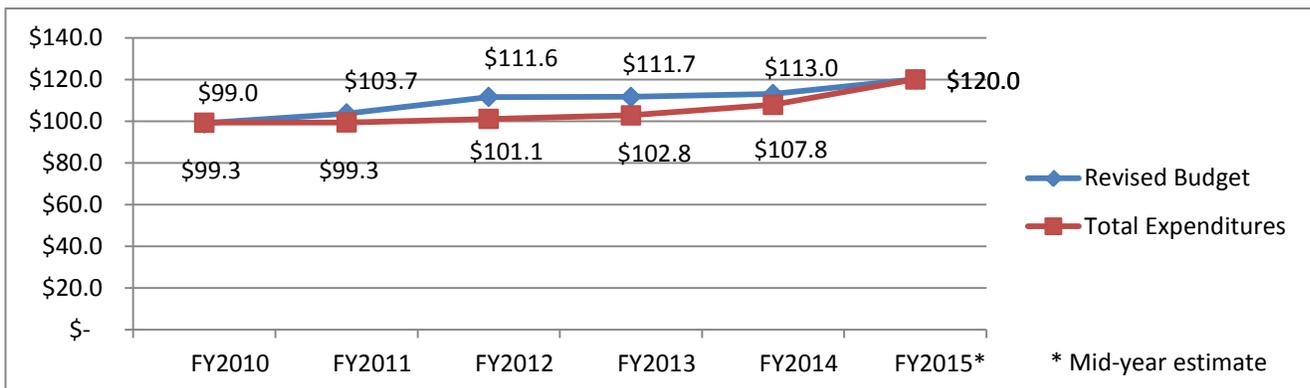


## CHARLOTTE WATER FY2016 & FY2017 BUDGET PRESENTATION SUMMARY OF KEY ISSUES

### FY2015 Operating Budget and Position Count

	FY2015 Budget	FY2015 Positions
<b>Total Charlotte Water</b>	\$ 120,022,895	799.75

### Operating Budget and Expenditure History



	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015
Budget to Actual Difference (\$ millions)	\$0.3	\$4.4	\$10.5	\$8.9	\$5.2	\$0.0 *
% of Budget Growth		4.7%	7.6%	0.1%	1.2%	6.2%
Budgeted Positions	812.5	816.5	802.5	755.5	781.75	799.75

\*Mid-year Estimate

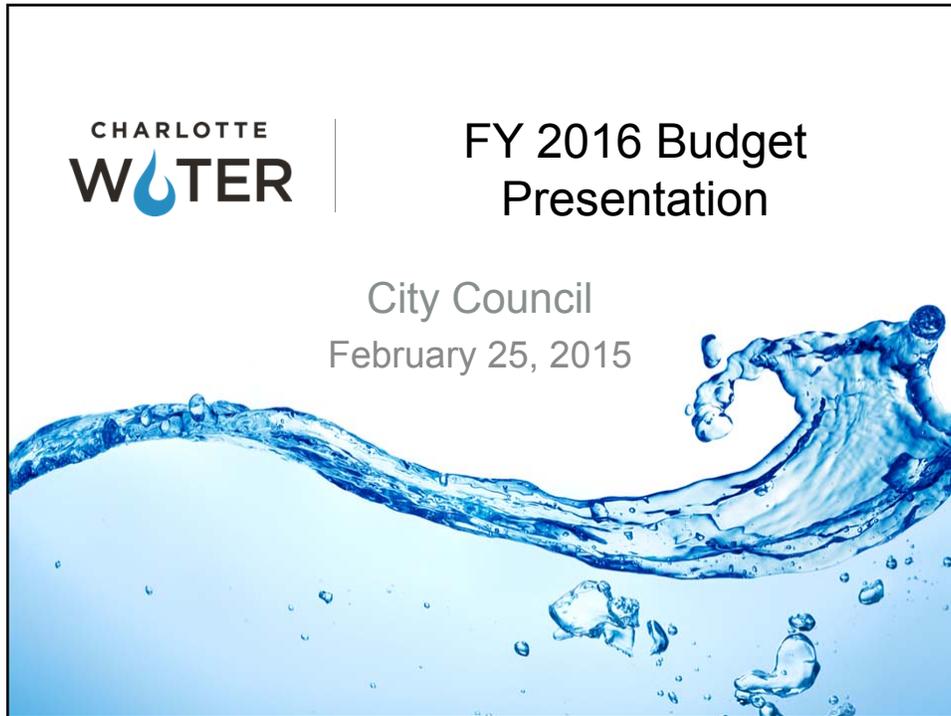
### Key Issues To Be Covered at Budget Workshop

