City Water Rates

1. Water Rates – Adopted July 1, 2009

The City of Mitchellville currently serves 585 water customers. The City's water customers purchased slightly over 61,000,000 gallons of water for the 12 month period from July 2010 to June 2011 as shown on Exhibit F.

The City's water rates were adopted on July 1, 2009 and are as follows:

Minimum Bill (2,000 Gallons) $10.36
2001 – 10,000 gallons - $5.75 per 1,000 gallons
Over 10,000 gallons - $5.18 per 1,000 gallons

This water rate structure generated $374,680 in FY 2009-10 and $373,028 in FY 2010-11, as shown on Exhibit G. Miscellaneous revenue, deposits, sales tax collected, and interest will typically generate an additional $15,000 to $25,000 per year for the water utility. The largest volume of water is purchased by the Iowa Corrections Institute for Women, which used 23,030,000 gallons from July 2010 to June 2011 and paid the City $119,350. The payments from The State Prison constituted about 32% of the City's total water user fee revenues, as shown in Exhibit J.

2. Water Utility Operations Budget

The City's current water utility operations budget can be summarized as follows:

REVENUES

1. Water User Fees	Residents	$253,650
2. Water User Fees	State Prison	$119,350
3. Miscellaneous Fees		$20,705
	Total Water Revenue	**$393,705**

Expenses

1. Personnel Costs		$143,599
2. Sales Tax Collected		$13,000
3. Supplies & Contracts		$113,878
4. Water G.O. Bond Payments		$61,500
5. Water Revenue SRF Loan		$154,375
	Sub-Total	$486,352
6. SRF Loan Coverage Ratio		$15,438
	Grand Total Required	$501,790
	Revenue Shortfall/Deficit	$108,085

The City urgently needed to increase water rates or run the risk of the cash balance in the water fund dropping to a zero balance on or before June 30, 2012. The only other option would be to drastically reduce expenditures by $108,000, which does not appear to be realistic.

The City had four options regarding an increase in water rates:

3. Options – Increase Rates and Revenues

Option No. 1 Increase the Base Rate

The City could increase the base rate or minimum rate from $10.36 per month to $25.76 or a difference of $15.40. This increase would have the greatest impact on the low volume customer and minimal impact on the high volume customer, such as the State Prison.

Option No. 2 Increase the Usage Rate

The City could leave the base rate at $10.36 and generate all the additional revenue by increasing usage rates. The calculations as to how much to increase the usage rate are somewhat difficult due to the fact the City has a three tiered rate structure and it is not known how much water is billed at each of these tiers. One way to estimate the volume of water at each of the tiers would be to assume that the State Prison is the only water customer that exceeds 10,000 gallons per month. If this assumption was true and the City wanted to retain the current three tier water rate structure, there are numerous combinations that are possible. If the City raised the second tier from $5.75 to $8.80 and the third tier from $5.18 to $6.70, the water utility would have sufficient revenue to balance the water budget. The one word of caution is that if the water rate increase were to cause people to reduce their volume of water purchased, then the total revenues would be less than projected.

Option No. 3 Combination Base Rate and Usage Rate Increase

The City could increase all three tiers of the water rate structure by about the same percentage in order to generate the additional $108,085 revenue to balance the water budget. If each of the three tiers of the rate structure were increased by a percentage that would generate about $36,000, the additional revenues would equal $108,080.

In order to generate the additional $36,000 in revenues from each of the three tiers of the rate structure, the following increases would be required:

Tier of the Rate	Current Rate	Increase	New Rate
1. Base Rate	$10.36	$5.14	$15.50
2. Tier (2,000-10,000 per gallon	$5.75	$1.50	$7.75
3. Tier (10,000 +) per 1,000 gallon	$5.18	$1.57	$6.75

Option No. 4 Simplified Rate Structure

A fourth option could include a greatly simplified rate structure that would be easier to understand and to calculate future revenues. The following changes could include:

1. Modify the base or minimum rate to cover the base costs of providing the service, regardless of the amount of the water consumed. These costs could include the cost to read the meter, print the bills, postage, the actual costs to test and maintain the meter, and associated costs. It would be a flat fee.
2. The minimum of 2,000 gallons would be eliminated. Every gallon of water would be subject to the usage rate.
3. The third tier of the rate structure used to calculate the cost of water usage in excess of 10,000 gallons would be eliminated. All water would be billed at the same rate per 1,000 gallons. The change would eliminate the special rate of $5.18 per 1,000, which benefits the State Prison.

