

**WATER/SEWER OPERATION & MAINTENANCE (O&M) FUND
REVENUE & EXPENDITURE ASSUMPTIONS/COMMENTS**

FISCAL YEAR 2016 BUDGET



FY 2016 W/S O&M RATE RECOMMENDATION

RAISE \$1.24 (AVG DWC CUSTOMER W/S RATE)

\$1.24 INCREASE IN 2016 (FY17: 60¢; FY18: 50¢; FY19: 25¢; FY20: 8¢)

| | FYE 2014 Actual | FYE 2015 YE Est | FYE 2016 Budget | FYE 2017 Projection | FYE 2018 Projection | FYE 2019 Projection | FYE 2020 Projection |
|--|--------------------|--------------------|--------------------|------------------------|------------------------|------------------------|------------------------|
| % FUND BALANCE | 31.1% | 20.8% | 20.1% | 21.1% | 23.3% | 25.0% | 25.0% |
| Projected Annual Water & Sewer Rate Increases | | | | | | | |
| for Operations | \$0.50 | \$0.50 | \$1.24 | \$0.60 | \$0.50 | \$0.25 | \$0.08 |
| for Capital | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 |
| Amount/1000 gallons | \$0.50 | \$0.50 | \$1.24 | \$0.60 | \$0.50 | \$0.25 | \$0.08 |
| Water O&M Rate | \$6.23 | \$6.61 | \$7.44 | \$7.84 | \$8.17 | \$8.34 | \$8.39 |
| Sewer O&M Rate | \$5.13 | \$5.25 | \$5.66 | \$5.86 | \$6.03 | \$6.11 | \$6.14 |
| Capital | \$1.20 | \$1.20 | \$1.20 | \$1.20 | \$1.20 | \$1.20 | \$1.20 |
| Total Water & Sewer Rate | \$12.56 | \$13.06 | \$14.30 | \$14.90 | \$15.40 | \$15.65 | \$15.73 |
| Percentage Increase | 4.15% | 3.98% | 9.49% | 4.20% | 3.36% | 1.62% | 0.51% |

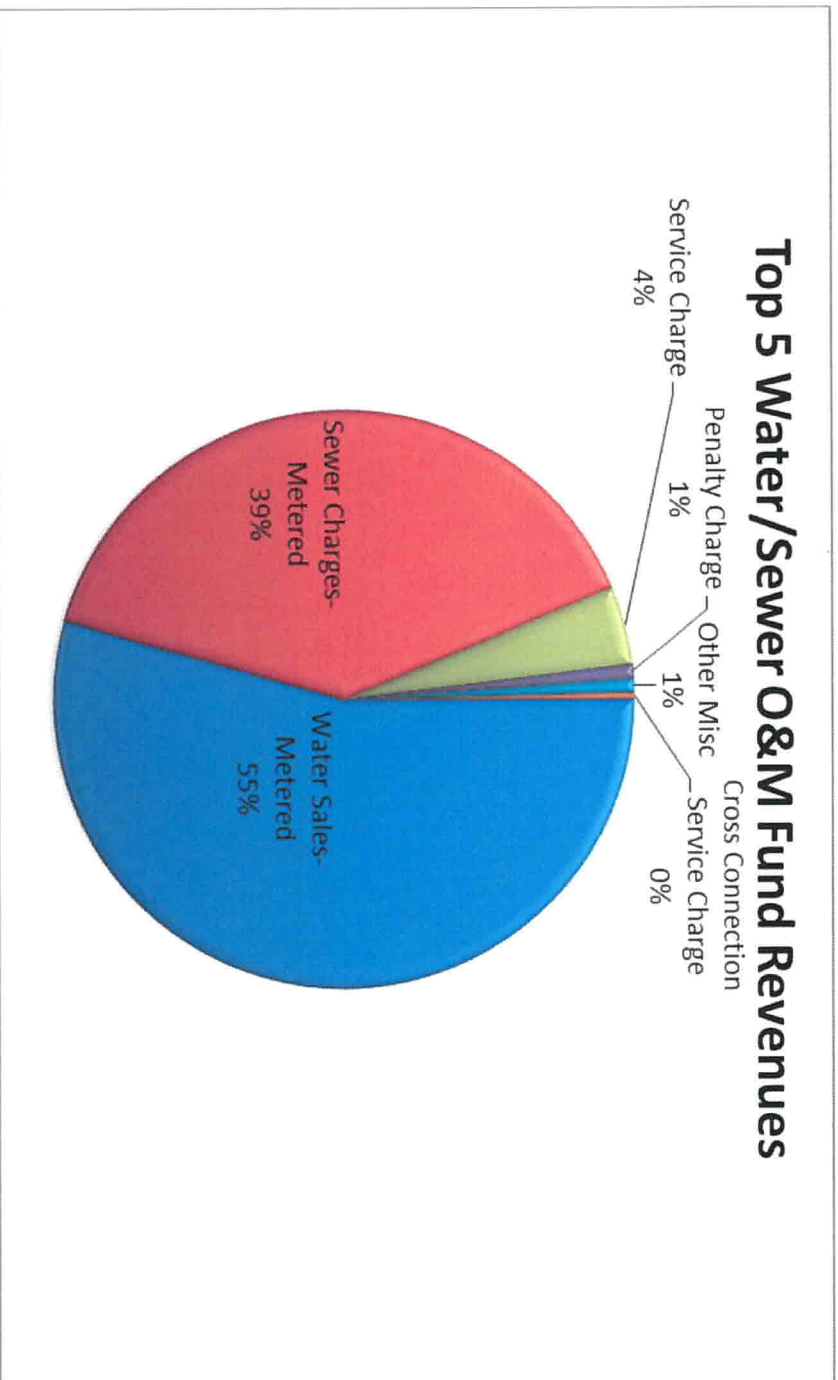
The rate for 2017 thru 2020 will be based on the W/S rate study that is being conducted at the end of this year.

