

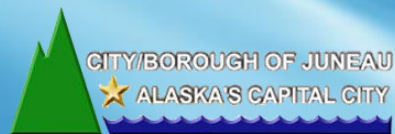
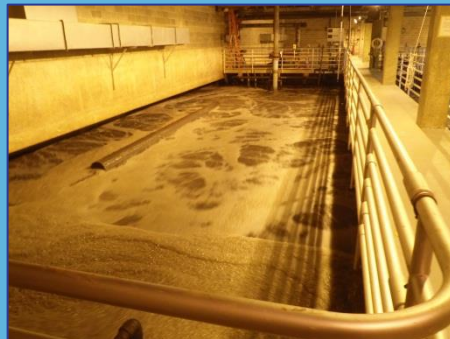


JUNEAU WATER & WASTEWATER RATE STUDY

SUMMARY OF FINDINGS



JUNE 2014



The CBJ Assembly is considering increasing water and sewer utility rates.

WHAT ARE THE PROPOSED INCREASES?

The proposal would increase rates for both water and wastewater by 9.5% each year for the next three years. The Assembly will be taking action at the June 30th Assembly meeting.

WHY IS A RATE INCREASE BEING CONSIDERED?

The water and wastewater utilities do not have enough money saved to make anticipated repairs. Past Assemblies have opted to keep rates low, rather than to raise rates and build cash reserves. In the past, when repairs or improvements were made, the Assembly paid for them with funds from general funds, grants, or other city-wide sources. With current city-wide budgetary concerns, this practice is not viable in the future, and dedicated replacement funding is being considered.

Water and wastewater infrastructure is anticipated to last 40 years once it has been installed. The entire system has approximately \$275 million in assets. The Public Works and Engineering Directors are recommending that \$74 million, or approximately 25% of the infrastructure, be replaced over the next 10 years (see "Revenue Requirements," below).

WHY ARE THE SPECIFIC SCENARIOS BEING CONSIDERED?

Any funding scenario enacted by this Assembly could be modified by future Assemblies. For instance, if significant grant funding became available to address some maintenance concerns, the Assembly could modify the rate increase to reduce the impact on rate payers.

A 9.5% increase over three years and a revenue bond in 2017 would amass enough cash reserves that, with compounded interest, the funds would address scheduled repairs for those three years.

WHO WILL BE IMPACTED?

Anyone who pays for city water and sewer would see an increase in their utility bills if the Assembly chooses to raise rates.

WHEN WOULD THE INCREASE TAKE PLACE?

The proposed increases are being considered to take place on September 1, 2014; July 1, 2015; and July 1, 2016.

WHAT ASSUMPTIONS WERE MADE?

Staff from the CBJ Public Works and Engineering departments determined that needed infrastructure improvements over the next ten years total \$74 million. CBJ hired a consultant to determine how best to adjust rates to cover the needed improvements. Their model included the following assumptions:

- \$1.2 million in cruise ship passenger fees would be available to help pay for infrastructure improvements
- \$22.5 million in 1% sales tax funds would be available to help pay for infrastructure improvements starting in 2019, which amounts to 50% of the total amount available through the sales tax for the years 2019 through 2024
- Revenue bond debt would be repaid over 20 years at 4.5% interest

Since CBJ cannot be assured of future grants or agency loans, those possible funds were not included in the modeling.



Crews install a new 8-inch water main in Eagles Edge Subdivision this spring.

HOW DID WE GET HERE?

Past infrastructure improvements had been largely dependent on significant grants. For instance, CBJ received \$22 million in federal grants to build the Mendenhall Wastewater Treatment Plant in the mid-1980s. Grant funding has been reduced for two reasons. One reason is that there are more and more entities competing for the same funding. It is estimated that, nationwide, there are \$3.5 trillion in water and wastewater improvements needed. The second reason is that there is less funding available. Federal funding has seen reductions as a result of increased

pressure to reduce taxes. Alaska's oil revenue continues to decline, and state grant programs compete directly with other state programs.

As noted above, past Assemblies have opted to pay for needed upgrades with city funding, rather than establishing cash reserves for future repairs. By keeping rates low, they helped attract businesses and improve the affordability of living in Juneau.

HOW DO WE MAKE SURE WE DON'T GET HERE AGAIN?

The utilities will need to reduce their dependence on grants and city operating budgets. While these sources worked in the past, future reductions make them less stable as funding sources. Again, if CBJ does get grants or other sources of money for utility improvements, rates can be adjusted at that time.



