



"...meeting community needs...enhancing quality of life."

TO: Chairman Plank and Members of the Finance Committee

FROM: Tony Saucerman, Finance Director *TS*

RE: Effect on Wastewater rates of an elimination of special assessments for main and lateral reconstruction

DATE: July 23, 2014

The financial impact on the wastewater rates as a result of this change is difficult to determine without undergoing a full rate study. Any changes in the assessment policy would have to be figured into long range projections of revenues, operating and capital costs, debt service requirements, and debt coverage ratios in order to determine the timing and amount of future rate increase needs. However, to give an idea of amounts under consideration, below is a history of special assessments billed for sanitary mains and laterals over the past 5 years.

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
San Sewer Mains	\$152,562	\$417,987	\$178,134	\$223,558	\$143,118
San Sewer Laterals	\$172,160	\$252,004	\$92,748	\$150,067	\$153,796

For reference, the following is a history of operating revenues for the Wastewater Utility over the past 5 years along with the percentage of assessment proceeds to operating revenue:

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Operating Revenue	\$8,705,216	\$8,439,730	\$9,687,803	\$10,601,634	\$10,486,298
<u>% of Operating Rev</u>					
San Sewer Mains	1.8%	4.9%	1.8%	2.1%	1.4%
San Sewer Laterals	2.0%	2.9%	1.0%	1.4%	1.5%

As can be seen, the percentage of special assessment proceeds for sanitary sewer main and lateral reconstruction to operating revenues is relatively small. However it's important to note that special assessments are not considered a revenue source to fund operations, but are a contribution to the cost of the infrastructure improvements. So eliminating or reducing special assessments is really a reduction of the amount that can be used to offset the cost of utility infrastructure. Each budget year, the utility takes into account the estimated amount of special assessment proceeds when determining the amount of borrowing necessary to fund infrastructure improvements. Currently, approximately 80% of

Wastewater capital improvements are funded by debt, while the other 20% is funded by a combination of cash reserves, current year operations, and special assessments. Thus, any reduction in special assessments would need to be made up by an increase in one or more of the other sources .

If the shortfall is funded by increased debt, the rates would need to be increased to cover the additional debt service (assuming construction levels stay constant). So the effect would be more incremental over a number of years. If the shortfall is funded by cash reserves, there would be no immediate effect on the rate, but eventually the reserves would need to be replenished requiring an increase in the rates. If the shortfall is funded by current operations, absent reductions in operating expenses, the rates would need to be increased more immediately. Again, a full rate study which would take into account all the future operating, capital, and borrowing needs of the Utility would be necessary in order to accurately predict any future rate adjustments.