

CITY AND BOROUGH OF SITKA

ORDINANCE NO. 2011 – 25

AN ORDINANCE OF THE CITY AND BOROUGH OF SITKA AMENDING THE SITKA
GENERAL CODE TO ADJUST THE RATES FOR WATER SERVICE.

1. CLASSIFICATION. This ordinance is of a permanent nature and is intended to be a part of the Sitka General Code of the City and Borough of Sitka, Alaska.

2. SEVERABILITY. If any provision of this ordinance or any application to any person or circumstance is held invalid, the remainder of this ordinance and application to any person and circumstances shall not be affected.

3. PURPOSE. The City and Borough of Sitka shall change the rates for water service, with the base rate going from \$20.80 to \$23.71 per month per unit and metered rates to increase by fourteen (14 percent for Fiscal Year 2012; and, rate increase of 14% in 2013, and 14% in 2014 for both the base and metered rates. The additional funds are needed to cover the operating, debt service and infrastructure costs. The schedule follows the water system master plan and the presentation by the FCS Group – Solutions Oriented Consulting and each year will be evaluated prior to the 14% rate increases through Fiscal Year 2014.

4. ENACTMENT. NOW, THEREFORE, BE IT ENACTED by the Assembly of the City and Borough of Sitka that the Sitka General Code Section is amended to read as follows:

**Chapter 15.05
Water System**

15.05.620 Rates and Fees

A. Unmetered Water. Base rate: \$23.71 [TWENTY DOLLARS AND EIGHT CENTS] per unit.

B. Metered Water Service

<u>Meter Size</u>	<u>Allowance(GAL)</u>	<u>Minimum Charge</u>
Up to 1"	15,000	<u>\$33.79</u> [\$29.64]
2"	50,000	<u>\$74.10</u> [\$65.00]
3"	100,000	<u>\$111.15</u> [\$97.50]
4"	250,000	<u>\$222.30</u> [\$195.00]
6" and above	500,000	<u>\$444.60</u> [\$390.00]

All over allowance charged at the minimum charge plus seventy four [SIXTY FIVE] cents per one thousand gallons. The over allowance charged at minimum charge plus thirty four [THIRTY] cents per one thousand will apply to major fish processing plants (Seafood Producers Cooperative, Sitka Sound Seafoods, Inc., aka North Pacific Seafoods, and Stikine Holdings, LLC. aka Silver Bay Seafoods)

15.05.625 water rates – Sawmill Cove Industrial Park.

A. Water Service – Sawmill Cove Industrial Park

1. **Unmetered** Treated water, domestic use: **Base Rate**, twenty **three** [TWENTY] dollars and **seventy one** [EIGHTY] cents per unit, per month.
2. Metered water: **seventy four** [SIXTY FIVE] dollars and **ten** [ZERO] cents per month minimum.
 - a. Treated water; one dollar and **forty-eight** [THIRTY] cents per one thousand gallons.
 - b. Treated water: fish processing use: **one** [ZERO] dollar and **eleven** [NINETY SEVEN AND ONE-HALF] cents per one thousand gallons.
 - c. Raw water for heating: **fifty two** [FORTY SIX] cents per one thousand gallons.
 - d. Raw water for industrial processing: **seventy four** [SIXTY FIVE] cents per one thousand gallons.
 - e. Raw water for water bottling at Sawmill Cove Industrial Park: one dollar and thirty cents per thousand gallons.

B. Wastewater Service –Sawmill Cove Industrial Park.

1. **Unmetered** [TREATED] wastewater, domestic: **Thirty eight** [twenty four] dollars and **Fifty Three** [ZERO] cents per month.
2. Treated wastewater, metered: one hundred dollars per month minimum.
 - a. Treated wastewater, metered: Two dollars and **twenty seven** [ZERO] cents per one thousand gallons water use.

5. EFFECTIVE DATE. This ordinance shall become effective on the **first billing cycle after July 1, 2011.**

PASSED, APPROVED, AND ADOPTED by the Assembly of the City and Borough of Sitka, Alaska this 28th day of June, 2011.

