



WESTMINSTER
COLORADO

Water/Sewer Rates: Preparation for 2022 Rate Setting Process

City Staff

Thursday, January 28, 2021
6-8 p.m.

Workshops Leading to Tonight's Discussion

Date	Topic(s)
October 5, 2020	<ul style="list-style-type: none"> • Discussion of Water & Wastewater Infrastructure • Community Participation
October 20, 2020	<ul style="list-style-type: none"> • Continuation of the Discussion of Water & Wastewater Infrastructure • Meter Replacement Project • Community Participation – follow-up discussion
November 5, 2020	<ul style="list-style-type: none"> • Discussion of Water Costs and Rates
December 15, 2020	<ul style="list-style-type: none"> • Continuation of the Discussion of Water & Wastewater Infrastructure • Discussion of Sewer Expenses/Revenues/Reserves • Preparation for January 28, 2021 meeting
January 28, 2021	<ul style="list-style-type: none"> • Rate Change Process • Next Steps for 2022 Rate Setting Process

Agenda for Tonight

- Present which stars/levers Staff believes are prudent to complete for the 2022 rate setting process.
- Present which stars/levers Staff believes are imprudent to complete for the 2022 rate setting process.
- Review the 2022 rate setting timeline.
- Receive direction from City Council about recommended stars/levers to fund a safe and reliable Utility.

**Question:
Which of all
of the things
we've talked
about can
the City
control or
influence?**

**Which
elements
are out of
the City's
control?**

Why?

Item	Levers and Recommendation
30-day billing cycle	★
Gallon-based billing	★
Water affordability analysis/continue affordability programs	★
Project financing strategies	★
Utility reserve account policies	★
Predictable/smooth/level rate increases	★
Continue six policies adopted in 2018	★
Level of Service - CIP and Operating budgets	★
City debt service coverage policy	★
Rate structure	★
Volume of water use in each tier	★
Price per Kgal in each tier	★
General Fund transfer to Utility Fund	★
Renegotiate the wholesale Federal Heights contract	★
Move rate burden onto businesses	★

Staff Recommendations for 2022 Rate Setting Process

30-Day Billing Cycle



- Can shorten from 27-33 days
- Will need some flexibility
 - Appropriate Staff resources
 - Technology
- Implement in 2021

Gallon-Based Billing



- Currently water use billed in units of 1,000 gallons
 - \$3.96/1,000 gallons (Tier 1, for example)
 - Consumption truncated
 - For example, 5,685 gallons truncated to 5,000 gallons
- Proposed a change to bill in units of 1 gallon
 - \$0.00396/1 gallon (Tier 1, for example)
 - Consumption no longer truncated – not rounded
- Implementation in 2021

Maintain or Expand Existing Affordability Programs



- The City offers a variety of income-qualifying assistance programs for customers who struggle to pay their bill.
 - 2021: Bill credit of \$15/month (\$180/year)
 - Hardship program (up to \$750 per account)
 - Emergency/Essential Repair program
 - High-Efficiency Toilet and Free Indoor Water-Use Inspection programs
- The City has also offered a COVID-19 Grant of \$100 to qualifying customers.
- Conservation programs available for all customers who want to manage their outside water use.

Financing Policy Tools



- A combination of debt and cash to fund Utility projects is deployed.
- Debt includes conventional debt and state/federal funding options.
- Staff finds debt products that:
 - Best meet City's needs
 - Provide customer benefits
- Financial model assumptions
- Refinance existing debt when possible.
- Smoothed rate increases

Utility Reserve Policy Review/Update



- Reserve policies adopted by City Council in 2006, updated in 2011, includes the:
 - Rate Stabilization Reserve
 - Capital Projects Reserve
- Staff to review and recommend Council update the Utility Fund Reserve policies
- Staff believes the City can draw down and utilize some of the funds in the Rate Stabilization Reserve in 2021 or later.
- Continue to reassess

