



**REGULAR AGENDA ITEM NO. 8.B.**

**FOR COUNCIL:** November 27, 2023

**WARD IMPACTED:** City-Wide Impact

**SUBJECT:** Presentation on Water Capital Project Needs; and Consideration and Action on an Ordinance Amending the City Code Regarding the Water Rate Structure, Lowering the Water Utility Tax, and Modifying the Annual Increases in Refuse, Sewer, and Storm Water Fees from 3% to CPI-WST (Water, Sewer, Storm Water and Solid Waste (Trash Collection)), as requested by the Water Department.

**RECOMMENDED MOTION:** The proposed Ordinance be approved.

**STRATEGIC PLAN LINK:**

Goal 1. Financially Sound City Providing Quality Basic Services

Goal 2. Upgrade City Infrastructure and Facilities

**STRATEGIC PLAN SIGNIFICANCE:**

Objective 1d. City services delivered in the most cost-effective, efficient manner

Objective 2b. Quality water for the long term

**BACKGROUND:** Over the next 10 years, a generational investment of approximately \$400,000,000 will be required to be made to the City's water system to comply with new laws and ensure a healthy and viable water supply. The projects associated with this investment will be laid out by City staff on Monday night. As water rates have not increased since 2011, City staff will also outline the new rate structure necessary to pay for the projects.

The City's first water system was established in 1875, with the Water Plant and Lake Bloomington coming online in 1929. Accordingly, portions of the City's water infrastructure have been around for nearly 150 years. This infrastructure has served the City extremely well and has a rated capacity of 24.5 million gallons per day. This would be equivalent to the City producing 196 million water bottles every day.

With the age of the City's water system, a "generational" investment is required to comply with new state and federal mandates and to ensure the continued quality of the City's drinking water. This investment will: (1) bring the City into compliance with all applicable standards; (2) help preserve the City's water supply as one of its invaluable resources; and (3) maintain and enhance the City's capacity for growth.

The capital projects will include approximately: (1) \$75M to \$100M in systemwide distribution improvements; (2) \$100M in lead service replacement; (3) \$125M in water main replacement; and (4) \$50M in plant improvements.

Various government loans and potential bonding will be used to pay for the projects, but an increase in water rates will be required to cover this new debt. Based on a current regional

water comparison, the City's water rates are well below comparable communities. As the City has not increased water rates since 2011, a large part of the increase is necessary to catch up with inflation and the lack of increases. To accommodate the 10-year plan, and to help residents and customers acclimate to the new rate schedule, City staff is proposing a phased-in approach for the rate increases over three years. The proposal is for the water rates to increase 33% on May 1, 2024, another 33% on May 1, 2025, and then a final 33% on May 1, 2026. Thereafter, the rates are proposed to increase by the CPI index for water, sewer, storm water, and solid waste.

To help low-income residents adjust to the increase, the proposed ordinance establishes a program wherein customers that meet the poverty guidelines will receive a 33% discount. In addition, the ordinance provides the City Manager will explore other resources that provide assistance for water utilities and update the website to share said resources. Finally, the ordinance provides additional needs-based assistance programs may be presented and approved by the City Council.

Since the City also imposes a utility tax on water at a rate of 3.75%, the proposed ordinance lowers the tax over the next three years so that customers do not experience additional costs for water beyond the intended rate increases. As a result, the tax rate will lower to 2.75% effective May 1, 2024, then will go to 2.5% and 2.25% in the following two years.

To maintain consistency and improve accuracy, the proposed ordinance also changes the annual rate increases for sewer, storm, and refuse from 3% annually to CPI-WST (Water, Sewer, Storm Water and Solid Waste (Trash Collection)).

It should be noted that the rates are being proposed on the City's current best projections and will continue to be reviewed, and may need further revision, either up or down, based on actual expenses and funding sources.

**COMMUNITY GROUPS/INTERESTED PERSONS CONTACTED:** N/A

**FINANCIAL IMPACT:** Approval of the ordinance puts a rate structure in place for the City to be able to finance and pay for approximately \$350M to \$400M in capital project needs over the next 10 years related to the City's water infrastructure. Adequate Fund reserves will be maintained per City policy. Stakeholders can locate information on the City's Water Fund in the FY 2024 adopted budget book, "Other funds & Capital Improvement" on pages 114 through 146 with Capital project information starting on page 225.

**AMERICAN RESCUE PLAN FUNDING IMPACT:** N/A

**COMMUNITY DEVELOPMENT IMPACT:** This request meets the following goals and objectives of the Bloomington Comprehensive Plan 2035: Goal UEW-1. Provide quality public infrastructure within the City to protect public health, safety, and the environment. Objective UEW-1.5. Reliable water supply and distribution system that meets the needs of current and future residents.

Respectfully submitted for consideration.

Prepared by: Brett Lueschen, Assistant Water Director

**ATTACHMENTS:**

[WTR B Water Rate Ordinance](#)