Cheryl Westover, Mayor

ATTEST:

Colleen Ingman, MMC
Municipal Clerk

**City and Borough of Sitka
Water Treatment Fund
Pro Forma Financial Plan, FY2010 - FY2015
Assuming 14% Rate Increase and 4% Expense Increase
Executive Summary**

Key Points:

1. Last year's 14% rate increase is fairly tracking through April; actual year over year increase is 12.16%.
2. Infrastructure Improvements are forecasted as set forth in the Water fund mid-range and long-range Capital Improvements Program. Improvements are forecasted to be acquired with 70% grants and 30% loans.

This 70%/30% grant to loan ratio is our "closest to the pin" estimate. It is neither aggressive nor conservative. The actual ratio could be less.

3. Fund begins to build unrestricted equity in 2013.
4. The Water Fund builds fund equity as anticipated in the Water Master Plan, allowing for a substantial sinking fund to be developed in anticipation of infrastructure replacements. The course should continue to be stayed.

City and Borough of Sitka
Water Fund
Pro Forma Financial Plan, FY2010 - FY2015
Assuming 14% Rate Increase and 4% Expense Increase

	<u>FY2010</u>	<u>FY2011 EST</u>	<u>FY2012 EST</u>	<u>FY2013 EST</u>	<u>FY2014 EST</u>	<u>FY2015 EST</u>
Operating Revenues	1,094,899	1,196,150	1,363,611	1,554,517	1,772,149	2,020,250
Costs of Sales	872,316	872,000	906,880	943,155	980,881	1,020,117
Earnings Before Interest and Depreciation	222,583	324,150	456,731	611,361	791,267	1,000,133
Interest expense	(49,330)	(79,722)	(66,919)	(66,919)	(66,919)	(66,919)
Depreciation	(510,583)	(459,524)	(454,929)	(450,380)	(467,000)	(462,330)
Other Income (Expense)	1,074,589	(850,000)	3,442,600	4,473,700	3,084,200	1,491,700
Net Income	737,259	(1,065,096)	3,377,483	4,567,762	3,341,548	1,962,584
	<u>6/30/2010</u>	<u>6/30/2011</u>	<u>6/30/2012</u>	<u>6/30/2013</u>	<u>6/30/2014</u>	<u>6/30/2015</u>
Current Assets	1,619,109	963,256	874,567	993,800	1,292,940	1,800,945
Property, Plant & Equipment	17,854,071	15,689,224	20,152,295	26,092,915	30,031,915	31,700,585
Other Assets	107,053	107,053	281,497	281,497	281,497	281,497
Total assets	19,580,233	16,759,534	21,308,359	27,368,212	31,606,352	33,783,027
Current Liabilities	602,155	43,059	164,210	164,210	164,210	164,210
Noncurrent Liabilities	4,901,303	4,476,094	5,526,285	7,018,376	7,914,967	8,129,058
Fund Equity	14,076,775	12,240,380	15,617,863	20,185,626	23,527,174	25,489,758
Total Liabilities and Fund Equity	19,580,234	16,759,534	21,308,359	27,368,212	31,606,352	33,783,027

