

# MEMORANDUM

TO: John Glascock, Deputy City Manager

FROM: Tad Johnsen, Director, Utilities 

DATE: Aug 15, 2017

SUBJECT: FY18 Columbia Utilities Rate Increases

This memo is intended to provide additional information regarding staff's recommended FY18 Columbia Utilities rate increases.

**Electric Utility:** The electric utility is projected to end FY17 at the minimum cash reserve target. Included with this memo is a sheet showing the FY18 cash position analysis for the electric utility. This document shows the need for annual rate increases for electric of 1% to 2% during the FY18 through FY22 period. Even with the projected rate changes, the electric utility is projected to be over \$7.7 million below the minimum cash reserve target by FY22. While the debt coverage ratio is projected to be above the minimum target of 1.2, unrestricted cash balance is projected to be below the minimum target cash position.

There are three primary drivers of the projected reduction in unrestricted cash balances. The first is the amount of annual investment in capital projects from enterprise revenue. As part of the FY15 electric bond proposal, the W&L Board recommended excluding \$1.2 million per year from the bond issue and fund the identified annual projects with enterprise revenue. In addition, the funds needed to cover the bond cost and reserve requirement, for the second bond sale, were excluded from the bond proposal. The anticipated enterprise funds, for the second bond sale, is \$2.9 million. This should occur in FY19. The final driver is the increase in principle and interest on debt. Older debt was refinanced with the goal of saving money over the life of the debt; however, starting in FY18 there will be an increase in debt payments of \$1.5 million per year.

**Sewer Utility:** The sewer utility is projected to end FY17 at the minimum cash reserve target. With the proposed rate increases for FY2018, staff estimates the sewer utility will be \$61,246 over the 20% cash reserve target and have a debt coverage ratio of 1.36. Staff anticipates that Sewer Utility will be below the 20% cash reserve target in FY2020 by \$505,877.

On November 5, 2013 voters approved the City to issue Sewer System Revenue Bonds in the amount of \$32,340,000. Below are the recent and projected Sewer Utility rate increases:

- FY2015 – 6% Voter Approved Rate increase
- FY2017 – 4% Voter Approved Rate Increase, 1% Operating Rate Increase
- FY2018 – 1% Voter Approved Rate Increase, 5% Proposed Operating Rate Increase
- FY2019 – 1% Voter Approved Rate Increase, 5% Operating Rate Increase
- FY2020 – 6% Operating Rate Increase

The 5% operating increase will help to fund projects that were not included in the last bond issues, such as addressing basement backups and small sewer relocations. The operating rate increase, for FY2018, was anticipated at the time bonds were sold in FY2017.

A cost of service study was completed by Burton and Associates in FY2014. This study recommended for the sewer connection fees to be increased to \$2,400. The increase has been phased in since FY2015. FY2018 is the final year of the phase-in. Although there is the potential for increased revenue associated with an anticipated increase in connection fees, those potential revenue increases have conservatively been withheld from the budget.

The Sewer and Storm Water Utilities will finalize and begin implementation of the Wastewater and Storm Water Integrated Master Plan. Staff anticipates this will increase the amount of capital improvement projects over the next 5 years.

**Solid Waste Utility:** With the proposed rate increases for FY2018, the solid waste utility is projected to be \$2,148,083 over the 20% cash reserve target at the end of FY2018. The solid waste utility is proposing a 4% residential rate increase. This will allow residential customers to continue to receive the black trash bags and blue recycling bags at the same rate as FY2017. The solid waste utility is also proposing a 13.63% landfill rate increase. The FY18 tonnage rate proposal is \$52.00/ton. Included with this memo is a sheet showing a comparison of landfill rates. Average residential customer impact is estimated to be \$0.62/month with the FY18 rate increases.

Mid Atlantic Solid Waste performed a cost-of-service study in 2014. They recommended implementation of a full cost rate for commercial customers. That rate has been phased in over 3 years. FY2018 will be the final year of those rate increases. Although there is the potential for increased revenue associated with an anticipated increase in commercial rates, many commercial customer can choose a different provider. Potential revenue increases have conservatively been withheld from the budget.

Project Solid Waste Utility rate increase for FY2019 - FY2022 are 3% Residential Rate increase and 10% Commercial Rate increase. With these rate increases, staff anticipates that Solid Waste Utility will be above the 20% cash reserve target in FY2021 by \$139,585. We begin funding the Bioreactor Landfill cell #7 starting in FY2021 with about \$1,500,000 of enterprise revenue each year for 5 years.