TOP 5 WATER/SEWER O&M FUND REVENUE ASSUMPTIONS

The recommended total Water & Sewer rate percent increase for FY16 is 9.49% or \$1.24 per thousand gallons.

| Description | 2014 Actual Amount | 2015 Amended Budget | 2015 Estimated Amount | 2016 Budgeted Revenues | \$ Over/Under 2015 Budget | % Over/Under 2015 Budget | Assumptions/Comments |
|---------------------------------|--------------------|---------------------|-----------------------|------------------------|---------------------------|--------------------------|--|
| Water Sales-Metered | \$7,543,820 | \$8,244,607 | \$8,002,630 | \$8,824,900 | \$580,293 | 7.04% | Revenue for FY16 is based upon selling 1,119 bgal of water @ \$7.44/kgal compared to projected FYE 15 sales of 1,181 bgal @ \$6.61/kgal. A water rate increase of \$0.83 (12.6%) is recommended for FY16. Sales continue to decrease as water saving efforts are implemented by residents. Also, the average accuracy rate for small meters tested was 93.6%. The meter changeout program will help to recover unbilled water use/increase revenues. |
| Sewer Charges-Metered | \$5,880,503 | \$6,227,797 | \$6,018,050 | \$6,361,970 | \$134,173 | 2.15% | Revenue for FY16 is based upon billing 1,123 bgal of sewer @ \$5.66/kgal compared to projected FYE 15 of 1,116 bgal @ \$5.25/kgal. A sewer rate increase of \$0.41 (7.8%) is recommended for FY16. |
| Service Charge | \$646,785 | \$690,480 | \$690,480 | \$717,180 | \$26,700 | 3.87% | Based on projected expenses for FY16, a service charge increase of \$0.35 (3.87%) is recommended for FY16. |
| Penalty Charge | \$118,440 | \$130,000 | \$130,000 | \$130,000 | \$0 | 0.00% | The FY16 budget is based on FYE 15 projected revenue. Collections can vary from year to year if a few large bills are not paid on time. |
| Cross Connection Service Charge | \$50,693 | \$50,920 | \$50,920 | \$52,450 | \$1,530 | 3.00% | The FY16 budget is based on FYE 15 projected revenue. An increase of \$0.30 (3.85%) is recommended to cover the cost to administer the mandated EPA program. |