City and Borough of Sitka, Alaska



FCS GROUP

Solutions-Oriented Consulting

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FEBRUARY 24, 2009

Presentation Outline

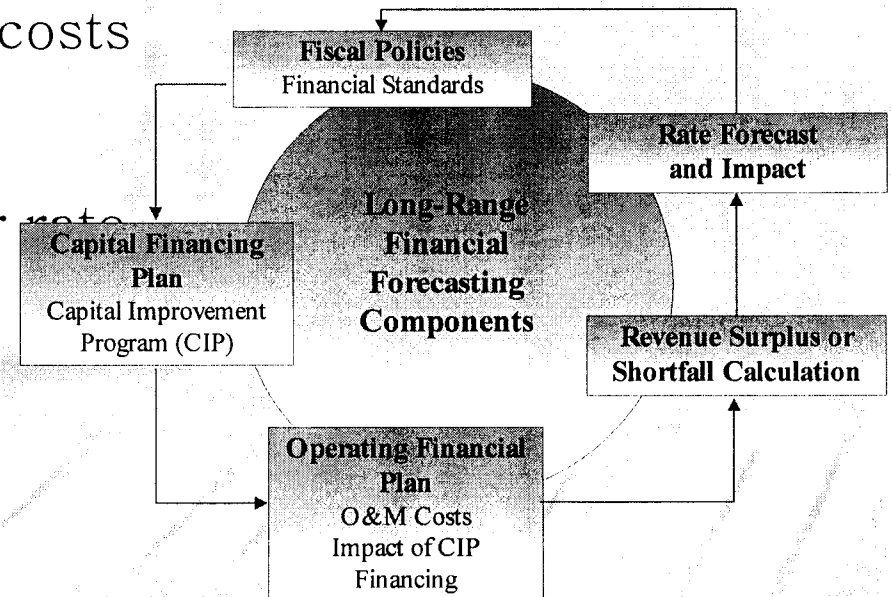
- Overview of Financial Analyses
- Fiscal Policies
- Capital Funding Plan
- Revenue Needs Assessment
- Rate Forecast
- Rate Comparisons

Overview of Financial Analyses

- Multi-year financial plan (2009 – 2014) that determines the amount of revenue necessary to recover the total costs incurred to provide service
 - ✓ Target cash balances
 - ✓ System reinvestment funding
 - ✓ Operating & maintenance costs
 - ✓ Capital related costs

- Forms the basis for the water rate forecast

...Matches
resources with the
water system
capital planning



Overview of Fiscal Policies

- Considered best management practices to promote the financial integrity and stability of the utility and help ensure the sustainability of essential utility services
- Commonly reviewed by bond / loan underwriters to determine loan eligibility (ability to repay debt)
- The following fiscal policies recommendations were incorporated into the financial analysis:
 - ✓ Working capital balance
 - ✓ Capital contingency balance
 - ✓ System reinvestment funding
 - ✓ Debt management

Fiscal Policies: Working Capital

- Provides sufficient cash flow (working capital) to meet daily operating expenses

Main operating account equal to 30 to 45 days of operating expenses (8% to 12%)

✓ Sustained from rate revenues

In any year where cash balance exceeds target, transfer to capital account to help pay for capital projects

Fiscal Policies: Capital Contingency

- Provides a source of funding for emergency repairs (other than catastrophic events), unanticipated capital expenditures, and project cost overruns

- ✓ 1 to 2 % of system fixed assets (recommended)
- ✓ 5 year annual average of capital program
- ✓ Set dollar amount

Can be “nested” with other capital resources: system reinvestment funding, connection charges, & excess operating cash balances

Fiscal Policies: System Reinvestment Funding

- Provides for ongoing system integrity through reinvestment in the system (replacing physical assets with cash assets)
- Charges customers commensurate with the consumption of facility useful lives (customer equity)
- Maintains rate stability

- ✓ Annual depreciation expense (recommended – phased in over 5 years)
- ✓ Replacement-based dollar amount (full recovery)

Transfer from operating account to capital account to help fund capital projects

Fiscal Policies: Debt Management

- Provides for an appropriate balance of debt and equity financing of capital needs
- Maintains credit worthiness for future debt issuance
- Promotes equity between existing & future ratepayers

Maintain debt to equity ratio of about 50/50 (standard underwriter preference)

✓ *Issue debt for major capital projects with longer useful lives (especially when interest rates are low)*

Forecast Assumptions

■ Economic assumptions:

- ✓ Operations-related escalation: 3.5%
- ✓ Capital construction cost escalation: 6.0%
- ✓ Interest earnings on cash balances: 4.0%
- ✓ Customer growth: conservative forecast of no growth