Avoid Significant Spikes in Rates



- Will continue to work towards this
- 2019/2020 rates were necessary for maintaining a safe and reliable Utility.
- 0% in 2022? Results in:
 - Much larger increase in 2023 and outyears and/or
 - Deferral of WATER2025 program

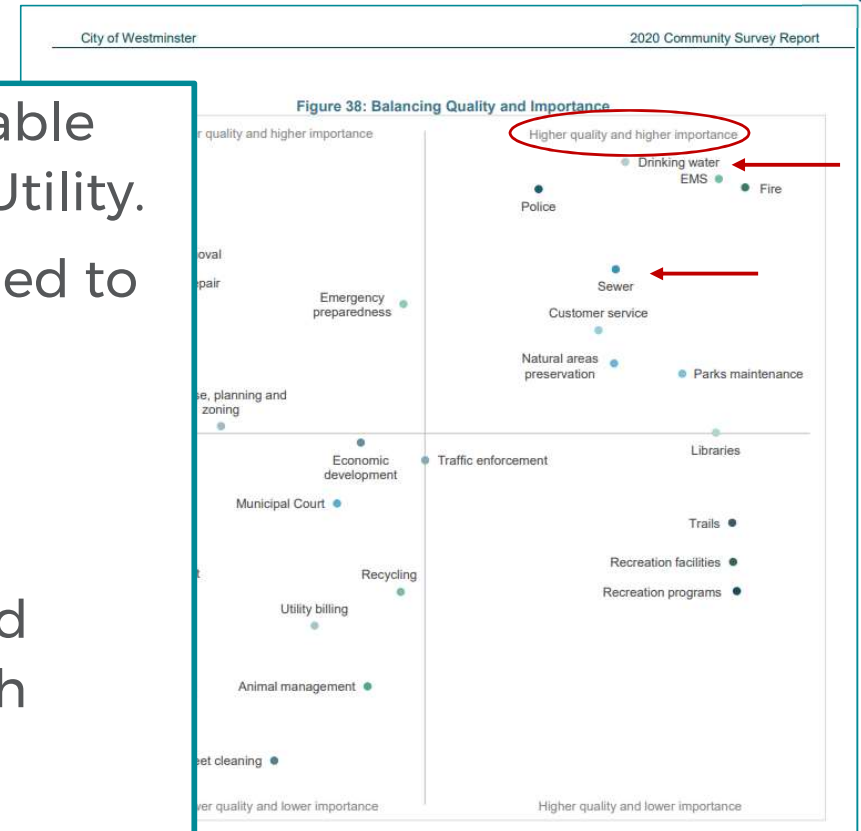
Continuation of the Adopted Six Integrated Policies

1. **Align** residential/commercial to cost of service.
2. **Broaden** Tier 1 (indoor water use) by 50%.
3. **Simplify** commercial water use tiers/implement surcharge for overuse.
4. **Enhance** fixed water revenues.
5. **Maintain** a single sewer rate.
6. **Implement** a 2,000 gallon monthly minimum “**readiness to serve**” wastewater charge.



Review the Capital Improvement Program (CIP) and Operating Budgets

- Staff recommends the lowest sustainable rates that support a safe and reliable Utility.
- This budget represents the work needed to maintain:
 - Public health and safety
 - Levels of customer service
 - Reliability of utility system
- Community has historically considered drinking water and sewer services high quality and important.



