

Introduction to User Rate Analyses: Culinary Water, Secondary Water, Sewer, Storm

January 12, 2016



Introduction

- Zions is appreciative of being selected for the rate analysis and is just now commencing work
- There are several stages to the project and tonight we would like to discuss guiding policies
- As information is gathered, we will return with financial plan recommendations and additional discussion on rate structuring alternatives
- Our projected completion date is March 15th which requires us to move very fast and efficiently
- Answering a few critical questions this evening will help us on our way

Objectives of Tonight's Meeting

Tonight we would like to answer the following four questions:

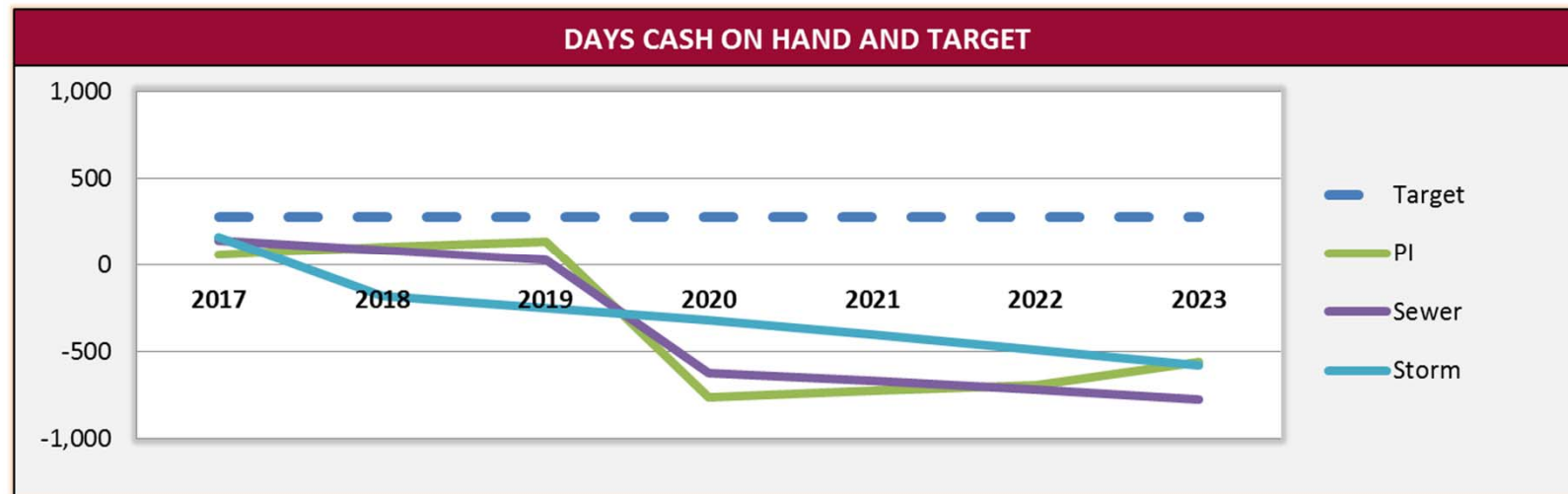
1. Should the cost of the water gained through the PRWUA canal enclosure project be paid for through the pressurized irrigation enterprise fund or through the general fund?
2. Should the Northwest Area and Viewpoint be charged a water pumping surcharge to deliver culinary and secondary water to higher elevations?
3. How should the list of capital projects for expansion and repair & replacement (R&R) be funded? Through cash, bonds, or a balance of the two?
4. How often should rates be increased? Steady annual increases, Periodic larger increases, etc.?

Need for a Rate Update

- It is time for Highland's user rates to be updated
- Detailed user demand analysis was not performed in last update
 - Only rate increases based on financial plan but not on demand model
- User demands change over time requiring reevaluation of demand side
- Impact fees have recently been updated with new expansionary projects
- HAL has prepared new maintenance plans to be built into rates
- Need to strengthen the PI system to become financially self-sustaining

Need for a Rate Update

- Currently little cash exists in the enterprise funds for emergencies
- Rates charged today do not sufficiently address R&R projects
- Graph: What if there were no increase in rate revenue or future bonding?