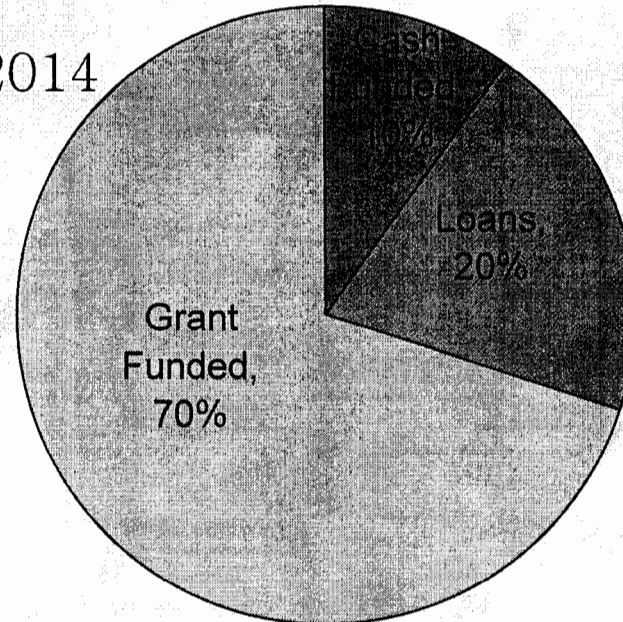
■ Projected state loan terms:

- ✓ 20-year term
- ✓ 1.5% interest rate

Six-Year Capital Financing Plan

Capital Funding	2009	2010	2011	2012	2013	2014	Total
Total Capital Projects	\$ 589,732	\$ 1,511,223	\$ 4,008,647	\$ 3,838,861	\$ 3,146,953	\$ 2,968,428	\$ 16,063,844
Grants and Developer Donations	-	895,965	3,932,038	2,128,346	2,246,578	2,014,029	11,216,956
State Loan Proceeds	-	383,985	-	1,104,072	814,298	863,155	3,165,510
Direct Rate-Funding	-	-	-	60,223	-	-	60,223
Use of Capital Fund Balance	589,732	231,273	76,609	546,220	86,078	91,243	1,621,155
Total Funding Sources	\$ 589,732	\$ 1,511,223	\$ 4,008,647	\$ 3,838,861	\$ 3,146,953	\$ 2,968,428	\$ 16,063,844

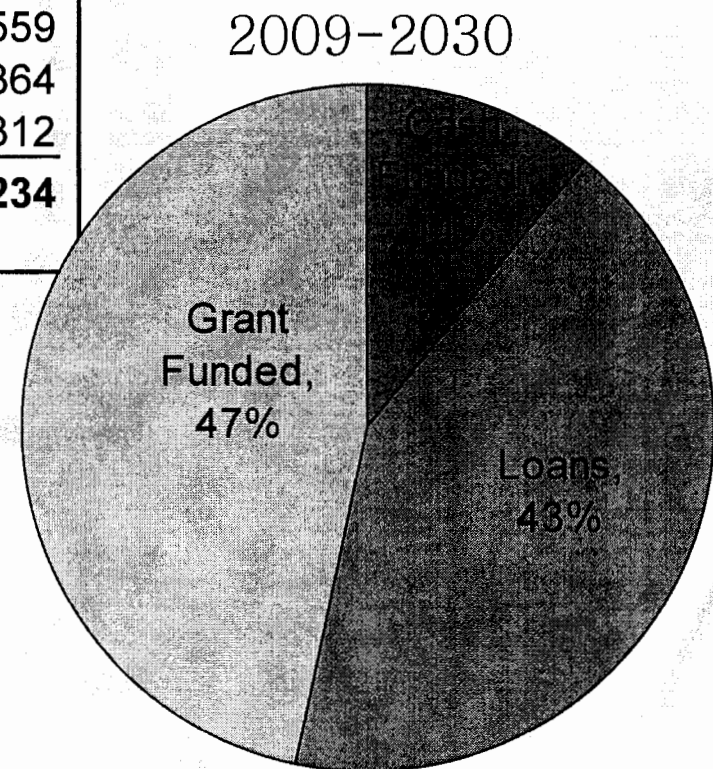
2009-2014



Total Capital Financing Plan

Total 2009-2030		
Capital Costs Inflated	\$	80,018,234
Funding Sources		
Grants	\$	37,358,559
State Loans		34,160,364
Water Fund		8,499,312
Total	\$	80,018,234

CIP funding requires significant cash from rates collected primarily through annual system reinvestment funding.