An example of how this type of water rate structure may work is as follows:

Base Rate- No Gallons - $10.36
Usage rate for all water consumed – per 1,000 - $6.82

A comparison of an average water usage of 5,425 gallons per month would be as follows:

Rate Structure	Current Bill	New Bill
Base or Minimum	$10.36	
New Base		$10.36
Usage Rate -5,425-2,000=3,425 X .00575	$17.74	
Usage Rate – 5,425 X .00682		$37.00
Total Bill	$28.10	**$47.36**
Percentage of Increase		**68.5%**

The State Prison monthly bill of 1,920,000 gallons would be calculated as follows:

Rate Structure	Current Rate	New Bill
Base Rate	$10.36	$10.36
Usage Rate		
Tier 2 -5,425-8,000 X .00575	$46.00	
Tier 3 – 1,910,000 X .00518	$9,893.80	
New Rate – 1,920,000 X .00682		$13,094.40
Total Bill	**$9,950.16**	**$13,104.76**
Percentage of Increase		**31.7%**

Regardless of which option or rate structure is selected, the City has an immediate need to generate $108,080 in additional revenues in order to balance the water utility budget. The current rate structure does not generate revenues that are sufficient to meet the needs of the water utility. The money raised by water user fees will need to increase from $373,000 to $481,085 (29% increase) as soon as possible.

It is also important to note that the proposed increase in water rates does not include any additional revenues for capital projects, such as the replacement of any four inch water mains, fire hydrants, valves, equipment, vehicles, etc.

4. City Council Action – Water Rate Increase 2012

The City Council on January 9, 2012 basically adopted Option No. 4 and modified the City's water rate structure by eliminating the 2,000 gallons that was included in the base rate charge. The immediate impact will be to add up to $11.50 to most water bills, starting with the bills that are sent in March, 2012 and paid in April, 2012.

The water ordinance also eliminated the rate of $5.18 per 1,000 gallons on water consumption in excess of 10,000 gallons per month. The ordinance set one usage rate of $5.75 per 1,000 gallons on all water consumption. A copy of the City's most current water rate ordinance is attached as Addendum VI.

The ordinance adopted by the City Council also increased the rate per 1,000 gallons from $5.75 per 1,000 gallons to $6.82 per 1,000 gallons effective May 1, 2012. This adjustment will be effective with the water bills printed in June, 2012. This portion of the rate adjustment will add about $5.80 per month to the average residential water bill for 5,425 gallons of water.

After all phases of the water rate adjustment have been implemented, the City's water utility user fee annual revenues will increase from $373,000 to approximately $488,000 or an increase of $115,000 over a 12 month period. Future water user fee revenues can be calculated as follows:

Base Rate - $10.36 per month
$10.36 x 585 accounts x 12 months = $72,727

Usage Rate - $6.82 per 1,000 gallons
61,000,000 gallons x .00682 = $416,020

Total Annual Water Revenues = $488,747

The water rate ordinance adopted by the City Council will basically be sufficient to get the water fund back to a "break even" basis as of July 1, 2012. If the City Council had not increased water rates, the City's water utility fund would have "gone into the red" and possibly had a negative cash balance on July 1, 2012.

While it was critical that the City increase water rates in order to be financially solvent, the increase will not generate any additional revenues for capital projects. If the City decides to purchase softening equipment for the water plant or replace water mains, the City will need to implement additional increases to fund the new SRF debt payments required by the capital projects.

