

**MINUTES OF A COMMITTEE OF THE WHOLE MEETING
OSWEGO VILLAGE PRESIDENT AND BOARD OF TRUSTEES
OSWEGO VILLAGE HALL
100 PARKERS MILL, OSWEGO, ILLINOIS
August 1, 2017**

CALL TO ORDER

President Gail E. Johnson called the meeting to order at 6:00 p.m.

ROLL CALL

Physically Present: President Gail Johnson and Trustees Ryan Kauffman (attended at 6:08 p.m.), Karin McCarthy-Lange, Pam Parr, Luis Perez, Judy Sollinger and Joe West.

Staff Present: Dan Di Santo, Village Administrator; Christina Burns, AVA/HR Director; Tina Touchette, Village Clerk; Jennifer Hughes, Public Works Director; James Jensen, Deputy Police Chief; Rod Zenner, Community Development Director; Michele Brown, Community Engagement Coordinator; Mark Horton, Finance Director; Corinna Cole, Economic Development Director; Jay Hoover, Building & Zoning Manager; Joe Renzetti, IT/GIS Manager; Annie Callahan, Purchasing Manager; and David Silverman, Village Attorney.

CONSIDERATION OF AND POSSIBLE ACTIONS ON-ANY REQUESTS FOR ELECTRONIC PARTICIPATION IN MEETING

There was no one who participated electronically.

PUBLIC FORUM

Public Forum was opened at 6:00 p.m.

There was no one who requested to speak; the Public Forum was closed at 6:00 p.m.

OLD BUSINESS

There was no Old Business.

NEW BUSINESS

F.1. Consideration and Discussion of the Results of a Water and Sewer Operations Audit and Revenue Study

Director Hughes addressed the Board regarding the water and sewer rate study. The last rate study was conducted in 2009. The current water rate is \$4.05 per 1,000 gallons. The current sewer maintenance rate is \$1.71 per 1,000 gallons. There is also a monthly water charge of \$3.17. The purpose of the study is to ensure that the Village funds the full cost of providing the commodity through revenue derived from the sale of water. In addition to operating expenses, the 20-year Capital Improvement Fund identifies more than \$73 million of improvements. The components of the full cost include:

- Operating Expenses
 - Cost of Water (Producing or Buying)
 - Administrative (Billing, Permits, HR, Penalties)
 - Operators and Operations
 - Commodities (Electric, gas, materials)
- Capital Improvement
 - Repair or replacement of existing infrastructure
 - Capacity expansions to serve new customers typically not included
- Debt Service

The Village contracted with Engineering Enterprises Inc. (EEI) to prepare a new rate study. EEI's analysis indicates rates will need to rise \$0.14/1,000 gallons (2.25%) per year just to keep pace with

operating and maintenance expenses; which does not include the Village's significant capital needs. The current system is beginning to age and the Village faces a number of major projects including the meter change out program. Two options were proposed:

- 1) Increase rates by \$0.60/1,000 gallons each year for six years (average annual increase of 10.5%). This option would raise the typical resident bill (5,400 gallons/month) by \$6.48/month from \$34.27 to \$40.75 in the first year, and up to \$53.71/month by 2023
- 2) Increase rates by \$0.80/1,000 gallons each year for three years and then by \$0.10/1,000 gallons each year for three years (average annual increase of 8%). This option would raise the typical resident bill (5,400 gallons/month) by \$8.64/month from \$34.27 to \$42.91 in the first year and up to \$49.29/month by 2023. Staff prefers this second option

Both options wind up with a similar rate at the end of five years. The planning horizon is five years. Therefore, the increases do not account for the construction cost associated with a new water source. Staff prefers the second option. Based on the Village Board's direction on rates, staff will work on a communications plan to notify residents of the switch to monthly billing and to educate residents on the benefits of water conservation.

Peter Wallers, Michele Piotrowski and Jeffrey Freeman from EEI, presented the analysis and summary.