Policy Question Overview

- Policy drives the structure and approach to user rates
- Some policy does not need or allow for extensive discussion
 - Debt service coverage ratio: 1.25X minimum
 - Days Operations Cash in Reserve: 275 days cash on hand
 - Equitable rates between user classes
 - Conservation focused user rates
 - Self-sufficiency of each utility enterprise fund
 - True cost of service pricing; Not a band-aid approach to capital
- Financial policies need to be discussed
 - Balance of bond funding and cash funding
 - Frequency and amount of rate increases
 - Full cost funding with the repair and replacement
 - Should there be transfers between general fund?
- Rate structure policy discussion will come once demand data is processed

Capital Project Needs

Pressurized Irrigation Water

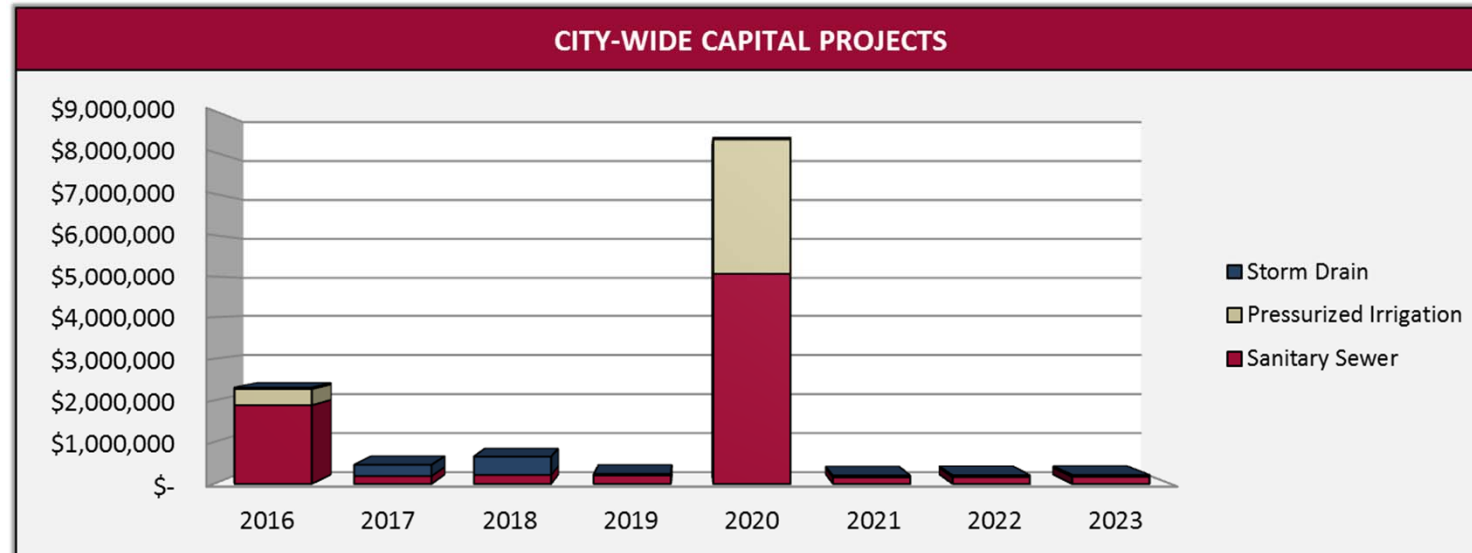
- City has expensive capital projects that must be funded in the next eight years
- Approximately 40% are impact fee qualifying costs; Receipt of impact fee revenues timing questionable
- 60% is impact fee non-qualifying and maintenance projects identified by HAL

How to Fund These Projects?