WATER/SEWER O&M FUND REVENUES



| Description | 2014 | | 2015 | | 2016 | | \$ Over/Under 2015 Budget | % Over/Under 2015 Budget | |
|---------------------------------|---------------|--------------|----------------|---------------------|------------------|-----------------------|---------------------------|--------------------------|-------------------|
| | Actual Amount | 2014 Actual | Amended Budget | 2015 Amended Budget | Estimated Amount | 2015 Estimated Amount | | | Budgeted Revenues |
| Top 5 W/S O&M Revenues | \$14,240,241 | \$14,240,241 | \$15,343,804 | \$15,343,804 | \$14,892,080 | \$14,892,080 | \$16,086,500 | \$742,696 | 4.84% |
| Total W/S O&M Revenue | \$14,362,807 | \$14,362,807 | \$15,450,813 | \$15,450,813 | \$15,014,090 | \$15,014,090 | \$16,208,510 | \$757,697 | 4.90% |
| Top 5 vs. Total W/S O&M Revenue | 99.15% | 99.15% | 99.31% | 99.31% | 99.19% | 99.19% | 99.25% | N/A | N/A |

The Top 5 revenue sources total 99.25% of all Water/Sewer O&M Fund revenues.

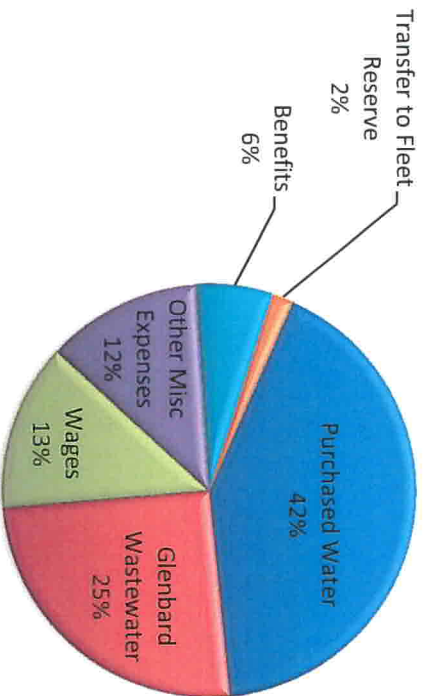
WATER/SEWER O&M FUND TOP 5 EXPENSES

GLOBAL ASSUMPTIONS FOR FY 2016

| | \$ | | | | | Over/Under 2015 Budget | % Over/Under 2015 Budget | Assumptions/Comments |
|----------------------------------|-------------------|------------------------------|----------------------|-------------------------------|------------------------------|---------------------------|---|----------------------|
| | FY 2014 Actual | FY 2015 Amended Budget | FY 2015 Estimated | FY 2016 Proposed Budget | Over/Under 2015 Budget | | | |
| Purchased Water | \$5,885,938 | \$6,633,330 | \$6,867,560 | \$6,822,085 | \$188,755 | 2.85% | DWC decreased their O&M rate 2%. The budgeted increase is attributed to water loss of 6.64% due to aging water meters. The residential water meter replacement program is currently in the CIP for FY18-21. Purchased Water does not include DWC fixed costs. | |
| Glenbard Wastewater | \$3,841,678 | \$3,883,040 | \$3,954,090 | \$4,117,140 | \$234,100 | 6.03% | The capital replacement fund contribution is increasing \$170,000. Lombard and Glen Ellyn contribute the budgeted operating and capital expenditures to GWA based on each community's percentage share of wastewater flows during the prior two years. Based on calculations of the metered flow, Glen Ellyn contributes approximately 43.8% and Lombard contributes approximately 56.2% of GWA's \$5 million budget. Data shows that Lombard's contribution has increased over the past two years. | |
| Wages | \$2,351,342 | \$2,169,290 | \$2,123,880 | \$2,160,810 | (\$8,480) | -0.39% | Wages include salaries and estimated increases. Increases are in accordance with the AFSCME contract. | |
| Benefits | \$926,027 | \$902,275 | \$900,430 | \$984,170 | \$81,895 | 9.08% | IMRF rate increased from 15.75% in 2015 to 18.37% in 2016. This accounts for 78% of the increase in benefits. | |
| Transfer to Fleet Reserve | \$157,646 | \$262,800 | \$262,800 | \$268,090 | \$5,290 | 2.01% | Slight increase is due to higher costs associated with future vehicle purchases. | |
| Top 5 Expenses | \$13,162,631 | \$13,850,735 | \$14,108,760 | \$14,352,295 | \$501,560 | 3.62% | | |

