

**Westminster City Council  
Water Rates Workshop  
November 5, 2020  
Meeting Summary – FINAL**

**ATTENDANCE**

*Council Members:* Herb Atchison (Mayor), Anita Seitz (Mayor Pro Tem), David DeMott, Rich Seymour, Kathryn Skulley, Lindsey Smith, Jon Voelz.

*Staff Presenter:* Christine Gray

*Facilitation:* Heather Bergman and Sam Haas

Additional staff and members of the public observed the meeting.

**SETTING THE STAGE**

Heather Bergman, Peak Facilitation Group, presented the schedule for upcoming meetings, themes in community comments, and ground rules. Christine Gray, City of Westminster, presented responses to customer questions that were raised since the last workshop.

- To date, Council has shared their interests, heard presentations about water and wastewater infrastructure, and learned about the new meters. They have also discussed community engagement options and decided to put that effort on hold.
- Tonight’s meeting will address water costs and rates, and in a few weeks, staff will share information about wastewater rates. On December 15, council will discuss options and ideas.
- The meetings are designed to address questions from Council and concerns from community members. Themes from comments include concerns about rates (tier 3 rates in particular), billing periods, Public Works and Utilities (PWU) finances, the number of taps and how they impact growth, and impacts of summer weather on usage/rates.
- Since the last meeting, community members have been submitting comments and questions via the City website. Comments include a preference for regular billing cycles, a preference for billing based on actual gallon usage, and a request to make the customer portal accessible for customers without smartphones/computers. There have also been comments that share a concern about the asset management database system, some requests to complete the rates discussion and outreach before the next irrigation season, an appreciation for the information provided in the workshop presentations, and one offer to volunteer on an advisory group.
- At the first meeting, City Council members shared their underlying interests, and this will be a touchstone throughout the process.
- The goal is to get through the presentation slides and address clarifying questions. Council should think about their takeaways and be ready to share what they have learned.

**Customer Questions Since Last Workshop**

- **Question:** It appears that infrastructure is replaced based on industry standard life. Are operating staff involved in capital improvement planning? Can the life of infrastructure be extended with proper maintenance?
  - **Answer:** The City tries to wring every last drop out of a piece of equipment. All of the operations staff are involved in long-term planning processes. Proper maintenance

can add and does extend the life of infrastructure. The extended useful life of many assets factors into capital improvements planning.

- **Question:** How did the sewer UCI drop by 15% from 2015-2017? Why is it not gradual? Did the UCI calculation change? Can the community expect a sharp decline in the water UCI?
  - **Answer:** The sewer UCI is calculated from three areas. The largest area is the sewer pipes. The pipes installed in the 1960s and 1970s aged out in 2015, so the City is working on replacing them. They're the primary cause of the drop. The second is sewer pumping stations, and the third is Big Dry Creek Wastewater Treatment Facility. The UCI calculation method did not change. The UCI is a calculated number using industry standard useful life. As far as the water UCI, there will likely be a sharp decline soon. The City has been investing a small fraction of the total amount needed to avoid a decline. The utility is worth \$4 billion, and the City is currently investing about \$30 million per year. That is less than 1% per year.
- **Question:** Can the customer portal be expedited? Why is it necessary to wait for all meters to be installed?
  - **Answer:** The customer portal software cannot be launched until all meters are installed and billing system upgrades have been implemented. City staff are focused on a large upgrade which will take place the first quarter of 2021. The City has put out a RFP and are starting to get responses. Customers can call the Utility Billing hotline to request hourly usage at 303-658-2405.
- **Question:** Is the City analyzing usage data pre- and post-meter installation? Can that data be used to test the theory on social media that new water meters cause spikes in usage?
  - **Answer:** There are a lot of factors that go into water usage (temperature, precipitation, etc.), but those factors cannot be accounted for at the level of accuracy needed. We can't duplicate the conditions that existed before the meter was replaced and after, and the City is comfortable with the quality control in place.
- **Question:** How are water costs calculated? What is included in the cost amount that is associated with charter and funding mandates?
  - **Answer:** Costs = operating expenses + debt service payments + capital improvement projects (CIP) + financial policy commitments. All are included in the charter and funding mandates.
- **Question:** Are water rates the same as the City's costs to produce and deliver clean water? If not, what are the additional elements that drive or determine water rates? If so, what (if any) water infrastructure upgrades/repairs/replacements are included?
  - **Answer:** Rates include current **and** future operating, debt service payment, and CIP costs/commitments.
- **Question:** Is there a difference between basic maintenance repairs and capital repairs for water infrastructure? Where is the line between operations/maintenance and capital? What determines that line?
  - **Answer:** The operations staff looks at every asset that is valued at over \$20,000 in the CIP budgets. Basic maintenance is anything that is less than \$20,000.
- **Question:** Which of the elements that determine water costs/rates are relatively constant and which are more variable and why?
  - **Answer:** Debt service and operating budget costs are relatively constant. CIP costs can be both.
- **Question:** Which of these elements can the City control or influence? Which elements are out of the City's control? Why?
  - **Answer:** There are many elements that are in City control. These will be presented in further detail in upcoming slides, represented by a gold star.

