



City of Willmar, Minnesota

Wastewater Utility Rate Study

June 2013 Workshop

Wastewater Utility Rate Update – What has changed?

- Time has passed
 - Less time in 2013 over which to affect revenues (-)
 - 2012 preliminary results are available (+)
- City needs to complete 2013 financing
 - WIF Grant and requires reserve funding
 - PFA requires a finance plan
 - Rating discussion will need to address falling fund balance
- Finance Committee has requested options using a higher meter fee

Time has passed

- Original rate study projected rate increases effective January 1.
- 2012 preliminary financial results are available
 - Revenues up \$100,000
 - Expenses considerably under budget (especially general supplies and utility costs)
 - Transfers out up \$100,000
 - Overall result: still an annual loss, but less than projected by \approx \$700,000

2013 Financing

- WIF Grant
 - City is eligible for a WIF grant of \$1,546,731
 - Capital reserve must be funded annually - \$86,000
- PFA requires a finance plan
 - Rates must support operations, debt, reserves
 - Plan for implementation
- Bond rating
 - Must have a plan to reverse declines in fund balance
 - Seen as a measure of ability and willingness to pay

Finance Committee

- Expressed the need to move ahead
- Requested options with higher level of fixed charge
 - Can it offset impact of future reduced consumption?
 - Can it be done without distorting cost to various types of users?

Recent Financial Performance

- Operating income is positive (before transfers & interest)
- Net income is negative (after transfers & interest)
 - \$2.3 million interest payments on debt
 - Net loss of (\$1.67 million) in 2011
 - Net loss budgeted (\$1.4 million) in 2012
 - Net loss actual (\$0.7 million) in 2012
- Cash position continues to drop

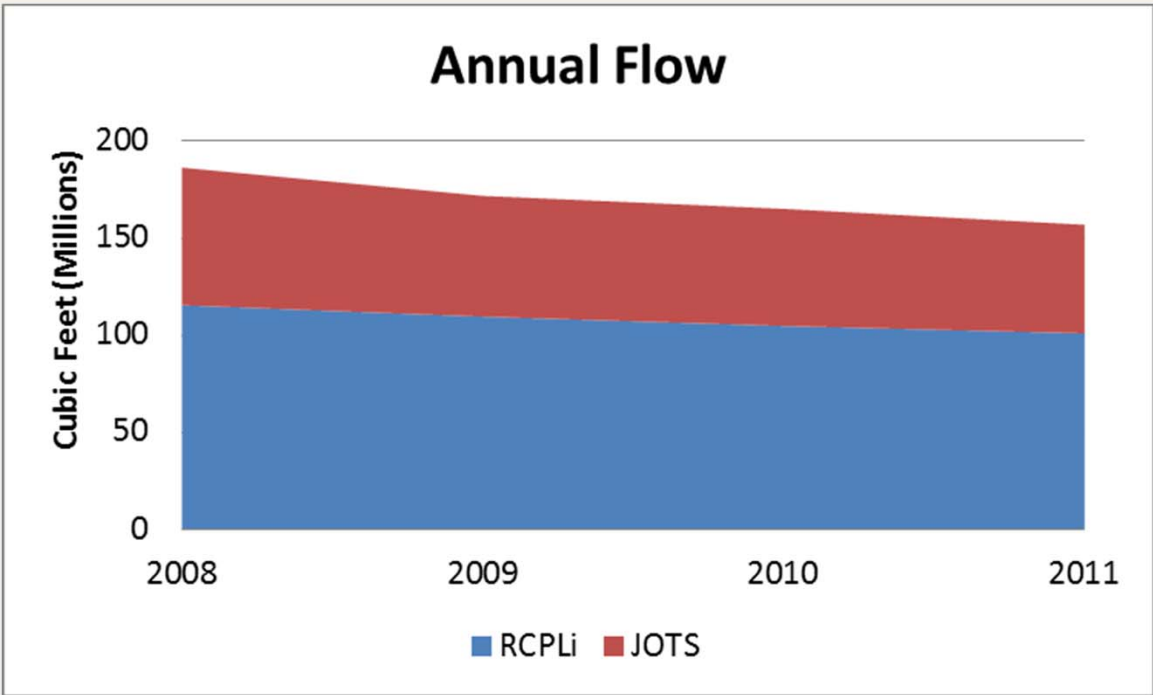
Assumptions

- 6,310 accounts
- 8,575 meters
- Sewer Volume
 - 56.0 million cubic feet/year from JOTS
 - 4.3 million cubic feet/year from Eagle Lake
 - 88.8 million cubic feet/year from RCPLI
 - 7.5% lower than total water sales

Assumptions (cont.)