Water and sewer lines are usually located under roadways, so repairs and replacement are often done at the same time as road construction so that the road does not have to be torn up and repaved later. Here crews build a new water main under Juneau's Main Street last summer.

A SUMMARY OF THE PROCESS SO FAR

Every 10 years, the CBJ conducts a comprehensive rate study to assess water and wastewater system operating and capital needs, and to determine the sufficiency of current rates to meet those needs. The last study was completed in 2003. This study is intended to update the process for the next 10 years.

The goal of this rate study update is to establish a long-term plan for sustained financial performance, allowing the CBJ to continue delivering the highest level of utility services to the community at fair and reasonable rates. Major study elements included a review of:

- Financial policies
- Revenue needs
- Allocation of system costs to customers
- Design of the rate structure
- Public outreach

Financial Policies

Financial policies are a key element in developing utility rate structures. Policies will:

- Establish the solid foundation for budgeting and performance measurement
- Allocate costs into appropriate funds, which will only be used for their intended purpose
- Create reserves for unexpected events
- Create a stable environment in which to develop rates

Financial policies include best management practices that promote financial integrity, improving the sustainability of the utility. They are commonly reviewed by loan and grant agencies to make sure the community has appropriate money management protocols in place. Elements may include:

- **Self-supporting enterprise funds.** When able, utilities ideally are supported by their own revenue generation through rates and fees.
- **Operating reserves.** These cash reserves are available to cushion the time lag between when billing happens and when bills are paid. Industry standards recommend having reserves totaling 30-45 days of operating and maintenance costs.
- **Capital contingency.** These reserves would be used to pay for unexpected major repairs. Industry standards recommend an amount equal to 1-2% of the system's fixed assets.
- **Infrastructure replacement funding.** We know that utility infrastructure will not last forever. In fact, we expect it to last 40 years before needing to be replaced. Ideally, the utility operator will save a little bit each year to cover the eventual replacement of these assets. That has not happened in Juneau, so we have relatively large costs occurring all at once.
- **Debt service coverage.** If we issue a revenue bond, we need to show we can pay it back. If we issue a bond to pay for improvements, we need to be able to make payments, plus bond covenant coverage
- **Debt management.** Credit agencies do not want to see us using debt to fund all of our capital improvement needs. Industry standard is to finance no more than 60% debt to 40% equity.
- **Frequency of rate adjustments.** Things change. Sometimes extra funds become available, while other times extra costs arise. By scheduling a review of rates, the Assembly can make sure that we are only paying what we need to. On the expense side, it may prove that the utilities need additional funds and periodic revenue will allow for those adjustments as well.

Revenue Needs

This study assumed the need to replace a quarter of the water and wastewater infrastructure over the next 10 years. Since infrastructure is usually expected to last 40 years once installed, replacing a quarter of the infrastructure over the span of this study is a reasonable assumption. We are anticipating \$74 million in replacement costs over the next 10 years at current year dollars. This is slightly more than 25%. However, if you consider that much of this infrastructure was installed over 40 years ago and is already operating beyond its useful life, this slightly aggressive stance is warranted. Besides rates, the study considered grants and other outside sources of revenue, cash reserves, and debt financing. In addition to capital projects, we considered cost escalation, any need for additional staff, foreseen regulatory changes, and other programs or initiatives.

It is important to understand that inflation will impact the future costs of replacement. Something that costs \$75 million in 2014 will cost about \$100 million in 2024, assuming 3% inflation. Needs do not go away if we wait, but the cost of addressing them certainly goes up.

Through planning, we can be better prepared for meeting the costs of our system and cultivating financial stability.



Lift stations move sewage from areas of lower elevation to higher elevation. The replacement of the Valley Court sewer main and the Gruening Park lift station are estimated to cost \$1.5 million.

Allocation of System Costs to Customers

Customers can be divided into groups based on how they use the water and wastewater systems. Different groups can be charged different rates, depending on the demand they place on the system. For instance, cruise ships have interruptible service, do not require city fire protection, and are generally charged less than a commercial user who needs sprinklers.

Metering may be the fairest way to make sure users pay for what they use, but it comes with a cost. Metering is expected to cost \$3 to \$5 million for installation, then an additional \$500,000 a year to maintain—all those meters need to be read, maintained, and turned on and off as people move.

