

Agenda Report

May 8, 2006

TO: City Council
THROUGH: Municipal Services Committee

FROM: City Manager

SUBJECT: Water Revenue Increase to Fund the Fiscal Year (FY) 2007 Water Fund Capital Improvement Program (CIP)

RECOMMENDATION

It is recommended that the City Council:

- Approve an adjustment to the Capital Improvements Charge (CIC) component of the water rate formula to result in an increase of \$0.12 per billing unit, thereby increasing overall water fund revenue by 5% or \$1.7 million, subject to final approval of the FY 2007 Water Fund CIP

BACKGROUND

In 2002, City Council adopted the Water Master Plan (WMP) which requires the Water and Power Department to invest approximately \$235 million in the water system over an 18-year horizon. The focus of the master plan includes replacement of aging pipelines, seismic and efficiency upgrades to the City's reservoirs and insurance of high system reliability and high quality water. Also approved was a funding strategy for the first 10-years as follows:

- Adopt a revised Water Rate Ordinance establishing a Capital Improvement Charge (CIC) as a new component to the water rate structure to fund capital improvement. As outlined in the Ordinance, adjustments to the CIC shall be calculated by the department and shall take effect on the first of the month following City Council's approval of the Water Fund Capital Improvements Program (CIP.)
- Initial 10-year master plan capital expenditures - \$132 million
- Issue \$85 million in Revenue bonds; 1st planned revenue bond issue of \$24 million was completed in 2003

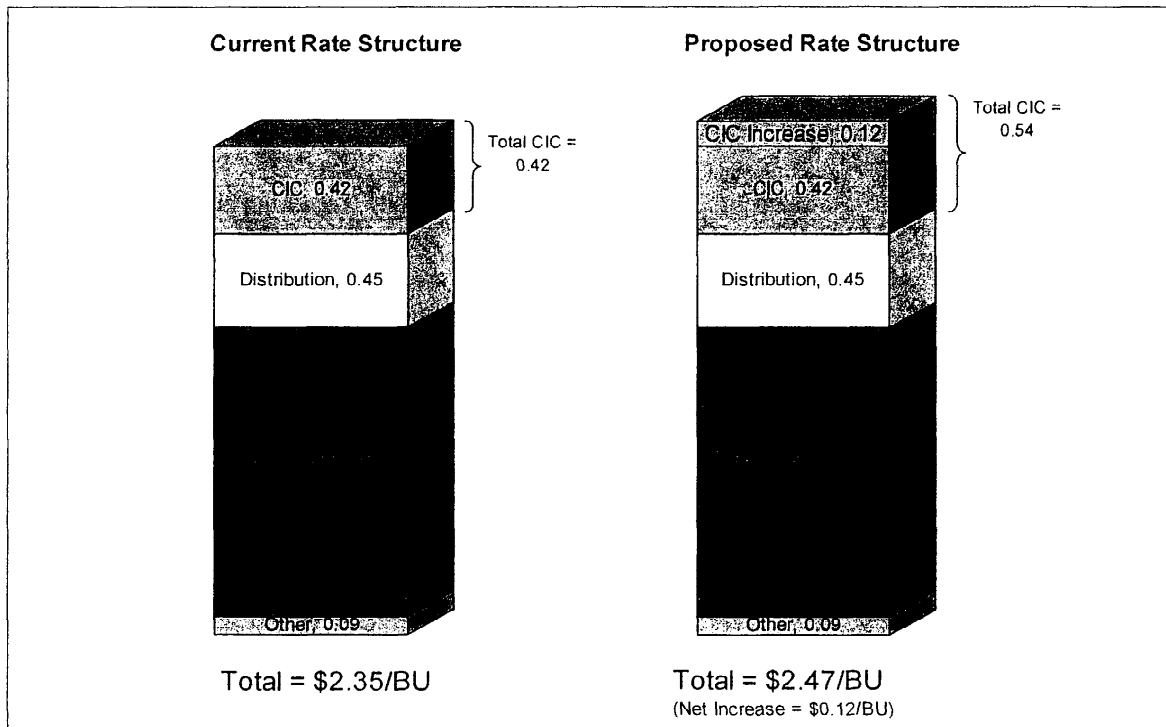
- Implement 1st and 2nd CICs in 2003 and 2004, respectively; as approved by Council January 2003

The capital improvement expenditures to date have been supported by the issuance of \$24 million of revenue bonds in 2003 and two planned CIC increases. The first CIC of \$0.20 per BU was implemented in April 2003, followed by an increase to the CIC of \$0.22 per BU in July 2004. The current total CIC of \$0.42 per BU is expected to generate approximately \$6.5 million in FY 2006.

Additional revenue bond financing and CIC increases are required to support future planned capital investment. The Water Rate Ordinance provides that subsequent adjustments to the CIC will occur based on a formula tied to City Council approval of the water fund capital program. If the Council approves the proposed 2007 water fund CIP, the formula will result in a CIC increase of \$0.12 per BU. This portion of the rate ordinance provides for a direct correlation between approval of the 2007 CIP and the resulting increase in the CIC. The proposed CIC increase is anticipated to yield approximately \$1.7 million annually to contribute to support of the proposed capital investment and debt service of a potential revenue bond of approximately \$18.0 million during FY 2007.

The graphical illustrations of the changes in the composition of the water charge before and after the proposed rate increases are shown in Table 1.

