WATER RATE ORDINANCE

AUGUST 2018
DAN COON, PE
ASSISTANT PUBLIC WORKS DIRECTOR
OVERVIEW OF 2017 RATE STUDY

• **REVENUE REQUIREMENT** - COMPARES THE REVENUES OF EACH UTILITY TO ITS EXPENSES TO DETERMINE THE OVERALL LEVEL OF RATE ADJUSTMENT

• **COST OF SERVICE ANALYSIS** - EQUITABLY ALLOCATES THE REVENUE REQUIREMENTS BETWEEN THE VARIOUS CUSTOMER CLASSES OF SERVICE

• **RATE DESIGN** - DESIGN RATES FOR EACH CLASS OF SERVICE TO MEET THE REVENUE NEEDS OF EACH UTILITY, ALONG WITH ANY OTHER RATE DESIGN GOALS AND OBJECTIVES
Summary of the Water Revenue Requirements (000's)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Operations &amp; Maintenance</th>
<th>Net Annual Debt Service</th>
<th>Rate Funded Capital</th>
<th>Transfer To / (From) Reserves</th>
<th>Current Total Revenue</th>
<th>Proposed Total Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>$5,000</td>
<td>$10,000</td>
<td>$15,000</td>
<td>$20,000</td>
<td>$25,000</td>
<td>$30,000</td>
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<tr>
<td>2018</td>
<td>$5,000</td>
<td>$10,000</td>
<td>$15,000</td>
<td>$20,000</td>
<td>$25,000</td>
<td>$30,000</td>
</tr>
<tr>
<td>2019</td>
<td>$5,000</td>
<td>$10,000</td>
<td>$15,000</td>
<td>$20,000</td>
<td>$25,000</td>
<td>$30,000</td>
</tr>
<tr>
<td>2020</td>
<td>$5,000</td>
<td>$10,000</td>
<td>$15,000</td>
<td>$20,000</td>
<td>$25,000</td>
<td>$30,000</td>
</tr>
<tr>
<td>2021</td>
<td>$5,000</td>
<td>$10,000</td>
<td>$15,000</td>
<td>$20,000</td>
<td>$25,000</td>
<td>$30,000</td>
</tr>
<tr>
<td>2022</td>
<td>$5,000</td>
<td>$10,000</td>
<td>$15,000</td>
<td>$20,000</td>
<td>$25,000</td>
<td>$30,000</td>
</tr>
</tbody>
</table>
AVERAGE RESIDENTIAL BILL IMPACT

• NECESSARY RATE ADJUSTMENTS
  • FULLY AND ADEQUATELY FUND ANNUAL O&M EXPENSES
  • ADEQUATELY FUND RENEWAL AND REPLACEMENTS (CIP) AND FUND FUTURE NECESSARY CAPITAL IMPROVEMENTS
  • MEET FINANCIAL POLICIES AT THE END OF THE 5-YEAR RATE PERIOD

• AVERAGE MONTHLY RESIDENTIAL BILL (5/8 INCH METER AND 7.5 UNITS (CCF))

<table>
<thead>
<tr>
<th></th>
<th>Present</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
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</thead>
<tbody>
<tr>
<td>Water (7.5 Units)</td>
<td>$30.72</td>
<td>$33.73</td>
<td>$36.59</td>
<td>$39.66</td>
<td>$43.01</td>
<td>$46.66</td>
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<tr>
<td>Difference-$/Month</td>
<td>$3.02</td>
<td>$2.86</td>
<td>$3.08</td>
<td>$3.35</td>
<td>$3.65</td>
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</tbody>
</table>
AVERAGE RESIDENTIAL BILL IMPACT

- 7.5 UNITS IS 5610 GALLONS OF WATER
- 2018 MONTHLY BILL OF $33.73/5610 GALLONS = $0.0060 OR 0.60 CENTS PER GALLON
- DIFFERENCE PER MONTH OF $3.02/5610 GALLONS = $0.0005 OR 0.05 CENTS PER GALLON
- 2022 MONTHLY BILL OF $46.66/5610 GALLONS = $0.0083 OR 0.83 CENTS PER GALLON
- DIFFERENCE PER MONTH BETWEEN PRESENT ($30.72) AND 2022 ($46.66) IS $15.94
- PRESENT RATES ARE EQUIVALENT TO THE 2013 RATES
- CHANGE BETWEEN 2013 AND 2022 IS $15.94/5610 GALLONS = $0.0028 OR 0.28 CENTS PER GALLON
RESERVES FUNDS

UNRESTRICTED RESERVES
• OPERATING RESERVES
  • EMERGENCY REPAIRS, NATURAL DISASTERS, UNFORESEEN ECONOMIC INFLUENCES
• CAPITAL RESERVES
  • UNPLANNED OR ACCELERATED CAPITAL PROJECTS
  • IMPACTS STREETS, SEWER AND DRAINAGE
• RATE STABILIZATION RESERVES
  • WEATHER AND SEASONABLE VARIABILITY