WATER/SEWER O&M FUND CHART 1

**Top Five
Compared to Total Expenses**



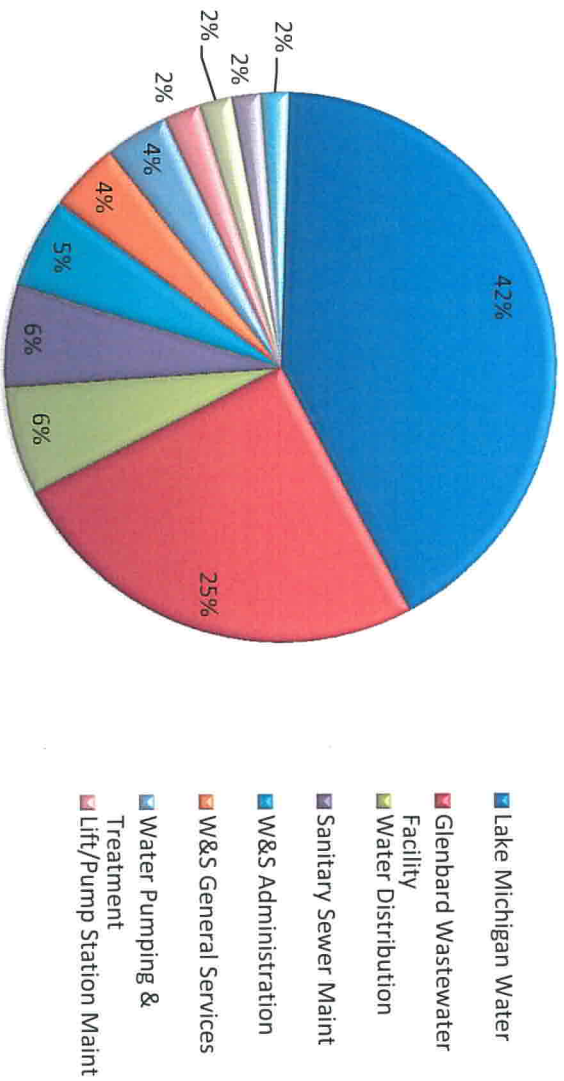
| | FY 2014 Actual | FY 2015 Amended Budget | FY 2015 Estimated | FY 2016 Proposed Budget | Over/Under 2015 Budget | % Over/Under 2015 Budget |
|--|-------------------|------------------------------|----------------------|-------------------------------|------------------------------|-----------------------------|
| Top 5 Expenses | \$13,162,631 | \$13,850,735 | \$14,108,760 | \$14,352,295 | \$501,560 | 3.62% |
| Total W&S Maint Fund | \$15,143,969 | \$16,158,169 | \$16,331,585 | \$16,327,165 | \$168,996 | 1.05% |
| Top 5 vs. Total W/S O&M Exp | 86.92% | 85.72% | 86.39% | 87.90% | N/A | N/A |

Chart 1, shows that the top 5 expenses make up 87.9% of the total expenses in the Water/Sewer O&M Fund.