- Water and Sewer Service Level Needs
- Rate Methodology Options
- Alternate Approaches to Rates and Fees, including:
  - Isolate revenue streams required for capital and operating and maintenance costs
  - Elimination of Tier 1 subsidy
  - Consolidating and increasing fixed component of rate
  - Increase Availability Fee
  - Increase Capacity Fee

### Key Budget and Policy Questions

- Is the current rate setting methodology appropriate?
- Is the current rate increase frequency appropriate?
- What level of capital funding adequately addresses system rehabilitation and replacement needs?

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### Presentation Context

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- May 2014 – Charlotte Water asked to provide details on rate setting methodology and process as part of the FY 2016 Budget
- December 1<sup>st</sup> 2014 – Capital and Financial Planning presentation to City Council
- January 26<sup>th</sup> 2015 – Rate Methodology presentation to City Council
- February 9<sup>th</sup> 2015 – Rate alternative presentation to City Council Budget Committee

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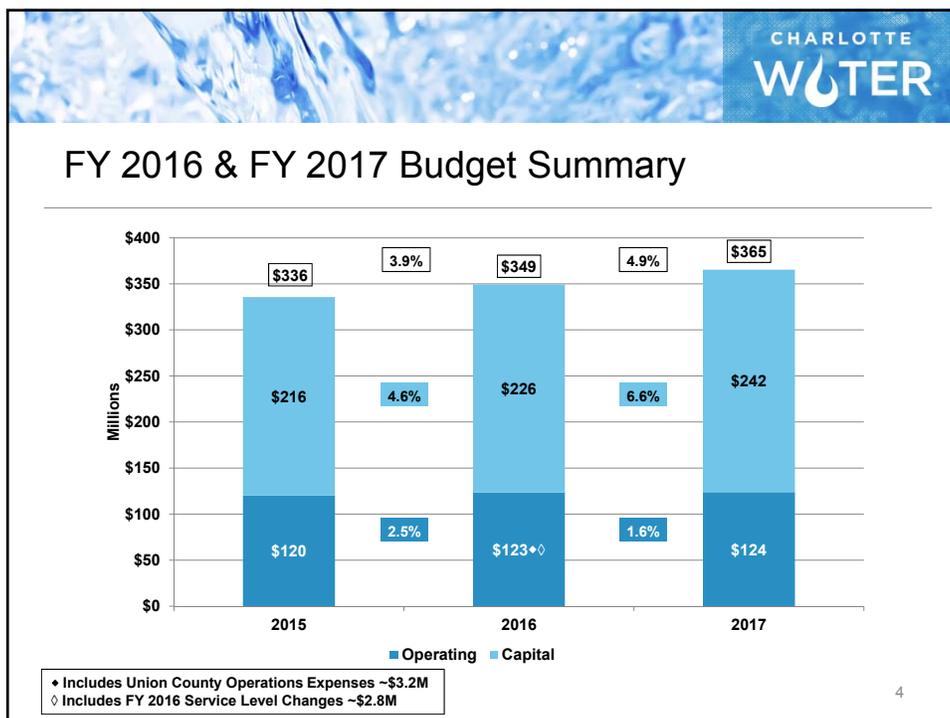


