



## Rochelle Municipal Utilities Water/Water Reclamation

To: David Plyman

From: Kathy Cooper

Re: Rate Modification – Water Reclamation Division

Date: April 7, 2014

Two significant factors have driven the need to perform an analysis of the current Water Reclamation Division rate structure. The first is that the last rate review for the Division was completed in February 2008, and flows and loadings to the treatment plant have changed significantly over the past five years. Secondly, the last bond payment for the construction of the treatment plant in 1992 will be paid on May 1, 2014, and there is a need to change the rate structure of the capital recovery component.

Matt Hansen of Willett Hoffman and I prepared a rate analysis that was presented at the March 27, 2014 joint meeting of the Public Works Committee and the Utility Advisory Board. The recommendation of the Utility Advisory Board was to accept the recommendation for the new rate structure, which will decrease the user rate from \$4.27 per hundred cubic feet (hcf) to \$3.94 per hundred cubic feet.

As stated in the report, the purpose was to evaluate the current expenses and revenues, then develop a rate schedule based upon the recommended expenditures. The Water Reclamation and Water Divisions are one fund, and it was our goal to provide a revenue neutral rate schedule for the two divisions. It was also important to ensure that the rates were similar to other communities in the region.

The rate structure components and the current and proposed rates make up the residential and commercial customer rate structure are:

	<u>Current</u>	<u>Proposed</u>
Fixed Rate	\$4.40/user/mo	\$8.05/user/mo
Basic User Charge	\$1.98/hcf	\$2.32/hcf
Equipment Replacement Fund	\$.015/hcf	\$0.15/hcf
Non-debt Funded Projects	\$0.54/hcf	\$0.81/hcf
Capital Recovery (Bond Payments)	\$1.60/hcf	\$0.66/hcf
<b>TOTAL:</b>	<b>\$4.27/hcf</b>	<b>\$3.94/hcf</b>

Fixed Charge: This covers the cost for administrative services provided by the city staff, customer accounting, and vehicle expenses.

User Charge: This covers personnel, power, sludge disposal, supplies, and transfers to the General Fund.

Equipment Replacement: Funds set aside on an annual basis to pay for large equipment at the end.

Non-debt Funded Projects: The smaller projects that do not require bond financing to complete.

Capital Recovery: Bond and loan payments for larger projects.

The major changes to the rate structure are:

1. The fixed charge is increasing from \$4.40 per bill to \$8.05 per bill. The division has seen increased expenditures for customer service, sludge hauling, and the implementation of the GIS. The rate for a customer with a sewer flow meter will remain the same at \$80.10 per bill.
2. The basic user charge is the expense for chemicals, electricity, and maintenance items for the plant and the collection system. The aging of the plant requires increases the maintenance budget. The operational and maintenance expense for each component of the plant and collection system was reviewed and allocated to the customer class based on the customer's use of the system.
3. In reviewing the needs of the equipment replacement fund, all equipment at the plant was documented and an updated replacement cost was provided. When the NW Interception loan is paid off in 2017, it is our recommendation that \$0.43/hcf being paid be moved in capital recovery be allocated to the equipment replacement fund.
4. Increased construction costs push the need to increase the non-debt fund items.
5. The Capital Recovery drops significantly, as the final payment of \$694,000 will be made on May 1, 2014. There are two loans still outstanding for the Division, the Northwest Sewer Project and the Askvig Subdivision project.

The rate structures for the Industrial Customer and Creston are:

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	<u>Current</u>	<u>Proposed</u>
Fixed Rate	\$80.10/user/mo	\$80.10/user/mo
Basic User Charge	\$1.78/hcf	\$2.44/hcf
Equipment Replacement Fund	\$ 0.28/hcf	\$0.43/hcf
Non-debt Funded Projects	\$0.38/hcf	\$0.58/hcf
Capital Recovery (Bond Payments)	\$25,132/month	none

Creston

	<u>Current</u>	<u>Proposed</u>
Fixed Rate	\$80.10/user/mo	\$80.10/user/mo
Basic User Charge	\$1.66/hcf	\$2.44/hcf
Equipment Replacement Fund	\$ 0.15/hcf	\$0.43/hcf
Non-debt Funded Projects	none	none
Capital Recovery (Bond Payments)	\$0.76/hcf	none

I recommend approval of the rate report and the new rate structure. Please put this on the April 14, 2014 Council agenda so that the new rates can be in place by May 1, 2014.