Introduction

- Revenues
 - Base service charges
 - Rates
 - Connection fees
- Expenses
 - Capital improvements
 - ✓ \$1.64M/year; avg. 24%
 - Debt Service
 - ✓ \$1.26M; avg. 18%
 - Operations & maintenance
 - ✓ \$3.92M; avg. 58%
 - ✓ Harder to cut expenses in this component
- Projected Revenues
 - Water & Sewer Fund
 - ✓ Charges for service
 - ✓ Permits
 - ✓ Grants
 - Water & Sewer Capital Fund
 - ✓ \$0.16M avg.
 - ✓ Meter tap on fees
 - 2-3% increase with development and growth

Background

- Existing pumped water use; FY16
 - Average day demand= 2.32MG
 - ✓ Includes commercial and industrial
 - Maximum day demand= 3.96MG
- Estimated population served- 35,000; FY16
- Current bills are measured in cubic feet
 - 100 cubic feet= 748 gallons
 - 1,000 gallons= 134 cubic feet

- 2015 water consumption by customer class
 - Industrial- 2.18%
 - Commercial- 15.61%
 - Residential- 82.21%
- Water
 - 91% of Main is less than 30 years old
 - Complicated and robust system
 - 172+ miles of water main
 - 5 pressure reducing valves
 - 2 booster pumps
 - 5 water towers
 - 8 wells
- Sewer
 - 87% of Sewer is less than 30 years old
 - 131+ miles of sanitary sewer
 - 3 lift stations
- Billing per capita
 - 2.25%/year per capita
 - General decline in water use per capita
- Growth rate for Oswego
 - 34,820 (2015)
 - 36,260 (2023); staff projections
 - 43,370 (2023); CMAP projections
 - 60 new homes per year
 - 8.6% increase per year
 - Numbers will be reviewed over time
- Expenses by utility type (FY13-FY18)
 - Storm sewer- 2%
 - CIP water & sewer- 8%
 - Sanitary- 11%
 - All debt service- 27%
 - Water O&M- 52%

Fund Balance Reserves

- Fund balance policies
 - Water and Sewer Fund= 30% of annual operating expenses +1 year debt service
 - ✓ FY19-FY23 average= \$2.3M
 - Water and Sewer Capital Fund= 1 year of CIP expenses
 - ✓ FY19-FY23 average= \$1.6M
- Current reserves (projected ending FY18)
 - Water & Sewer Fund= \$0.7M
 - Water & Sewer Capital Fund= \$4.4M
- Reserves beyond policy requirements
 - \$1.2M
 - Spread across six years to pay for water expansion and keeping rates low
 - More funds in reserves than the policy calls for

Projections

- Projected billed water use
 - 2.25%/year per capita decline
 - Fewer billing units over time
 - Consuming less per capita
- Expense Fund
 - O&M (Water & Sewer Fund)

- ✓ FY14-FY18= \$4,942,022
- ✓ FY19-FY23= \$5,177,955
- ✓ Additional expenses= \$235,933
- CIP (Water & Sewer Capital Fund)
 - ✓ FY14-FY18= \$621,911
 - ✓ FY19-FY23= \$1,640,463
 - ✓ Additional expenses= \$1,018,553
- CIP adjustments (FY19-FY23)
 - Major improvements
 - ✓ 2 tank rehabs in next 5 years= \$2.1M
 - ✓ Meter replacement program in next 5 years= \$4.8M
 - ✓ Sewer lining= \$0.6M
 - ✓ Too early to include the new water supply
 - Exclusions
 - ✓ All major supply and treatment expenses
 - ✓ Well No. 4 generator
 - ✓ Minkler Road water main
 - ✓ Wolf Road water main

Rate Options

- Current rates per ordinance
 - Rates
 - ✓ Water= \$4.05/1,000 gallons (\$3.03/100 cf)
 - ✓ Sewer= \$1.71/1,000 gallons (\$1.28/100 cf)
 - Monthly service charge
 - ✓ Water= \$3.17/month
 - ✓ Sewer= \$0.00/month
 - Excludes Fox Metro fees; cannot control their costs
- Average customer bill
 - Bi-monthly= 10,800 gallons
 - ✓ Rate charges= \$5.76/1,000 gallons x 10,800 gallons/1,000 gallons= \$62.21
 - ✓ Service charge= \$3.17/month x 2 months= \$6.34
 - ✓ Total= \$68.55
 - Monthly= 5,400 gallons
 - ✓ Total of bi-monthly= \$68.55/2= \$34.27
 - ✓ Staff wants to move towards monthly billing
- Options
 - Keep current rates
 - ✓ Will result in a -\$8,586,127 deficit over a 6 year period
 - No CIP- \$0.14/1,000 gallons annual rate increase
 - ✓ Break even with the O&M expenses
 - ✓ Annual average= 2.25%
 - ✓ Will result in a \$303,051 surplus
 - ✓ This is not an option to allow for reinvesting into the system
 - Option 1- \$0.60/1,000 gallons annual rate increase for 6 years
 - ✓ Annual average= 10.5%
 - ✓ Will result in a \$107,165 surplus
 - ✓ This option does not have the reserve capacity to pay the first 4 years; cannot do CIP projects
 - ✓ Projected increase of 3.42%/year
 - Option 2- \$0.80/1,000 gallons annual rate increase for 3 years, then \$0.10 annual increase for 3 years
 - ✓ Annual average= 8%
 - ✓ Will result in a \$108,103 surplus

