

Cost increases in water marketing program released

Water users, the state of Kansas has something it wants you to know: There's a big bill coming due.

State water officials are realizing they need to begin accumulating tens of millions of dollars to meet obligations to the federal government to help pay for reservoirs that are used to store future drinking water supplies.

"We have some concerns right now," said Cheryl Bутtenhoff, a public service administrator in the Kansas Water Marketing Program.

Finding the water is easy. Paying for it might not be.

There's water available in Clinton Lake and Hillsdale Lake, and other federal reservoirs in Kansas. Clinton and Hillsdale lakes already are used to provide water to surrounding communities, but they have the ability to provide even more.

Everyone has to pay

To access additional water in Hillsdale Lake, the state must activate a \$20 million agreement that is growing more expensive each year. That's because the contract began accruing interest shortly after Hillsdale Lake was constructed in the early 1980s. Currently, interest is accruing at the rate of about \$1.5 million per year. The contract for Clinton, mainly because it was built several years earlier – is only about \$2 million.

Sounds like bad news for people who need water out of Hillsdale Lake, right? Actually, it's bad news for all systems involved in the water marketing program. That's because the state doesn't break its costs out by lake. It spreads them across all members of the program. Under state law, area water users will help pay to access water at Hillsdale even though they won't use any of it.

Just how much everyone will be asked to pay, though, isn't yet known. Currently, the Marketing Program charges cities and rural water districts 12 cents for every 1,000 gallons of water used, which is passed along to customers. Preliminary plans would allow that rate to increase to 20 cents in 2007 and all the way to 85 cents by 2016.

Given that an average household uses about 6,000 gallons of water per month, the extra fees may be less than a dollar per month in the early stages of a rate increase program. But by 2016, when the rate hits its peak, the increase could amount to about \$7 per month.

And those increases would be in addition to increases related to higher treatment costs and just plain

inflation. For example, Lawrence water rates have been increasing by about 4 percent per year in recent years.

Long-term

Margaret Fast, planning manager for the Marketing Program, said the state would be looking for options other than increasing fees. For example, the state may approach the federal government about deferring the interest payments for a period. Other states, including Oklahoma, also are seeking such help to deal with similar situations.

Whether those efforts will be successful is unknown. The U.S. Army Corps of Engineers is due the money because when it began building federal reservoirs in the state in the 1960s, it asked the state whether it wanted to help pay to make the lakes functional for large-scale drinking water storage. Without the state participation, the lakes would have been built primarily for flood-control purposes.

"We are looking at every alternative we possibly can come up with to make this program financially sound for the long-term," Fast said. "We want to meet our obligation to the Corps and to the people who rely on these resources."

Fast said part of the reason is a simple misunderstanding of the contracts. She said state leaders did not fully understand that interest would begin accruing the moment the state began using water from each lake. State leaders were under the impression the accrual would occur in phases.

The state also thought it had some ability to increase the rates of several large contracts it signed with users early on in the program's history. But an attorney general's opinion has ruled those contract rates must be left at 10 cents per 1,000 gallons. Lawrence has some of those fixed-rate contracts but also has some of the newer contracts that allow for rates to be increased.

Some areas will feel more of the negative impact

Sam Atherton, Manager of Public Wholesale Water Supply District No. 4 near Cherryvale in far southeastern Kansas, is a member of the Kansas Water Office's Public Water Supply Committee. Atherton, also a director of KRWA, has been studying and debating the proposed increases in cost of raw water by those systems purchasing through the Kansas Water Marketing Program.

"Systems presently pay 12 cents per thousand for water through the Marketing Program," Atherton said. "But as of January 1, 2007, that rate goes to 18 cents. The rate will continue to be increased until about 85 cents per thousand in 2016," he added.

"I've visited with many systems about these increases. Public Wholesale 4 intends to absorb the 6 cent increase in 2007, however when the cost is increased to the levels that have been proposed, systems will be forced to increase rates in order to offset the higher marketing charges," Atherton explained. He sees these increases being a particular hardship on low income sections of the state. His own district for example, serves users ranked in the 94th to 104th lowest income by county in Kansas.

"The additional water service that has been requested by users from the Hillsdale Lake in Miami County is what is triggering these rate increases. Because of the manner in which the marketing program was organized, the reservoirs are treated as one unit. So the higher use is prorated across to all of the other reservoirs involved in the marketing program," Atherton said. He also feels that the committee and state agency personnel are going to continue to study and evaluate any other options, including legislation to attempt to reduce the proposed costs of purchased water. "The Kansas Water Office is working very diligently to come up with a solution to this expensive problem. We committee members hope that we can help find a solution so all water customers can help pay for the water usage in our Kansas lakes and rivers and not put all the weight on variable rate customers."

Mediation Seminars a Success

"Reaching Agreements In New Ways", a series of seminars recently held at Parsons, Salina, Lawrence and El Dorado, focused on the dynamics of board/council member relations. The sessions were presented to help water system and other personnel gain an appreciation of how alternative dispute resolution, facilitation and mediation might be used to resolve or mitigate conflicts involving public water systems. The seminars were sponsored by the Kansas Water Office with support from the Kansas Rural Water Association and the Kansas Section AWWA.

Each session included a variety of exercises to help introduce and practice new skills to use to reach agreements, both internally and externally.