- **Question:** What “blue sky thinking” has staff done about ways to reduce costs to produce and deliver clean water in the short and long terms? What other ideas has staff generated and discarded? What “blue sky” thinking has staff done about ways to increase or diversify revenues in the short and long terms (other than raising rates)?
  - **Answer:** Staff has a lot of current practices, ideas, and discarded options, and they will present more in future slides.
- **Question:** Why is it difficult to say how much it costs to provide 1,000 gallons of clean drinking water? What are the variables that make it challenging? What are the range of costs?
  - **Answer:** 1,000 gallons of water delivered to any/all customers = \$7.92/Kgal in 2020. It is challenging because it is difficult to know which 1,000 gallons are being counted (the first 1,000, 14,000<sup>th</sup> or the 100,000<sup>th</sup>?) and which customer type is asking. There are different rates for different customers, based on their impacts to the system.

### **WATER RATES PRESENTATION - EXPENSES**

Christine Gray, City of Westminster, presented details about water rates. Her presentation is summarized below.

- **How are rates calculated?** The projected revenue with current rates is calculated by determining the projected water consumption of each customer type, times the rate revenue associated with each customer type, then adding the projected tap fee and non-rate revenue. Then, the City determines the plan for the future. This must include the projected CIP, CIP financing strategy, required debt services, and operations budgets. They must also factor in meeting both the City’s debt service coverage policy and meeting the Utility Fund reserve policies. Those all equal future revenue needs. Then, the City must determine what this means for customers. Using the future revenue needs calculation, they project the rate increase, determine the bill impact, conduct an affordability analysis, and adjust the financial plan, which can mean going back through the many expense variables again. There are many opportunities within this process for Council to pull a lever and change something.
- **What is a utility?** A utility is an organization that provides a service such as electricity, gas, or water. Some of these are provided through the municipality, some through another entity. The City’s three utilities are: stormwater, sewer, and water.
- **What is an enterprise?** Colorado’s Constitution defines an enterprise as a “...government-owned business authorized to issue its own revenue bonds and receiving under 10% of annual revenue in grants from all Colorado state and local governments combined.” This means that the City can only receive revenue from rate payers who receive a service. In 2019, \$57 million was charged for water services, so the City could receive up to \$5.7 million from an outside source. If the City receives more than 10% of revenue from an outside source, the Utility would have exceeded revenues per the Enterprise definition, and would likely be subject to the Taxpayer Bill of Rights (TABOR). Staff is unsure of the impacts to the rate-setting process, but debt issues would be decided by voters, and if the Utility collected more revenues than expenses, and the City would have to provide a refund, that could prove to be difficult to calculate how much to go to which customers.
- **What is a water fund?** The Water Fund is the term that staff uses to describe anything that has to do with providing water to customers, from the water source, to treatment plants, to distribution, to pump stations. There are three sections related to a water fund: expenses, revenues, and reserves.

