



Board of Water Works of Pueblo, Colorado

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November 15, 2006

**HONORABLE PRESIDENT AND MEMBERS OF THE BOARD
BOARD OF WATER WORKS OF PUEBLO, COLORADO**

Enclosed for your consideration and adoption is the proposed budget for 2007 outlining a program for personnel, operation and maintenance, capital expenditures, and debt retirement for the Board of Water Works of Pueblo, Colorado. The requirements presented herein represent the **minimum operational needs for 2007**.

The Division Overviews in the *Detail of Expenditures* section provide **important highlights** to this proposed budget. Those overviews will assist you in better understanding staff's recommended changes in the work force and what special or major O&M and capital projects we propose in our plan of work for 2007.

As a result of the Board workshop on November 7, we have drafted Resolution No. 2006-7, which, when adopted, implements the 2007 budget and revised water rate schedule. The revised rate schedule reflects a **4.0 percent rate increase effective with the January 2007 billing**. The rate increase is needed to offset increases in the cost of doing business. Personnel services (salaries and benefits) are budgeted at just under \$12 million for the coming year, an increase of just less than \$850,000 compared to the 2006 budget. These increased costs reflect phase 2 of the market adjustment approved in 2005 and a cost of living adjustment of 3.51 percent. In addition, two new fulltime positions as well as a carryover position from 2006 are reflected in these personnel costs. Premiums for health, dental, life and disability remain stable, with no increases for 2007. O&M costs are budgeted at \$7.9 million, an increase of \$1.3 million (19 percent) above the 2006 budget. These increases are a result of the addition of a \$400,000 contingency fund, a 16 percent increase in utilities, 9 percent increase in chemicals, 15 percent increase in maintenance costs, and an 18 percent increase in our professional and outside services. Regarding Capital Outlay and Fund Transfers, \$8.6 million was budgeted. Of this amount, \$4.1 million represents capital outlay while the remaining \$4.5 million represents debt retirement (\$3.95 million) and Water Development Fund transfers (\$521,000). In 2007, we will begin implementation of the automated meter reading project (AMR), at a cost of \$1.5 million. Funding for this stage of implementation was held in reserve beginning in 2005. Planning for the new process included a one-year trial of the various AMR systems, anticipating implementation of the system of choice to commence during 2007. Future budgets will include increasing funding for the program.

On the revenue side, we project \$24.7 million in total operating revenue, of which \$18.3 million comes from our metered water sales, \$2.4 million from Comanche water sales, and \$2 million from raw water sales. The balance is from miscellaneous income, including plant water investment fees of \$1.1 million.

It should be noted that when looking at the Front Range cities' average monthly bills (reference *Front Range Comparison*), the Board now has the lowest annual cost of water, or 29 percent below the front range average, and 49 percent below the highest. Also, when you look in the *additional information* section of your budget, you will find that we have by far the lowest plant water investment fee approximately \$14,000 below the highest connection fee.

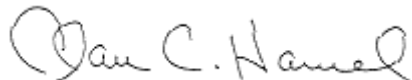
Projected revenues for 2006 should exceed our budget expectations by 3.6 percent, with estimated expenditures totaling 97.44 percent of budget. Going into 2007, the operating fund balance is expected to be about \$14.6 million, and is predicted to decline considerably over the next five to six years. Our O&M and capital reserves will be preserved at a 60-day O&M equivalency and not less than \$1 million, respectively.

When reviewing the funding for the Water Development Fund, keep in mind the Board's dedication of 15 percent of Aurora lease revenue as a set aside to the Water Development Fund and the decision to set aside all income (both present and future) generated by Public Service Company's expansion for unit #3 plus the 2 percent rate dedication approved in 2006.

IN CLOSING, IT IS MY RECOMMENDATION THAT THE BOARD CONSIDER FOR ADOPTION THIS BUDGET AND RELATED 4.0 PERCENT RATE INCREASE FOR 2007. This budget sustains the Board's continuing commitment to maintain a strong fiscal position and system readiness today and in the future, providing a dependable supply of high quality water to our customers at a reasonable cost.

We thank you for your continued guidance and support, and I want to take this opportunity to thank the employees for their positive attitudes and hard work toward providing our customers with a dependable supply of high quality water at a reasonable cost.

Sincerely,

A handwritten signature in cursive script that reads "Alan C. Hamel".

Alan C. Hamel
Executive Director

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