City of Idaho Springs

October 14, 2019 and February 10, 2020

City Council Meeting

Presented by Andrew Rheem, Raftelis

RAFTELIS

AGENDA

- Raftelis assistance since 2016 (new)
- Financial plan overview
- Water
  - 2019 through 2024 water financial plan
  - 2020 rates and bill impact
- Wastewater
  - 2019 through 2024 water financial plan
  - 2020 rates and bill impact
- Combined 2020 typical residential bill
- Questions

MSRB REGISTERED
MUNICIPAL ADVISOR

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However, except in circumstances where Raftelis expressly agrees otherwise in writing, Raftelis is not acting as a Municipal Advisor, and the opinions or views contained herein are not intended to be, and do not constitute “advice” within the meaning of the Municipal Advisor Rule.

Raftelis Assistance Since 2016

- 2016 study focused on:
  - Multi-year water and sewer capital and financial plans
  - Public hearings in late 2016 and early 2017
  - Water and sewer tap fees and rate adjustments effective March 1, 2017
- 2017 – 2018 study focused on:
  - Updating capital and financial plans
  - Cost of service and cost allocation analysis
  - Public hearing in October 2018
  - Rate alternatives and rate structure changes effective in April 2019
- 2019 study focused on:
  - Updating capital and financial plans
  - Public hearing in October 2019
  - Proposed rate adjustments effective April 2020

Water and Wastewater Financial Plan, Cost of Service and Rates

Prudent Utility Financial Planning

- Revenue sufficient to maintain the financial stability of the water and wastewater enterprises and:
  - Fund annual O&M expenses, debt service payments and capital improvements and other requirements
  - Exceed annual debt service coverage ratio targets with adequate revenues
    - Target is 150% of annual debt service for total existing and proposed loans
  - Exceed annual operating and capital reserve targets with adequate reserves
    - 20% of O&M
    - Contingency of $75,000 (water) and $50,000 (wastewater)
    - Next year's debt service (existing and proposed)

Financial Performance Requirement - Annual Debt Service Coverage

- Debt service coverage ratio:

$$\frac{\textit{(Revenues - O\&M expenses)}}{\textit{Annual debt service}}$$

- Legal **requirement is 110% of annual debt service**
  - Loan covenants of existing loans applicable to combined water and wastewater enterprise fund
- Financial planning **target is 150% of annual debt service**
  - Provides flexibility when revenues are below projected and/or O&M expenses exceed budget

Required and Adopted City Reserve Policies

- Outstanding utility debt requires cash reserves
  - Operating Reserve required minimum of **90 days (25%)** of O&M expenses
- Adopted City policies for water and wastewater utility funds
  - Target of **72 days (20%)** of O&M expenses PLUS
  - Budgeted contingency PLUS
    - $75,000 for water and $50,000 for wastewater
  - Next year's debt service
- Rate Stabilization Fund Reserve may be used to meet debt service coverage ratio

Current Rate Structure

Description	Water	Sewer
Bi-Monthly Base Rate 1 (1) (2)	$65.00	$46.50
Bi-Monthly Base Rate 2 (1) (2)	100.00	93.00
Volume Charge per 1,000 gallons (3)		
0 – 10,000 gallons	$4.15	$5.02
10,001 – 30,000 gallons	5.19	5.02
Over 30,000 gallons	6.23	5.02
Commercial – Low Strength (3)	6.95	6.76
Commercial – Medium Strength (3)	6.95	12.00
Commercial – High Strength (3)	6.95	18.00
Municipal (3)	8.50	6.76
Indian Springs (3)	6.95	13.00

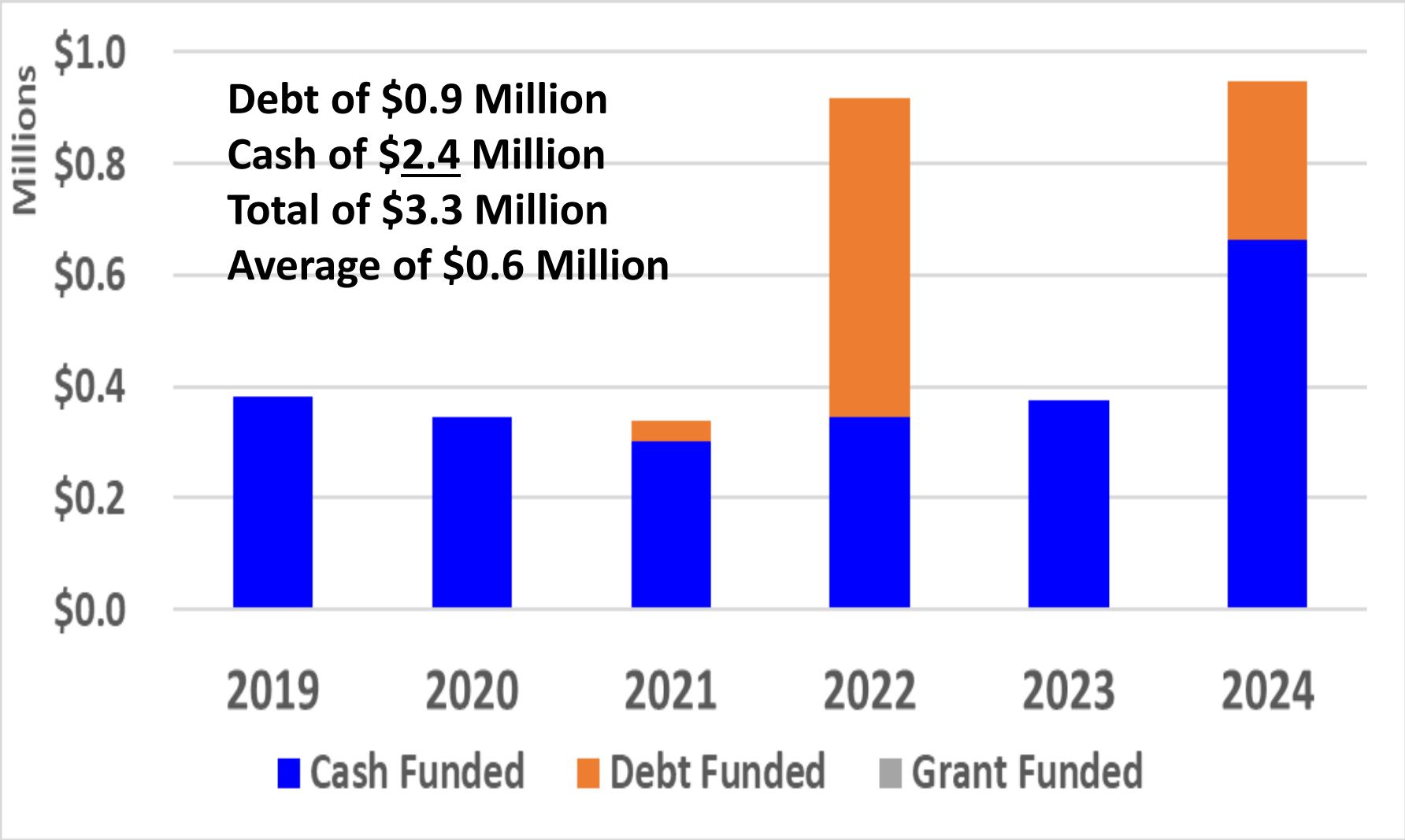
(1) Water base per EQR. Multi-family is 1.0 EQR for the 1st dwelling unit and 0.9 EQRs for each additional dwelling unit.