**Storm Water Utility:** On April 7, 2015 voters approved a 5 year Storm Water rate path. FY2018 will be the third year in that rate path with a 25% rate increase for FY2018. Staff anticipates a 25% and a 20% revenue increase with the final two years of voter approved rate increases in FY2019 and FY2020, respectively. No rate increases have been approved beyond FY2020.

The Sewer and Storm Water Utilities will finalize and begin implementation of the Wastewater and Storm Water Integrated Master Plan. We anticipate this will increase the amount of capital improvement projects over the next 5 years.

Staff anticipates that Storm Water will be below the 20% cash reserve target beginning in FY2020 by \$194,000. This is due to increased capital improvement projects.

**Water Utility:** The water utility is projected to end FY17 \$2.5 million below the minimum cash reserve target. Included with this memo is a sheet showing the FY18 cash position analysis for the water utility. This document shows the need for annual rate increases for water of 3% to 4%, during the FY18 through FY22 period. Even with the projected rate changes, the water utility is projected to remain below the minimum cash reserve target by FY22. The debt coverage ratio is projected to be above the minimum target of 1.2; however, unrestricted cash balance is projected to be below the minimum target cash position.

There are two issues that are impacting the cash balance for water. One is the higher amount of annual investment in capital projects than in prior years. For the ten year period prior to FY17, the annual investment in capital projects from enterprise revenue was \$1.5 million. For the period FY18 through FY22, the average annual investment in capital projects is estimated at \$2.6 million. The other issue is that water saving technology and department efforts to educate customers and irrigation contractors has had the effect of impacting growth in water sales as the number of customers increase.

## ELECTRIC

FY17 Target Cash Position		2% Rate Increase for O&M		
		FY17 Projected Cash Position	Budget	Estimate
Operating Expenses	\$105,924,368	Actual Cash FY16 Year-End	\$23,101,507	\$23,101,507
PILOT	\$12,267,327	Total Revenue-FY17 Budget	\$136,463,283	\$139,004,283
Interest Expense	\$5,475,206	Total Expenditures-FY17 Budget	(\$140,492,609)	(\$135,890,596)
Miscellaneous Expense	\$0	Add Depreciation-FY17 Budget	\$11,910,078	\$11,910,078
Operating Transfers	\$552,620	FY17 CIP from Enterprise Funds	(\$4,050,000)	(\$7,050,000)
Principal On Debt	\$4,363,010	FY17 Principal On Debt	(\$4,363,010)	(\$4,363,010)
<b>FY17 Expenditures w/o CIP</b>	<b>\$128,582,531</b>	<b>Projected Cash FY17 Year-End</b>	<b>\$22,569,249</b>	<b>\$26,712,262</b>
20% of Expenditures	\$25,716,506	Inventory FY17 Year-End	\$6,000,000	\$5,000,000
FY18 CIP Transfer	\$5,850,000	<b>Total Cash Position-FY17 Year-End</b>	<b>\$28,569,249</b>	<b>\$31,712,262</b>
<b>Target Cash Position</b>	<b>\$31,566,506</b>	<b>Projected Debt Coverage Ratio</b>	<b>1.58</b>	<b>2.14</b>

FY18 Target Cash Position		Proposed 1% for O&M	
		FY18 Projected Cash Position	1% Rate Increase
Operating Expenses	\$106,597,459	Projected Cash FY17 Year-End	\$26,712,262
PILOT	\$12,621,264	Total Revenue-FY18 Budget	\$138,596,555
Interest Expense	\$6,726,144	Total Expenditures-FY18 Budget	(\$138,598,247)
Miscellaneous Expense	\$1,616,371	Add Depreciation-FY18 Budget	\$11,910,078
Operating Transfers	\$225,000	FY18 CIP from Enterprise Funds	(\$5,850,000)
Principal On Debt	\$6,030,090	FY18 Principal On Debt	(\$6,030,090)
<b>FY18 Expenditures w/o CIP</b>	<b>\$133,816,328</b>	<b>Projected Cash FY18 Year-End</b>	<b>\$26,740,558</b>
20% of Expenditures	\$26,763,266	Inventory FY18 Year-End	\$5,000,000
FY19 CIP Transfer	\$5,350,000	<b>Total Cash Position-FY18 Year-End</b>	<b>\$31,740,558</b>
<b>Target Cash Position</b>	<b>\$32,113,266</b>	<b>Projected Debt Coverage Ratio</b>	<b>1.72</b>