- **Expenses** include operating budgets, CIP program, and debt service. For 2021, all of the City's water costs/expenses are anticipated to be 59.4 million. The biggest expense is the operating budget to maintain the utility, followed by CIP program, a planned transfer to the capital project reserve, transfers to the general fund and debt service, and transfers to property and payment in lieu.
- **The total operating budget** is \$41.3 million. 2021 operating expenses include staff (salaries, benefits, retirement, etc.), which is \$10 million/year. It also includes contracts (legal, engineering, equipment maintenance, partner organizations, contractual agreements), which is \$12 million annually. The operating budget also includes products that are needed to do work (equipment, parts, materials for in-house crews and in-house facility maintenance), which is \$2 million per year. The City has a pass-through agreement with the City of Thornton and Brighton, which is \$4 million. The City also has \$1 million in ditch assessments and has to pay for ownership in those ditch companies. The City has a water rights portfolio valued at \$1 billion, and it costs money to manage that. The City also pays for transfers, including overhead costs to the general fund, property/liability self-insurance fund, payment in lieu of sales tax, and planned transfers to the capital project reserve account. Finally, there are small-dollar value assets (<\$20,000 per piece), which include computer software/hardware, small vehicles, meters for new homes and replacements.
- **Is there a difference between basic maintenance repairs and capital repairs for water infrastructure? Where is the line between O&M and capital? What determines that line?** Basic maintenance = <\$20,000 asset value or costs that are part of in-house work and are included in the operating budget. CIP projects are >\$20,000 of asset value, and they are included in CIP budgets. There are eight projects on the 2021 CIP list, totaling \$14.5 million.
- **Debt** is a useful tool; it shares the cost of longer-term projects over time and for current and future customers, the term staff uses is 'generational equity'. The finance department works to structure the City's debt so that there are smooth payments over time. They look at the entire water, sewer, and stormwater debt service profile. That helps the City in the long term because the rates are paying back the debt service. It is important to keep that payment streamlined and efficient so that the City does not have to raise rates to pay down the principal and interest. There is an outstanding water debt of \$106 million. 2021 has lower payments than the majority of the chart because the City front-loaded interest payments in 2020 and 2021. The principal payments increase in 2022.
- **Existing debt service:** In 2000, the City issued \$15 million to pay for the Northwest Water Treatment Facility. In 2008, the City purchased water rights from a family and the family asked that the City pay them over a period of time. In 2010, the City issued \$28 million of debt to fund a large number of projects. In 2016, the City issued \$51 million, \$20 million of which was for the water fund. About a year ago, the City issued \$44 million for the water fund for Wattenberg Reservoir, the High Service Pump Station work and the Water 2025 Program. The City refinanced a 2010 loan. The total of those issues was over \$104 million, and the City have outstanding principal payments of over \$106 million.
- **What is included in the cost amount that is associated with charter mandates?** Section 14.6 of the City Charter states that "the rates and charges for any municipal public utility for the furnishing of water, light, heat, power, or sewage treatment and rubbish and garbage shall be fixed as to at least meet all the operating costs of such utility." Staff has interpreted that to include current and future operating and CIP costs. Charter Section 11.1(c) requires that utility bonds be paid by utility revenues.
- **What is included in the water cost amount that is associated with funding mandates?** The City has issued debt to pay for water projects. Lender requirements include that the

City have 100% of annual debt service payment plus additional pledge revenues (staff considers this a funding mandate). City debt policy guidelines require 100% of annual debt service payment plus 50%. This is a conservative requirement, but it provides room if there is significant impact to the economy and revenues. It is a calculation factor in the rate-setting process. The debt policy was adopted by City Council in 2011 and is a lever that council could pull. The associated percentage increases are shown when one considers the annual debt service amount. It is helpful for the City to have a buffer because investors want to make sure they are going to get paid. It is similar to having a good personal credit score, and it determines the interest rate. The City uses rating agencies called S&P and Fitch. The City gets a credit check every time they borrow money. A utility could get a D rating or and get as high as AAA. Westminster has excellent ratings: AA+ from Fitch, and AAA from S&P. Because of that, the City gets lower interest rates. Lower interest rates mean lower costs for rate payers.

- **What “blue sky thinking” has staff done about ways to reduce costs to produce and deliver water in the short and long term?** Operating staff is heavily involved in the capital planning and has a goal of reducing operating costs over time. The City has reduced water, power, and chemical budgets. In June, staff provided a list of 140 items that were innovative cost-saving practices (planning, conservation, etc.). Most of it the practices were related to the operations team. The City has found a way to dispose of filter backwash sludge (saving \$200,000); they do in-house water quality testing (saving money for a contract); they have an in-house water main replacement program; they converted water treatment hypochlorite disinfection; and they have a dewatering program to reduce nutrients in land application. The City invests in capital planning and considers conservation in that. Staff considers how conservation is impacting infrastructure needs. The City’s water use is declining, which is great but also has impacts on the repair and replacement program. The City also found a way to refinance existing debt.
- **What ideas have staff generated and discarded?** The City has discarded the following ideas: 1) Consolidating with another utility. The City’s treatment plant is based on the water source (Clear Creek), so if the City decided to combine with another utility, they would have to install a new treatment train, as different water sources have unique treatment requirements. 2) Reducing treatment. The City is proud of its treatment, and regulations mandate a certain level of treatment. 3) Keeping the existing Semper Water Treatment Facility. The 2015 master plan determined that it would be more cost efficient to build a new plant. 4) Entering a P3 (public-private partnership) contract for part/all utility operations. P3 is a useful tool for utilities struggling to issue debt or utilities that are facing State order to get operations under control. A P3 is a way for a private entity to come in and negotiate a contract and operate the system. The City discarded this idea because the private component means there would be a profit margin. Water customers only use so much, so there is no incentive to drive up the use of the commodity. Staff was concerned that to get profit, the P3 would not reinvest in the system to generate savings, and therefore a profit, which would impact the quality of water and the condition of the system when it was returned by the private entity. If the City chose to do P3, it would remove the public influence/input, City Council would likely not be having these types of conversations with residents or staff.