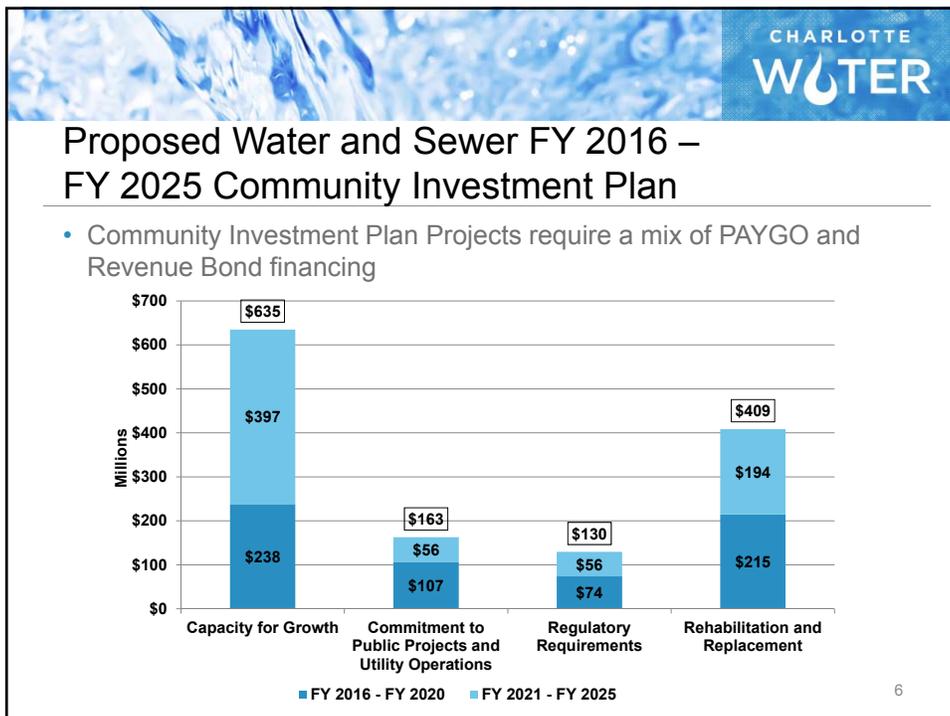
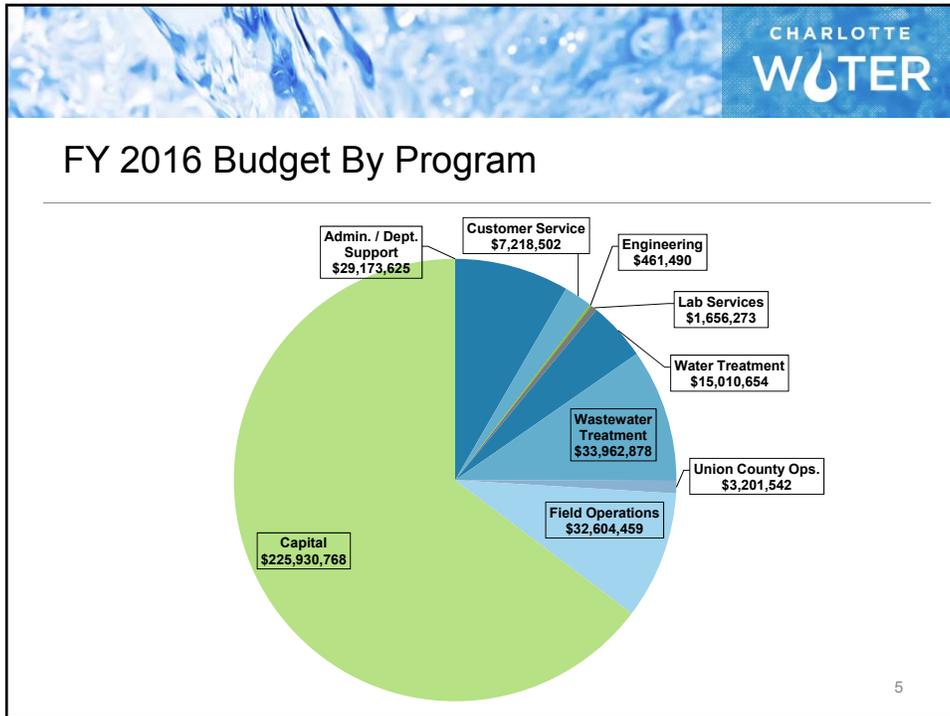
## Purpose / Today's Goals

- Receive Direction to be Incorporated into Manager's Recommended Budget
  - *Rate Methodology Alternatives*