Imprudent and Not Recommended Levers to Pursue for 2022 Rate Setting Process

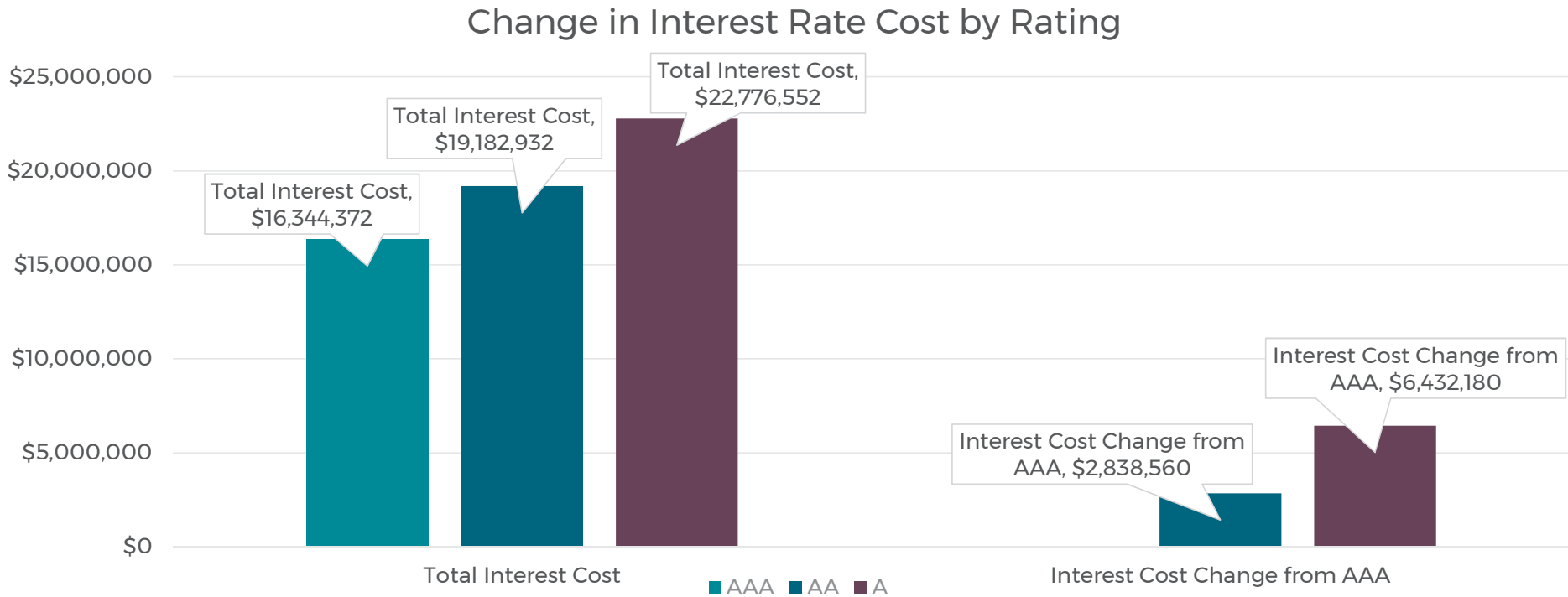
Debt Service Coverage Policy

- Adopted by City Council
- From previous presentation. Policy = 1.5x
- This is in the realm of what is financially prudent. Per the City's independent financial advisor, this is within the range of best practices.

Ratings on Financial Fundamentals

	Actual 12.31.19	Projected ⁽¹⁾	Extremely Strong: AAA	Very Strong: AA	Strong: AA-	Adequate: A
Coverage Ratio	5.13	2.94	> 1.6	1.4-1.6	1.2-1.4	1.1-1.2
Liquidity	\$110M	N/A	>\$75M	\$20-75M	\$5-20M	\$1-5M
Debt to Capitalization	19%	42%	Up to 20%	20-35%	35-50%	50-60%

Interest Rate Costs AAA to A Ratings



Use of General Fund for Utility Fund Expenses

- Industry best practice = fund the Utility with user revenues. Rates ensure the equitable application of user fees for services rendered.
- Financial best practice to pay for user-driven services with fees.
- Charter: rates and charges fixed to at least meet all operating costs of such Utility.

Impacts to General Fund?

- The General Fund had a sizable infrastructure funding gap (e.g., Municipal Court replacement, street repairs, facilities maintenance, etc.) before the COVID-19 pandemic. Gap was worsened by the pandemic.
- Using the General Fund to subsidize the Utility Fund means that some General Fund service has to be reduced and/or General Fund revenues have to be increased.
- Staff believes a General Fund subsidy of Utility Fund within TABOR limits is not in the City's best interest.