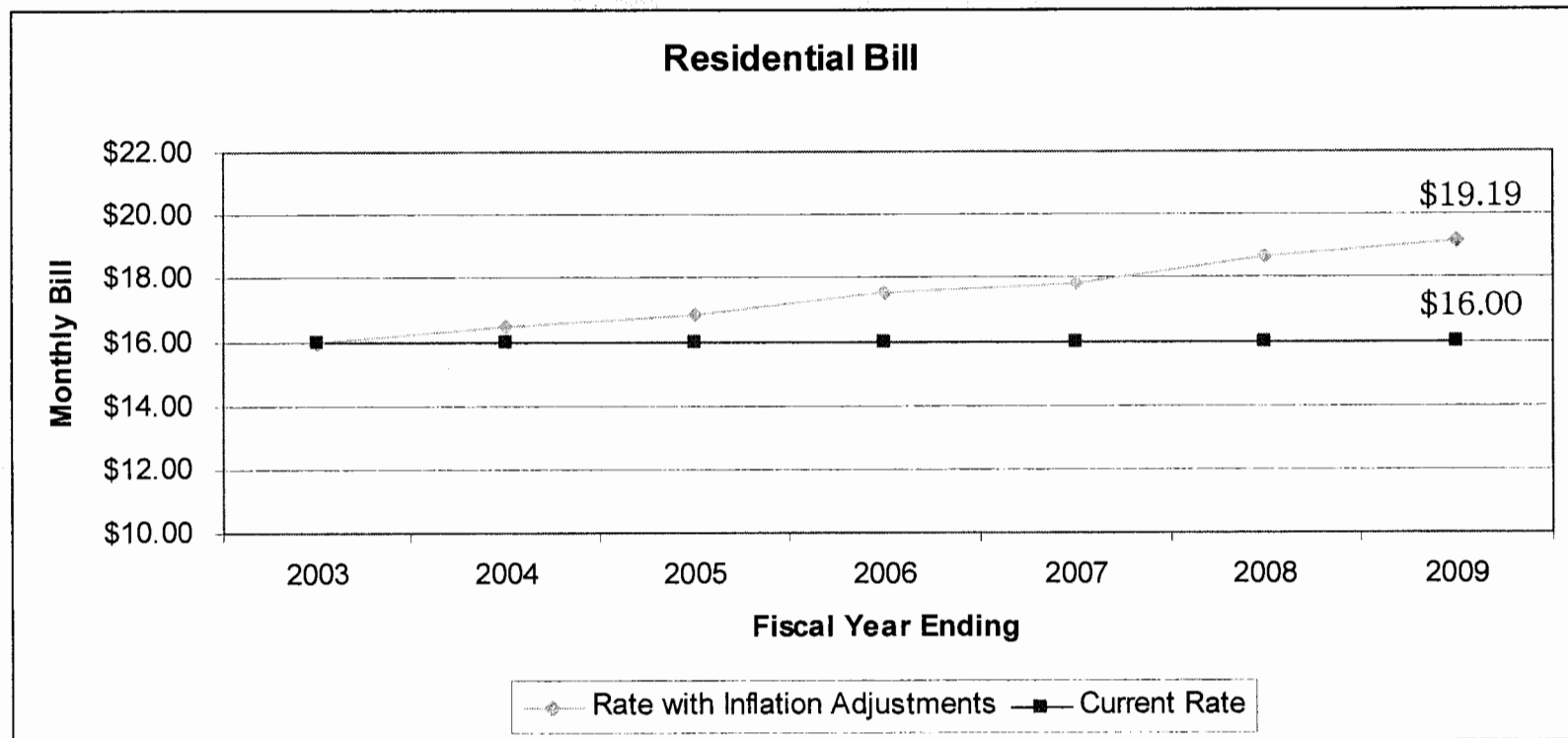
Revenue Requirements

Revenue Requirements	2009	2010	2011	2012	2013	2014
Revenues						
Rate Revenues Under Existing Rates	\$ 910,619	\$ 910,619	\$ 910,619	\$ 910,619	\$ 910,619	\$ 910,619
Non-Rate Revenues	57,307	60,601	61,204	63,285	64,417	66,927
Total Revenues	\$ 967,926	\$ 971,220	\$ 971,823	\$ 973,904	\$ 975,036	\$ 977,546
Expenses						
Annual Cash Expenditures	\$ 768,810	\$ 795,718	\$ 823,568	\$ 852,393	\$ 882,227	\$ 913,105
State Loan Repayment	154,090	99,596	98,719	97,843	96,966	96,089
Water Share of W/S Loan	9,319	9,319	9,319	9,319	9,319	9,319
New Debt Service	-	-	24,671	24,671	95,320	147,350
Rate Funded System Reinvestment	-	227,277	286,313	391,354	509,372	628,908
Rate Funded CIP	-	-	-	60,223	-	-
