

**VILLAGE OF DOWNERS GROVE**  
**REPORT FOR THE VILLAGE COUNCIL WORKSHOP**  
**JUNE 26, 2007 AGENDA**

| SUBJECT:  | TYPE:  | SUBMITTED BY:                              |
|---|--|--|
| DuPage Water Commission Rebate and Rate Reduction | Resolution<br>Ordinance<br>Motion<br>✓ Discussion Only | Michael Baker<br>Assistant Village Manager |

**SYNOPSIS**

Discussion is requested regarding the preferred alternative for the use of Downers Grove's share of the water rebate and rate reduction approved by the DuPage Water Commission at its meeting on April 12, 2007.

**STRATEGIC PLAN ALIGNMENT**

The Village Goals for 2011 includes *Exceptional Municipal Organization*. A supporting objective of this statement is *Financially Sound and Sustainable Village Government*.

**FISCAL IMPACT**

In May, the Village received a check from the DuPage Water Commission in the amount of \$3,012,957 for Downers Grove's share of the \$40.0 million rebate. The wholesale water rate reduction from \$1.45 to \$1.25 per 1000 gallons became effective May 1, 2007. Staff estimates that this change will reduce the amount that the Village will pay for the purchase of water by approximately \$275,000 in FY 07 and by \$440,000 annually thereafter based on average water consumption.

**RECOMMENDATION**

Direct staff to prepare a motion for the July 3, 2007 consent agenda to proceed with Alternative 1 as described below, which will dedicate the rebate and rate reduction savings to infrastructure improvements within the Water Fund.

**BACKGROUND**

The DuPage Water Commission is an independent unit of government responsible for providing Lake Michigan water to municipalities and other customers in DuPage County. The commission operates a wholesale water distribution system that serves 25 municipalities, Argonne National Laboratory and a private water utility. The Village of Downers Grove was one of the original charter members of the DuPage Water Commission. The Village, along with 23 other DuPage municipalities, entered into a wholesale water purchase agreement with the Water Commission in 1986. The Commission primarily derives its revenues from the sale of water to its municipal and other customers, and from a 0.25% sales tax applied to the purchase of retail goods in DuPage County.

The Village of Downers Grove is responsible for maintaining the water transmission and distribution system that serves over 16,000 customers, within the Village and for certain areas in unincorporated Downers Grove. The costs involved in maintaining this system include the purchase of water (from the DuPage Water Commission at \$1.25 per 1000 gallons), administrative and other support costs associated with operating the water system, and the costs related to infrastructure maintenance and improvements. Revenues are generated through bimonthly water bills which charge residents and businesses for the consumption of water at a rate of \$2.72 per unit (100 cubic feet, which equals 750 gallons). Non-residents

are charged \$3.17 per unit. The Village maintains an enterprise fund, which by definition is self-supported via user charges, to manage the financial activity related to the water system.

As part of its budget process for FY 2007-08, the DuPage Water Commission established a goal of reducing its unrestricted reserves to \$20.0 million by rebating \$40.0 million to its contract customers based on a previously established allocation formula. The Commission also adopted a wholesale water rate reduction that reduced the cost to contract customers for the purchase of water from \$1.45 to \$1.25 per 1000 gallons. This action will provide additional financial resources to the Water Fund as described in the fiscal impact section above.

Staff has evaluated the alternatives available to the Village for use of the rebate and rate reduction, which are explained in greater detail below.

### **Alt. 1: Dedicate Rebate and Rate Reduction Savings to Infrastructure Improvements**

This alternative is supported by the following:

- All operating and capital expenses related to the water system are paid out of the Water Fund, which by the end of FY 11 is projected to have an ending balance of \$4.5 million, up from \$3.4 million at the end of FY 07, excluding the impact of the rebate and rate reduction. However, the Village's Community Investment Program (CIP) includes \$9 million in identified watermain improvement projects, \$5.6 million which are not funded within the 5-year plan. A more detailed plan for the use of the funds associated with the rebate and rate reduction will be developed during the FY 08 budget process.
- The Downers Grove water distribution system is in need of continuous maintenance to upgrade its aging infrastructure. As an indication of the need for system maintenance, the Village experienced 226 water main breaks dating back to May 2005, which averages out to about one break every three days. In February 2007, the Village responded to and repaired 32 main breaks. Each main break requires water service to nearby customers to be shut off temporarily while the break is repaired, which can inconvenience residents and businesses for several hours and impacts public safety and fire protection capacity.
- Several of the bids received for water improvement projects in FY 07 reflect significant increases in raw material prices. Staff expects that increased levels of funding will be required this year and into the future to support the ongoing costs of capital improvements.
- The Village will receive the consultant reports for the Watershed Improvement Project in July 2007, which will recommend and prioritize specific capital projects related to the Village's stormwater system. Village staff may identify and propose related water system as well as other infrastructure improvements in conjunction with the stormwater improvements.
- This alternative may avoid the need for future rate increases to fund water system improvements.

### **Alt. 2: Reduce Rates to Village Water Customers**

This alternative is supported by the following:

- In response to the most recent rate reduction by the DuPage Water Commission of \$0.20 in 2005, the Village Council approved a rate reduction from \$2.80 to \$2.72 per unit (750 gallons) for resident Village water customers. This reduction effectively passed half of the savings from the Water Commission rate reduction on to Downers Grove Water Customers. Funds tied to the remaining rate reduction savings were used to complete a water system computer model and accelerate certain capital projects. The Village could take similar action in response to the recent rate reduction.
- A rate reduction would provide Village water customers with immediate savings on their water bills. A change in rates equal to the rate reduction approved in 2005 would reduce resident water

rates from \$2.72 to \$2.64, a 2.9% decrease in water rates. The table below illustrates how residents with various water bill amounts would be affected by a rate reduction:

| Units of Water Consumed<br>(over 2 months) | Current Bill @<br>\$2.72 per unit | Reduced Bill @<br>\$2.64 per unit | Savings to<br>Resident |
|--|-----------------------------------|-----------------------------------|------------------------|
| 5  | \$13.60                           | \$13.20                           | \$0.40                 |
| 20   | \$54.40                           | \$52.80                           | \$1.60                 |
| 50   | \$136.00                          | \$132.00                          | \$4.00                 |

**Alt. 3: Pay Off Outstanding GO Bonds Issued for the Automated Meter Reader System**

This alternative was proposed during a recent Council meeting. Staff contacted the Financial Advisor involved in the \$4,000,000 bond issue to determine the feasibility of early repayment. According to the Financial Advisor, the Village does not have the option to pay off the outstanding bonds at this time. In further evaluating the financial viability of this alternative, staff determined that the interest rates for the remaining years of debt service range from 2.8 to 4.6%. Currently the Village is receiving interest rates on its investments of between 4.9 and 5.1%. Under these conditions, the Village would be in a better financial position by investing the cash and continuing to pay the debt service until its maturity in 2012.

**ATTACHMENTS**

N/A