Considerations for Amendment No. 1 to Service Agreement

1. The amendment does not change allocations of budgeted costs and debt service or force allocations where none previously existed. It requires the use of existing allocation agreements which have either been done on a project-by-project basis (such as the Ragged Mountain Dam Project Cost Allocation Agreement) or on a project group basis (such as the Wastewater Projects Cost Allocation Agreement), and in cases where no allocation agreement exists, it defaults to the existing "usage" based allocation until such time as an allocation agreement is negotiated between the City and ACSA.

2. One advantage of the amendment is that it allows RWSA to build capital expenses into a fixed charge (the "Debt Service Charge") for each of the City and ACSA which is therefore a known amount and easily budgeted by the City and ACSA. Without the amendment, RWSA would have to continue to build such capital expenses into the water or wastewater rates for the City and ACSA. The rates are set based upon estimated flows in a budget adopted in advance of the fiscal year, however, billing is dependent on actual usage and flows during the year, so on the water side, for example, in very dry years when water usage is higher than normal, for example, the amount of capital charges built into the water rates results in RWSA collecting more than it budgeted for capital charges. Similarly, on the wastewater side, in very wet years, with higher than normal wastewater flows, the amount of capital charges built into the wastewater rates results in excess collections. On the other hand, on the water side, very wet years typically result in lower than normal water usage and therefore RWSA collects through water rates less than it needs for capital expenses.

3. A second advantage to the City and ACSA is that with a fixed monthly charge, the City and ACSA know that actual payments will be equal to their previously agreed allocation for each project in which there is an allocation agreement. That is not true today. While RWSA establishes the current per 1000 gallon rate using the agreed cost allocations in adopting its budget, developing a per 1000 gallon rate must apply that allocation to an estimated flow. During the fiscal year, actual flow is always different from the estimated flow, which means that actually billing does not precisely yield payments that reflect the agreed allocation.