(2) Base rate 1 applies to residential and base rate 2 applies to non-residential customers.

(3) Avg. water use during Nov – Apr. Other months based on lessor of actual or average of Nov – Apr period use.

Water Fund Financial Plan, Cost of Service and Rates

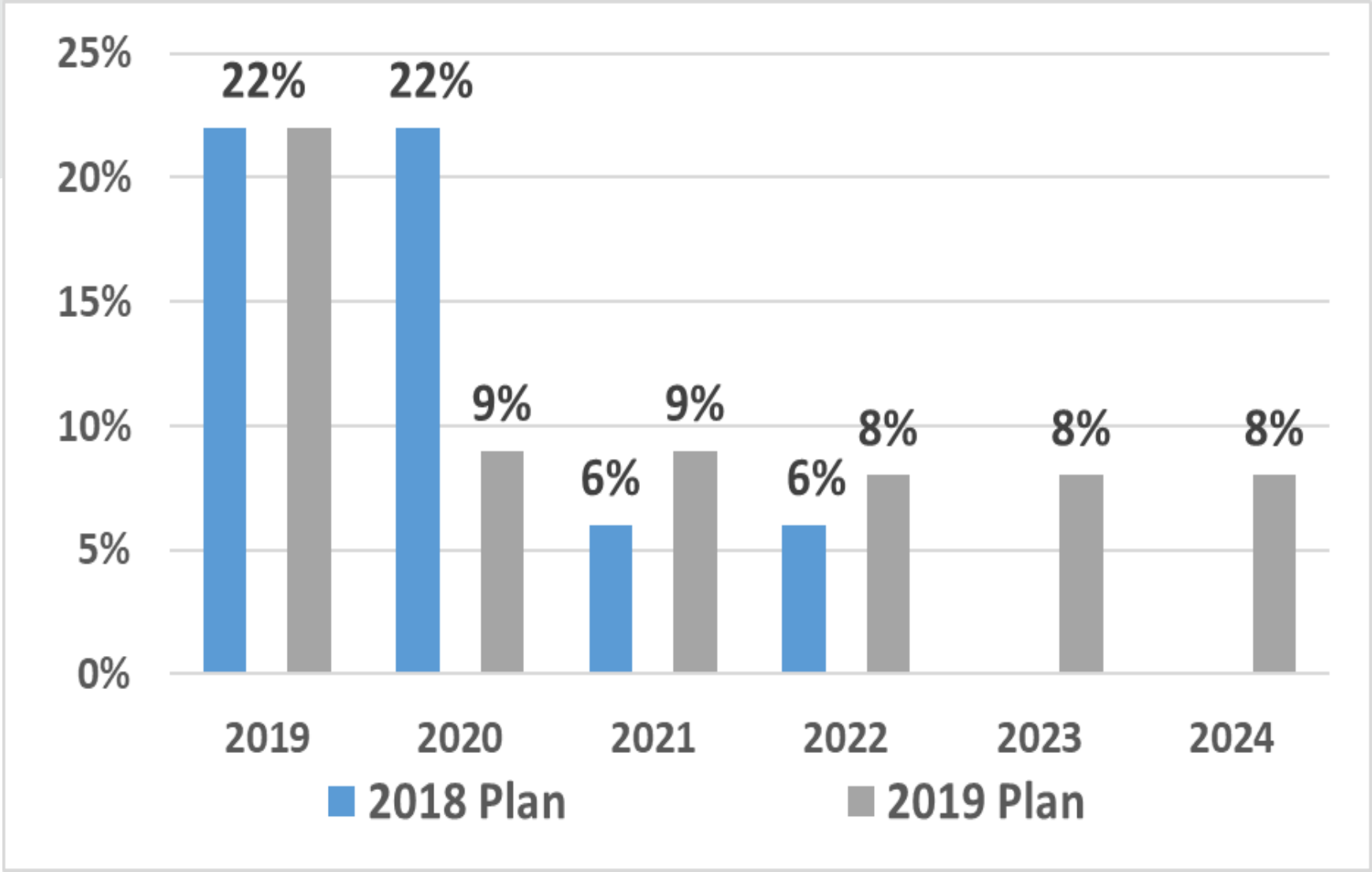
Water Fund Capital Projects (Inflated $'S)



Water CIP (Inflated)
External Debt Funded Projects

- Sedimentation Tank $410,000 – 2020/2021
- 2-inch water line to ball field $70,000 – 2022
- WTP Access Road $130,000 - 2022
- Highway 103 water line $3.5M – 2024/2025/2026
  - Cathodic protection first in 2020/2021/2022

Water Rate Revenue Increases



Water Rate Structure – 2019 and Proposed 2020 (1)

Description	Volume (gallons)	Residential Annual Volume Use (%)	2019	2020 Alt 1 (3)
Base Rate 1 (2)	N/A	N/A	$65.00	$70.85
Base Rate 2 (2)	N/A	N/A	100.00	109.00
Tier 1	0 to 10,000	79%	$4.15	$4.52
Tier 2	10,001 to 30,000	17%	5.19	5.66
Tier 3	Over 30,000	4%	6.23	6.79
Commercial	All Use		6.95	7.58
Municipal	All Use		8.50	9.27