Approximately 120 people attended the sessions; they represented nearly 40 cities and RWDs, as well as several engineering firms and state and regional agencies. Instructors included Ken Grotewiel, Assistant Director of the Kansas Water Office; Gary Flory, Director of the Kansas Institute for Peace and



Gary Flory puts part of the class at the "Reaching Agreement In New Ways" session at Lawrence through an exercise. Flory is Director of the Kansas Institute for Peace and Conflict Resolution (KIPCOR) housed at Bethel College in North Newton. Standing to his left is Ken Grotewiel, co-facilitator of the session held June 13.

Conflict Resolution housed at Bethel College in North Newton; Kirsten Zerger, Senior Training Association of the Kansas Institute for Peace and Conflict Resolution; Lynne McCraw Shall, Hugo Wall School of Urban and Public Affairs at Wichita State University and Julie McLachlan, a facilitator, mediator and consultant from Prairie Village, Kan.

Leavenworth Cons. RWD 1 approves 20-year agreement

Consolidated Rural Water District 1 of Leavenworth County continues to play an important role by ensuring that its customers receive the best possible quality, service and reliability from their water provider. The Water District serves 1,765 customers in east central Leavenworth County, including the cities of Basehor and Lansing.

On March 7, the Board of Directors approved a 20-year contract extension with the Kansas City Board of Public Utilities (BPU) purchase water from BPU. The contract will ensure that the water district will maintain the quality and quantity of water needed in the community for the next two decades. Leavenworth Cons. RWD 1 has been a wholesale water customer of BPU since 1983; the current contract was signed in 1999.

BPU's Acting General Manager Don L. Gray, who is also the Manager of Water Operations, said, "BPU is pleased to continue our excellent partnership with Consolidated Water District 1 as a wholesale water customer." Gray explained that BPU's goal is to partner with the communities it serves and to find solutions for water supply needs where it makes good economic sense for both parties.

Southern Leavenworth County is adjacent to BPU's retail service area in Wyandotte County. BPU has good water pressure and flow capacity at its county line. For this reason, BPU's wholesale water customers do not have to add pumping facilities to boost their water system pressure. "It is a good win/win situation for both parties," Gray explained.

The extended contract will ensure that the Water District will be able to meet the growing water demands of the community – the District estimates an influx of approximately 1,500 new customers in the coming years. This will nearly double the size of the water district and place new demands on the current infrastructure.

The contract extension is the beginning of several improvements that will be made to the water system. Older, smaller water mains will be upgraded and new water mains added in areas expected to see extensive growth. In addition, several capital improvements are being designed and are moving forward in anticipation of the growth. The largest of these projects is the replacement of an elevated water storage tank located on 155th St. near State Ave. The current tower has a capacity of 100,000 gallons; it will be replaced with a 750,000-gallon elevated storage tank.

The capital improvements will be funded by money received from connection fees from new customers. The District has not raised the rate on the cost of water since July 2003. The board of directors recently reviewed its water rates and concluded that a rate increase is not needed.

Kansas City, Kansas Board of Public Utilities increases water rates

The board's decision was made after BPU's public hearing was re-opened on April 25, 2006. The increase will be spread over three years.

The approximate percentage of rate increase for each year follows:

- Approximately 1.86% (annualized) in 2006, effective May 1, 2006
- Approximately 3.82% in 2007, effective January 1, 2007
- Approximately 3.77% in 2008, effective January 1, 2008

Initially in late 2005, BPU announced that it needed to raise water revenues by 10% over three years, as proposed in the utility's public hearing in January. While BPU staff believes that the original request for a revenue increase of 10% was necessary, the staff worked to minimize the need for increased revenue from its customers. After revising the utility's

financial policies, reviewing a cost-of-service study, revenue projections, and adjusting the timing of major capital construction projects, the staff was able to lower the requested increase to 9.45%.

A recent article in *The Kansas City Star* stated that BPU staff also believes that with additional strict attention to the management of capital projects, the use of cash reserves and controlling operation and maintenance expenses, the level of revenues that the BPU Water Utility will receive through the adjusted rates will be sufficient to meet the operation, maintenance, debt service and capital outlay needs through 2008.

The rate adjustment was needed because several cost-drivers have significantly escalated the utility's expenses in recent years, for example:

- Much of the utility's infrastructure is 50 years old or older: an aging pump station, reservoirs, and water transmission and distribution lines. These older facilities and systems must be maintained or replaced.
- Revenues from residential retail water sales have leveled off or decreased in recent years.
- The utility was not able to collect the revenue it needed over the past four years. In 2002 BPU needed to increase its water rates by 20%. However, an increase of only 6% was approved that year.
- Inflation has seriously escalated the cost of construction materials and labor. Local construction costs rose approximately 24% over the last three years.
- Complying with new security regulations and requirements of the Safe Drinking Water Act are costly.

Five of BPU's industrial customers had earlier filed a Petition to Intervene related to the proposed rate adjustments. The resulting Stipulation and Agreement outlined the proposed changes in the rate structure, and was approved by the industrial customers and the BPU board. James Zakoura, an attorney with Smithyman & Zakoura, represented the industrial customers in negotiations with BPU.

BPU General Manager Don L. Gray said that the negotiations were a lengthy, detailed process. "Jim Zakoura represents all customers in this process," he said. "This was a real challenge to our staff in working on the rate design, but we were successful." Gray thanked the attorneys and BPU staff members who worked for many months to come to an agreement.

A continuation of the public hearing will be held at a later date to consider revenue-neutral rate issues.