EXHIBIT F

WATER SERVICES – GALLONS SOLD

July, 2010 - June, 2011

CITY OF MITCHELLVILLE, IOWA

Month	Year	Water Sold	Irrigation	Water Close Outs
July	2010	4,993,150	50,650	5,050
August	2010	5,012,060	39,500	1,800
September	2010	5,924,060	10,700	10,100
October	2010	4,820,390	3,550	16,400
November	2010	5,019,680	6,900	6,000
December	2010	5,331,730	1,400	3,700
January	2011	5,103,310	0	3,800
February	2011	5,266,430	0	5,400
March	2011	4,531,760	0	-
April	2011	4,707,080	800	4,200
May	2011	5,414,680	1,200	6,350
June	2011	4,771,270	18,250	3,550
	TOTAL	**60,895,600**	**132,950**	**66,350**

GRAND TOTAL – 12 MONTH PERIOD: 61,094,900 GALLONS

EXHIBIT G
CITY OF MITCHELVILLE: WATER UTILITY
REVENUES AND EXPENDITURES

	FY 2009-10	FY 2010-11	FY 2011-12
REVENUES	**Actual**	**Actual**	**Budget**
1. User Fees for Service	$374,684	$373,028	$350,000
2. Non-meter Sales	-	$190	$205
3. Meter Testing	-	-	$200
4. Connection Fees	-	-	$300
5. Miscellaneous Charges	$41,555	$10,060	$1,000
6. Sales Tax Collection	$12,748	$13,446	$13,000
7. Interest	$261	-	$2,000
8. Deposits	$4,320	$3,600	$2,000
9. Transfers In	-	-	-
Total Revenues	$433,568	$400,324	$370,705
EXPENDITURES			
1. Salaries	$50,734	$79,518	$102,200
2. Employee Expenses	$22,464	$39,139	$36,649
3. Uniforms	$407	$469	$450
4. Dues & Training	$2,146	$2,681	$4,300
5. Building Repair	$1,000	$260	$2,000
6. Vehicles Repair	$6,989	$7,652	$11,000
7. Utilities/Telecom	$22,173	$25,703	$25,200
8. Maintenance/ Repair	$5,727	$4,883	$8,000
9. Engineering	$321	-	$2,500
10. Insurance	$12,000	$1,863	$14,428
11. Legal Expense	-	-	$500
12. Printing & Publishing	$232	$323	$650
13. Equipment Rental	-	-	$200
14. Tax Expense	$12,798	$12,520	$13,000
15. Tech Services	$16,300	$19,522	$18,000
16. Professional Services	$1,814	$1,618	$2,000
17. Contracts	$660	$660	$1,000
18. Chemicals	$16,889	$21,552	$23,000
19. Office Supplies	$474	$740	$800
20. Postage & Shipping	$1,211	$1,263	$1,800
21. Refunds	-	-	-
22. Supplies	$32	$117	$200
23. Capital Outlay Equipment	-	-	$600
24. Transfer – G.O. Bonds	$61,871	$61,700	$61,500
25. Deposit Returns	$2,680	$2,400	$2,000
26. Rev Bond Payments	$155,123	$154,165	$154,375
27. Transfers - Out	$11,940	$35,703	-
Total Expenditures	$405,985	$474,451	$484,552
Beginning Balance	$163,667	$191,250	$117,123
Ending Balance	$191,250	$117,123	$3,276

Prepared October 7, 2011 by Patrick Callahan

City Sewer Rates

1. Sewer Base Rate and Usage Rate

The City of Mitchellville currently has about 570 sewer accounts. The City billed customers for the treatment of about 56,781,700 gallons of wastewater in the Fiscal Year July 1, 2010 to June 30, 2011, as shown in Exhibit H.