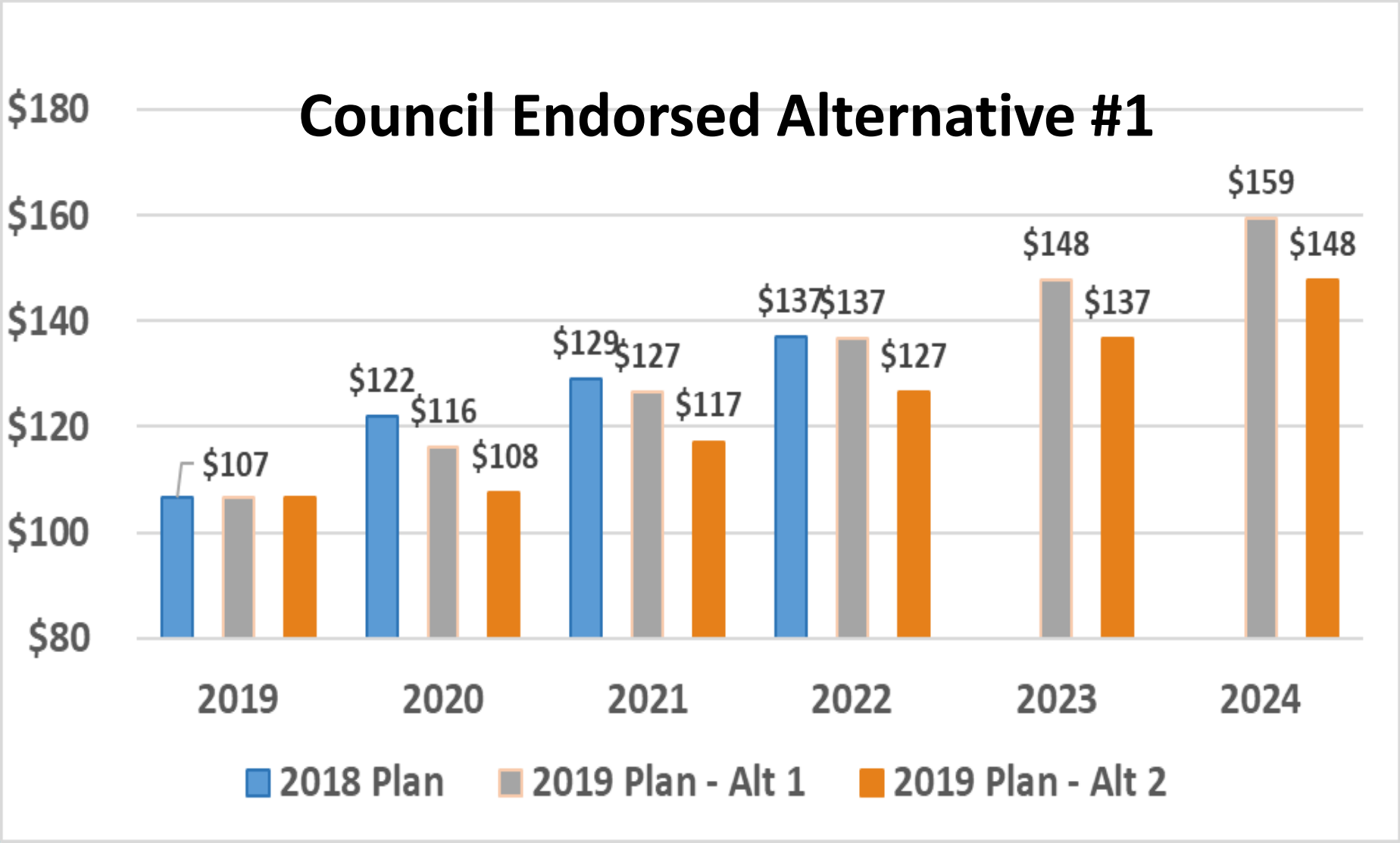
Council Endorsed Alternative #1

(1) Inside City. Outside City rates are increased by 2.0 times inside City.

(2) Base rate 1 under existing and 2020 Alt 1 applies to residential, base rate 2 applies to commercial. Base rates 1 and 2 under Alt 2 apply 1-inch and smaller and 1 ½-inch and larger respectively.

(3) Proposed base rate 1 applies to 1-inch and smaller meter size while base rate 2 applies to 1 ½ and larger.

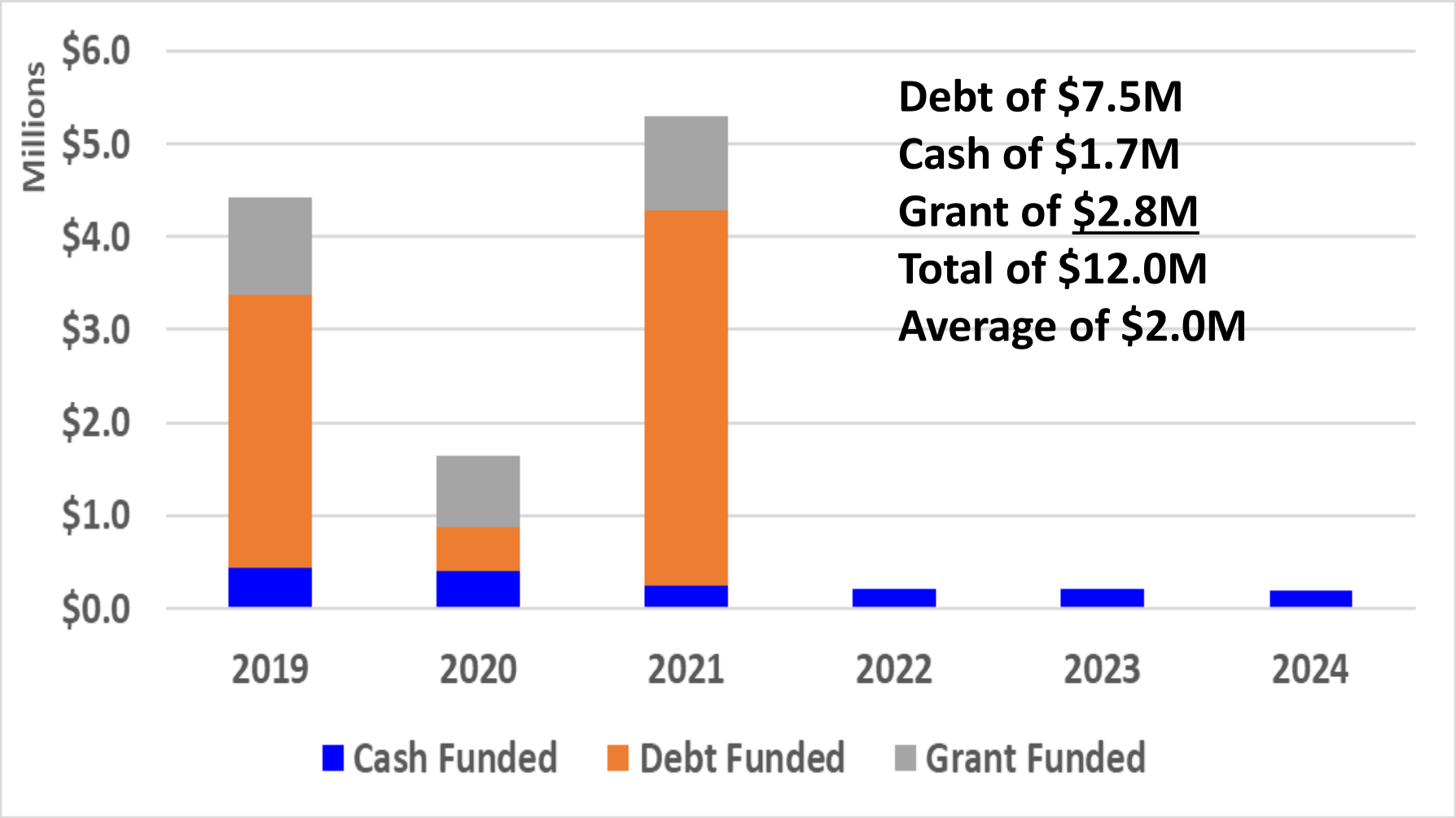
Water Bills Compared (1)



(1) Bi-monthly residential customer bill using 10,000 gallons with a 5/8-inch meter.