- ✓ Includes all CIP projects requested
- ✓ Meets and exceeds O&M of reserve
- ✓ Projected increase of 2.99%/year

Projected Cumulative Surplus/Deficit Above the Fund Reserve Policy

		Current Rates	No CIP	Option No. 1	Option No. 2
Fiscal Year	Fund Balance Reserve by Policy	No Rate Increase (0%)	\$0.14/1,000 gallons annual rate increase (2.25%)	\$0.60/1,000 gallons annual rate increase for 6 years (10.5%)	\$0.80/1,000 gallons annual rate increase for 3 years, then \$0.10 annual increase for 3 years (8%)
FY18-19	\$4,275,093	-\$1,487,433	-\$51,499	-\$578,704	-\$275,766
FY19-20	\$3,947,178	-\$3,085,179	-\$166,073	-\$837,404	-\$88,088
FY20-21	\$3,828,545	-\$5,414,177	\$183,194	-\$1,412,580	-\$573,963
FY21-22	\$3,859,711	-\$7,409,103	\$35,846	-\$1,254,072	-\$669,403
FY22-23	\$3,859,711	-\$8,586,127	\$303,051	\$107,165	\$108,103

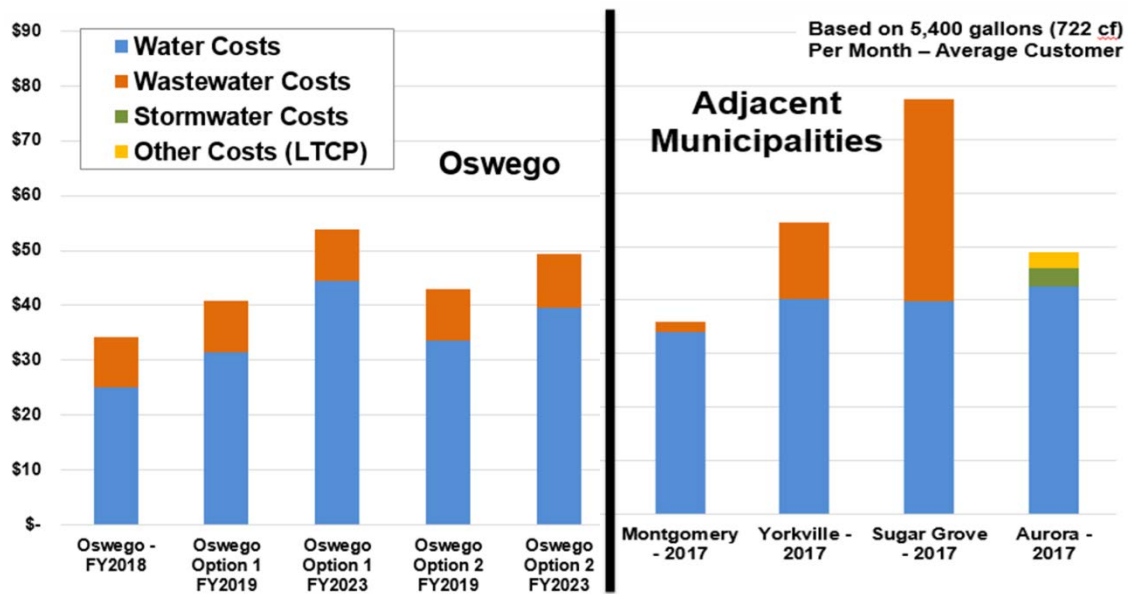
Rate per 1,000 Gallons (Combined Water & Sewer)

	Current Rates	No CIP	Option No. 1	Option No. 2
Fiscal Year	No Rate Increase (0%)	\$0.14/1,000 gallons annual rate increase (2.25%)	\$0.60/1,000 gallons annual rate increase for 6 years (10.5%)	\$0.80/1,000 gallons annual rate increase for 3 years, then \$0.10 annual increase for 3 years (8%)
FY18-19	\$5.76	\$6.03	\$6.96	\$7.36
FY19-20	\$5.76	\$6.16	\$7.56	\$8.16
FY20-21	\$5.76	\$6.29	\$8.16	\$8.29
FY21-22	\$5.76	\$6.43	\$8.76	\$8.41
FY22-23	\$5.76	\$6.59	\$9.36	\$8.54
Average Annual Increase	0%	2.25%	10.5%	8%

