

Over the past several months we have been communicating to our customers the condition and needs of our water system. In addition, we have communicated that the Utility has commissioned a rate study and is seeking to raise the water rates. In this issue I would like to explain the impact of the rate increase and more importantly what these additional revenues will do for the Utility and its customers:

- There is a misperception that the rate increase is driven mainly by the proposed capital improvements projects that are contained in the Preliminary Engineering Report, which can be found on the utility page of the City's website in the Water and Sewer Information section, and which I urge you to read.
- The debt service payments we are considering in order to perform these projects is only about 15% of the total rate increase.
- The majority of the rate increase is to restore the utility's financial soundness. This additional revenue is needed in order to make up for years of falling behind with regard to routine operational and maintenance costs that rise annually. It also will fund required debt reserves and establish required emergency cash reserves; provide for annual replacement and improvements for things such as building repairs, meter replacement, vehicle and heavy equipment replacements, fire hydrant and water main valve replacements and many other items. There are also periodic maintenance items like routine water storage tank inspections, meter testing and the like that have not been done adequately in the past.
- The rate increase will also provide funds to pay back the \$1.5 million loan from the sewer utility, which is having a negative financial impact on the sewer utility with regard to our ability to proceed with needed projects for that part of our utility operations.
- With this increase, the water utility currently has an opportunity to borrow money through the State Revolving Loan Program at very favorable interest rates (less than 2.5%), but must act before June 30.
- Restoring soundness to the water utility will also address the current junk bond rating of the water utility, which inhibits our ability to borrow money at a favorable rate.

Your utility bill has three components; the water portion, the sanitary sewer portion and the trash portion. **The sanitary sewer and trash portions will NOT be affected by this increase.** A typical residential water bill is divided into a monthly service charge, volume charge and then sales tax. Fire service line and/or private fire hydrant charges may apply to some Commercial customers as well. The proposal before the Council is to phase the water rate increase in over the period 2017-2019. If approved as presented, the Phase I rates would take effect most likely with the June 2017 billings; remain the same in 2018 with the final phase taking effect January 1, 2019.

In order to determine the impact on your bill, you will need to be able to access the City's website in order to see the recommended rate structure in the "Water Utility Accounting report on Rate Study" document in the Water and Sewer Information section of the utility page. That web address is: <http://www.cityoflawrence.org/utilities/water-sewer>. Exhibit "B", page 27 contains the proposed water rate increases and also lists our current water rates. You will need to know what size meter you have in order to see the change in the "Monthly Service Charge" part of your water bill. Most residential meters are 5/8-inch meters. Commercial users typically have larger meters, but smaller retail shops can also have the 5/8-inch meter. The next step would be to determine what your average monthly consumption is by referring to your past water bills. Then you will divide that number by 1,000, since the rates are calculated per each unit of 1,000 gallons (for example: 4,000 gallons divided by 1,000 = 4). Then multiply the result by the Phase I or Phase II rate. It is important to remember the Phase I rate is only for 2017 and 2018 and the Phase II rate, which is proposed to start January 1, 2019, is the final rate. So, for a residential customer using 4,000 gallons, you would **not** pay \$6.97 per thousand gallons in 2017-2018 **and then an additional** \$7.35 starting in 2019 for a total of \$14.32 per thousand gallons used; In 2019, your total cost would be \$7.35 per thousand gallons. Finally, you will need to add in the 7% sales tax, which the utility is required to charge and pass through to the State. You will add all these components together for your final water charges. **Remember, the utility bill also includes trash and sewer**

charges. The sewer charges are based on the amount of water you use, but the rates per thousand gallons are different and they will not be changing under this proposed rate increase.

Below is a sample utility bill using roughly 4,000 gallons per month: While the Phase I increase on the water portion of the bill is roughly 87%, the overall increase to the bill is 31.8%. Phase II would add a smaller increase of about 2.8% to the total bill.

City of Lawrence Utilities - Average Residential Utility Bill
5/8 inch Meter

Monthly Usage (gallons)	4,028	4,028		4,028	
Charge Code	Current Bill	Phase I		Phase II	
		Phase I Bill	Increase (from Current Bill)	Phase II Bill	Increase (from Phase I Bill)
Water Base Fee	7.53	14.10	6.57	14.86	0.76
Water Volume	14.98	28.08	13.10	29.61	1.53
Water Sales Tax	<u>1.58</u>	<u>2.95</u>	<u>1.38</u>	<u>3.11</u>	<u>0.16</u>
Water Total	\$24.09	\$45.13	\$21.04	\$47.58	\$2.45
Sewer Base Fee	26.60	26.60	0.00	26.60	0.00
Sewer Volume	0.00	0.00	0.00	0.00	0.00
Sewer Tracking	<u>0.40</u>	<u>0.40</u>	<u>0.00</u>	<u>0.40</u>	<u>0.00</u>
Sewer Total	\$27.00	\$27.00	\$0.00	\$27.00	\$0.00
Trash Fees	15.00	15.00	0.00	15.00	0.00
Total Lawrence Utilities Bill	\$66.09	\$87.13	\$21.04	\$89.58	\$2.45
Percentage Increase (Total Bill)			31.8%		2.8%

Let me close by saying that I do not take any pleasure in having to raise the rates, and neither do those people elected or appointed to serve you, and whose duty and responsibility is to properly run and maintain the utilities and other aspects of the City's operations. We understand what the impacts are. Unfortunately, in the past the City and its leadership have taken the same approach that now affects many utilities, and that is to defer rate increases because they are unpopular. All along, we should have been implementing smaller increases on a more frequent basis, which is more manageable for the users of the water and sewer services provided. But we cannot allow the water utility to continue to deteriorate and get further into financial straits that will lead to complete insolvency if we do not take charge and fix these problems. As a community we must come to realize the true value of our water and sewer systems and the quality of life, health and economic benefits that they support. We are all members of this community and I would hope that we are all equally concerned and desirous of having infrastructure systems that contribute greatly to our prosperity as a community, a prosperity that is not measured only in terms of money, but in terms of quality of life as well. This is not my utility, it is not the Mayor's utility and it is not the Council's or Utility Services Board's utility either; it is OUR utility. I pledge to do my part to operate and maintain these utilities to the best of my ability and to work hard to make sure we do not find ourselves ever again faced with the need to come from behind to solve a problem that could have been prevented with proper management and foresight.

As always, if you have any questions about any of these issues, please feel free to contact me at:
(317) 524-6305 or ssalsbery@cityoflawrence.org

NOTICE: Lawrence Utilities has made a modification to its Spring Water Main Flushing program, which will now start on April 9, 2017 for the Richardt Service area (from Post Road west to city limits) due to an increase in discolored water complaints. This routine preventive maintenance activity can result in temporary water discoloration. If that should occur, customers are advised to run a steady stream of **cold** water to help clear it up.