Wastewater Fund Financial Plan, Cost of Service and Rate Design

Wastewater Fund Capital Projects (Inflated $) (1)

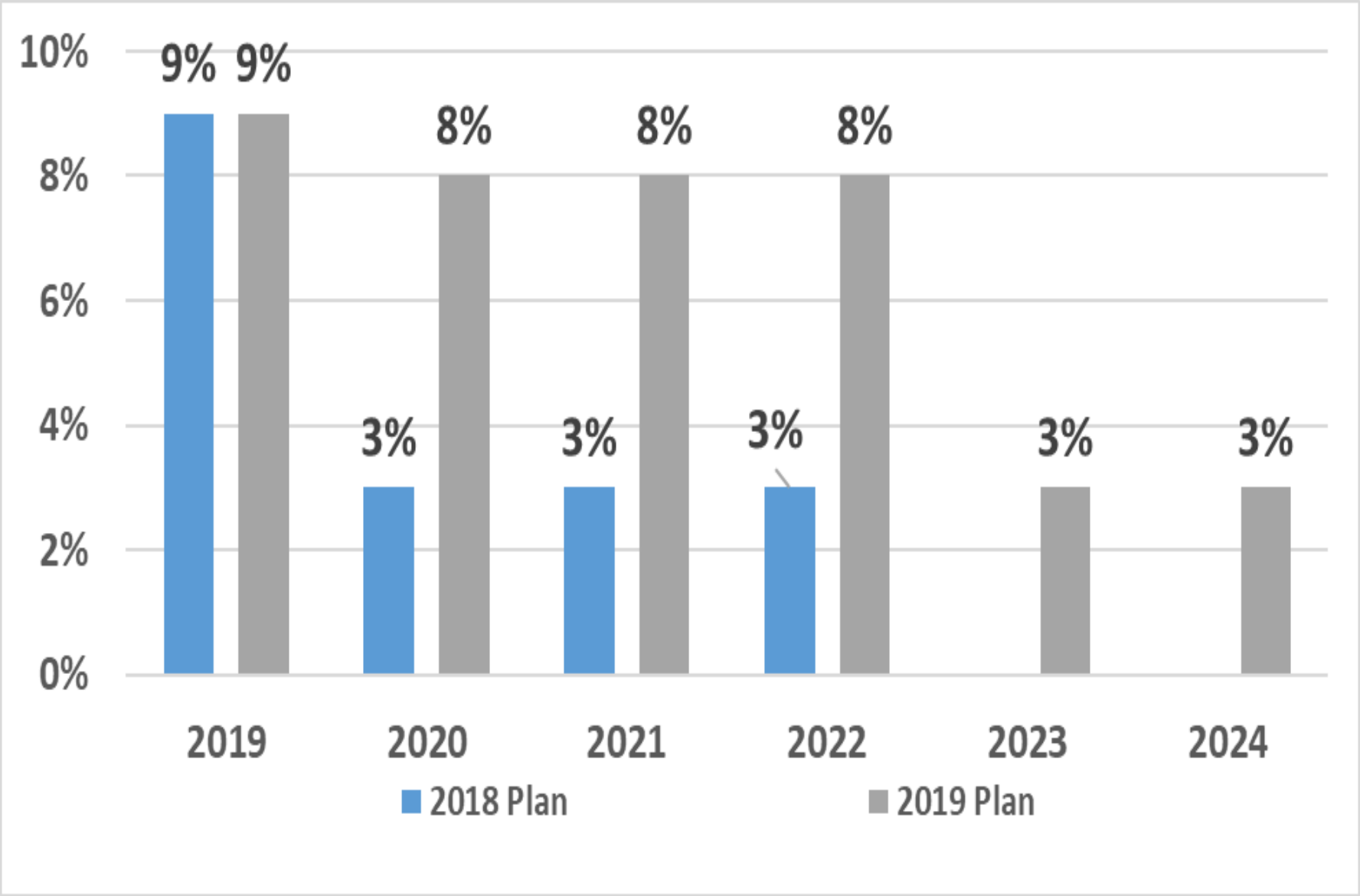


(1) $1,000,000 WWTP Project #1 AND #2 construction grant.

Wastewater CIP (Inflated)
External Debt Funded Projects

- WWTP Expansion #1
  - Various planning and design grants of $0.8M
- WWTP Expansion #1 – 2019 / 2020
  - Debt of $3.0M through loan
  - Grants of $1.0M
- WWTP Expansion #2 – 2020 / 2021
  - Debt of $4.5M
  - Grants of $1.0M

Wastewater Rate Revenue Increases



Wastewater Rate Structure – Existing 2019 and Proposed 2020 (1)

Description	2019	2020 Alt 1 (2)
Base Rate 1 (2)	$46.50	$50.22
Base Rate 2 (2)	93.00	100.44
Volume Rate per 1,000 gallons		
Residential (3)	$5.02	$5.42
Commercial Low	6.76	7.30
Commercial Medium	12.00	12.96
Commercial High	18.00	19.44
Indian Springs	13.00	14.04

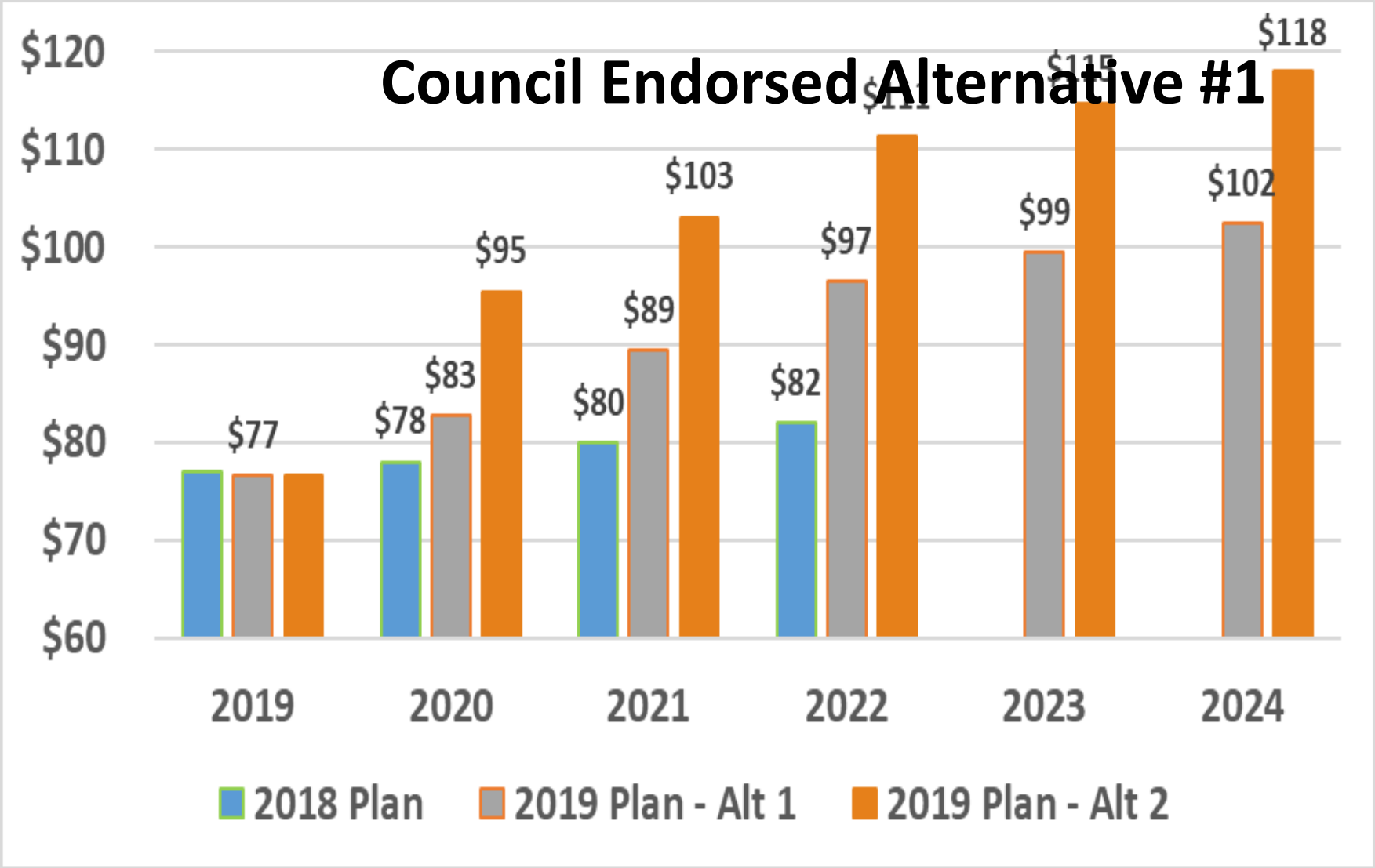
(1) Inside City and Chicago Creek customers. Outside City 2.0 times inside City.