The City's sewer rates were last adjusted on December 1, 2005 and are as follows:

Minimum Bill (2,000 gallons) - $9.00
Usage Rate - Over 2,000 gallons - $4.50 per 1,000 gallons

2. Current Sewer Fund Revenues

The City's sewer rate structure generated $288,291 in FY 2009-10 and $285,340 in FY 2010-11, as shown on Exhibit I.

Miscellaneous revenues, such as connection fees, interest, and sales tax typically generate an additional $6,000 to $12,000 per year. The largest volume of sewer fees is paid by Iowa Corrections Institute for Women, which accounted for $103,635 (or 36.3%) of the $285,340 in total sewer user fee revenue in FY 2010-11. As noted above, the City billed customers for 56,781,700 gallons of wastewater in FY 2010-11, of which 23,030,000 came from the State Prison. This amount represented 40.6% of the total volume of gallons billed, as shown in Exhibit J.

The City's FY 2011-12 budget estimated sewer user fee revenue to be $325,000, but that amount appears to be too optimistic when compared to the actual revenues received in the two previous fiscal years. The projected sewer fee for FY 2011-12 in this report has been revised downward toward an amount equal to the previous fiscal year.

3. Sewer Utility Operations Budget

The City's current sewer utility operations budget can be summarized as follows:

Revenues:

1. Sewer user fees	Residents	$166,580
2. Sewer user fees	State Prison	$119,350
3. Miscellaneous Fees	Fees & Internet	$4,070
Total Sewer Fund Revenues		**$290,000**

Expenses:

1. Personnel Costs	Wages & Benefits	$146,749
2. Sales Tax Collected	State	$3,500
3. Supplies & Contracts	Budget Estimate	$75,490
4. Sewer Revenue SRF Loan	Annual Payment	$95,652
Sub-Total		$321,391
5. County-Sewer Payment	Not in Budget	$12,914
6. SRF Loan 10% Coverage Ratio	Loan Requirement	$9,591
Grand Total Required		$343,896
Sewer Fund Shortfall/Deficit		$53,896

4. Sewer Rate Options

The City needs to implement a sewer rate increase in order to return to a balanced sewer fund budget. If the City's sewer rates are not increase, it is projected that the City's sewer fund balance will drop from $552,798 on July 1, 2010 to below $500,000 on June 30, 2012. The City's only other option would be to reduce the estimated expenditures that are shown in Exhibit I.

As with the water rates, the City has four options regarding sewer rate adjustments.

Option No. 1 - Increase Just the Base Rate

The City could increase the base rate or minimum rate from $9.00 per month to $16.88, or a difference of $7.88. This increase in the base rate would generate an additional $53,900 per year. This type of increase would have the greatest impact on the low volume water customer and minimal impact on the State Prison.

Option No. 2 - Increase Just the Usage Rate

The City could leave the base rate at $9.00 per month and generate all the additional revenue by increasing the usage rate. It is estimated that the current rate structure generates the following amounts from the two tired rate structure:

Base Rate Revenues (570 X $9 X 12) = $61,560
Usage Rate $4.50 per 1,000 gallons = $223,780
Total User Fee Revenues= $285,340

It is estimated that about 7,000,000 gallons of wastewater is included in the 2,000 gallon minimum and is not billed at the usage rate of $4.50 per 1,000 gallons. It is estimated that about 49,720,000 gallons of wastewater are billed at the rate of $4.50 per 1,000 gallons.

In order to generate an additional $53,900 in sewer revenues, the City would need to increase the usage rate from $4.50 per 1,000 gallons to about $5.59 per 1,000 gallons. It is important to note that if the City raises the sewer usage rate, some customers may be motivated to reduce their water consumption. A reduction in the amount of water and wastewater that is billed will then result in sewer revenues being less than projected.

If this option was implemented, the State Prison would experience the greatest dollar increase in their sewer bills. The State's total annual sewer bill would increase from $103,635 in FY 2010-11 to $144,430 (39.4% increase) in the future, based upon 23,030,000 gallons of water consumed by the Prison.

