

MEMORANDUM

CITY/BOROUGH OF JUNEAU
Public Works Department
5433 Shaune Drive, Juneau, Alaska 99801

DATE: September 30, 2003

TO: Rod Swope
City Manager

FROM: Joe Buck, PE
Public Works Director



SUBJECT: Assembly Request for Alternative Utility Rate Increase Structures

The purpose of this memorandum is to provide additional information to the CBJ Assembly to assist them in selecting a utility rate increase structure for implementation.

The utility rate increase as proposed by staff and our consultant involves a first increase in FY2004, a second in FY2007, and then every two years beyond that as part of the annual CBJ budget process. Prior to each rate increase, the utilities will reanalyze the revenue needs and request rate adjustments as necessary to maintain the financial viability of the utilities. For comparison, under the proposed increase structure the flat rate residential water bill will increase from \$19 per month up to \$22.61 and the flat rate residential sewer bill will increase from \$39.50 up to \$54.91. This is a 19-percent increase in the water bills and a 39-percent increase in the sewer bills. The percent increase effects all of the utility customers equally.

The purpose of this significant rate increase is to provide necessary revenues for the enterprise operations to meet the annual cost of operation, maintenance, debt service, and major capital replacement through partial depreciation funding.

Staff was requested by Assemblyman Wheeler to provide a rate increase alternative that would be implemented over a three-year period. In addition, staff was asked by Assemblyman Anderson to develop a two-year strategy. Our consultants, FCSG Inc., ran a model analysis for the alternate strategies. The analysis results are attached and titled Water Utility Rate Model Alternatives, and Wastewater Utility Rate Model Alternatives.

For both utilities, there is a significant rate increase needed in the first year to assure that the operations do not go into the "red" financially. In addition to assuring that adequate revenues are received for operating and maintenance, existing and new debt service, and partial depreciation funding for capital replacement, the first rate increase begins to establish stable accounts necessary for operating reserves, system replacement reserves, and bond revenue coverage requirements.

Impacts of spreading the rate increases more evenly over a two or three-year period would result in significant negative changes to each utilities financial condition. While the Water Utility could more easily adjust to a more uniform rate increase, the Wastewater Utility would not be able to operate without subsidy from other municipal revenue sources.

Utility Rate Structure Alternatives

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For example, if the Assembly should choose to spread the first rate increase evenly over a three-year period, the first year the Water Utility would be in deficit spending by \$129,000 and the Wastewater Utility would be in a deficit by approximately \$1,000,000. In this scenario, the Wastewater Utility would not have sufficient revenues to meet normal operations, maintenance, and debt reductions. Also, insufficient revenues would be collected to meet debt coverage service requirements thus putting both Utilities at risk of not being able to issue revenue bonds.

CC. Donna Pierce, Deputy City Manager
Craig Duncan, Finance Director
Scott Jeffers, Wastewater Utility Superintendent
Grant Ritter, Water Utility Superintendent
Janet Grange, Public Works Administrative Officer

**THE CITY AND BOROUGH OF JUNEAU
Water Utility Rate Model Alternatives**

Two-Year Implementation Plan

Customer Class	Existing Rates						Fiscal Year 2004		Fiscal Year 2005		Fiscal Year 2006	
	Monthly Fixed Charge		Volume Charge	Monthly Fixed Charge		Volume Charge	Monthly Fixed Charge		Volume Charge	Monthly Fixed Charge		Volume Charge
	Per Account	Per Unit		Per Account	Per Unit		Per Account	Per Unit		Per Account	Per Unit	
Flat Residential	\$ -	\$19.00	\$ -	\$21.66	\$ -	\$22.76	\$ -	\$22.76	\$ -	\$ -	\$ -	
Metered Residential	\$13.00	-	\$1.75	-	\$14.82	-	\$15.57	-	\$2.10	-	\$2.10	
Flat Commercial	-	\$19.00	-	\$21.66	-	\$22.76	-	\$22.76	-	-	-	
Metered Commercial	\$13.00	-	\$1.75	-	\$14.82	-	\$15.57	-	\$2.10	-	\$2.10	
Large Commercial	\$250.00	-	\$0.50	-	\$285.00	-	\$299.43	-	\$0.60	-	\$0.60	
Bulk Water	\$13.00	-	\$1.75	-	\$14.82	-	\$15.57	-	\$2.10	-	\$2.10	