**Council Questions – Staff is still researching responses to some of these questions, and will provide updated information as we have the information.** Councilmembers asked questions about the expenses portion of the presentation. Questions are indicated in italics, followed by the response in plain text.

*Would it be possible to write a ballot initiative to institute a sales tax to pay for infrastructure projects over time?*

Staff will get an answer to this question. The City Attorney will talk to the bond council and bring back an answer to Council.

*10% of total funds are transferred out of the utility. Is the utility required to transfer that money into the general fund?*

The policy and budget department has analyzed how much each department should pay to other departments. The amount that the Water and Wastewater Funds pay by Interfund Transfers is documented in the Budget Book. Please see page 27 of the Budget Book in this link:

<https://www.cityofwestminster.us/Portals/1/Documents/Government%20-%20Documents/Budget/Proposed%202021%20Budget%20Revised%2011042020.pdf?ver=2020-11-04-143912-947>.

These costs would also be considered to be meeting the definition of the Charter section 14.6 which states that the Utility's rates and charges be set to meet the utility's operating costs.

*Why does Westminster buy water from one city and give it to another? Does that cost extra?*

Westminster has purchased water from Thornton and delivered it to customers for many years. In the early 2000s, Brighton worked with Westminster to provide some water that was received from Thornton and serve as a pass-through. Westminster charges Brighton what they are charged by Thornton. The City breaks even. Westminster cannot extricate themselves from the contract at this time.

*How long has PWU been in debt? For how many years has the Utility issued debt to pay for projects/how far back have we issued debt to pay for projects?*

There are records of debt dating back to 2000, but there was debt before that. Staff can research how much debt PWU has issued to pay for projects.

*Does the City charter specify that departments need an additional 50% in savings for loans?*

The direct answer is no. **There is no charter or policy language requiring 50% savings for any financing.** The rate maintenance covenants in the City's bonds mandate that the **Utility** must have a minimum of 110% coverage of D/S needs of a given year. The coverage is Pledged Revenues less Operating Expenses. To issue additional debt, the bond covenant requires that the combined (existing and projected new debt) allow for at least a 120% coverage ratio under the same variables noted above. The Debt Policy requires a 150% coverage ratio as a means to engage Council as the coverage ratio slides down to the minimum requirement. The 150% policy requirement can be changed down to 120% if so desired.

The City's Debt Policy was adopted as Resolution No. 34 by City Council on 2<sup>nd</sup> reading on October 24, 2011. The policy and background information can be found on the City's website via this link:

<https://www.cityofwestminster.us/Portals/1/Documents/Government%20-%20Documents/City%20Council/AgendaArchive/ag102411.pdf>

*Has staff determined how much rates would be reduced if Council chose to pull different levers?*

The rate impact would depend on the levers pulled. The 150% policy referenced above is part of the rate-setting process. *Would it be a good idea (to change the 150% policy)?* That's a different question, because the city benefits from being in a strong financial position with credit rating agencies. This would be identified during the rate-setting process, and would be impacted by any other levers that City Council chooses to pull. City Council can discuss this the options and ideas meeting.

*Are there any rules set by prior Councils about the required distribution/transfer of funds into reserves?*

At the next meeting, staff will present information about revenues and reserves. In 2006, Council set a policy that specifies maximum amounts, minimum amounts, and disbursements related to reserves. Staff will provide this document to City Council.

*It would be helpful to get a quantitative assessment of how much the 150% policy has helped the City in terms of bond ratings so that Council can understand the tradeoffs.*

In addition to simply the debt service coverage ratios, there are several factors that go into the rating process. This is not a simple question to answer; however, we are in the process of trying to develop a matrix to understand the cost implications of each ratings downgrade relative to core factors such as Additional Bonds (120%), Rate Maintenance (110%) and use of reserves (Rate Stabilization and Capital Project).