- Revenue Bond Funding – Least impact on future rates, interest paid
- Cash funding – highest impact on future rates, no interest
- Combination of Bonds and Cash – Decide a balance
- Project Deferral – Projects will still need to be done but at a higher cost

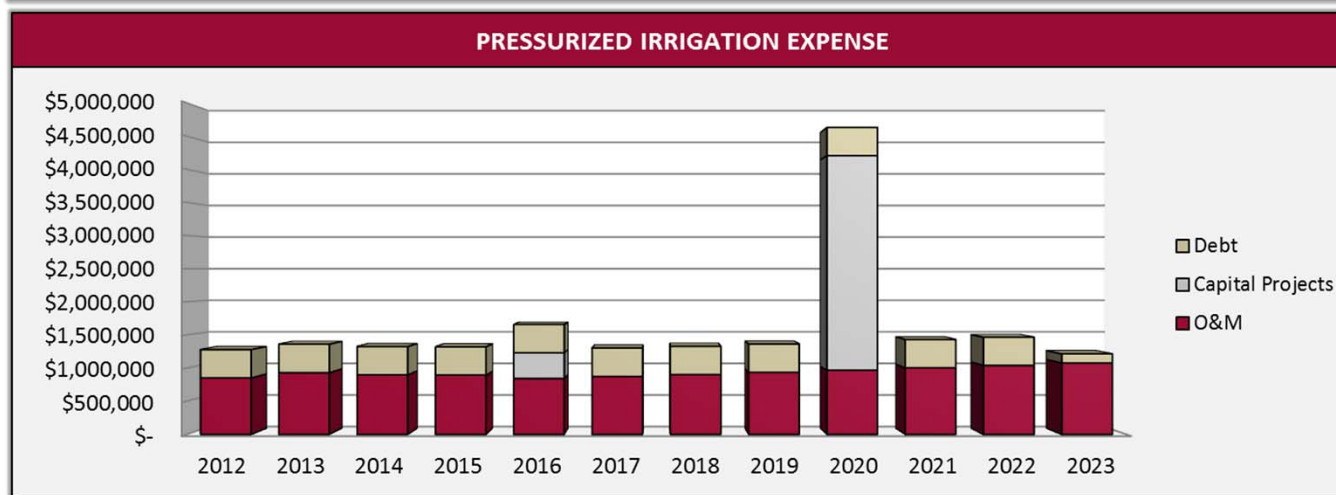
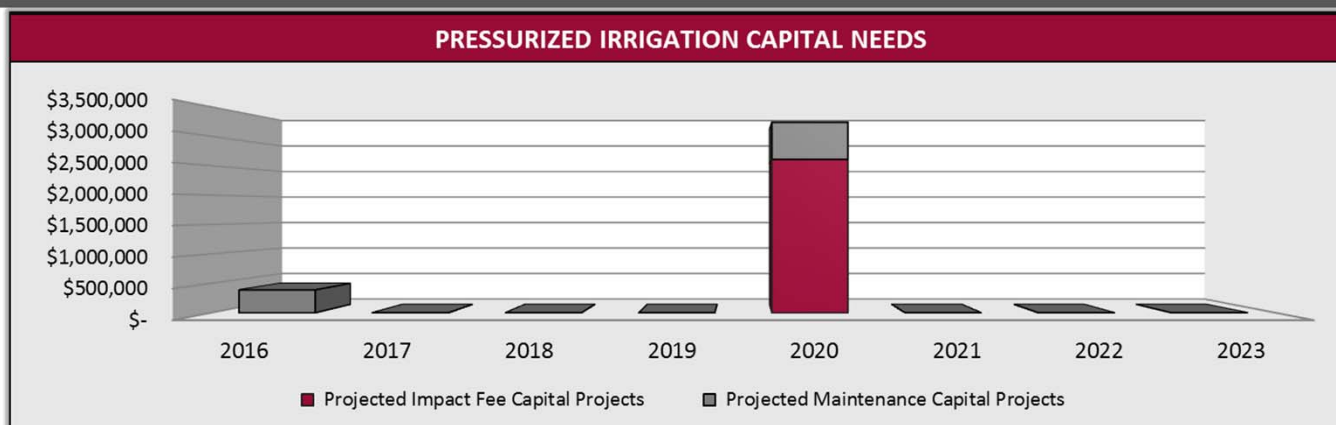
Future Capital Projects