RESTRICTED RESERVES
• JSWTP MEMBRANE REPLACEMENT RESERVE
• PACTOLA O&M RESERVE
• BOND RESERVE
REASONS FOR RESERVE FUNDS

• CRITICAL COMPONENT OF A UTILITY’S FINANCIAL RESILIENCY AND SUSTAINABILITY

• ABILITY TO ADDRESS EMERGENCIES AND UNFORESEEN CIRCUMSTANCES

• KEY FINANCIAL PERFORMANCE INDICATOR
  • LOWER DEBT SERVICE COVERAGE RATIO
  • LOWER INTEREST ON BONDS AND LOANS
RATE STUDY BACKGROUND

• Utility rate study conducted by City of Rapid City in conjunction with HDR in 2017

• Fee resolution with new utility rates approved by the City Council in October 2017

• Water rates removed from ordinance in November 2017

• Removal of water rates from ordinance challenged by petition

• Special election on removal of water rates from ordinance held in February 2018

• Water rates to be contained in ordinance not resolution per election – existing ordinance remained in effect

• Water unit rates and meter charges removed from fee resolution June 18, 2018
STEPS TAKEN SINCE ELECTION

• 2013 WATER RATES WILL NOT FUND REVENUE REQUIREMENTS IDENTIFIED IN 2017 RATE STUDY
  • MEET CURRENT DEBT SERVICE OBLIGATIONS AND DEFER NEW DEBT SERVICE TO THE EXTENT POSSIBLE
  • REDUCED 2022 RESERVE FUND BALANCE TARGET BY APPROXIMATELY 50%
  • REDUCED WATER CAPITAL IMPROVEMENT PLAN (CIP) BUDGET
    • 2018 – ($2,860,990); 2019 – ($3,168,900); 2020 – ($2,401,000); 2021 – ($2,934,000); 2022 – ($2,355,300)
  • FOCUS OF CIP IS FACILITIES (TREATMENT AND PRODUCTION)
  • “DOMINO” EFFECT ON OTHER INFRASTRUCTURE COMPONENTS (STREETS, SEWER, DRAINAGE)
ITEMS THAT WILL NOT BE COMPROMISED

• WATER QUALITY – THE WATER DIVISION WILL CONTINUE TO PROVIDE SAFE, RELIABLE AND ENVIRONMENTALLY COMPLIANT WATER TO ITS CUSTOMERS

• THE HEALTH AND SAFETY OF THE PUBLIC

• THE HEALTH AND SAFETY OF THE WATER DIVISION EMPLOYEES

• CERTIFICATION AND TRAINING OF WATER DIVISION EMPLOYEES

• FACILITY MAINTENANCE NECESSARY TO PROVIDE SAFE, RELIABLE AND ENVIRONMENTALLY COMPLIANT WATER TO THE WATER UTILITY CUSTOMERS
PREVIOUS RATE ADJUSTMENTS

• WATER RATES ESSENTIALLY FLAT DURING 1990s
• WATER ORDINANCE FAILED IN JULY 2001
• ORDINANCE NUMBERS 3736 (WATER) – OCTOBER 2002 (2 YEARS 2002-2003)
• ORDINANCE NUMBERS 4096 (WATER) AND 4097 (SEWER) – NOVEMBER 2004
• ORDINANCE NUMBERS 5457 (WATER) AND 5458 (SEWER) – JANUARY 2009
• LAST WATER RATE ADJUSTMENT JANUARY 2013
CURRENT STATUS

• WATER UNIT RATES AND METER CHARGES IN ORDINANCE AT 2013 LEVELS
• ORDINANCE ON AGENDA IS TO SET UNIT RATES AND METER CHARGES AT THE LEVEL RECOMMENDED IN THE 2017 UTILITY RATE STUDY
IMPORTANCE OF WATER SERVICE

• A WATER SYSTEM THAT PROVIDES SAFE, RELIABLE AND ENVIRONMENTALLY COMPLIANT WATER TO ITS CUSTOMERS IS VITAL TO THE ECONOMIC VIABILITY OF A COMMUNITY

• WATER CUSTOMERS MUST HAVE COMPLETE CONFIDENCE IN THE SAFETY AND RELIABILITY OF THE WATER DELIVERED TO THEIR HOMES AND BUSINESSES. LOSS OF THAT CONFIDENCE CAN TAKE GENERATIONS TO REESTABLISH.
REQUESTED ACTION

• PLACE THE WATER DIVISION BACK ON THE PATH TO SOLID FINANCIAL FOOTING AND PASS ORDINANCE NUMBER 6271 AS PRESENTED