## ELECTRIC

FY19 Target Cash Position		Proposed 2% Bonds	
Operating Expenses	\$108,729,408	<b>FY19 Projected Cash Position</b>	<b>2% Rate Increase</b>
PILOT	\$12,934,474	Projected Cash FY18 Year-End	\$26,740,558
Interest Expense	\$6,463,789	Total Revenue-FY19 Budget	\$141,711,844
Miscellaneous Expense	\$2,000,000	Total Expenditures-FY19 Budget	(\$145,911,108)
Operating Transfers	\$3,353,359	Add Depreciation-FY19 Budget	\$12,430,078
Principal On Debt	\$6,720,336	FY19 CIP from Enterprise Funds	(\$5,350,000)
<b>FY19 Expenditures w/o CIP</b>	<b>\$140,201,366</b>	FY19 Principal On Debt	(\$6,742,226)
20% of Expenditures	\$28,040,273	<b>Projected Cash FY19 Year-End</b>	<b>\$22,879,146</b>
FY20 CIP Transfer	\$5,000,000	Inventory FY19 Year-End	\$5,000,000
<b>Target Cash Position</b>	<b>\$33,040,273</b>	<b>Total Cash Position-FY19 Year-End</b>	<b>\$27,879,146</b>
		<b>Projected Debt Coverage Ratio</b>	<b>1.52</b>

FY20 Target Cash Position		Proposed 1% for Bonds & 1% for O&M	
Operating Expenses	\$110,903,996	<b>FY20 Projected Cash Position</b>	<b>2% Rate Increase</b>
PILOT	\$13,345,547	Projected Cash FY19 Year-End	\$22,879,146
Interest Expense	\$6,153,247	Total Revenue-FY20 Budget	\$145,105,353
Miscellaneous Expense	\$2,000,000	Total Expenditures-FY20 Budget	(\$145,546,227)
Operating Transfers	\$453,359	Add Depreciation-FY20 Budget	\$12,690,078
Principal On Debt	\$7,037,246	FY20 CIP from Enterprise Funds	(\$5,000,000)
<b>FY20 Expenditures w/o CIP</b>	<b>\$139,893,395</b>	FY20 Principal On Debt	(\$7,060,256)
20% of Expenditures	\$27,978,679	<b>Projected Cash FY20 Year-End</b>	<b>\$23,068,094</b>
FY21 CIP Transfer	\$5,800,000	Inventory FY20 Year-End	\$5,000,000
<b>Target Cash Position</b>	<b>\$33,778,679</b>	<b>Total Cash Position-FY20 Year-End</b>	<b>\$28,068,094</b>
		<b>Projected Debt Coverage Ratio</b>	<b>1.58</b>

## ELECTRIC

FY21 Target Cash Position		2% for O&M	
		FY21 Projected Cash Position	2% Rate Increase
Operating Expenses	\$113,122,076	Projected Cash FY20 Year-End	\$23,068,094
PILOT	\$13,771,259	Total Revenue-FY21 Budget	\$148,584,039
Interest Expense	\$5,855,340	Total Expenditures-FY21 Budget	(\$148,152,112)
Miscellaneous Expense	\$2,000,000	Add Depreciation-FY21 Budget	\$12,950,078
Operating Transfers	\$453,359	FY21 CIP from Enterprise Funds	(\$5,800,000)
Principal On Debt	\$7,322,896	FY21 Principal On Debt	(\$7,347,083)
<b>FY21 Expenditures w/o CIP</b>	<b>\$142,524,930</b>	<b>Projected Cash FY21 Year-End</b>	<b>\$23,303,016</b>
20% of Expenditures	\$28,504,986	Inventory FY21 Year-End	\$5,000,000
FY22 CIP Transfer	\$7,050,000	<b>Total Cash Position-FY21 Year-End</b>	<b>\$28,303,016</b>
<b>Target Cash Position</b>	<b>\$35,554,986</b>	<b>Projected Debt Coverage Ratio</b>	<b>1.65</b>

FY22 Target Cash Position		2% for O&M	
		FY22 Projected Cash Position	2% Rate Increase
Operating Expenses	\$115,384,518	Projected Cash FY21 Year-End	\$23,303,016
PILOT	\$14,112,247	Total Revenue-FY22 Budget	\$150,722,219
Interest Expense	\$5,563,731	Total Expenditures-FY22 Budget	(\$150,463,932)
Miscellaneous Expense	\$2,000,000	Add Depreciation-FY22 Budget	\$12,950,078
Operating Transfers	\$453,359	FY22 CIP from Enterprise Funds	(\$5,800,000)
Principal On Debt	\$7,619,723	FY22 Principal On Debt	(\$7,347,083)
<b>FY22 Expenditures w/o CIP</b>	<b>\$145,133,578</b>	<b>Projected Cash FY22 Year-End</b>	<b>\$23,364,298</b>
20% of Expenditures	\$29,026,716	Inventory FY22 Year-End	\$5,000,000
FY23 CIP Transfer	\$7,050,000	<b>Total Cash Position-FY22 Year-End</b>	<b>\$28,364,298</b>
<b>Target Cash Position</b>	<b>\$36,076,716</b>	<b>Projected Debt Coverage Ratio</b>	<b>1.61</b>