- Adjustments due to 2012 preliminary financial results
 - 2013 budget used except for General Supplies & Utility costs
 - General Supplies & Utility set at 2012 plus 3%
- 3% inflation used for most expenses
- Benefits, general supplies and utilities have been increased 5%/year
- \$10.3 million in capital outlay over 5 years
- Existing debt service includes Western Interceptor debt payments

Usage Trends



Consumption (cu ft)	2008	2009	2010	2011
RCPLi	115,495,455	109,624,400	104,809,100	100,959,400
JOTS	70,965,107	62,281,700	60,382,400	55,993,300
Overall	186,460,830	171,906,100	165,191,500	156,952,700

Rate Options – Using a Sept. 1, 2013 start

- Base Scenario – across the board increases using current rates as a base
- \$5 Meter Fee Scenario – across the board increases modified to reflect revenue from a \$5 increase in the base meter fee
- \$10 Meter Fee Scenario – across the board increases modified to reflect revenue from a \$10 increase in the base meter fee

Rate Options – Challenges

- Setting rates that support
 - Operations
 - Capital expenditures and debt service in place & projected
 - Fund up and maintain essential reserves
- Funding Reserves
 - 3 months of operating expenses
 - 12 months of debt service
- Minimizing changes that affect the balance among different types of users

Rate Changes - Objectives

- Moderate impact if possible
 - Spread increases over multiple years, resolving funding needs by end of 2017
 - Manage rate increases so that once they are ramped up, system only produces revenues it needs
- Make reasonable assumptions regarding expenses and growth in number of users
- Moderate impact of changes in consumption by increasing a fixed charge, such as meter fee

Rate structures used

	2012	2013	2014	2015
Base				
Admin/Billing	\$ 2.54	\$ 2.54	\$ 2.54	\$ 2.54
Utility Improvement	4.00	4.00	4.00	4.00
Meter charge (5/8")	18.00	18.00	18.00	18.00
Tier 1 Volume	2.17	2.73	3.14	3.45
Tier 2 Volume	3.33	3.78	4.20	4.47
Plus \$5 Meter				
Admin/Billing	\$ 2.54	\$ 2.62	\$ 2.70	\$ 2.78
Utility Improvement	4.00	4.00	4.00	4.00
Meter charge (5/8")	18.00	23.00	23.00	23.00
Tier 1 Volume	2.17	2.50	2.80	3.08
Tier 2 Volume	3.33	3.70	4.01	4.28
Plus \$10 Meter				
Admin/Billing	\$ 2.54	\$ 2.62	\$ 2.70	\$ 2.78
Utility Improvement	4.00	4.00	4.00	4.00
Meter charge (5/8")	18.00	28.00	28.00	28.00
Tier 1 Volume	2.17	2.39	2.51	2.64
Tier 2 Volume	3.33	3.66	3.84	4.03

Outcomes

	2012	2013	2014	2015	2016	2017
Base						
Avg. Residential	\$ 42	\$ 46	\$ 50	\$ 52	\$ 54	\$ 56
Gas	\$ 130	\$ 150	\$ 165	\$ 176	\$ 184	\$ 192
Restaurant	\$ 214	\$ 256	\$ 287	\$ 311	\$ 326	\$ 343
Retail	\$ 1,236	\$ 1,516	\$ 1,721	\$ 1,876	\$ 1,981	\$ 2,091
Industrial	\$ 193,254	\$ 215,378	\$ 236,717	\$ 251,178	\$ 258,902	\$ 266,358
Plus \$5 Meter						
Avg. Residential	\$ 42	\$ 50	\$ 52	\$ 54	\$ 56	\$ 58
Gas	\$ 130	\$ 154	\$ 165	\$ 175	\$ 182	\$ 189
Restaurant	\$ 214	\$ 252	\$ 274	\$ 295	\$ 309	\$ 324
Retail	\$ 1,236	\$ 1,441	\$ 1,591	\$ 1,731	\$ 1,821	\$ 1,921
Industrial	\$ 193,254	\$ 210,861	\$ 227,067	\$ 241,371	\$ 249,353	\$ 262,090
Plus \$10 Meter						
Avg. Residential	\$ 42	\$ 54	\$ 55	\$ 56	\$ 57	\$ 58
Gas	\$ 130	\$ 163	\$ 167	\$ 172	\$ 177	\$ 182
Restaurant	\$ 214	\$ 256	\$ 265	\$ 275	\$ 285	\$ 295
Retail	\$ 1,236	\$ 1,426	\$ 1,486	\$ 1,551	\$ 1,616	\$ 1,686
Industrial	\$ 193,254	\$ 208,629	\$ 218,507	\$ 228,712	\$ 239,332	\$ 249,685

Proposed Schedule

Date	Event
Monday, June 3	Workshop on rate ordinance. Public hearing set.
Monday, June 17	Public hearing conducted. (Approval of PFA loan and grant are also on this day.)
Tuesday, June 18	Sewer rate ordinance submitted for publication
Friday, June 21	Sewer rate ordinance is published
Monday, July 8	Filing period satisfied
	Rates implemented