**Table 1
 Water Rate Composition**



CUSTOMER BILL IMPACT

The CIC increase of \$0.12 per BU will result in an increase of overall water operating revenues by 5%. A residential customer with 5/8" meter size consuming 12 BU of water will experience a monthly increase of \$1.35. Additional examples of different residential groups are shown on Table 2.

Table 2
Proposed Rate Adjustments
Residential Monthly Bill Impact
(Taxes Inclusive)

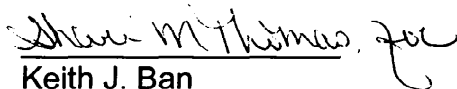
Selected Customer Type	Meter Size; (BU)	Current Monthly Bill	Proposed Monthly Bill	\$ Change	% Change
Small Residential	5/8" ; 12 BU	\$19.79	\$21.14	\$1.35	6.82%
Med Residential	1" ; 20 BU	\$45.06	\$47.31	\$2.26	5.00%
Large Residential	1" ; 40 BU	\$93.96	\$98.46	\$4.51	4.79%

Under this proposal, the department's water rates will remain competitive with those of neighboring utilities. Attachment 1 provides a comparison between the department's rates and those of selected neighboring utilities.

FISCAL IMPACT

This proposal to adjust the Capital Improvements Charge (CIC) component of the water rate formula is subject to final approval of the 2007 Water Fund CIP and will result in an increase of \$0.12 per billing unit and will increase the overall water operating revenue by approximately \$1.7 million in fiscal year (FY) 2007 and \$1.9 million annually thereafter. The proposed rate adjustments will increase the General Fund Transfer and generate about \$101,444 for the General Fund in FY 2007 and by \$112,716 annually thereafter. In addition, the proposed rate adjustments will increase the Utility's Users Tax Fund by about \$102,754 in FY 2007 and by \$114,171 annually thereafter.

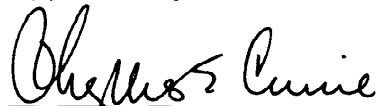
Prepared by:


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Water and Power Department

Respectfully submitted,


Cynthia J. Kurtz
City Manager

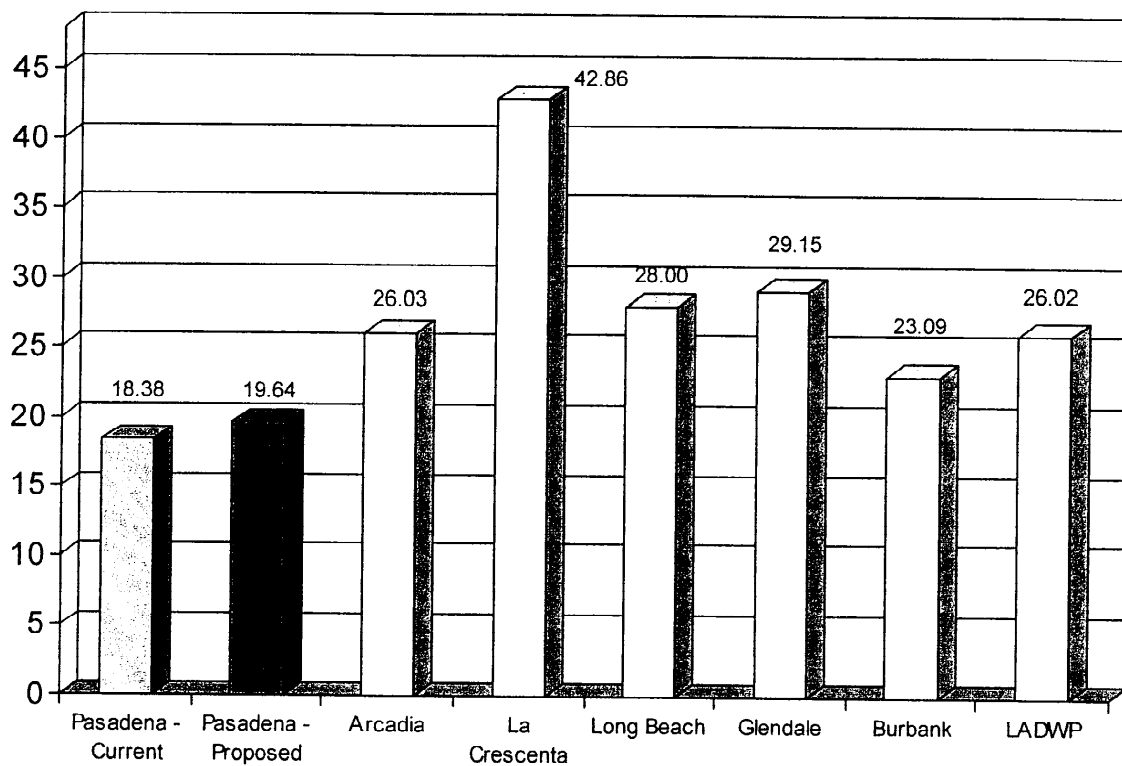
Approved by:


Phyllis E. Currie
General Manager
Water and Power Department

Attachment 1

Rate Comparisons with Selected Neighboring Utilities Average Monthly Utility Bill (Without Taxes)

Residential Monthly Bill – 5/8" Meter Size, 12 BU (Annualized, Excluding Taxes)



Attachment 1 (continued)

Rate Comparisons with Selected Neighboring Utilities
Average Monthly Utility Bill
(Without Taxes)

Residential Monthly Bill – 1" Meter Size, 20 BU (Annualized, Excluding Taxes)