WATER/SEWER O&M FUND

CHART 1--EXPENSES BY COST CENTER

FY 2016 Expenses

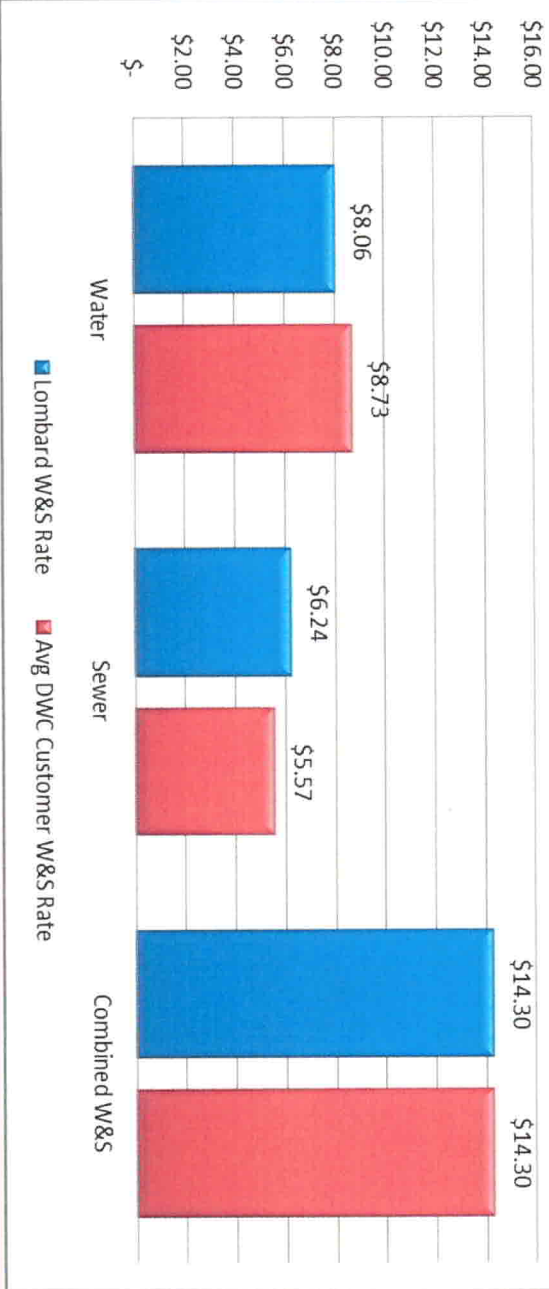


| Cost Center | FY 2016 Request | % of Total |
|------------------------------|---------------------|----------------|
| Lake Michigan Water | \$6,822,085 | 41.78% |
| Glenbard Wastewater Facility | \$4,117,140 | 25.22% |
| Water Distribution | \$1,047,150 | 6.41% |
| Sanitary Sewer Maint | \$977,230 | 5.99% |
| W&S Administration | \$870,690 | 5.33% |
| W&S General Services | \$678,050 | 4.15% |
| Water Pumping & Treatment | \$609,920 | 3.74% |
| Lift/Pump Station Maint | \$347,590 | 2.13% |
| Utility Billing & Acct Maint | \$312,620 | 1.91% |
| Storm Sewer System Maint | \$276,770 | 1.70% |
| Water Meter Reading & Maint | \$267,920 | 1.64% |
| Total | \$16,327,165 | 100.00% |

67% of the FY 2016 proposed expenses in the W&S Fund are payments to DuPage Water Commission and Glenbard Wastewater Facility for the purchase and delivery of Chicago water and the processing of wastewater.

DWC CUSTOMERS

How Do The Proposed 2016 W&S Rates Compare To Other Dupage Water Commission Customers 2015 Rates?



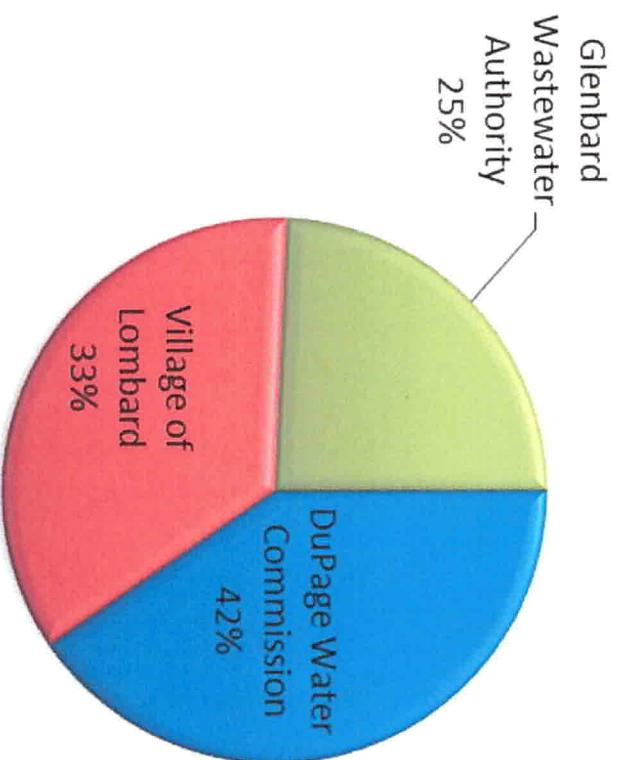
- The Village of Lombard's 2016 Water rate is \$0.67 or 8% less than the average rate of all DWC customer 2015 rates.
- The Village of Lombard's 2016 Sewer rate is \$0.67 or 12% more than the average rate of all DWC customer 2015 rates.
- Combined the Village's Proposed 2016 W&S rate is \$14.30 and matches the average rate of all DWC customer 2015 rates.