The average family of four people that uses 5,425 gallons of water would see their sewer bill increase from $24.41 to $28.15 or an increase of 15.3%.

Option No. 3 - Combined Base Rate and Usage Rate Increase

The City could increase both the base rate and the usage rate in order to generate the additional $53,900 in sewer revenues. For example, if the base rate was increased from $9.00 to $10.80 per month, then usage rates would need to be increased from $4.50 to $5.34 per 1,000 gallons of wastewater billed.

If this option were selected, the State Prison sewer bill would increase from $103,835 per year to $122,982 per year or an increase of 18.7%. The average family of four using 5,425 gallons would see their monthly sewer bill increase from $24.41 to $29.09 or an increase of 19.2%.

Option No. 4 – New Rate Structure

A fourth option would be to simplify the rate structure by having a flat base rate that did not include the first 2,000 gallons and have the usage rate apply to all the wastewater that is treated and billed. For example, the City could have a base rate of $6.00 to cover the costs of providing the meter, reading the meter, generating the bill, and the postage to mail the bill. The remaining costs of the sewer utility would be financed with the usage rate. A comparison of this option to the current sewer rate would be as follows:

Rate Structure/Impact	Current Rate - Monthly	Simplified Option
Base Rate	$9.00	$6.00
Gallons in Base	2,000	-0-
Usage Rate per 1,000 gallons	$4.50	$4.30
Family-5,425 gallons per month	$24.41	$29.32
Prison Bill	$8,636.25	$8,258.38
New Rate Structure w/ Increase		
New Usage Rate to Generate $53,900 – add 0.94 per 1,000		$5.24
Family-5,425 gallons– new Usage Rate	$24.41	$34.42
Prison Bill	$8,636.25	$10,062.43

5. Future Sewer Rate Increases

The City will need to implement an increase in sewer rates in the very near future. The City has not adjusted sewer rates in over six years and the current rates are not adequate to generate sufficient revenues to meet all of the City's obligations. As a minimum, the City needs to increase sewer rates to a level at which an additional $54,000 will be available to meet the debt coverage ratio requirements of the City's outstanding SRF loan.

While the City's sewer fund currently has a cash balance of over $490,000, this balance has been slowly declining in recent years. If the City had to finance major repairs to the sanitary sewer lines, then the cash balance in the sewer fund will be significantly less in the future.

6. Future Capital Projects – Sewer Utility

The proposed increase in sewer user fee rates, as outlined above, does not generate additional revenues to finance capital projects. If it is determined that the City will need to make improvements to the wastewater plant or make repairs to significant sections of the sanitary sewer lines, then the City may need to increase sewer rates over and above the amounts shown.

The City's I&I sewer system study has already demonstrated the need to make repairs to two sections of sanitary sewer lines. The City could finance these two sewer projects with cash revenues in the sewer

EXHIBIT H
SANITARY SEWER SERVICES – GALLONS BILLED
July, 2010 - June, 2011
CITY OF MITCHELLVILLE, IOWA

Month	Year	Sewer Accounts	DOT Rest Stop	Deer Run Accts	Close Outs
July	2010	4,494,970	174,000	26,700	4,200
August	2010	4,515,570	217,000	29,000	0
September	2010	5,327,700	194,000	34,600	10,100
October	2010	4,267,980	146,000	33,100	16,400
November	2010	4,473,530	140,000	30,800	6,000
December	2010	4,841,490	125,000	31,500	3,700
January	2011	4,595,860	96,000	23,900	700
February	2011	4,721,880	84,000	20,500	5,400
March	2011	4,115,460	74,000	16,700	-
April	2011	4,258,750	108,000	18,900	4,200
May	2011	4,883,860	117,000	24,400	6,350
June	2011	4,279,850	155,000	24,100	3,550
	TOTAL	**54,776,900**	**1,630,000**	**314,200 ***	**60,600**

GRAND TOTAL – 12 MONTH PERIOD: 56,781,700 GALLONS

*** NOTE –**
The revenues from Deer Run Subdivision accounts are paid to Polk County to compensate the County for the sewer lines.