1. Preliminary Operating and Capital Budget Summary
2. Revenue Needs
3. *Rate Methodology Approach Alternatives and Preliminary Rates and Fees*

3







## Service Level Change Summary

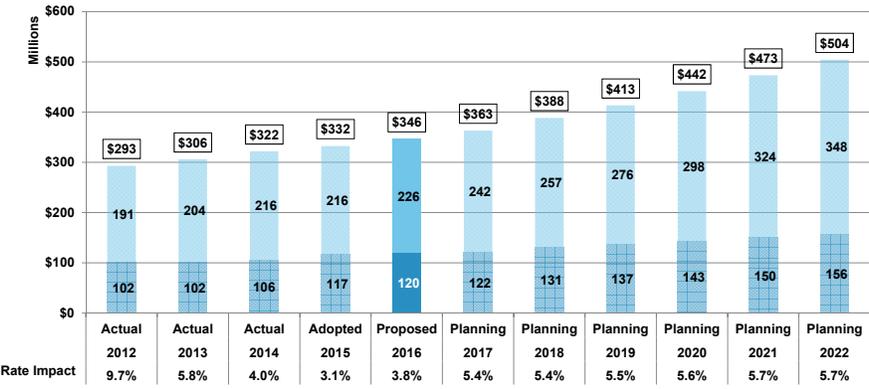
SERVICE LEVEL CHANGE SUMMARY				
Section	Requests	Rank	Positions	Operating Cost
705025	Locators plus Team Lead	1	5	\$1,356,997
705093	Off-Street Sewer Cleaning Crew	2	3	\$355,796
705010	Senior Water Service Tech	3	2	\$116,309
703010	Plan Review and Construction Inspections	4	6	\$461,490
705010	Engineering Program Manager	5	1	\$98,929
706000	Lab Services and Project Management	6	2	\$151,516
701020	Records Management Program	7	1	\$85,633
701012	Construction Related Procurement Support	8	2	\$162,833
706000	Lab Services for Union County	9	4	\$0
			<b>26</b>	<b>\$2,789,503</b>

- 0.83% increase over FY 2015 Budget
- 0.80% (\$0.47 per month) rate increase for a 7 Ccf Customer in FY 2016

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## Revenue Needs Based on Projected Capital and Operating Program (Current Approach 7 Ccf Customer)



Year	Operating (Millions)	Capital (DS & PAYGO) (Millions)	Total (Millions)	Rate Impact
Actual 2012	102	191	\$293	9.7%
Actual 2013	102	204	\$306	5.8%
Actual 2014	106	216	\$322	4.0%
Adopted 2015	117	216	\$332	3.1%
Proposed 2016	120	226	\$346	3.8%
Planning 2017	122	242	\$363	5.4%
Planning 2018	131	257	\$388	5.4%
Planning 2019	137	276	\$413	5.5%
Planning 2020	143	298	\$442	5.6%
Planning 2021	150	324	\$473	5.7%
Planning 2022	156	348	\$504	5.7%

- Numbers based on budget, not cash basis
- Does not include Union County Operations

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## Alternate Approaches for Discussion

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- At the February 9<sup>th</sup> Budget Committee Meeting, Charlotte Water was directed to provide further information on the following
  - Elimination of Tier 1 subsidy
  - Increase fixed component of rate
  - Increase Capacity Fee
  - Isolate revenue streams required for capital and operating and maintenance costs
- Total FY 2016 revenues are approximately \$346 million and FY 2017 revenues are approximately \$363 million for all approaches

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## Current Approach – No Methodology Change

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- Tier 1 subsidy remains
- Current Availability Fees – 20% of debt service
- Customer growth doesn't produce proportional revenue growth

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- Preliminary monthly – per bill – rate impact estimates (Water plus Sewer):
  - Tier 1 – approx. \$0.82 – \$1.59
  - Tier 2 – approx. \$1.79 – \$2.38
  - Tier 3 – approx. \$2.59 – \$4.10
  - Tier 4 – approx. \$5.39 – \$22.18
- 7 Ccf Customer Bill Per month (Water plus Sewer):

Fiscal Year	2015	2016	2017
Dollars	\$56.90	\$59.08	\$62.25
% Increase	3.1%	3.8%	5.4%