* As reported by DuPage Water Commission

- ADDISON
- ARGONNE NATIONAL LABORATORY
- BENSENVILLE
- BLOOMINGDALE
- CAROL STREAM
- CLARENDON HILLS
- DARIEN
- DOWNERS GROVE
- DUPAGE COUNTY-GLEN ELLYN HTS*
- DUPAGE COUNTY-GREENE ROAD*
- DUPAGE COUNTY-NERWF*
- DUPAGE COUNTY-SERWF
- DUPAGE COUNTY-STEPPLE RUN*
- DUPAGE COUNTY-YORK CENTER*
- ELMHURST
- GLEN ELLYN
- GLENDALE HEIGHTS
- HINSDALE
- IAWC-ARROWHEAD
- IAWC-COUNTRY CLUB
- IAWC-DUPAGE/LISLE
- IAWC-LIBERTY RIDGE EAST
- IAWC-LIBERTY RIDGE WEST
- IAWC-LOMBARD HEIGHTS
- IAWC-VALLEY VIEW
- ITASCA
- LISLE
- LOMBARD
- NAPERVILLE
- OAK BROOK
- OAKBROOK TERRACE
- ROSELLE
- VILLA PARK
- WESTMONT
- WHEATON
- WILLOWBROOK
- WINFIELD
- WOOD DALE
- WOODRIDGE

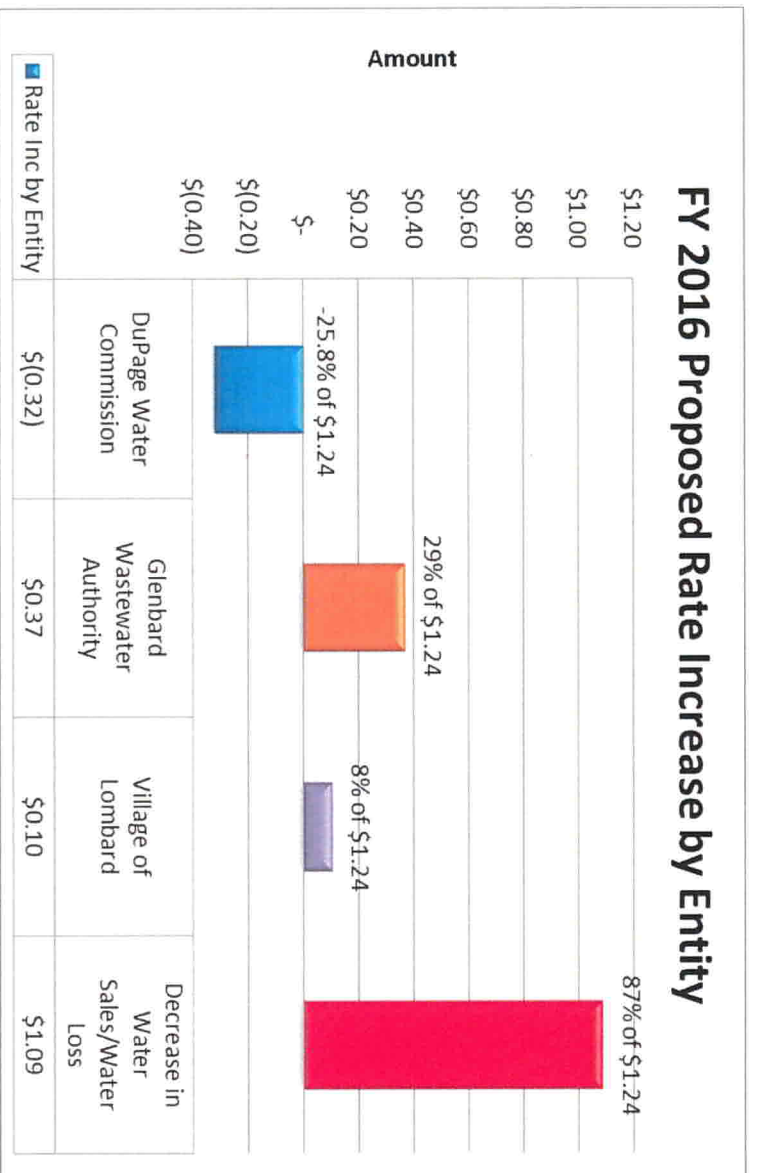
* NOT SUPPLIED BY LAKE MICHIGAN WATER

Where Does My Money Go?