EXHIBIT I

CITY OF MITCHELVILLE: SEWER UTILITY

REVENUES AND EXPENDITURES

	FY 2009-10	FY 2010-11	FY 2011-12
REVENUES	Actual	Actual	Revised
1. User Fees- Sewer	$288,291	$285,340	$285,930
2. Connection Fees	$360	-	$500
3. Miscellaneous Charges	$1,593	$5,246	$70
4. Sales Tax Collection	$1,872	$2,870	$1,500
5. Interest	$555	$10	$2,000
6. Transfers In	-	-	-
Total Revenues	$293,301	$293,466	$290,000
EXPENDITURES			
1. Salaries	$93,286	$84,500	$102,200
2. Employee Expenses	$37,376	$41,196	$39,499
3. Uniforms	$407	$469	$450
4. Dues & Training	$2,579	$2,965	$4,600
5. Building Repair	$2,112	$269	$3,000
6. Vehicles & Equipment	$18,549	$17,608	$11,000
7. Utilities/Telecom	$19,881	$23,492	$24,100
8. Maintenance Repair	$3,733	$571	$5,000
9. Engineering	$4,318	$3,775	$2,000
10. Insurance	$12,000	$1,678	$13,590
11. Legal Expense	$113	-	$500
12. Printing & Publishing	-	-	$400
13. Equipment Rental	-	-	$300
14. Tax Expense	$1,611	$1,459	$3,500
15. Tech Services	$16	$2,100	-
16. Professional Services	$5,079	$4,684	$6,000
17. Contracts	$2,025	$660	$2,000
18. Chemicals	$2,241	$2,103	$5,000
19. Office Supplies	$474	$801	$600
20. Postage & Shipping	$1,255	$1,272	$1,100
21. Supplies	$260	$226	$400
22. Capital Equipment	-	-	$500
23. Transfers Out	$397	-	-
24. SRF Sewer Revenue	$82,922	$83,298	$95,652
Total Expenditures	$290,634	$273,126	$321,391
Audit Adjustment	-$3,635		
County Payments Due		$12,313	$12,914
SRF Loan Coverage	?	?	$9,591
Total Obligations		$285,439	$343,896
Beginning Balance	$526,126	$532,458	$540,485
Ending Balance	$532,458	$540,485	$486,589

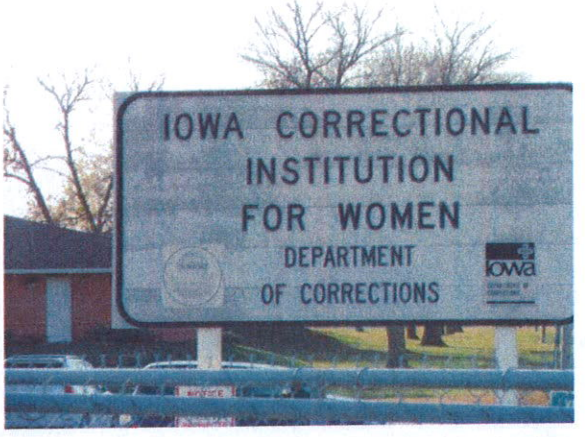
Revised March 1, 2012 by Patrick Callahan pjc

Note: FY 2011-12 does not include payments to Polk County for Deer Run sewer extension and SRF loan 10% debt coverage.

fund. However, the estimated costs or the number of sewer repair locations could be greater than expected, and then the City may need to borrow the funds from the SRF loan program or issue sewer revenue bonds. This sewer debt will necessitate an additional increase in sewer rates. The amount of the sewer rate increase will depend upon the cost of the projects, the interest rates, and the length of the debt payment schedule.

It may be advantageous for the City to prepare and adopt an ordinance that increases sewer rates in six month phases over a two or three year period of time. The goal of the first phase would be to eliminate the deficits and get the utilities back to a break even basis. The other three or four phases could then generate the revenues needed to finance the capital projects or to establish replacement funds for the sewer utility.