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### Scenario 1 – Eliminate Tier 1 Subsidy

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- More consistent with cost of service principle
- More stable revenue stream
- Improves revenue growth proportional to customer growth

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- Preliminary monthly – per bill – rate impact estimates (Water plus Sewer):
  - Tier 1 – approx. \$0.82 – \$3.06
  - Tier 2 – approx. \$1.97 – \$2.79
  - Tier 3 – approx. ~~(\$2.25)~~ – \$1.45
  - Tier 4 – approx. ~~(\$0.96)~~ – \$15.83
- 7 Ccf Customer Bill Per month (Water plus Sewer):

Fiscal Year	2015	2016	2017
Dollars	\$56.90	\$59.15	\$62.32
% Increase	3.1%	3.9%	5.4%

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### Scenario 2 – Increase Availability Fee

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- Availability Fee recovers 25% of debt service
- More stable revenue stream
- Improves revenue growth proportional to customer growth

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- Preliminary monthly – per bill – rate impact estimates (Water plus Sewer):
  - Tier 1 – approx. \$2.47 – \$2.59
  - Tier 2 – approx. \$2.50 – \$2.60
  - Tier 3 – approx. \$2.20 – \$2.53
  - Tier 4 – approx. \$3.18 – \$15.93
- 7 Ccf Customer Bill Per month (Water plus Sewer):

Fiscal Year	2015	2016	2017
Dollars	\$56.90	\$59.48	\$62.25
% Increase	3.1%	4.5%	4.65%

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### Scenario 3 – No Tier 1 Subsidy & Increase Availability Fee

- Availability Fee recovers 25% of debt service
- More stable revenue stream
- Improves revenue growth proportional to customer growth

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- Preliminary monthly – per bill – rate impact estimates (Water plus Sewer):
  - Tier 1 – approx. \$2.47 – \$4.02
  - Tier 2 – approx. \$2.18 – \$3.56
  - Tier 3 – approx. (\$4.00) – \$1.41
  - Tier 4 – approx. (\$3.02) – \$9.73
- 7 Ccf Customer Bill Per month (Water plus Sewer):

Fiscal Year	2015	2016	2017
Dollars	\$56.90	\$59.54	\$61.87
% Increase	3.1%	4.6%	3.9%

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### Scenario 4 – No Tier 1 Subsidy, Increase Availability Fee, & Temp. Freeze Tier 3 & 4 Rates

- Closer to cost of service principle
- Availability Fee recovers 25% of debt service
- Most stable revenue stream
- Further improves revenue growth proportional to customer growth
- No rate decrease for higher users

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- Preliminary monthly – per bill – rate impact estimates (Water plus Sewer):
  - Tier 1 – approx. \$2.47 – \$3.86
  - Tier 2 – approx. \$1.81 – \$3.35
  - Tier 3 – approx. \$1.87 – \$2.29
  - Tier 4 – approx. \$2.29 – \$2.29
- 7 Ccf Customer Bill Per month (Water plus Sewer):

Fiscal Year	2015	2016	2017
Dollars	\$56.90	\$59.22	\$61.60
% Increase	3.1%	4.1%	4.0%

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### Preliminary Bill Change Comparison