Future Capital Projects

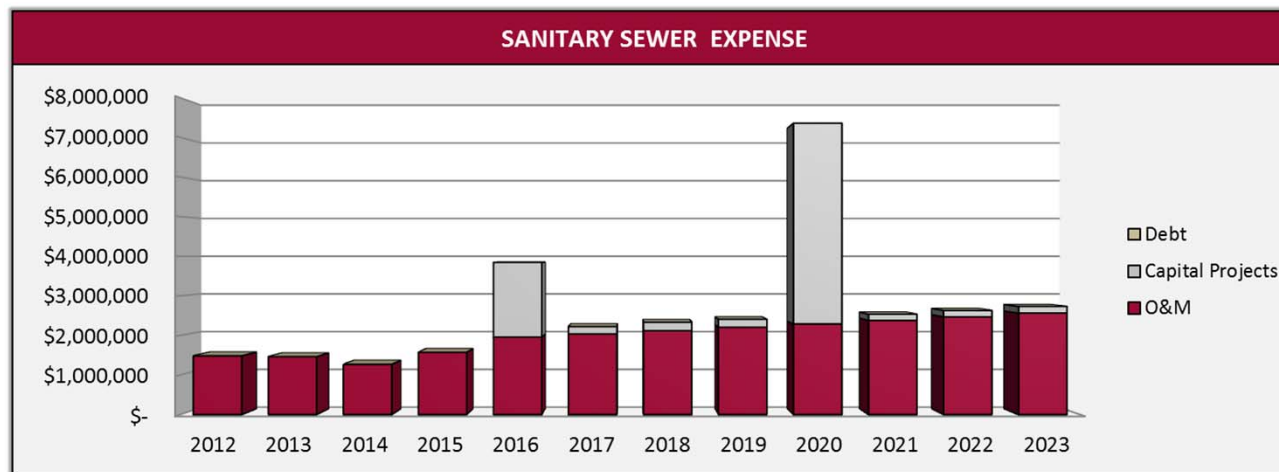
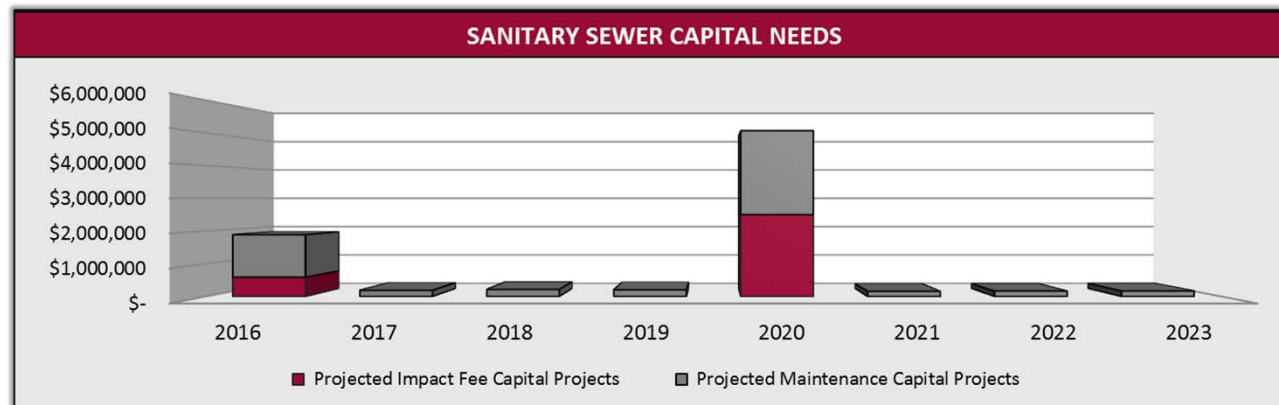


	2016	2017	2018	2019	2020	2021	2022	2023	Totals
Culinary Water	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD	
Sanitary Sewer	1,887,030	188,370	216,066	201,787	5,067,901	156,775	162,262	167,941	8,048,132
Pressurized Irrigation	389,000	-	-	-	3,236,007	-	-	-	3,625,007
Storm Drain	35,000	269,100	439,202	38,805	40,163	41,569	43,024	44,530	951,393
Totals	\$ 2,311,030	\$ 457,470	\$ 655,268	\$ 240,592	\$ 8,344,072	\$ 198,344	\$ 205,286	\$ 212,471	\$ 12,624,533