7. Iowa Correction Institute for Women

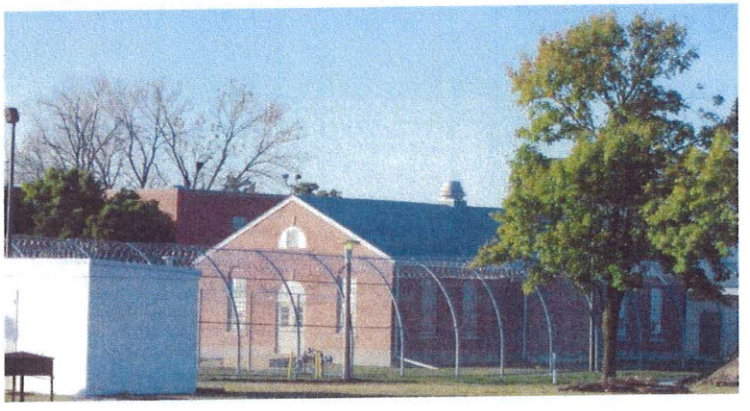


The City's largest customer for water and sewer services is the Iowa Corrections Institute for Women. As shown on Exhibit J, the Prison consumes about 23,000,000 gallons of water per year or slightly less than 2,000,000 gallons per month. Since the prison population may be expanding in 2012, their volume of water may be increasing in the near future. The Prison's volume of water purchased was about 40.6% of the total volume from July, 2010 to June, 2011.

The Prison paid to the City, the sum of $119,350 for water during this twelve month period. The Prison's water utility payments to the City accounted for 32% of the total money generated by the City's water customers.

The Prison paid the City $103,365 for sanitary sewer service in FY 2010-11, which was 36.3% of the total sewer user fee revenue deposited to the sewer fund. It should be noted that State may have contributed some funding towards the construction of the wastewater treatment plant expansion projects in 2004.

Since the Prison pays only one "minimum sewer rate", the vast majority of their water and sewer monthly bills are based on the usage rate. Any increase in the minimum or base rate would favor the Prison, whereas, significant increases in the usage rate would adversely impact the State Prison's total water and sewer bills.



Since the prison facility is owned by the State of Iowa, the City receives no property tax payments from the Department of Corrections. The State does not make any payments in lieu of taxes to the City of Mitchellville for such things as fire protection, street repairs, or storm drainage.

EXHIBIT J
IOWA CORRECTIONS INSTITUTE FOR WOMAN
WATER AND SEWER FEES – FY 2010-11
CITY OF MITCHELLVILLE, IOWA

Month	Year	Usage - Gallons	Water Fees	Sewer Fees
July	2010	1,460,000	$7,567	$6,570
August	2010	1,920,000	$9,950	$8,640
September	2010	2,330,000	$12,074	$10,485
October	2010	1,920,000	$9,950	$8,640
November	2010	2,030,000	$10,520	$9,135
December	2010	2,240,000	$11,608	$10,080
January	2011	1,880,000	$9,743	$8,460
February	2011	2,030,000	$10,520	$9,135
March	2011	1,730,000	$8,966	$7,785
April	2011	1,760,000	$9,121	$7,920
May	2011	2,200,000	$11,401	$9,900
June	2011	1,530,000	$7,930	$6,885
	TOTAL	**23,030,000**	**$119,350**	**$103,635**

Observations: Prison Usage and Payments

1. Prison water usage was 37.7% of total volume of water sold by the City. (23,030,000/ 61,094,900)

2. Prison wastewater volume was 40.6% of the City's total volume billed. (23,030,000 /56,781,700)

3. Prison water fee payments equaled 32% of the total water revenue collected. ($119,350/$373,028)

4. Prison sewer fee payments equaled 36.3% of total sewer revenue collected. ($103,635 / $285,340)