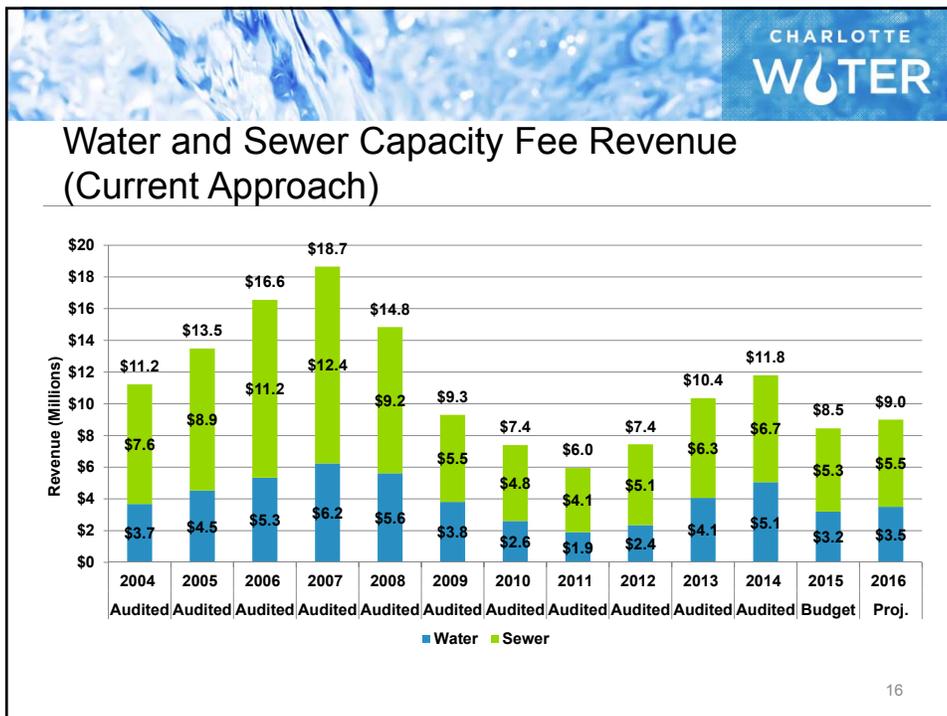
- Preliminary estimated increase (decrease) in FY 2016 monthly Water/Sewer Bill compared to FY 2015 bill

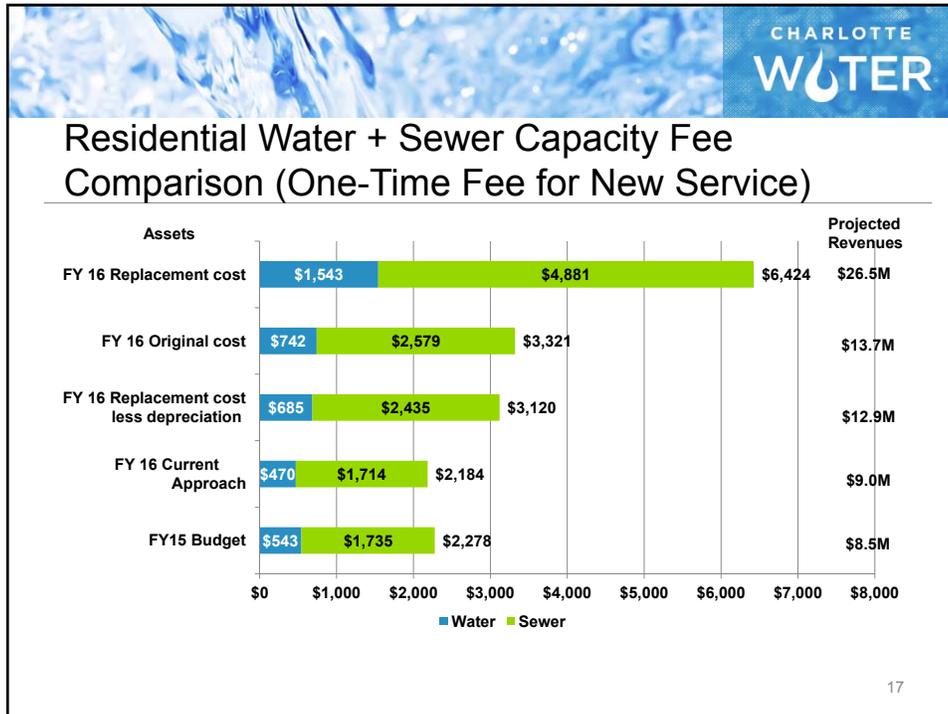
	0 – 4 Ccf	5 – 8 Ccf	9 – 16 Ccf	7 Ccf Customer
% of Bills*	41%	38%	17%	
Current Approach	\$0.82 - \$1.59	\$1.79 - \$2.38	\$2.59 - \$4.10	\$2.18
Scenario 1	\$0.82 - \$3.06	\$1.97 - \$2.79	(\$2.25) - \$1.45	\$2.25
Scenario 2	\$2.47 - \$2.59	\$2.50 - \$2.60	\$2.20 - \$2.53	\$2.58
Scenario 3	\$2.47 - \$4.02	\$2.18 - \$3.56	(\$4.00) - \$3.56	\$2.64
Scenario 4	\$2.47 - \$3.86	\$1.81 - \$3.35	\$1.87 - \$2.29	\$2.32