**Landfill tonage rates**

	Jefferson City (Republic)	Maple Hill (Macon - Advance)	Sedalia Mo (WCA)	Bowling Green (Eagle Ridge)	Columbia (Municipal)
Cost per ton	\$61.00	\$50.00	\$55.00	Unknown	\$52.00
Fees	\$19.97	\$17.00	NA	unknown	na
Minimum dump	\$80.97	Unknown	\$46.00	unknown	\$25.00
<b>Total cost per ton</b>	<b>\$80.97</b>	<b>\$67.00</b>	<b>\$55.00</b>	<b>\$55-58.06</b>	<b>\$52.00</b>

**WATER**

FY17 Target Cash Position		2% Rate Increase for O&M		
		FY17 Projected Cash Position	Budget	Estimate
Operating Expenses	\$15,396,104	Actual Cash FY16 Year-End	\$5,951,134	\$5,951,134
PILOT	\$3,483,268	Total Revenue-FY17 Budget	\$26,203,451	\$25,833,826
Interest Expense	\$2,374,000	Total Expenditures-FY17 Budget	(\$25,526,715)	(\$24,517,275)
Miscellaneous Expense	\$0	Add Depreciation-FY17 Budget	\$3,063,432	\$3,063,432
Operating Transfers	\$200,471	FY17 CIP from Enterprise Funds	(\$3,000,000)	(\$3,000,000)
Principal On Debt	\$2,696,990	FY17 Principal On Debt	(\$2,696,990)	(\$2,696,990)
<b>FY17 Expenditures w/o CIP</b>	<b>\$24,150,833</b>	<b>Projected Cash FY17 Year-End</b>	<b>\$3,994,312</b>	<b>\$4,634,127</b>
20% of Expenditures	\$4,830,167	Inventory FY17 Year-End	\$1,300,000	\$1,300,000
FY18 CIP Transfer	\$3,600,000	<b>Total Cash Position-FY17 Year-End</b>	<b>\$5,294,312</b>	<b>\$5,934,127</b>
<b>Target Cash Position</b>	<b>\$8,430,167</b>	<b>Projected Debt Coverage Ratio</b>	<b>1.42</b>	<b>1.37</b>

FY18 Target Cash Position		Proposed 4% for O&M	
		FY18 Projected Cash Position	4% Rate Increase
Operating Expenses	\$16,019,834	Projected Cash FY17 Year-End	\$4,634,127
PILOT	\$3,676,196	Total Revenue-FY18 Budget	\$27,116,239
Interest Expense	\$2,262,000	Total Expenditures-FY18 Budget	(\$25,621,462)
Miscellaneous Expense	\$600,000	Add Depreciation-FY18 Budget	\$3,063,432
Operating Transfers	\$200,471	FY18 CIP from Enterprise Funds	(\$3,600,000)
Principal On Debt	\$3,319,910	FY18 Principal On Debt	(\$3,319,910)
<b>FY18 Expenditures w/o CIP</b>	<b>\$26,078,411</b>	<b>Projected Cash FY18 Year-End</b>	<b>\$2,272,426</b>
20% of Expenditures	\$5,215,682	Inventory FY18 Year-End	\$1,300,000
FY19 CIP Transfer	\$3,000,000	<b>Total Cash Position-FY18 Year-End</b>	<b>\$3,572,426</b>
<b>Target Cash Position</b>	<b>\$8,215,682</b>	<b>Projected Debt Coverage Ratio</b>	<b>1.42</b>



