

VILLAGE OF DOWNERS GROVE
REPORT FOR THE VILLAGE COUNCIL MEETING
AUGUST 17, 2010 AGENDA

SUBJECT:	TYPE:	SUBMITTED BY:
Water Rate Study Presentation #2	Resolution Ordinance Motion ✓ Discussion Only	Nan Newlon, P.E. Director of Public Works

SYNOPSIS

Discussion is requested regarding the second of two presentations related to the water rate study that is being conducted by the Municipal and Financial Services Group (M&FSG). Representatives of M&FSG will present information about alternative rate structures.

STRATEGIC PLAN ALIGNMENT

The Five Year Plan and Goals include *Exceptional Municipal Organization*. A supporting objective of this statement is *Steward of Financial Sustainability*.

FISCAL IMPACT

N/A

RECOMMENDATION

N/A

BACKGROUND

On April 13, 2010 the Village Council authorized award of a contract with M&FSG to complete a water rate study. The goal of the study is to review current and future water rates to ensure adequate funding is available for current operations and maintenance as well as for identified capital maintenance and improvement projects into the future. The objectives of this project include the following:

1. Propose water rates that:
 - Are fair, objective and ensure that water service is provided on a self-supporting basis
 - Fund capital projects as identified and approved
 - Encourage water conservation, and
 - Take into consideration potential DuPage Water Commission rate increases
2. Review and update miscellaneous water-related fees.
3. Recommend a prudent reserve policy for operations, capital replacement and emergencies.

In July the Village Council heard a presentation by representatives of M&FSG stating that to maintain the financial viability of the Village's water utility, water rate increases would be required each year beginning in 2011 and continuing through 2015. Their presentation identified the elements of the annual revenue requirements of the water utility, and compared those requirements with the annual revenues projected to be collected with current water rates. At the current rates, the water fund would experience an increasing annual shortfall of approximately \$2.74 million in 2011 growing to \$4.93 million by 2015. As a result, M&FSG initially proposed water rate increases of 13% in 2011, 2012 and 2013, and 8% in 2014 and 2015.

M&SFG also made several key findings and recommendations besides the water rate itself that factor into the future financial well-being of the water utility. These findings and recommendations are summarized below:

1) Capital Improvements

- There are currently \$45 million in buried water system assets (water mains) and \$23 million in above ground assets (water towers, well houses, rate stations) exceeding their useful life.
- Capital investment should be approximately \$5 million annually.
- Financing of capital projects is recommended to keep rates low. Bond financing was recommended for individual projects exceeding \$1 million or when the total in one year exceeds \$1.5 million.
- Bond issues of \$10.3 million in 2012 and \$6.5 million in 2015 have been anticipated in calculating the proposed water rates.

2) Contributions to Reserves

- Three months of Operating and Maintenance (O&M) expenses was recommended as a minimum target.
- Institute a Repair, Replacement and Rehabilitation (3R) Reserve. The 3R Reserve is equal to the difference between annual capital spending and the annual required capital investment.

In this second presentation, representatives from M&FSG will discuss alternative water rate structures. Put simply, this discussion will center on three key policy considerations: who pays, how much, and why. Common rate structure goals and objectives will be presented and staff from M&FSG will present information regarding water usage patterns. Three water rate structure alternatives will be explained and information will be provided regarding surrounding community rate structures and sample water bills for each alternative.

ATTACHMENTS

N/A