- In FY 2016, all scenarios produce \$346 million in revenues

\* 4% of bills are greater than 16 Ccf

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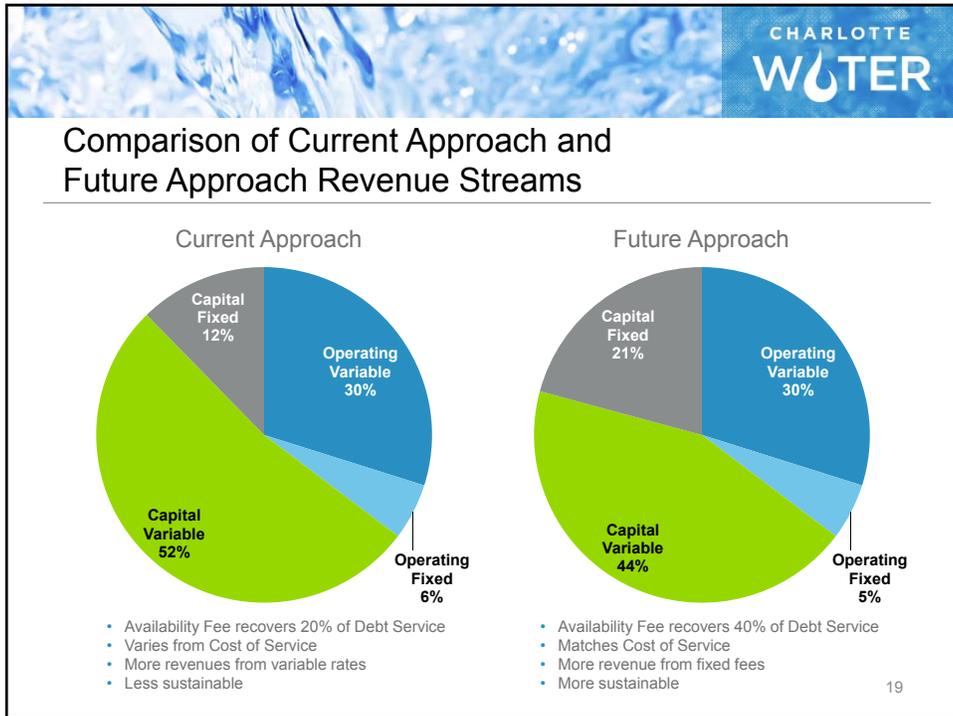


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Revenue Source	Operating & Maintenance			Capital		
	FY 2015	FY 2016	Difference	FY 2015	FY 2016	Difference
Union County	\$3,201,542	\$3,201,542	\$0			
Variable Rates	\$89,933,200	\$89,342,478	(\$590,722)	\$171,035,134	\$182,257,572	\$11,222,438
Fixed Fees	\$15,167,018	\$19,016,705	\$3,849,687			
Availability Fees				\$31,139,922	\$29,680,579	(\$1,459,343)
Capacity Fees				\$8,450,000	\$9,000,000	\$550,000
Connection Fees				\$4,050,000	\$4,300,000	\$250,000
Surcharges	\$4,030,382	\$3,361,465	(\$668,917)			
Service charges	\$2,414,303	\$2,943,042	\$528,739			
Other	\$5,276,450	\$5,424,191	\$147,741			
Interest				\$961,986	\$692,617	(\$269,369)
<b>Total</b>	<b>\$120,022,895</b>	<b>\$123,289,423</b>	<b>\$3,266,528</b>	<b>\$215,637,042</b>	<b>\$225,930,768</b>	<b>\$10,293,726</b>
FY 2015 Total Revenue Needs		\$335,659,937				
FY 2016 Total Revenue Needs		\$349,220,191				
<b>Total Difference</b>		<b>\$13,560,254</b>				

- FY 2016 Budget includes Union County Operations
- FY 2016 Budget includes Service Level Changes

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Discussion

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