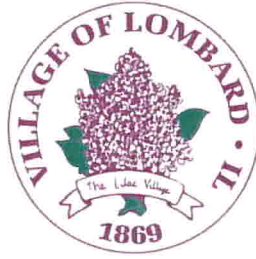
- The FY 2016 Proposed Water & Sewer Rate is \$14.30 per 1,000 gallons.
- The Village of Lombard would receive \$4.72 per 1,000 gallons for operating and maintenance activities and capital improvements.

FY 2016 Proposed Rate Increase by Entity



- For the average residential customer that uses 4,000 gallons/month, this increase of \$1.24 will cost an additional \$4.96 per month.
- Below is a breakdown of the \$1.24/1000 gallons of water rate increase.

| | |
|----------------|---|
| \$1.09 | (to make up for long term uncollected water revenue due to aging meters underreporting water usage and decreased water sales) |
| \$0.10 | (Village of Lombard for increased operational expenses) |
| \$0.37 | (Glenbard Wastewater Authority) |
| <u>-\$0.32</u> | (DuPage Water Commission) |
| \$1.24 | (Water rate increase per 1000 gallons) |
- The DuPage Water Commission reduced its total water rate by slightly over 2% in FY 2015-2016. In addition no further water rate increases are expected from the City of Chicago until June 2016. Therefore, this helps to offset the proposed Village of Lombard 2016 rate increase by \$0.32.



Village of Lombard Communications Plan Water Rate Increase

Purpose of the Water Rate Increase

A water rate increase of \$1.24 per 1,000 gallons is recommended beginning January 1, 2016. The reason for the rate increase is due to underreporting by aged and slow meter readings. The meters used in the majority of Lombard residential homes were tested, and on average found to have underreported the amount of water used by 6.4%. In addition, sales continue to decrease as water saving efforts are implemented by residents. Although water use is down, the Village still must continue to pay for operating costs. Those costs are reflected in the annual rate per 1000 gallons of water used.

The Village is currently conducting a water and sewer rate study to help determine future rate increases. The information gathered from this study will provide the Village with data to effectively align future revenues and expenses based on planned infrastructure upgrades.

Goal

The objective of this plan is to raise public understanding of:

- What factors caused the Water & Sewer rate increase for Lombard
- How much the increase will change the average monthly bill
- Factors Village Staff considered to calculate the water rate increase
- What percentage of a Water & Sewer bill goes to the Village of Lombard

The objectives are to:

- Inform the residents of the history of the Water & Sewer rate increase
- Clarify by example, that if a residential customer that uses 4,000 gallons of water per month, this increase of \$1.24/1000 gallons will cost an additional \$4.96 per month
- Prepare residents adequately for a proposed Jan. 1, 2016 Water & Sewer rate increase
- Be sure residents understand that the difference between the capital rate portion and the water and sewer operating costs
 - Capital portion will remain frozen at \$1.20 per 1,000 gallons of water until May 31, 2016 to pay for costs related to water and sewer infrastructure improvements

Audiences

The audience this communications plan is directed toward includes:

Public:

1. All residents
2. All businesses

Media:

1. Print/Online (Lombardian, Suburban Life, Daily Herald, Chicago Tribune, Chicago Sun-Times)
2. Radio/TV (WBBM, ABC7, NBC5, WLS, CBS2, WGN9, FOX)

Community Leaders:

1. Mayor/Board of Trustees
2. Chamber of Commerce
3. Lombard Town Centre

Key Messages

- The recommended total Water & Sewer rate increase for the Village of Lombard FY16 is \$1.24 per 1000 gallons used.
- The FY2016 proposed Water & Sewer rate is \$14.30 per 1,000 gallons. The Village of Lombard would receive \$4.62 per 1,000 gallons for operating and maintenance activities and capital improvements.
- About 67% of the FY2016 proposed expenses in the Water & Sewer Fund are payments to the DuPage Water commission and Glenbard Wastewater Facility for purchase and delivery of Chicago water and the processing of wastewater.
- Combined, the Village's proposed Water & Sewer rate for 2016 matches the average 2015 rate of all DWC customers (\$14.30).
 - The Village of Lombard's proposed 2016 Water rate is \$8.06 (including capital)
 - 8% less than the average of all DWC 2015 customer rates (\$8.73).
 - The Village of Lombard's proposed 2016 Sewer rate is \$6.24 (including capital)
 - 12% more than the average of all DWC 2015 customer rates (\$5.57)
- Be sure residents understand that the capital rate portion of the water and sewer rates will remain frozen at \$1.20 per 1,000 gallons of water until May 31, 2016. The Village does not plan on changing the capital portion until January 1, 2017, after the water and sewer rate study has been reviewed.