(2) 2019 and 2020 Alt. 1 base rate 1 applies to residential and base rate 2 to all other customers. 2020 Alt. 2 base rate 1 applies to 1-inch and smaller customers and base rate 2 applies to 1 1/2-inch and larger.

Council Endorsed Alternative #1

(3) Applied to average winter period bi-monthly water use consumption.

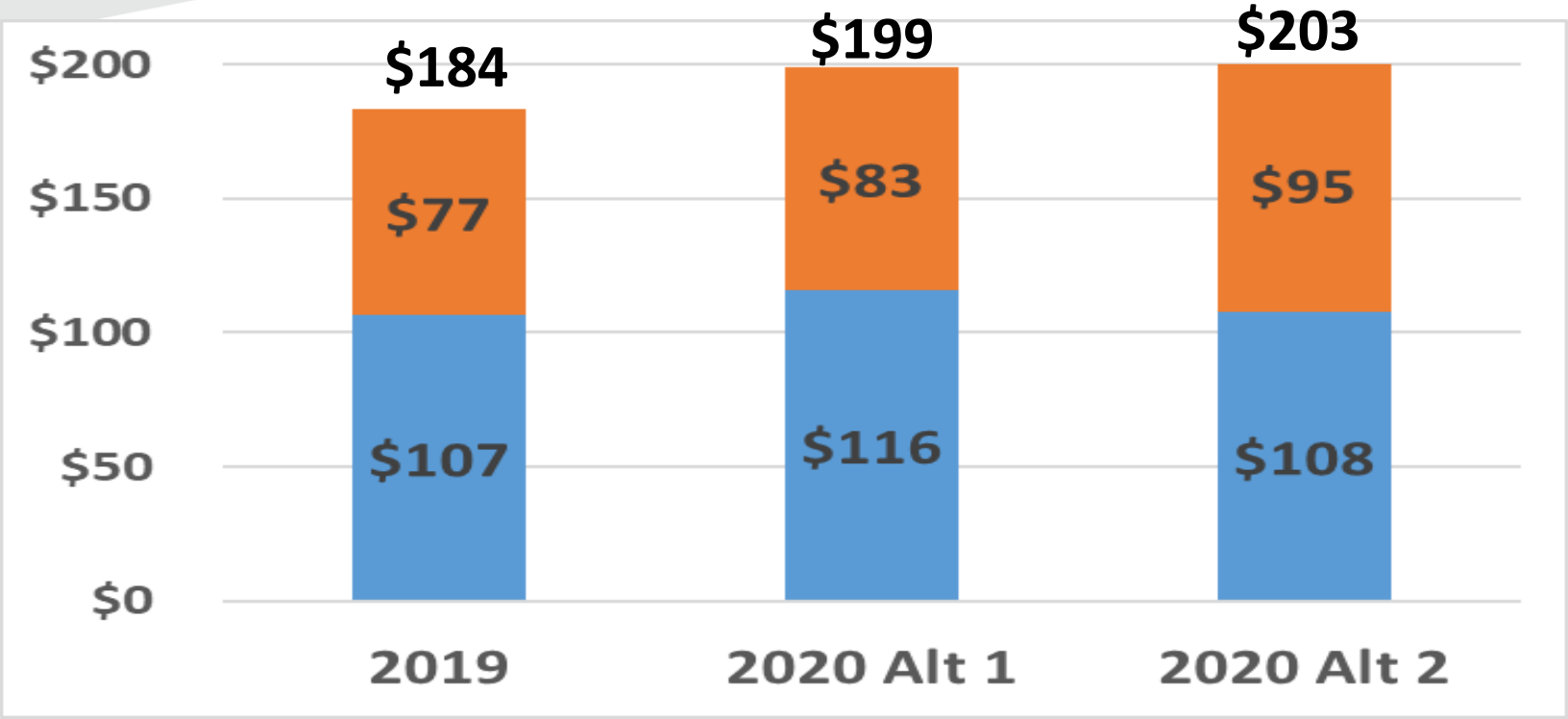
Wastewater Bills Compared (1)



(1) Bi-monthly residential customer bill using 6,000 gallons with a 5/8-inch meter

Bi-Monthly Residential Water and Wastewater Bills Compared (1) (2)

Council Endorsed Alternative #1



(1) Bi-monthly residential customer water bill using 10,000 gallons with a 5/8-inch meter.

(2) Bi-monthly residential customer wastewater bill using 6,000 gallons with a 5/8-inch meter.

Thank you!

