



CITY COUNCIL AGENDA ITEMS

To: Mayor Graham and City Council
From: Dennis Sullivan, Director of Engineering & Public Works
Walter Denton, City Administrator
Date: July 2, 2007
Subject: ORDINANCE – Sewer Service Rates Ordinance Change

List of committees that have reviewed: Public Works Committee

Background: The O'Fallon Sanitary Sewer District operated in the red in the recently completed fiscal year, FY07 (un-audited amount of -\$376,029). The net increase in cash and cash equivalents for FY06 was \$173,217 (audited amount). With total revenue in FY06 of \$3,771,018 the net increase should have been in the vicinity of \$566,000 (15%). The FY07 performance was abysmal, and cannot be blamed on a major problem. A net increase of about 15% in cash, consistently from year to year barring disasters, is an indication to the regulatory community that a district is creating the funds needed for major upgrades in the future required by regulations based on the Clean Water Act, and the district can withstand the repair costs related to a catastrophic event such as a tornado or flood.

The proposed new rates are a product of our use of Missouri's Department of Natural Resources *Show-me Sewer Ratemaker 4.1*, and a review of cash flow over the past two years (audited and un-audited). Previous to our last rate (non-CPI) increase of 15% (April 2006), the City asked for a review of our rates from a consultant that was familiar with our system and need for repairs and future upgrades. He suggested a 50% or greater increase in our rates. 50% in one jump was unacceptable to staff having researched water and sewer expenses as well as revenues. At that time, there were charges to the sewer system that needed to be re-apportioned to water expense accounts. Staff wanted to ease into a sewer rate increase until the affect of the transfer of expenses to the water accounts could be assessed. With the lack of capital created in sewer revenue for FY07, it appears the consultant was right. Therefore, the additional rate increase is being requested.

Legal Considerations, if any: None.

Budget Impact: The increase is 15% for the consumption charge and 11% for the base user rate. It nets the sanitary system the funds to carry out much needed repairs and future upgrades. Using FY07 collection rates and projecting them for a full year with the proposed increases, the increases will net the sanitary system approximately \$430,000 additional revenue.

Staff recommendation: Staff recommends amendment of the existing ordinance.

Note: The strikethroughs on the attached ordinance show deletions by strikethrough while underlining notes new wording.