Water Rate Structure

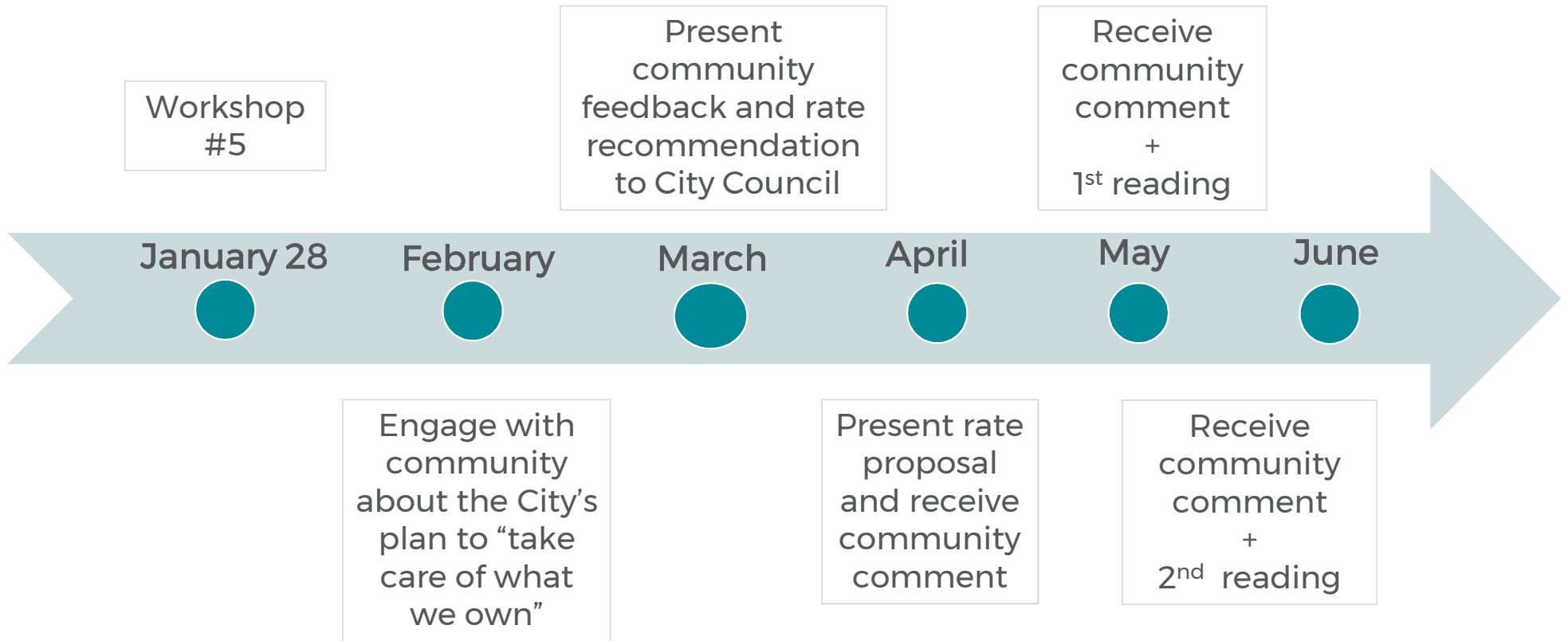
- Recent rate structure change implemented in 2019
- A certain amount of revenue is required to fund the Utility, regardless of structure.
- Rate structure changes impact customers.
 - Eliminating Tier 3 means:
 - Revenue needs move to Tiers 1 and 2
 - Cutting/reducing CIP project(s)
 - Implementing a flat rate means:
 - No water conservation signals sent for water use
 - Lower/average water users pay for higher water users

Re-Negotiate the Wholesale Water Contract with the City of Federal Heights

- Contract requires that their rate increase tracks with our the rate increases
- Federal Heights' residential rates/structure = comparable to City's residents
- Fair and accurate rate based on recent 3rd party evaluation of their impact to our utility system
- 2021 budgeted revenue = \$2.3 million

Next Steps in the 2022 Rate Setting Process

2022 Rate Adoption Timeline



Thank You.