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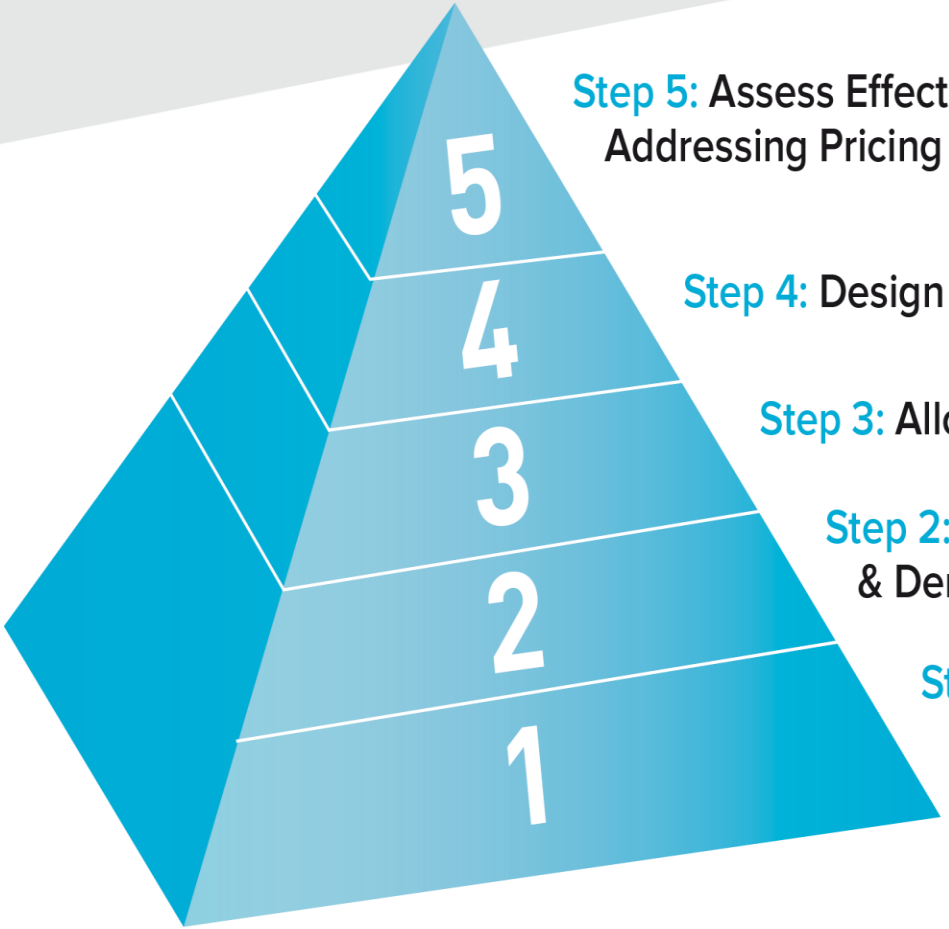
Additional Slides

Two-Phased Rate Study Process



Step 5: Assess Effectiveness in Addressing Pricing Objectives

Step 4: Design Rate Structure

Step 3: Allocate Costs

PHASE 2: 2017 STUDY

Step 2: Identify Revenue Requirements & Demand Projections

Step 1: Identify Financial & Pricing Objectives

PHASE 1: 2016 STUDY

Customer Class Cost of Service

- Cost of service (COS) analysis helps guide how costs are recovered from customers
  - Residential
  - Commercial
    - Low, Medium and High strength wastewater discharges
  - Municipal
- COS analysis uses a 2020 test-year

FINANCIAL PLANNING FUND STRUCTURE

Evaluate rate setting as separate water and wastewater funds even though District is a combined legal entity

Financial planning separates each utility into a total fund and three subfunds

- Operating Fund: Primary Fund
- Tap Fee Fund: Growth-related funding and requirements
- Capital Fund: All capital cash inflows and outflows from other sub-funds

FINANCIAL PLAN

Projects utility's finances through 2022

- O&M expenses
- Debt service
- Capital projects and funding
- Reserves
- Non-rate revenues and property tax-based revenues

Factors influencing financial plan

- Customer accounts and demand for services
- Growth and redevelopment
- Inflation and additional costs of operations
- Tap fee revenues
- Capital funding decisions

Identifies annual revenues necessary to support annual requirements

Growth, Inflation and Capital Funding Assumptions

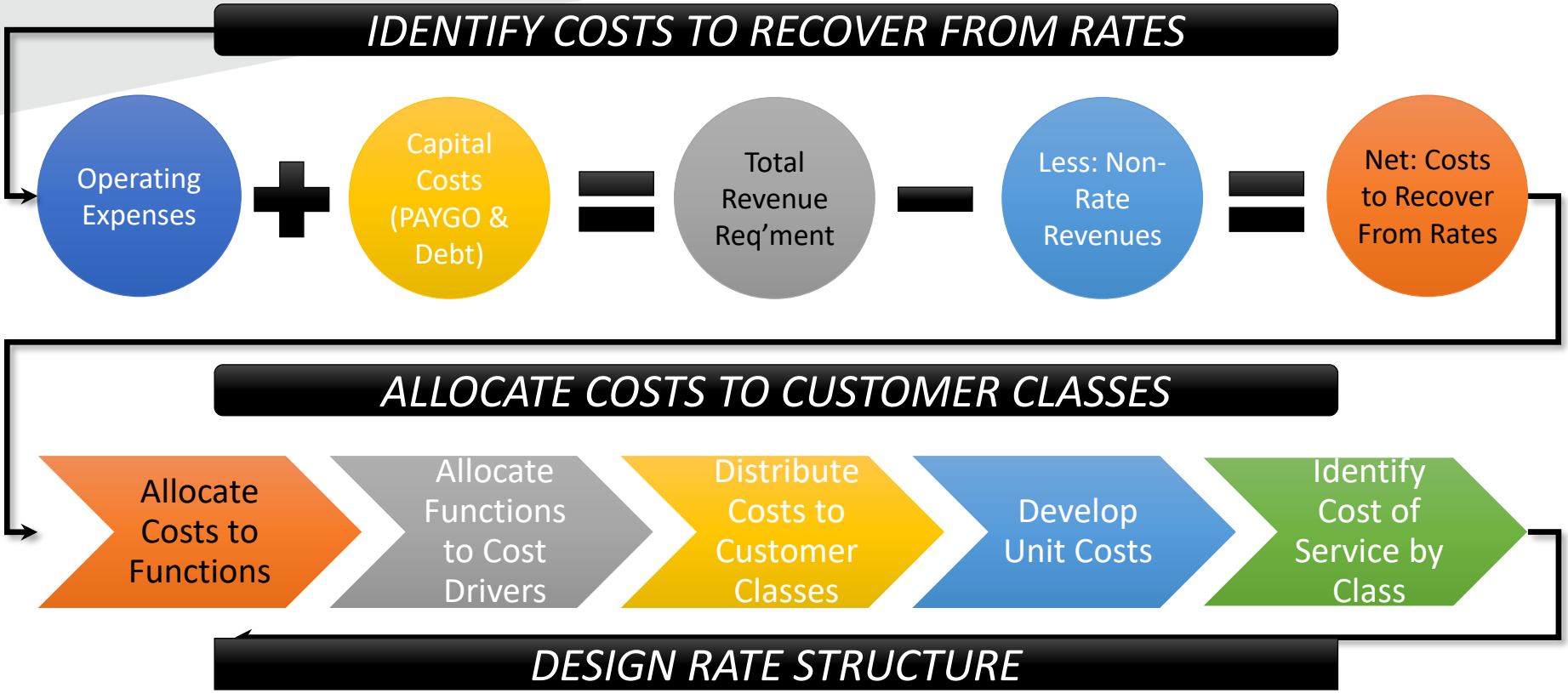
- O&M and capital projects increase 3% per year for inflation
- Wastewater O&M reductions following dewatering project completion and reduction in hauling costs
- 2 water taps and 1 wastewater tap annually
- Excludes any significant new customers
- Wastewater debt issued. CWRPDA Disadvantaged Community
  - 30 year repayment term,
  - 1.0% interest rate for Phase 1 and 2 WWTP
  - 2.0% issuance cost
- Water debt issued
  - 20 year repayment term,
  - 2.0% interest rate for 2019 and 2022 debt
  - 3.0% interest rate for 2021 and 2022 debt
  - 2.0% issuance costs

