

18 – CURRENT AND PLANNED UTILITY FINANCE

This chapter describes the current finances of the Utility as well as summarizing the financial policies and funding needed to implement the Plan. The detailed financial report by the City's financial consultant, Financial Consulting Solutions Group (FCSG), is presented in Appendix A.

CURRENT FINANCES

The Wastewater Utility finances the infrastructure improvements and planning and program implementation services described in the Plan. Finances are managed separately for operations and capital improvements. Most revenue is from monthly rates charged to customers and general facilities charges (GFC) charged for new sewer connections.

Revenue and Expenses

Revenue primarily comes from monthly rates and is used to fund staffing and administrative expenses, capital projects, taxes, and depreciation and amortization of capital assets. Rate revenue has increased from \$9.91 million in 2000 to \$10.96 in 2005. Two-thirds of this revenue is rates charged by the LOTT Alliance for wastewater treatment services and collected by the City through monthly charges (\$7.3 million). GFCs supplement the capital budget.

Figure 18.1 illustrates the amounts generated from Utility rates and GFCs in 2005, excluding revenues directed to LOTT.

Approximately two-thirds of the rate revenue is allocated to capital projects; the remaining one-third supports operations and administration expenses. The City's six-year Capital Facilities Plan (CFP) is updated each year by City Council.

Assets and Liabilities

The Wastewater Utility maintains a balance sheet of current and long-term assets and liabilities. Between 2000 and 2005, total assets increased from \$26.67 million to \$28.05 million. Current and long-term liabilities declined from \$0.78 million to \$0.70 million. As of 2005, the City's long-term debt was \$120,000 from a Public Works Trust Fund loan.

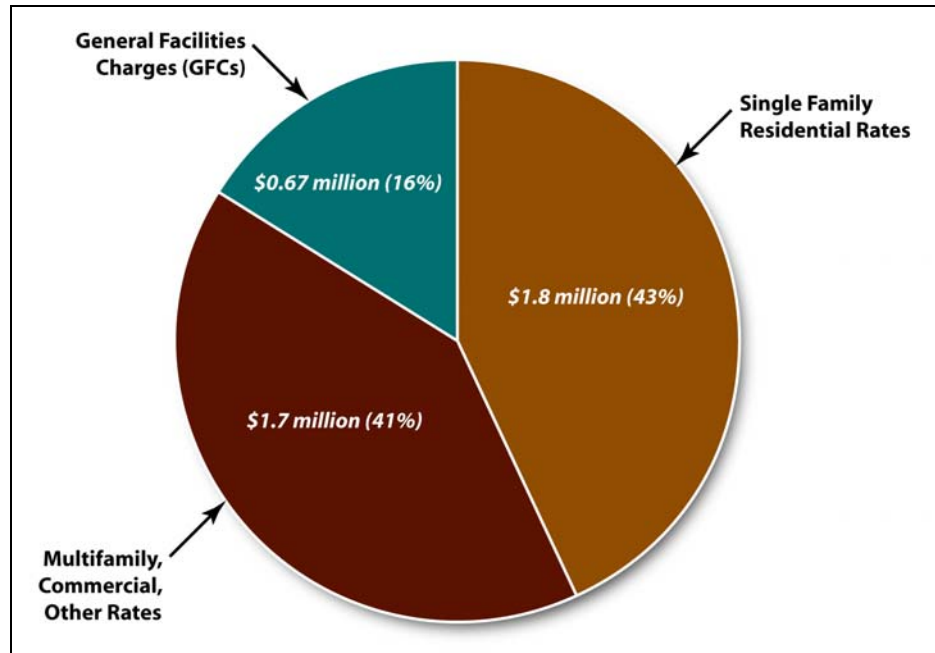


Figure 18.1. Categories of Utility Revenue, 2005

The City’s financial consultant, FCSG, reports that the Utility “displays a strong, high quality balance sheet”, with long-term debt as a percent of assets declining from 2.1 percent to 1.6 percent between 2000 and 2005. Most municipal utilities have debt to asset ratios approaching 40 to 60 percent. This means the City “has significant long-term borrowing capacity that might be used to finance future capital improvements.” (Appendix A).

Rates and Rate Structure

The Utility currently has about 12,000 residential and 2,300 commercial, multifamily and public sector accounts. The Utility’s rate structure for all customers is based on equivalent residential units (ERUs). The ERU is based on the wastewater generated from residential and commercial sources. (See Chapter 2, Wastewater Flows, for an explanation of how the ERU is calculated).

A rate increase of 5 percent (\$.58/month per ERU) in 2006 helped fund improved program management capability. The current Wastewater Utility rate is \$12.13 per ERU per month. Gravity sewer, STEP system and community onsite system customers pay the same monthly rate. In addition, the City collects monthly rates of \$25.50 per ERU, which is paid to the LOTT Alliance for wastewater treatment services.

The Utility also collects general facility charges (GFCs) from new developments. These charges are one-time fees that recover a proportionate share of the costs associated with existing and planned Utility infrastructure from newcomers to the

City's wastewater system. Its purpose is to promote equity between existing and future customers. The GFC establishes a pro rata share of capitalized system costs attributable to new development, and imposes that cost as a condition of service. While revenue generated by GFCs varies appreciably from year to year, annual revenues average approximately \$660,000 over the past five years.

FINANCIAL POLICIES

As an enterprise fund, the Utility is fully self-sufficient, relying solely on its own revenues for financial viability. The consultant's analysis of the Utility's ability to fund the Plan is based on a set of fiscal policies that define the City's minimum financial criteria. These fiscal policies relate to cash management, capital funding strategy, financial performance and rate equity.

Cash management. The City's policy is to maintain working capital and other reserves consistent with possible fluctuation in revenues and expenditures. The Wastewater Utility's standard is to maintain a minimum operating fund balance equal to 10 percent of annual operating expenses. In addition, a capital contingency reserve equal to five percent of active capital appropriations is maintained in case of capital cost overruns or acceleration of capital expenditures.

Capital funding strategy. The City has two basic policies to provide ongoing capital funding resources:

- To require an equitable financial contribution from all new development; this requirement is met through the GFC.
- To require existing ratepayers to support the City's full cost of providing service, including annual depreciation in the useful life of the infrastructure. These funds are used first to pay current Utility debt principal payments, and second as a source of future capital projects. This approach does not ensure full cash funding of system replacements, but is a common way to equitably charge current customers for use and decline of the system. It provides a major source of capital re-investment, which can be augmented with use of debt financing.

Financial performance. These policies include the requirement to maintain a balanced budget, to meet minimum reserve requirements and to set rates to ensure payment of annual debt service for revenue bonds.

FUNDING THE PLAN

Implementation of the Plan will more than double the average annual CFP funding from approximately \$2 million to \$4.5 million. Capital expenditures will

total \$26.9 million between 2007 and 2012. Debt financing of a portion of these costs is anticipated.

The financial analysis established a hierarchy of capital funding:

- First using available cash and investment resources; existing capital fund balances are used to directly fund project costs.
- Second, use utility equity resources – ongoing revenue from GFCs to directly fund project costs.
- Third, use revenue bonds to complete funding of the capital program. Debt service and revenue obligations are included in the rate projection.

The following rate increases will fund Plan implementation:

- Monthly City Wastewater Utility rates. An increase of 13 percent or about \$1.64/month per ERU for three years, 2007-2009, for a total increase of 46 percent or \$5.60/month. When monthly LOTT charges are included, the total impact to the ratepayer would be a 4 percent increase.
- Increased GFC. An increase of 28 percent from \$1,776 to \$2,267 pre ERU, to reflect the current pro rata share of system costs.