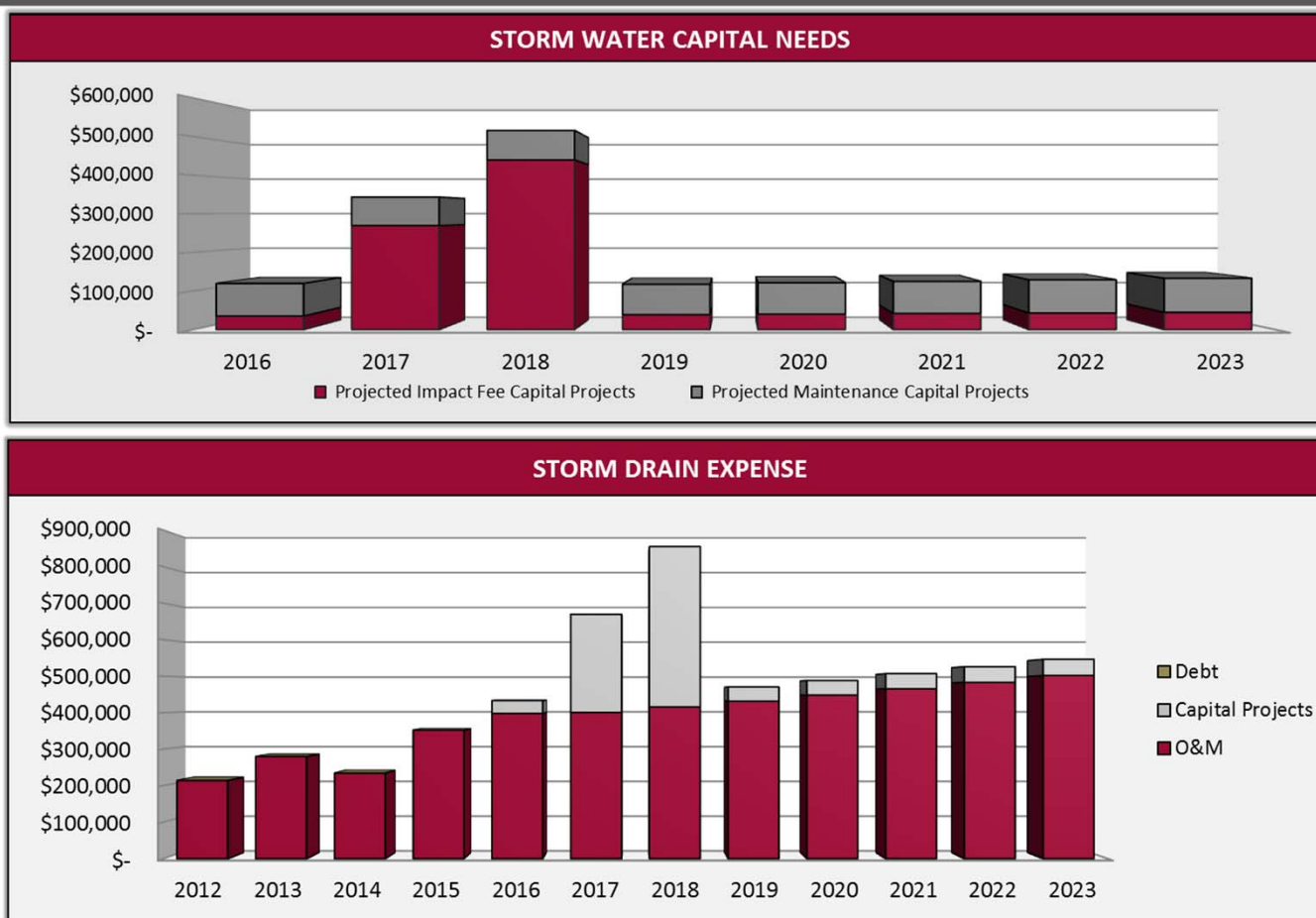
Projects and Expenses – PI Water



Projects and Expenses - Sewer



Projects and Expenses - Storm



Discussion

Critical Questions

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