*There are concerns among some community members that the City has raised water rates to pay for downtown or affordable housing. Are there constraints on how the money that is transferred into the general fund is spent? Council would like to see the 2011 staff memo from when Council decided to set the rules around transfers.*

Staff will look into this. The utility is an enterprise and it has to cover all of its costs. For example, the Utility uses the City's HR, City Attorney's Office, and IT Departments. Transfers to the General Fund help to cover those costs. While the Utility pays its way in this manner, there is also an offset to the tax payers of the burden of providing services to the Utility. If the Utility did not pay for its use of these services, the General Fund would have to pick up those costs.

*What happens if the City collects more money than they spend?*

The money flows through the reserve accounts per policy. The City keeps reserves to manage the variability of weather and the need to continue capital projects.

## **WATER RATES PRESENTATION - REVENUES**

Christine Gray, City of Westminster, presented details about water rates. Her presentation is summarized below.

- The water fund has three revenue sources: rates, tap fees, and debt funds. Council has the ability to change or adjust all three of these sources.
- The City has 33,000 accounts, and the vast majority are single family accounts. There are six other categories: multi-family residential, commercial, municipal, potable irrigation, reclaimed irrigation, and wholesale. The reason the City has different customer types is because each type of customer is viewed in different ways. Customers are charged different rates depending on their water use. The city delivers six billion gallons of water to customers.
- Westminster's water use peaks in the middle of the summer and is considered a 'peaking utility', as the treatment plant and all associated water delivery infrastructure is built to meet the peak demand for our customers. The graph presented showed the pattern of the total amount of water used as well as a breakdown of how much each customer type uses. 50% of residential water use is outside of the home. The biggest water user is the toilet, which is often the source of leaks.
- In terms of how the City bills customers, Westminster bills customer water use based on 1,000-gallon units called Kgals. The Kgals are distributed into three tiers for billing purposes. Tier 1 is water use of 0-6,000 gallons (billed at \$3.96/Kgal); tier 2 is water use of

7,000-20,000 gallons (billed at \$8.15/Kgal); tier 3 is water use of 21,000+ gallons (billed at \$12.88/Kgal). Council can adjust whether the City bills by 1,000-gallon units and can determine what constitutes the tiers.

- The graph presented showed summer water use. Along the bottom axis is the amount of water use for the time period. In July, 23% of customers stayed in Tier 1, 56% stayed in Tier 2, and the remaining 21% of the city's customers were in Tier 3. The definition of lower/average/higher water use customers is a math calculation. The lower use customers make up the lowest 25% of water use, the higher use customers make up the highest 25% of water use, and the average use customers are the 50% in the middle. These customers live throughout the City. The biggest group of users are the average water use customers.
- In the first tier, the maximum of 6,000 gallons would equate to about \$24.00. In the second tier, the maximum of 14,000 gallons would equate to about \$114. Any amount over 21,000 gallons is billed at the Tier 3 use.
- For the average water customer, if they used 12,000 gallons in this past July's billing cycle, they would max out tier one and have 6,000 gallons in tier 2, therefore their monthly bill would be \$72.66 for that bill.
- For a higher water use customer (example here of 31,000 gallons of use in this July's billing cycle), who maxes out tiers 1 and 2, and has 11,000 gallons of use in tier 3, their total is \$279 for that bill.
- Each customer's water utility bill has a message center at the top that shows programs available in the City (e.g., COVID grant program). The top center of the bill shows the service dates, meter reading date and total water used. It can also show if the meter got replaced during the billing cycle. The bill shows the amount they paid for their last bill and the fixed meter service charge. The bill also includes the customer's Average Winter Consumption (AWC) sewer charge, stormwater management fee and infrastructure fee.
- The City's water rates are driven by current and future debt service, operating services, and CIP projects (current and future).
- A slide showing the various categories of rate revenues from 2009-2019. Broken out by customer type, all blue colors correspond with city customers. All orange/yellow colors correspond with the city's contract water sales.
- Slide showing historic rate revenue increases from 2000-2020. There were rate increases every other year in the early 2000s. After 2006, there was an annual rate increase. The average is 5%, and the cumulative amount is 101% over that time period. Staff tries to present comparison charts of what neighboring utilities are charging when they recommend rates. However, the City does not know how other utilities use, get, or spend money. After surveying 15-20 Front Range utilities, staff found that most Front Range utilities have tiers. Broomfield does not have a tiered system. In terms of a cost comparison, there are some utilities that charge more and some that charge less. Louisville has many different tiers.
- Breaking down the rate comparisons into lower, average, and higher water users, Westminster's lower water use uses 34,000 gallons. The average bill is \$317, and Westminster's rates are at \$295. The average water user uses 96,000 gallons. The average bill is \$600, and Westminster's rates are at \$662. For the higher user, the average bill is \$923, and Westminster's rates are at \$1,148.
- If Westminster chose to switch to billing on 1-gallon increments, there is a slight price difference, which is the difference between the two tiers. In the example shown the difference is \$4.73, which is the difference between tier 2 and tier 3.
- Westminster completed a study in 2018 about the cost of service for each customer's water. Every five to ten years, staff looks at what the City charges and brings ideas forward in a



policy discussion to Council. It's best practice to hire a financial consultant to assist with this. The study found that the City should:

1. Align residential and commercial to cost of service. Residential customer rates were not meeting the cost of serving them water. Non-residential customer rates were paying more than the cost to serve them. Staff recommended that they charge each customer type fairly.
  2. Broaden tier 1 from 4,000 gallons to 6,000 gallons (50% expansion of the water in the tier). This was done to ensure customers had access to more water at the tier 1 rate.
  3. Simplify commercial water use tiers and implement a policy that if customers use more water than they bought access to, they would have to pay a surcharge.
  4. Enhance fixed water revenues. The meter service charge is fixed based on meter size, so the fee goes toward the fixed maintenance costs, such as the billing system, the billing staff, and meter costs. Increase the percentage of overall fixed revenues from the meter service fee from 13% of overall revenues to 20%, using a phased-in approach, this provides increased financial stability.
  5. Maintain a single sewer rate. Wastewater either goes to Big Dry Water Treatment facility or the regional Metro plant. There are different costs associated with each facility, and staff asked that the City maintain a single sewer rate to make it consistent for customers.
  6. Institute a 2,000-gallon monthly minimum 'readiness to serve' wastewater charge.
- City Council adopted these six policies as part of the 2019/2020 rate setting process, with the understanding that Staff would recommend the continuation of these policies each budget cycle, and gradually phase them in over 8 years.

### **Council Questions –Staff to provide a full set of answers when we have all of them.**

Councilmembers asked questions about the revenues portion of the presentation. Questions are indicated in italics, followed by the response in plain text.

*Some cities post copies of bills with explanations for what each section means. It might be helpful for Westminster residents to see something similar.*

Changes to bill language will be made concurrently with the utility billing system upgrade as testing of bills will be required.

*How does staff conduct their affordability analysis when setting water rates? It would be helpful for Council to know the nature of the internal conversations and the formula used to calculate affordability.*

During the rate recommendation process, Staff performs an internal review of different affordability metrics. "Affordability" in this context measures the price of utility services compared to household income, and helps gauge the impact of utility bills on customers' personal budgets, especially those of lower income residents in the community. The following measures are widely used across the water/sewer industry as ways to measure service affordability:

1. U.S. Environmental Protection Agency: the guideline is that no more than 4.5% of median household income should be spent on the average water and sewer bill. Westminster measures at 1.6%.
2. Standard & Poor's Rating Agency: the guideline is that no more than 2.5% of median household effective buying income (a stricter measure of disposable income) should be spent on the average water-only bill. Westminster measures at 1.7%.

3. Teodoro Minimum Wage: the guideline is that no more than 8 hours' worth of work at the local minimum wage should be spent on the average "basic needs" of water and sewer service (this effectively means a wintertime bill without irrigation). Westminster measures at 6 hours.

By all three of these metrics, City of Westminster water and sewer service is affordable. When a utility's metric exceeds a guideline, the general industry recommendation is to develop and implement customer assistance programs that can help improve service affordability. Westminster is currently implementing a comprehensive income-qualified utility bill assistance program. Staff is also unaware of any nationally-recognized metric for measuring the bill affordability of high-volume consumption customers. Staff would like to discuss City Council's definitions of affordability to help guide future analyses.

*Excel Energy shows customers their average monthly bill compared to last year's usage and levels off the rate. When there are large spikes in usage over the summer months, it can be challenging for some people. It would be interesting to discuss the possibility of a similar program for water.*

Staff has provided an 'equalized' bill to customers in the past. In this situation, the customer's monthly payments were based on the previous year's water use, and were the same amount, or 'equal' each month, until the 'true up' month at the end of the year.

Staff's experience with this type of billing is that customers are not aware of the water that they're using, especially in the summer months, which does not help to send any water efficiency messages. From a personal financial perspective, there were cases where customers had an unpleasant shock when they needed to 'true up' the amount due, and pay for the water they used above the previous year's amount.

While an 'equal bill every month' concept can help customers financially during higher bill months, the overall experience for many of them can be negative. Because that annual bill 'true up' occurred at the end of a calendar year/beginning of the next year, customers sometimes had difficulty catching up, especially after the holidays. Staff can discuss the pros and cons of this type of billing method with City Council in a future session.