Total Expenses	\$ 932,220	\$ 1,131,910	\$ 1,242,592	\$ 1,435,803	\$ 1,593,205	\$ 1,794,772
Annual Surplus/(Deficiency)	\$ -	\$ (160,690)	\$ (270,769)	\$ (461,900)	\$ (618,168)	\$ (817,227)

Incorporating rate funded system reinvestment provides for rate-funding a portion of the CIP without rate spikes from year to year; and improves the ability to continue to obtain low-cost loans – crucial to maintaining rates as low as possible.

Inflation Comparison

- Last water rate increase July 1, 2002

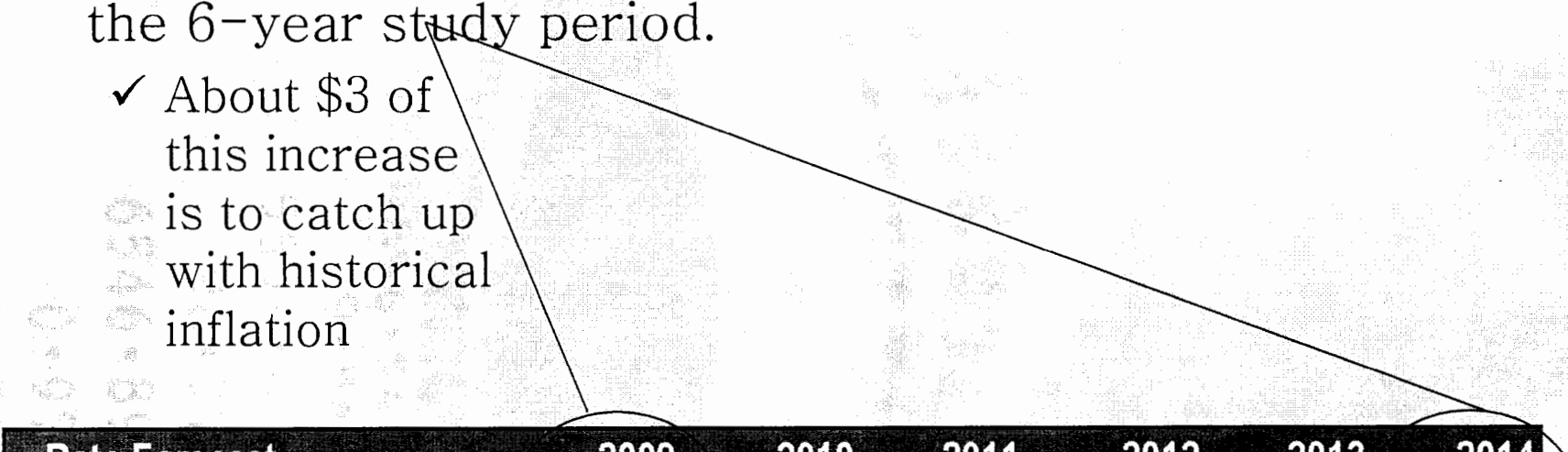


Based on Anchorage Consumer Price Index over the period FY 02/03 – FY 08/09 (average inflation rate of 3.0% per year)

Rate Forecast

- Just under a \$15/month increase cumulative over the 6-year study period.