Average Water & Sewer Monthly Bill (Average User)

	Current Rates	No CIP	Option No. 1	Option No. 2
Fiscal Year	No Rate Increase (0%)	\$0.14/1,000 gallons annual rate increase (2.25%)	\$0.60/1,000 gallons annual rate increase for 6 years (10.5%)	\$0.80/1,000 gallons annual rate increase for 3 years, then \$0.10 annual increase for 3 years (8%)
FY18-19	\$34.27	\$35.73	\$40.75	\$42.91
FY19-20	\$34.27	\$36.43	\$43.99	\$47.23
FY20-21	\$34.27	\$37.14	\$47.23	\$47.94
FY21-22	\$34.27	\$37.89	\$50.47	\$48.58
FY22-23	\$34.27	\$38.76	\$53.71	\$49.29

Rate Comparisons



- Rate for adjacent municipalities will increase over time

Next Steps

- Staff will provide additional information or rate options as directed
- Rate selection by September
- Target rate implementation by October 1, 2017
- Re-evaluate rates as needed based on population, water use, or required major improvements

Value of Water

- 1 gallon of milk = \$2.92
- 1 can of soda (machine) = \$1.00
- 1 bottle of water (machine) = \$1.00
- 1 Starbucks coffee = \$2.45
- 1 gallon of delivered water = \$1.45
- 1 gallon of Village water = \$0.005
- Cost to have 200 gallons of treated water delivered to your door daily
 - From delivery service = \$290/day
 - From the Village of Oswego = \$1.05/day

Board and staff discussion focused on rates held steady for eight years; kept rates flat due to planning and hard work; Water & Sewer Fund is an enterprise fund; Village does not make profit on rates; needing to make sure the Village does not lose money for providing water and sewer; study was a collaborative effort with EEI and staff; whether radon treatment would still be needed and costs involved if the Village switched to Lake Michigan as a water source; having reserve storage built in if there are service interruptions, or keep maintaining the deep wells; keeping the treatment system in place; water towers will still be in use with Lake Michigan water system; towers could meet day to day needs; doing an analysis of the whole system depending on the water source; should do a re-study to re-evaluate if choosing option 2 as the rate increase; other communities are doing automatic escalation increases; needing to increase the rates; setting rate for future growth; if increases were done years ago, the Village would not be in catch-up mode; currently doing CIP projects, but the reserves are depleting; helping to pay future projects; staff recommended option 2; money in the reserves are already earmarked for projects; option 1 not good in the long run; projects are to keep the

water safe and necessary; numbers can be staggering; rate increase for usage and charging a flat fee; long range sustainability; concerns with option 2; needing a long term funding mechanism; not in a place now to see what the funding will be for the new water source; no restrictions on enterprise funds; not knowing what the costs will be for Lake Michigan water; may need to add a CIP; option 2 with a 2 ½-3% increase in years 2024 and beyond; can revisit the rates from the information received from a new study; nothing was done for 7 years; option 2 better for reserves; starting at a lower rate before going into a new water source project; not knowing what technology will be in 5 years; revisiting the rate structure every year; doing a rate study after 5 years; option 1 is a 17% increase; option 2 is a 22% increase; would like to spread out the increase over an amount of time; not liking the percentage numbers; needing to be honest with residents about the need to raise rates; flat rate to everyone instead of a percentage may not be fair; small flat rate plus a percentage increase may be an option; not targeting for October to give residents time to plan and budget; looking at the increase in costs for staff to do monthly billing; stamp costs would increase; will be an initial shock to staff; Public Works staff will need to read the meters monthly; staff to determine the costs and report back to the Board; currently offer online billing and can accept payments online; ACH payments are the cheapest way to pay; option 2 was decided; staff will come back with monthly billing numbers, timing and more details; even with option 2, Oswego will still be under what Yorkville, Sugar Grove and Aurora are at.

There was no further discussion.

CLOSED SESSION

There was no Closed Session held.

ADJOURNMENT

The Committee of the Whole meeting adjourned at 7:07 p.m.

Tina Touchette
Village Clerk