*How tied are the existing debt obligations to the City's current rate structure? Are there caveats to the levers/decision points that staff has identified? For example, if Council decided to get rid of the tiered rate structure, would the City have issues meeting their bond obligation? It would be helpful to talk about the pros and cons of the different levers.*

The City is required to pay for its O&M expenses first, then pay its debt obligations. Staff can discuss the impacts of the different levers with City Council at one of the next workshops.

*There are some homes in Westminster that are modest in size but have large lots. Has the City considered trying to avoid penalizing and unduly burdening people who purchased their home prior to the rate increase and would like to remain in their legacy homes?*

Council could consider options during their next sessions.

*How often does the City perform an affordability analysis and is it always internal?*

The City does the analysis during the rate recommendation process; until now, they have not used outside consultants, which could be an option.

*Why has the City chosen not to switch to billing by the gallon instead of by 1,000 gallons? Would it be a burden on staff to switch?*

The City, like many Front Range utilities, has always billed on 1,000-gallon units. It might take a while for the billing team to manage the switch. Staff can implement this type of billing once a number of billing system projects are completed in 2021. Staff can provide a timeline in 2021.

*How can the City avoid tipping people into a higher tier due to the longer billing cycle (33-day), why is there as much as a 33-day billing cycle?*

The billing period is the time between the two most recent meter readings. Per Code, the billing cycle fluctuates between 27-33 days, based on holidays, weekends and Staff availability.

Staff will continue to investigate what is needed to accomplish a 30-day billing cycle while also considering how weekends/holidays as well as adverse weather impact reading cycles. There is a possibility that after all the residential meters have been replaced that a 30-day read cycle may be feasible if automated; however, there may be exceptions. For example, a 30-day end point is on a weekend and the system doesn't get a read due to a faulty meter. We will investigate this after all the meters have been replaced and we complete the upgrade to the utility billing system. We anticipate these to be completed around the end of 1<sup>st</sup> quarter 2021.

*What is the average water use in Westminster in July?*

12,000-15,000 gallons

*Why is Westminster allowed to sell wholesale water at a reduced price to Federal Heights when Westminster is paying more than Federal Heights? Could Council consider adjusting that contract?*

Westminster has a contract with Federal Heights and provides them with water in perpetuity. Their contract was renegotiated, and their rate was tied to Westminster's rate increases. Westminster has three meters for them, and past that it is up to Federal Heights to provide water to customers. Westminster treats Federal Heights' water.

Our financial consultants recently reviewed the charges from Westminster to Federal Heights and found them to be appropriate. Council could discuss the benefits of re-opening the contract with Federal Heights at a future meeting.

*Have the current and future operating expenses, CIP, and debt service always been included in Westminster's rate structure? It seems like there is a disconnect, because the rate increase two years ago was caused by a dire need to pay for the 50-year-old system. Why is the City now needing to restructure to pay for the aging system?*

The water and sewer rates are based on current and future operating, CIP and debt service costs. The goal is to provide smooth rate recommendations by looking at future projects and trying to manage payments for those. About ten years ago, the City had a different way of assessing infrastructure, and the CIP program was vastly different 15 years ago than it is now. The Water 2025 Program is an example of a program that could be pushed off but would lead to large costs. Over the past ten years, the City has been investing \$30 million per year into water and wastewater (a \$4 billion asset system), which is less than 1% per year. In 2018, the City recognized that continuing at that rate would lead to a continued decrease in the utility condition index.

*Why did the city put a moratorium in place due to increased sewer flows and how does that relate to needing to replace infrastructure?*

As discussed above and in the first two presentations, aging infrastructure is a result of new infrastructure that was built many years ago, and has reached the end of its useful life. As a City and a Utility, we will always have aging infrastructure. The amount will depend on when the infrastructure was built.

The moratorium was put into place in the Big Dry Creek sewer basin because of limited capacity in our sewer interceptors after experiencing a 40% increase in flow. Interceptors are sewer pipes

larger than 15" in diameter. A project will be coming before Council soon to construct a parallel pipe where it is needed most to meet our capacity requirements. Most of the project overall is replacing aging infrastructure, but almost all large projects also have a capacity component.