Design of Rate Structures

At this point, the CBJ is considering across-the-board rate increases. Each user group can expect a proportional increase to the rate they pay, be that metered or flat. These increases will enable the utility to collect the revenue they need to sustain the system and provide stability for CBJ residents.

Public Process

The decision to increase rates is not one taken lightly. While increased rates provide funding stability for vital infrastructure, they will impact the pocketbooks of everyone who lives in or visits Juneau. The degree of outreach for this process has been extensive, but it is important for the public to understand and comment on the elements that have gone into the rate study process.

Introduction to the Rate Study Process

This meeting provided an introduction to the water and wastewater utilities and to the rate study process.

| Date: | Where: | Who: |
|------------------|--------------------------|----------------|
| November 7, 2013 | Juneau Assembly Chambers | Public Meeting |

News coverage was provided by the Juneau Empire and KTOO.

Presentation of Revenue Requirement Forecasts

This presentation looked at how much it costs for CBJ to run our water and wastewater utilities, and how much of that is covered by the fees we pay.

| Date: | Where: | Who: |
|-------------------|--------------------------|---------------------------------|
| December 9, 2013 | Juneau Assembly Chambers | Assembly Committee of the Whole |
| December 11, 2013 | Juneau Assembly Chambers | Public Meeting |

News coverage was provided by the Juneau Empire.

Cost of Service and Preliminary Rate Design Findings

Project team members recommended a rate structure that meets the utilities goals. They provided samples of rate impacts on residential and commercial bills.

| Date: | Where: | Who: |
|-------------------|---------------------------|---------------------------------|
| February 10, 2014 | Juneau Assembly Chambers | Assembly Committee of the Whole |
| February 11, 2014 | Mendenhall Valley Library | Public Meeting |
| February 12, 2014 | Juneau Assembly Chambers | Top 50 Users |
| February 12, 2014 | Hangar on the Warf | Public Meeting |

News coverage was provided by the Juneau Empire and KTOO.

On May 5, the Public Works Director briefed the Assembly Committee of the Whole on the rate study process. At that time, the body decided to introduce a rate increase on June 9, 2014. They will hear testimony and make a decision on June 30, 2014.

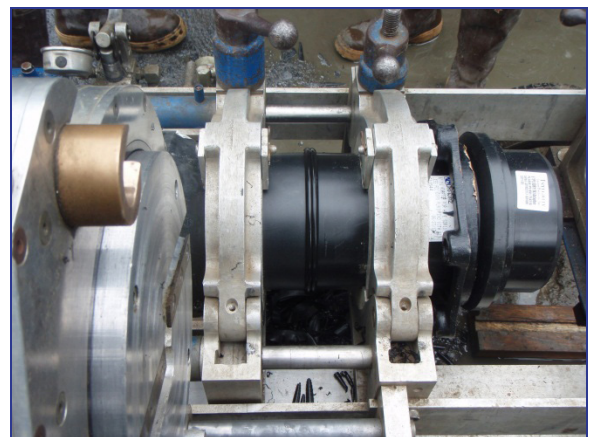
Summary

Juneau's water and wastewater rates are a vital element of creating a thriving community. While increased rates may hurt in the short term, there are some distinct advantages to fully funding water and sewer services:

- Predictable rates create a stable environment for business. While no one likes to see rates increase, a predictable rate increase helps people make and plan for business ventures. A stable rate increase is better than a dramatic rate increase resultant from crisis.
- Federal grant sources that have traditionally been available to defray the costs of infrastructure repair and replacement have been reduced, and experience more competition than in the past.
- State grant sources and general funds that have traditionally been used to defray infrastructure repair and replacement are reduced due to decreases in oil revenue.
- By repairing the infrastructure we are currently using, we reduce future costs and provide a stable community for future generations.
- Clean water is vital to our role as an international port. We welcome visitors from around the world—including places with water-borne diseases.



Crews install the sanitary sewer system along Main Street last summer. The large concrete structures will house the man holes that provide maintenance crews access for maintenance and repairs.



CBJ has used plastic HDPE pipe for water installations in some neighborhoods. In this photo the ends of the HDPE pipe are fused together. HDPE tends to cost less than ductile iron, and is resistant to corrosion.

Need more information about city budget concerns or about information that went into these decisions? Visit the website:

www.JuneauRateStudy.com

Special thanks to KTOO and the Juneau Empire for making their articles and stories available for reposting on the project website.



