

Memorandum

To: Village Council
From: David Fieldman, Village Manager
Re: Revisions to FY12 Water Fund Budget
Date: October 28, 2011

Staff has revised the FY12 budget for the Water Fund by increasing revenues and expenses by \$1 million. This revision is in response to an increase in the cost of purchasing water from the DuPage Water Commission (DWC), effective January 1, 2012. In addition, staff has revised the planned increases in Village water rates to pass through the increased cost of purchasing water from the DWC to the Village's customers. This memorandum:

- Summarizes the DWC rate increases
- Explains the resulting revisions to the FY12 Water Fund budget
- Details the proposed changes in Village water rates
- Shows the impact of the increased Village water rates on a typical residential property

Background

The Village's water system serves approximately 16,000 residential and business accounts within Village boundaries, as well as a limited number of unincorporated properties. Our supply of water is obtained from Lake Michigan via the City of Chicago. The DuPage Water Commission (DWC) obtains water from the City and in turn, distributes and sells it to member communities, including Downers Grove.

DWC Rate Increases

The City of Chicago is in the process of raising their water rates. These new rates are expected to be in place on January 1, 2012. The DWC plans to increase the price of the water sold to its members, effective January 1, 2012. The price increase includes a pass-through of the City of Chicago water rate increases as well as increases for DWC existing debt service payments and planned capital improvements. The DWC rate increases to its members will be as follows:

2012	30% increase
2013	20% increase
2014	18% increase
2015	17% increase

Revisions to the FY12 Water Fund Budget

The cost of purchasing water is expected to increase by approximately \$1 million. In response to this increase, staff has increased both the expenses and revenues in the FY12 Water fund budget by \$1 million.

In the original proposed FY12 Budget, the cost of supplies, which includes the purchase of water from the DWC, was \$4,981,087. Staff has prepared a revised budget that increases the cost of supplies by \$1 million to \$5,981,087. This change reflects the 30% increase from the DWC for 2012. In the original proposed FY12 Budget, the revenue from the sale of water was \$10,160,000. The revised budget includes revenue of \$11,160,000—a direct pass-through of the \$1 million increase in the Village’s cost of purchasing water from the DWC.

Village Rate Increases

To achieve the revenue included in the revised budget, the Village must raise water rates.

In 2010, the Village Council approved the Water Rate Study Report which concluded the following:

- Based on projected water sales, the Village’s current water rates (2010) will not produce adequate revenues to cover the costs of operating and maintaining the water system in 2011 or during subsequent years.
- The annual shortfalls under existing 2010 rates will exhaust the Village’s Water Fund cash balance during 2011.
- Revenue increases of 14% in 2011, 2012 and 2013, 10% in 2014 and 9% in 2015 are required to cover the costs of operating and maintaining the water system.

The study included a model projecting the total cost of owning, operating and maintaining the Village water system, assuming 10% annual increases in the cost of water from the DWC.

The latest increases to be implemented by the DWC (noted above) are substantially greater than the increases assumed in the 2010 model. Staff has updated the model to account for the increases proposed by the DWC for the next four years.

Year	Required Revenue Increases Per 2010 Water Rate Study Model	Required Revenue Increases Per the Revised Model
2012	14%	25%
2013	14%	18%
2014	10%	14%
2015	9%	14%

Impact of Rates on a Typical Residential Property

The table below shows the impact on a typical residential property owner (15 units of water used during each bi-monthly billing cycle and a 5/8” water meter) of the original plan per the 2010 water study and the revised plan including a pass-through of the DWC rate increase. It is important to note that the pass-through increase in the cost of purchasing water from the DWC affects the unit fee portion of the Village rates only, and the fixed fee portion does not change from the original plan.

	Original Plan			Revised Plan		
	Bi-Monthly Fixed Fee	Unit Fee	Typical Bi-Monthly Bill	Bi-Monthly Fixed Fee	Unit Fee	Typical Bi- Monthly Bill
2011	\$8.25	\$3.30	\$57.75			
2012	\$9.31	\$3.73	\$65.26	\$9.31	\$4.13	\$71.26
2013	\$10.50	\$4.25	\$74.25	\$10.50	\$4.89	\$83.85
2014	\$11.55	\$4.68	\$81.75	\$11.55	\$5.57	\$95.10

It is important to implement the recommendations of the 2010 water study and pass on the increased cost of purchasing water. Failure to fully pass along the additional cost could result in the following:

- Reduction in the fund balance in the Water Fund.
- Reduction in the size of the 2012 bond issuance or the inability to issue a bond.
- Deferment of needed capital improvements resulting in increases in water main breaks.