Rate Adjustment	15%	7.5%	5%	5%	5%	5%

Based upon this review, the utility will need to adjust rates by 15% in CY 2010, 7.5% in CY 2011, and then steadying out at 5% per year from CY 2012 through CY 2015. These rate adjustments are required in order to cover O&M costs, debt service, planned capital improvements, and maintain a healthy financial situation with adequate debt service coverage and reserve balances. Other options for consideration by the City include reducing operating or capital costs, and/or deferring or delaying capital projects, and use of fund balance for capital.

## **7.7 Financial Plan Summary**

The financial plan results presented in this section indicates that water rates for the six-year projected time horizon of CY 2010 to CY 2015 will require adjustments to fund the projected O&M, capital, and debt service requirements. The City will determine how to balance the needs of the utility versus the impact to rates and customers using the options described above, which include reduction of operating or capital costs, deferring capital improvements, increasing revenue, and other options available to the City.

The City has demonstrated its commitment to responsible management of the utility by past rate adjustments, and by funding adequate levels of reserves. Continued prudent fiscal management will enable the water utility to continue to operate on a financially sound basis.