

Memorandum
City of Lawrence
Utilities Department

TO: David L. Corliss – City Manager
Cynthia Wagner - Assistant City Manager
Diane Stoddard - Assistant City Manager
FROM: Mike Lawless – Asst. Director of Utilities
CC: Dave Wagner – Director of Utilities
Ed Mullins – Finance Director
Casey Toomay – Budget Manager
Philip Ciesielski – Asst. Director of Utilities
Date: May 24, 2012
RE: 2013 to 2017 Water and Wastewater Rate Review

The current water and wastewater rates became effective January 1, 2012. A [utility bill comparison](#) for area utilities and Lawrence historical utility bills is attached for review. The comparison includes two rate scenarios for 2013 that represent different Capital Improvement Programs (CIP). City staff recommends Scenario 1 that increases the typical residential customer water and wastewater monthly bill an average of \$3.04 each year for 5 years, 2013 to 2017. Over the 5 year period the typical customer monthly bill would increase about \$15.22. Scenario 1 is based on the recommended CIP from the Water and Wastewater Master Plans.

Many utilities in the comparison use the cost of service to set revenues but not all have a uniform rate. Several have an increasing block rate, or seasonal rate, where the rate increases with an increase in the volume used. Of the utilities surveyed, Manhattan has the only declining block rate, where the rate decreases with an increase in the volume used.

Most of the area utilities are just beginning the budget process for 2013. No rates have been approved but some preliminary information on 2013 rates is shown below.

- Johnson County Wastewater is considering a 7.5% revenue increase (very preliminary) for regulatory requirements, capital projects, salaries, maintenance, and KCMO increases for the wastewater treated by KCMO.
- WaterOne is considering a 4.9% increase in revenues. WaterOne only treats water.
- Lee's Summit is in discussions for a combined water and wastewater revenue increase of about 6%.
- Olathe is in discussions for revenue increases of about 4% for water and 5.5% for wastewater.
- In 2012, Manhattan increased wastewater rates by 15% and third tier and higher water rates by 7%. For 2013, wastewater and water rate increases are being considered at 15% and 7% respectively.

- Topeka is requesting revenue increases of about 3% for water and 4% for wastewater.
- Independence has increased wastewater revenues by 4.5% annually until 2015 and has increased the minimum charge for water by 9% for 2012 and likely for the next two years. There is also a special charge for an EPA wet weather consent order that doubles to \$6.00 per month in July 2012 and will increase to \$9.00 per month in 2014.
- KCMO increased water rates by 12% and wastewater rates by 17% with a combined increase of about 14%. These increases were effective May 1, 2012. The wastewater increases are planned for the foreseeable future to pay for infrastructure improvements required to comply with a \$2.4 billion wet weather EPA consent order.

With the recommended CIP from the Water and Wastewater Master Plans, it is appropriate and advisable to consider a multiple year capital planning program rather than just focusing on one year. It provides a clearer picture of the capital needs over time and more accurately represents the cost of the CIP beyond just the one year under consideration. The revenue increase for a single year may not cover the cost of the capital program. This is the result of financing the CIP with a combination of cash and debt with the debt paid off over a 20 to 25 year period. The revenue increases are usually spread out over several years to reduce spiking of rates when there are large capital needs.

Rate plans have been developed for two CIP scenarios. One scenario is based on the recommended water and wastewater CIP from the master plans. The second scenario defers water maintenance projects with the recommended wastewater CIP.

Recommended Water and Wastewater CIP – Scenario 1

The projects included in the recommended water and wastewater CIP address the needs for reliability, current regulatory requirements, and growth. The major water projects through 2013 include:

- Kaw Plant Intake - \$7.15 million
- Oread Storage Tank - \$3.75 million
- Redundant Water Supply to North Lawrence - \$5.64 million
- Water Tower Coatings – \$1.04 million
- Maintenance Improvements at the treatment plants - \$874,000
- Water Main Maintenance - \$3.31 million
- Water Main relocations for roadway projects - \$4.32 million
- Bowersock Dam Improvements - \$425,000
- Regional Recreation Center - \$1.40 million

The major wastewater projects through 2013 include:

- Wakarusa Wastewater Treatment Plant - \$5.71 million
- Rapid Inflow & Infiltration Reduction Program beginning with a sanitary sewer evaluation study for the area identified in the Master Plan - \$1.87 million
- Collection System Projects to mitigate undersized infrastructure - \$2.38 million
- Co-generation & Backup Power at the Wastewater Treatment Plant - \$600,000
- Maintenance Improvements for treatment plant and pump stations – \$770,000

- Sewer relocations for roadway projects - \$1.16 million
- Regional Recreation Center - \$988,000

The complete list of water and wastewater projects is [attached](#). To fund the recommended CIP, water and wastewater revenues will need to increase as shown in the table below.

Full Year Revenue Increase – Scenario 1

	2013	2014	2015	2016	2017	2018
Water	4.0%	5.0%	7.0%	7.0%	6.0%	5.0%
Wastewater	4.0%	4.0%	6.0%	5.0%	6.0%	7.0%

The 2013 – 2017 water and wastewater rates associated with the revenue increases above are [attached](#). The model does not generate rate projections for 2018 only projected revenue increases for reference. The 2013 rates for Scenario 1 are recommended. The 2014 through 2017 rates are shown for informational purposes and are likely to need adjustments based on actual water and wastewater revenues and expenses in 2012 and future years. A comparison of existing and 2013 proposed rates for Scenario 1 is shown on the attached [table](#). The wholesale water rate for service to the rural water districts and other municipalities is \$2.91 per 1,000 gallons for 2013.

Reduced Water and Wastewater CIP – Scenario 2

The projects included in the water CIP do not adequately address the needs for reliability, current regulatory requirements, and growth. The water CIP does not complete the Kaw Intake, does not address the single water main supply to North Lawrence, and continues to defer maintenance of the water distribution system, treatment plants, and water storage tanks. The water projects through 2013 include:

- Minimal Maintenance Improvements at the treatment plants - \$150,000
- Minimal Water Main Maintenance - \$500,000
- Water Main relocations for roadway projects - \$4.32 million
- Bowersock Dam Improvements - \$425,000
- Regional Recreation Center - \$1.40 million

The wastewater CIP addresses the needs for reliability, current regulatory requirements, and growth. The major wastewater projects through 2013 include:

- Wakarusa Wastewater Treatment Plant - \$5.71 million
- Rapid Inflow & Infiltration Reduction Program beginning with a sanitary sewer evaluation study for the area identified in the Master Plan - \$1.87 million
- Collection System Projects to mitigate undersized infrastructure - \$2.38 million
- Co-generation & Backup Power at the Wastewater Treatment Plant - \$600,000
- Maintenance Improvements for treatment plant and pump stations – \$770,000
- Sewer relocations for roadway projects - \$1.16 million
- Regional Recreation Center - \$988,000

The complete list of water and wastewater projects is [attached](#). To fund the reduced CIP, water and wastewater revenues will need to increase as shown in the table below.

Full Year Revenue Increase - Scenario 2

	2013	2014	2015	2016	2017	2018
Water	1.0%	1.0%	4.0%	4.0%	3.0%	2.0%
Wastewater	4.0%	4.0%	6.0%	5.0%	6.0%	7.0%

The 2013 – 2017 water and wastewater rates associated with the revenue increases above are [attached](#). The model does not generate rate projections for 2018 only projected revenue increases for reference. If scenario 2 is selected, the 2013 rates would be recommended. The 2014 through 2017 rates are shown for informational purposes and are likely to need adjustments based on actual water and wastewater revenues and expenses in 2012 and future years. A comparison of existing and 2013 proposed rates for Scenario 2 is shown on the attached [table](#). The wholesale water rate for service to the rural water districts and other municipalities is \$2.91 per 1,000 gallons for 2013.

Recommendation

City staff recommends Scenario 1. Scenario 1 provides funding for a CIP that addresses reliability, current regulatory requirements, and growth needs for the water and wastewater systems. A typical residential customer water and wastewater monthly bill would increase an average of \$3.04 each year for 5 years, 2013 to 2017. Over the 5 year period the typical customer monthly bill would increase about \$15.22.