✓ About \$3 of this increase is to catch up with historical inflation

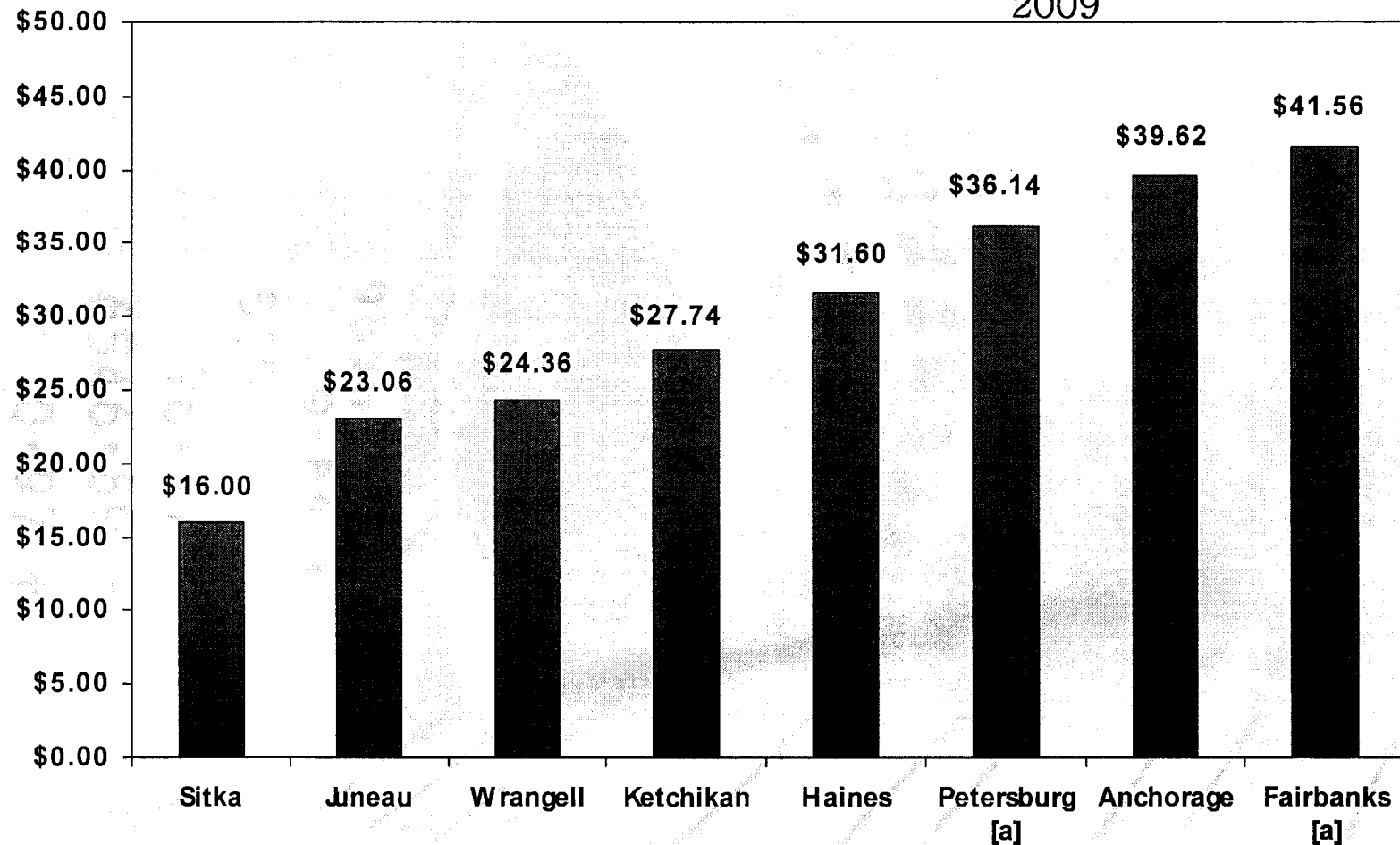


Rate Forecast	2009	2010	2011	2012	2013	2014
Monthly Base Rate per Unit [1]	\$16.00	\$18.24	\$20.79	\$23.70	\$27.02	\$30.81
Monthly Dollar Impact	\$0.00	\$2.24	\$2.55	\$2.91	\$3.32	\$3.78

[1] Base rate applies per dwelling unit for residential; varies for commercial customers based on unit equivalents

Comparison of Residential Rates

Rates current as of January 2009



[a] assumes average use of 90 gallons per day

Questions?