**The following information was not detailed verbally with City Council on November 5. Staff has provided significant information about the moratorium to City Council, and is including it here as well for ease of reference:**

- Staff reported and presented information on this topic to City Council March 4, 2019 at a Study Session. That information is summarized below and includes a final paragraph describing current efforts and next steps to continue to collect the city's wastewater in an environmentally responsible manner that protects public health and safety.
- Wastewater from approximately two-thirds of the city flows through the Big Dry Creek Interceptor Sewer (BDCIS). The interceptor system consists of 22 miles of pipe ranging from 15 inch to 54 inch in diameter, 530 manholes, several flow control structures, and approximately four miles of a parallel 30" pipe in the northeast portion of the system. The BDCIS system extends from the Standley Lake and Countryside areas in the west of the city and runs generally northeast along the Big Dry Creek corridor to the city's Big Dry Creek Wastewater Treatment Facility located at 130th Avenue and Huron Street.
- An assessment of the BDCIS condition and capacity was performed and documented in a report in 2012. This report measured flow and confirmed that several segments of the BDCIS were reaching the end of their useful life and/or had insufficient capacity to support continued development and redevelopment in the area. Plans were in place to initiate a project beginning in late 2018 with targeted completion by 2026. However, due to strong economic growth in the City, pipeline capacity was consumed earlier than anticipated. While economic growth is crucial to the City's economic sustainability, this growth resulted in impacts to the BDCIS system. In early 2018, the BDCIS system was at increased risk of sewer pipe failures and/or manhole overflows if condition and capacity constraints were not addressed. Not addressing the constraints was and is believed to compromise the health, safety, and welfare of the community.
- Leading up to the time the moratorium was recommended, it was estimated that peak flows from development approved from 2012 to early 2018 were projected or forecasted to add 40% to the base flow measured in 2012. This projected flow increase would consume remaining capacity in the BDCIS and increase risk of sanitary sewer overflow. Based on the best information available at the time, a 12-month moratorium on the acceptance of new development applications for projects that increase sewer demand in the Big Dry Creek Interceptor Sewer was approved by City Council on July 23, 2018.
- Staff took immediate action to contract for engineering pre-design services, to update the hydraulic model of the BDCIS, and initiate a pipeline lining contract to rehabilitate the 30" parallel interceptor. Concurrently 90 development applications that were already underway were processed. The moratorium was removed on April 29, 2019 – three months earlier than planned.
- Since March 2019, Staff has proceeded with an engineering design effort that identified 10 project areas covering approximately 14 miles of the 22 miles of BDCIS. The project areas define where pipeline improvements are needed to address age and condition as well as capacity.
- Hydraulic modeling shows that under existing flow conditions in the 10 project areas approximately 6,000 feet of pipe are over capacity or are under backwater conditions, and two manholes can fill to within 6 feet of the rim. A backwater condition means that sewage backs up into a manhole. At buildout condition, approximately 11,000 feet of pipe will be over capacity or under backwater conditions and four manholes can fill to within six feet of

the rim. Buildout conditions include a 20-year planning window that also considers anticipated development and population in the BDC basin area.

- Staff will return to City Council in 2020 to request authorization to enter into construction contracts to implement needed BDCIS improvements.

*Council should explore the option of implementing a tiered rate system based on user lot size. Could staff look into that?*

Staff would like to discuss this with City Council more, and can also provide some ideas.

*What would it look like if Westminster created an additional tier and dropped the price for the third tier? It is concerning that nearly 25% of the City is in the top tier. Some people like to grow their own food during the summer. Would the budget billing work the same way?*

There are two different concepts being addressed here with the word 'budget'.

- Budget billing, also called 'Equalized Billing' is reviewed in Question #13.
- The City could also consider a water budget for each customer, where the water rates are tailored to each household and provide a water budget to each of our +31,000 single family residential customers. City Council could consider this in an upcoming session.

Staff will discuss changing the rate structure with City Council at an upcoming workshop.

*Equity is so essential to this discussion, and equity is not the same as equality. The key is creating a system that allows each individual to live comfortably in the city.*

*Tap fees are one of the few areas that create revenue. City Council may want to invest in the community and make sure they are paying their fair share. City Council should also find a way to finance infrastructure investment, potentially within URAs. Can City Council raise tap fees further than they are now?*

Tap fees will be discussed at the next meeting. Tap fees are currently set as high as we believe we are legally allowed to set them. Staff also considers using Urban Renewal Area (URA) funds where possible for utility projects, and is also letting developers know when they are responsible for offsite improvements. URA funds can only be used in their respective geographical boundaries. There may be conflicting needs for these funds, such as other infrastructure projects or EDA's. Furthermore, only the North Huron URA currently has "disposable" funds available and has committed approximately \$16.5 million for the sewer line enhancement to serve economic development in this URA.