Common Utility Cash Reserves

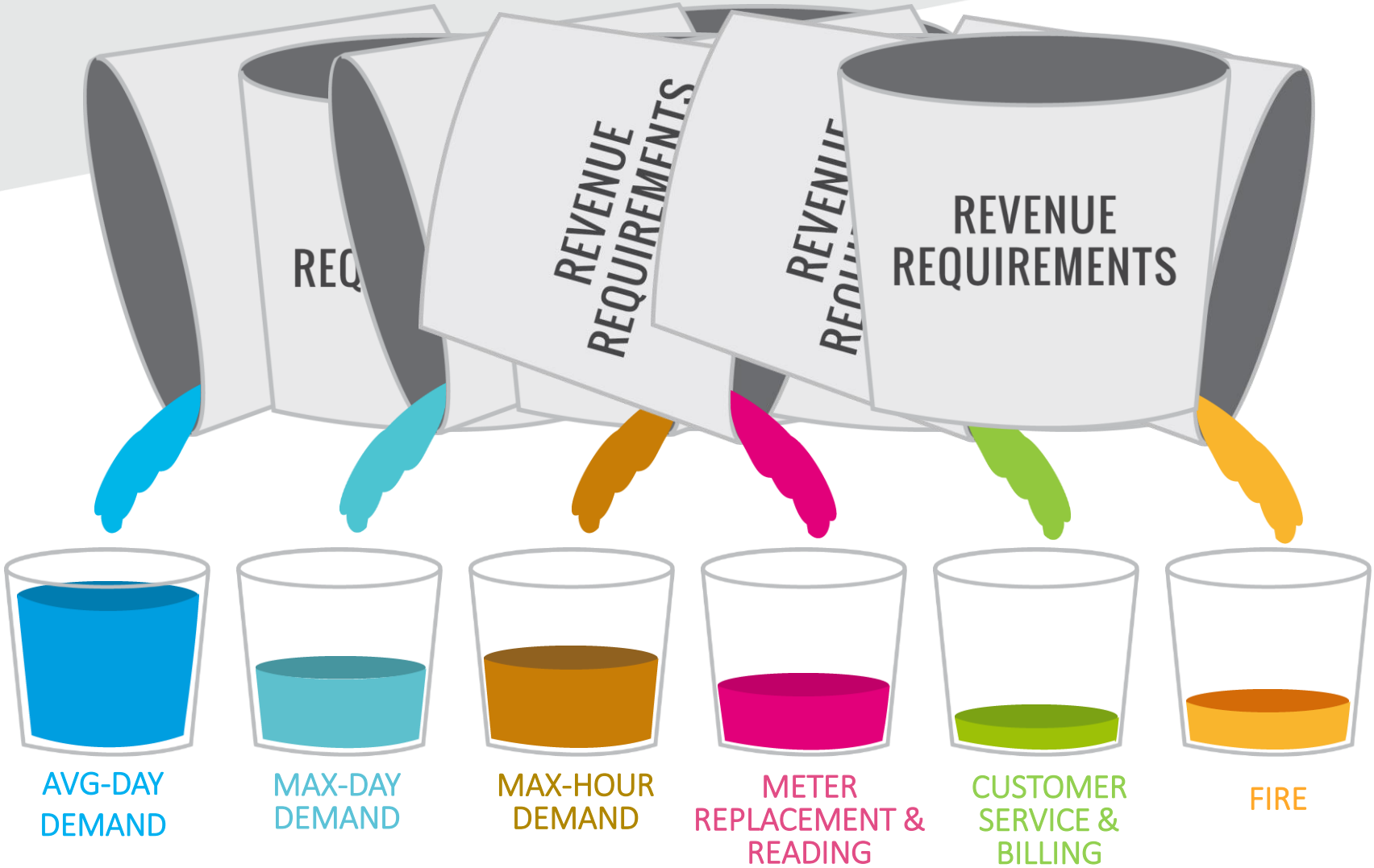
- Operating Reserve
  - 15% to 25% of O&M common
- Debt service reserve
  - Requirement of debt issue
- Rate stabilization fund
  - Defined in bond resolution
- Capital reserve
  - Fixed Amount or
  - Tied to Capital projects
- Revenue reserve
  - Percent of revenues
- Emergency reserve
  - Fixed Amount or
  - Tied to specific asset