Action Plan

In an effort to keep residents, business, community leaders and the media informed of the Water & Sewer rate increase, the Village of Lombard has/will execute an ongoing and comprehensive communications plan containing the following:

1. Write a follow-up press release and send to media
2. Post press release on Village website
3. Purchase a page in the Lombardian for a personalized letter from Mayor to residents
4. Include article in upcoming issue of Lombard Pride
5. Create whiteboard video for use on website and social media
6. Use social media to share information and respond to questions
7. Create FAQ sheet for employees and for resident access

FAQ's Regarding Water Rate Increase

What is the difference between the capital portion and the operational portion?

Capital funds go to paying for pipes, meters and physical assets necessary for water distribution. Capital funds also pay for the storm water management efforts including overflow in pond areas and pumps that help prevent flooding. The operational portion is the day to day costs which include contractual costs for professionals and employees to run the system efficiently.

What are the operating costs?

Operating costs include the equipment, tools, chemicals, outside contractors needed for special purposes, and employees that staff the water operations. Operating costs also include training, operating supplies, electricity, emergency water services, regular salaries, part time wages, overtime. Vehicles used for daily service. Everything needed for water supply excluding physical infrastructure.

Why is there an increase in operating costs?

The majority of meters in Lombard are underreporting on the amount of water that has been used by residents due to the age of the meters. This has been an ongoing issue for several years, and the residential meters are about 6 or more years beyond their useful life expectancy. The average life expectancy of a water meter is 20 years based on the American Water Works Association. This means that the amount of revenue collected is less than the funds available for operating costs. Therefore, a rate increase is proposed to make up for the lost revenues.

How are we sure that the old brass meters are underreporting?

When residential water meters are taken out of service they are sent to a third party for certified testing. Meters are taken out of service for multiple reasons; water service upgrades (increase size), resident requests meter to be tested due to high usage, malfunctioning meter (no read or zero usage).

How accurate are the old brass meters?

Small brass meters that have been removed from Lombard residences are on average testing at an accuracy rate of 93.6%. The meters are not calculating the full amount of water running

through the meter, and are not counting 6.4% of the water used. This results in an undercharge of water usage. This is a problem because our overall expenses have not decreased. The money collected from water and sewer sales pays for the operations of Lombard's water and sewer system.

How many homes use the old brass meters?

Approximately 10,900 or 90% of residential meters are old meters circa mid to late 1980's.

How much of this increase goes to the Village of Lombard?

The Village of Lombard would receive an additional \$0.10/1000 gallons from the proposed rate increase of \$1.24/1000 gallons. This is to cover increased operating expenses.

Where does the \$1.24 increase go to?

Below is a breakdown of the \$1.24/1000 gallons of water rate increase.

| | |
|-----------------|---|
| \$1.09 | (to make up for long term uncollected water revenue due to aging meters underreporting water usage and decreased water sales) |
| \$0.10 | (Village of Lombard for increased operational expenses) |
| \$0.37 | (Glenbard Wastewater Authority) |
| - <u>\$0.32</u> | (DuPage Water Commission) |
| \$1.24 | (Water rate increase per 1000 gallons) |

The DuPage Water Commission reduced its total water rate by slightly over 2% in FY 2015-2016. In addition no further water rate increases are expected from the City of Chicago until June 2016. Therefore, this helps to offset the proposed Village of Lombard 2016 rate increase by \$0.32.

* The following is an example of how much revenue is lost due to aged meter underreporting.

A residence used 4,000 gallons of water per month and the meter used to keep track of the amount of water used, underreported the amount by 6.4%. This means that this resident, using the current water and sewer rate (FY15), is under billed approximately \$3.34 per month, which translates to \$40.08 per year.

There are approximately 10,000 residential homes in Lombard with the old meters. If those residences on average use 4,000 gallons per month, this results in a Village wide revenue loss of approximately \$400,800. This lost revenue is necessary to pay for expenses needed for quality water production.

How can this be avoided in the future?

This significant under collection of water sales could be avoided in the future with a water meter residential change out program. This will entail the Village changing the old brass meter at each residence with a new meter. Accurate meters would result in accurate billing and would avoid the need for a significant water rate increase in the future due to water loss.