## WATER

FY19 Target Cash Position		Proposed 3.5% for O&M	
Operating Expenses	\$15,799,048	<b>FY19 Projected Cash Position</b>	<b>3.5% Rate Increase</b>
PILOT	\$3,871,770	Projected Cash FY18 Year-End	\$2,272,426
Interest Expense	\$2,137,069	Total Revenue-FY19 Budget	\$27,980,527
Miscellaneous Expense	\$1,100,000	Total Expenditures-FY19 Budget	(\$26,310,079)
Operating Transfers	\$138,759	Add Depreciation-FY19 Budget	\$3,263,432
Principal On Debt	\$3,447,520	FY19 CIP from Enterprise Funds	(\$3,000,000)
<b>FY19 Expenditures w/o CIP</b>	<b>\$26,494,166</b>	FY19 Principal On Debt	(\$3,447,520)
20% of Expenditures	\$5,298,833	<b>Projected Cash FY19 Year-End</b>	<b>\$758,786</b>
FY20 CIP Transfer	\$2,390,000	Inventory FY19 Year-End	\$1,300,000
<b>Target Cash Position</b>	<b>\$7,688,833</b>	<b>Total Cash Position-FY19 Year-End</b>	<b>\$2,058,786</b>
		<b>Projected Debt Coverage Ratio</b>	<b>1.49</b>

FY20 Target Cash Position		Proposed 4% for O&M	
Operating Expenses	\$16,115,029	<b>FY20 Projected Cash Position</b>	<b>4% Rate Increase</b>
PILOT	\$4,088,005	Projected Cash FY19 Year-End	\$758,786
Interest Expense	\$2,002,921	Total Revenue-FY20 Budget	\$29,024,148
Miscellaneous Expense	\$1,100,000	Total Expenditures-FY20 Budget	(\$26,808,146)
Operating Transfers	\$138,759	Add Depreciation-FY20 Budget	\$3,363,432
Principal On Debt	\$3,592,500	FY20 CIP from Enterprise Funds	(\$2,390,000)
<b>FY20 Expenditures w/o CIP</b>	<b>\$27,037,214</b>	FY20 Principal On Debt	(\$3,592,500)
20% of Expenditures	\$5,407,443	<b>Projected Cash FY20 Year-End</b>	<b>\$355,720</b>
FY21 CIP Transfer	\$1,500,000	Inventory FY20 Year-End	\$1,300,000
<b>Target Cash Position</b>	<b>\$6,907,443</b>	<b>Total Cash Position-FY20 Year-End</b>	<b>\$1,655,720</b>
		<b>Projected Debt Coverage Ratio</b>	<b>1.58</b>

## WATER

FY21 Target Cash Position		Proposed 3% for O&M	
		FY21 Projected Cash Position	3% Rate Increase
Operating Expenses	\$16,437,330	Projected Cash FY20 Year-End	\$355,720
PILOT	\$4,298,190	Total Revenue-FY21 Budget	\$29,838,173
Interest Expense	\$1,871,718	Total Expenditures-FY21 Budget	(\$27,309,429)
Miscellaneous Expense	\$1,100,000	Add Depreciation-FY21 Budget	\$3,463,432
Operating Transfers	\$138,759	FY21 CIP from Enterprise Funds	(\$1,500,000)
Principal On Debt	\$3,739,860	FY21 Principal On Debt	(\$3,739,860)
<b>FY21 Expenditures w/o CIP</b>	<b>\$27,585,857</b>	<b>Projected Cash FY21 Year-End</b>	<b>\$1,108,036</b>
20% of Expenditures	\$5,517,171	Inventory FY21 Year-End	\$1,300,000
FY22 CIP Transfer	\$2,397,000	Total Cash Position-FY21 Year-End	\$2,408,036
<b>Target Cash Position</b>	<b>\$7,914,171</b>	<b>Projected Debt Coverage Ratio</b>	<b>1.62</b>

FY22 Target Cash Position		Proposed 4% for O&M	
		FY22 Projected Cash Position	4% Rate Increase
Operating Expenses	\$16,766,076	Projected Cash FY20 Year-End	\$1,108,036
PILOT	\$4,540,373	Total Revenue-FY22 Budget	\$30,956,100
Interest Expense	\$1,737,866	Total Expenditures-FY22 Budget	(\$27,846,506)
Miscellaneous Expense	\$1,100,000	Add Depreciation-FY22 Budget	\$3,563,432
Operating Transfers	\$138,759	FY22 CIP from Enterprise Funds	(\$2,397,000)
Principal On Debt	\$3,877,220	FY22 Principal On Debt	(\$3,877,220)
<b>FY22 Expenditures w/o CIP</b>	<b>\$28,160,294</b>	<b>Projected Cash FY22 Year-End</b>	<b>\$1,506,842</b>
20% of Expenditures	\$5,632,059	Inventory FY22 Year-End	\$1,300,000
FY23 CIP Transfer	\$2,486,000	Total Cash Position-FY22 Year-End	\$2,806,842
<b>Target Cash Position</b>	<b>\$8,118,059</b>	<b>Projected Debt Coverage Ratio</b>	<b>1.72</b>