May be represented as days cash on hand

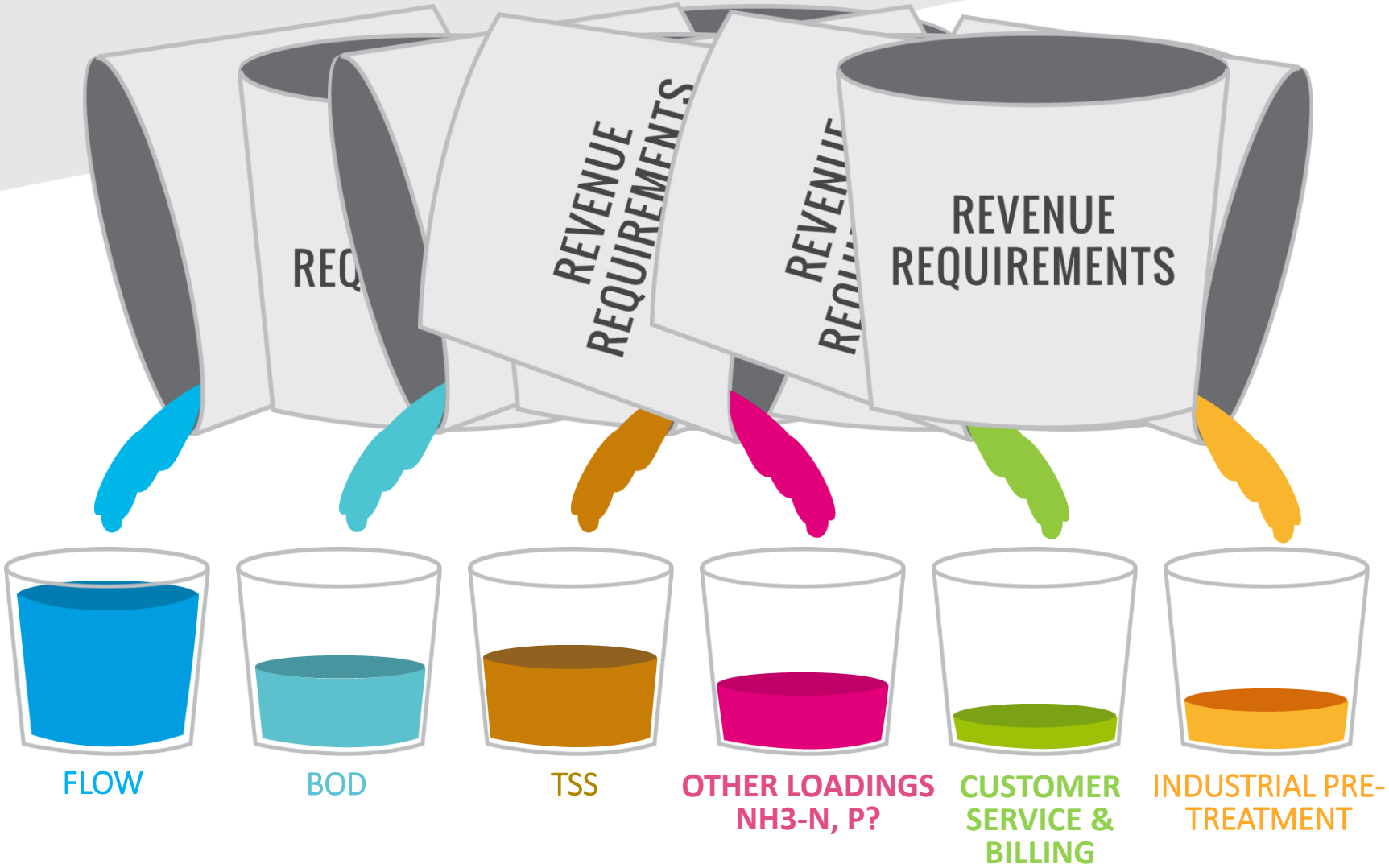
Allocate Costs



Water Cost of Service Allocation



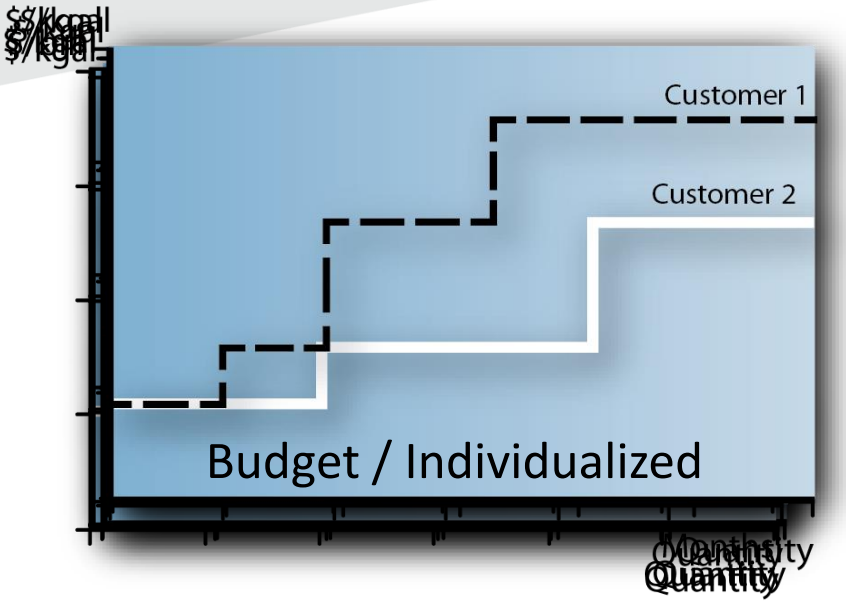
Wastewater Cost of Service Allocation

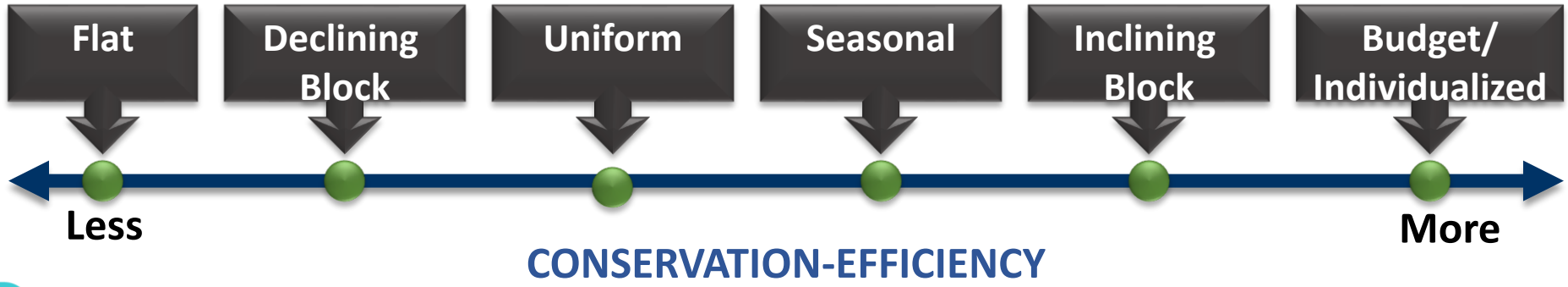


Wastewater Financial Planning Scenarios

- Scenarios reflect different grant assumptions for Phase 2 of the WWTP Phase 2 construction costs
  - Timing of Phase 2 construction in 2019 through 2021
- Scenario 1: Phase 2 construction grant of $1M not received
  - Increased debt funding in lieu of grant
- Scenario 2: Phase 2 construction grant of $1M received
  - Same rate increases in 2019 and 2020
  - Lower increase in 2021
  - Less debt issued to fund capital

Water Rate Structure Continuum





Changes To Water Rate Structure

- Recovers the 2020 customer class cost of service
- Base rate
  - Current applies to all customers regardless of meter size
  - Alternative provides two base rates
    - 1-inch and less (most customers)
    - 1 ½-inch and larger
- Residential
  - Adjust amount of water use for each tier to reflect residential customer water use
  - Increase Tier 2 and Tier 3 rate multipliers
- Commercial and Municipal
  - Apply a uniform rate to all water use recovering cost of service

Current Wastewater Rate Structure

- Bi-monthly base rate is different for
  - Residential
  - Commercial “Low” Strength
  - Commercial “High” Strength
- Volume rate is different for
  - Residential and commercial “Low” strength
  - Commercial “High” strength
    - Includes restaurants, breweries and other higher than domestic strength wastewater discharges

Changes To Wastewater Rate Structure

- Recovers the 2020 customer class cost of service
- Alternative provides two base rates
  - 1-inch and less (most customers)
  - 1 ½-inch and larger
- Residential volume rate to recover class cost of service
- Commercial
  - “Low” Strength
  - Separate rate for two “High” Strength customers
  - Create “Medium” Strength for other high strength customers
- Indian Springs
  - Assess higher volume rate as discharged water is much higher than metered use
  - Set rate based on metered volume of sewer applied to metered water use
- Chicago Creek
  - Inflow and Infiltration increases water treated by the City
  - Contract ties rate to outside City rates