Effective: December 1, 2003 Effective: July 1, 2004

Three-Year Implementation Plan

Customer Class	Existing Rates						Fiscal Year 2004		Fiscal Year 2005		Fiscal Year 2006	
	Monthly Fixed Charge		Volume Charge	Monthly Fixed Charge		Volume Charge	Monthly Fixed Charge		Volume Charge	Monthly Fixed Charge		Volume Charge
	Per Account	Per Unit		Per Account	Per Unit		Per Account	Per Unit		Per Account	Per Unit	
Flat Residential	\$ -	\$19.00	\$ -	\$21.66	\$ -	\$22.20	\$ -	\$22.76	\$ -	\$ -	\$ -	
Metered Residential	\$13.00	-	\$1.75	-	\$14.82	-	\$15.19	-	\$2.04	-	\$2.10	
Flat Commercial	-	\$19.00	-	\$21.66	-	\$22.20	-	\$22.76	-	-	-	
Metered Commercial	\$13.00	-	\$1.75	-	\$14.82	-	\$15.19	-	\$2.04	-	\$2.10	
Large Commercial	\$250.00	-	\$0.50	-	\$285.00	-	\$292.13	-	\$0.58	-	\$0.60	
Bulk Water	\$13.00	-	\$1.75	-	\$14.82	-	\$15.19	-	\$2.04	-	\$2.10	

Effective: December 1, 2003 Effective: July 1, 2004 Effective: July 1, 2005

**THE CITY AND BOROUGH OF JUNEAU
Wastewater Utility Rate Model Alternatives**

Two-Year Implementation Plan

Customer Class	Existing Rates			Fiscal Year 2004		Fiscal Year 2005		Fiscal Year 2006	
	Monthly Fixed Charge	Volume Charge	Volume Charge \$/1,000 gal	Monthly Fixed Charge	Volume Charge	Monthly Fixed Charge	Volume Charge	Monthly Fixed Charge	Volume Charge
	Per Account	Per Unit		Per Account	Per Unit	Per Account	Per Unit	Per Account	Per Unit
Flat Residential	\$ -	\$ 39.50	\$ -	\$ 52.14	\$ -	\$ 55.58	\$ -	\$ -	\$ -
Metered Residential	\$ 39.50	-	\$ 5.25	-	\$ 6.93	-	\$ 7.39	-	\$ 7.39
Flat Commercial	-	\$ 39.50	-	\$ 52.14	-	\$ 55.58	-	-	-
Metered Commercial	\$ 39.50	-	\$ 5.25	\$ 6.93	-	\$ 7.39	-	-	\$ 7.39
Septage Haulers	-	-	\$ 15.00	\$ 19.80	-	-	\$ 21.11	-	\$ 21.11

Effective: December 1, 2003 Effective: July 1, 2004

Three-Year Implementation Plan

Customer Class	Existing Rates			Fiscal Year 2004		Fiscal Year 2005		Fiscal Year 2006	
	Monthly Fixed Charge	Volume Charge	Volume Charge \$/1,000 gal	Monthly Fixed Charge	Volume Charge	Monthly Fixed Charge	Volume Charge	Monthly Fixed Charge	Volume Charge
	Per Account	Per Unit		Per Account	Per Unit	Per Account	Per Unit	Per Account	Per Unit
Flat Residential	\$ -	\$ 39.50	\$ -	\$ 52.14	\$ -	\$ 53.96	\$ -	\$ 55.58	\$ -
Metered Residential	\$ 39.50	-	\$ 5.25	-	\$ 6.93	\$ 53.96	\$ 7.17	\$ 55.58	\$ 7.39
Flat Commercial	-	\$ 39.50	-	\$ 52.14	-	\$ 53.96	-	\$ 55.58	-
Metered Commercial	\$ 39.50	-	\$ 5.25	\$ 6.93	-	\$ 7.39	-	\$ 7.39	-
Septage Haulers	-	-	\$ 15.00	\$ 19.80	-	-	\$ 20.49	-	\$ 21.11

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