Utility Rates Discussion
Committee of the Whole 9/12/22

Presentation Roadmap

• Legislation Discussion
  • Ordinance 22-58 Utility Operations Fund Balance Transfer
  • Ordinance 22-60 ARPA Appropriation
  • Ordinance 22-61 Utility Rates
• Rate Model Scenarios
• Closeout
Legislation Discussion

Ordinance 22-58: Utility Operations Fund Transfer

- The purpose of the Utility Operations Fund is to fund operational expenses associated with the Water and Sewer Utilities. As fiscal years end, there is either a residual operating surplus or deficit. The accumulation of these surpluses/deficits over previous years has lead towards the current fund balance of $1,205,126.

<table>
<thead>
<tr>
<th>Year</th>
<th>Beginning Fund Balance</th>
<th>Ending Fund Balance</th>
<th>Net Change</th>
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<tbody>
<tr>
<td>FY19</td>
<td>$1,000,000</td>
<td>$1,500,000</td>
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<td>FY20</td>
<td>$1,500,000</td>
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<td>FY21</td>
<td>$2,000,000</td>
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<td>FY22</td>
<td>$2,500,000</td>
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Ordinance 22-58 serves to begin the replenishment of the Utility CARMA funds, as both the Water and Sewer CARMA funds have been heavily depleted (without restoration) over the last couple years.

The methodology behind determining the amount to transfer is as follows:

1. Establish available balance: $1,205,126
2. Reduce for WWTP Guaranty: $500,000
3. Reduce for CSO Utility Rate Back: $500,000
4. Reduce for 20% Operating Reserve: $500,000
5. Total available Transfer to CARMA: $500,000

This amount was moved to $500,000 to allow for easier splits between the Water and Sewer CARMA funds. This amount was then split 21% to Water CARMA ($110,000) and 79% to Sewer CARMA ($390,000).

This ordinance is written to be in alignment with the passage of Section 1 in the proposed Utility Rate Model, which is formalized in Ordinance 22-58 establishing these rates.
Ordinance 22-60: Appropriating ARPA Funds

PW Director Jan Keiser reviewed the list of FY23 projects identified in the City’s Water and Sewer Financial Plan for eligibility. Below is a summary of that work:

- Water Capital Improvement Projects:
  - WTP Filter Media Train 1 each/year $100,000 - Eligible
  - RWP-1 Balance Motor/Shaft $50,000 - Eligible
  - Hydrant Replacement (10 years) $90,000 - Not Eligible
  - Fleet Replacement $50,000 - Not Eligible
  - WTP Sludge Drying Bed $100,000 - Eligible
  - Replace Water Meters $50,000 - Eligible

- Sewer Capital Improvement Projects:
  - Replace LV System $430,000 - Eligible
  - WWTP MCC Spare Parts $40,000 - Eligible
  - Replace Cracked Incinerator $75,000 - Eligible
  - Belaga Lift Station $20,000 - Eligible
  - Sludge Liner $25,000 - Eligible
  - Replace Lift Station Access Hatch $50,000 - Eligible
  - Sludge Drying Tech $15,000 - Eligible
  - Fleet Replacement $50,000 - Not Eligible

- Second tranche of American Rescue Plan Act (ARPA) funds totaling $716,685.16 has been received

- Eligible use of ARPA funds is to make “necessary investments in water, sewer, or broadband infrastructure”
  - Projects have to meet the Federal Clean Water and Drinking Water program requirements
  - Projects selected for funding through ORD 22-58 was based on best usage of ARPA funding that allowed for full funding of projects

Ordinance 22-61: Establishing Utility Rates

- City staff recommends the selection of Scenario 2, which allows for (1) full appropriation of ARPA funding to cover eligible utility infrastructure projects, (2) 50% rate buyback ($417,432-split 50/50 between water and sewer rates), (3) 25% funding of utility operating reserve ($208,000), and (4) 25% transfer to Utility CARMA ($208,716 total - 25% of this to Water CARMA ($52,000) and 75% of this to Sewer CARMA ($156,000)).
  - This scenario has the least financial impact on the rate payers while still funding urgent projects, beginning the rebuild of Utility CARMA, starting the creation of the Utility Operating Reserve and buying down the rate.

- City staff also recommends that these rates go into effect the first full billing period in November 2022.

- Ordinance 22-61 has been written to match the parameters of Scenario 2. If Council decides to go a different direction, this ordinance would need to be updated accordingly. Modifications to the aforementioned ordinances could also require an update to the rate ordinance as proposed.
Utility Rate Scenarios

Utility Rate Scenario 1 - Inclusion of ARPA Funding; No Usage of Utility Operations Fund Balance

Rate Model Modifications:
- Removes the flat monthly service fee (due to FY23 waiver of Admin Fees); all other original inputs kept the same

Scenario 1 includes:
- American Rescue Plan Act (ARPA) funds totaling $716,675.16
  - This amount was split between water and sewer eligible projects; can be modified in ORD 22-60 (rates are subject to change)
Utility Rate Scenario 2 – Inclusion of ARPA Funding; Draw on Utility Operations Fund Balance (50% Rate Buyback, 25% Establish Utility Operating Reserve, 25% CARMA Transfer)

Rate Model Modifications:
- Removes the flat monthly service fee (due to FY23 waiver of Admin Fees); all other original inputs kept the same

Scenario 2 includes:
- American Rescue Plan Act (ARPA) funds totaling $716,675.16
  - This amount was split between water and sewer eligible projects; can be modified in ORD 22-60 (rates are subject to change)
- 50% rate buyback
  - ($407,432 split 50/50 between water and sewer rates)
- 25% funding of operating reserve ($208,716)
- 25% transfer to Utility CARMA
  - $208,000 total – 25% to Water CARMA ($52,000) and 75% to Sewer CARMA ($156,200)

Utility Rate Scenario 3 – Inclusion of ARPA Funding; Draw on Utility Operations Fund Balance (25% Rate Buyback, 25% Establish Utility Operating Reserve, 50% CARMA Transfer)

Rate Model Modifications:
- Removes the flat monthly service fee (due to FY23 waiver of Admin Fees); all other original inputs kept the same

Scenario 3 includes:
- American Rescue Plan Act (ARPA) funds totaling $716,675.16
  - This amount was split between water and sewer eligible projects; can be modified in ORD 22-60 (rates are subject to change)
- 25% rate buyback
  - ($208,716 split 50/50 between water and sewer rates)
- 25% funding of operating reserve ($208,716)
- 50% transfer to Utility CARMA
  - $417,000 total – 25% to Water CARMA ($104,250) and 75% to Sewer CARMA ($312,750)
Utility Rate Scenario Comparison

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<tr>
<th>Consumption</th>
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<th>High Volume</th>
<th>Library</th>
<th>Lift-Station (Year-Round)</th>
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<td>Scenario 2</td>
<td>Scenario 3</td>
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Scenario 1: Utilize ARPA to cover eligible projects; increased Sewer project (UV system) to maximize funding
Scenario 2: Split utility operations fund balance (50% to rate buyback; 25% to operating reserve; 25% to CARMA) plus Scenario 1
Scenario 3: Split utility operating fund balance (25% to rate buyback; 25% to operating reserve; 50% to CARMA) plus Scenario 1

Closeout

Staff Recommendation

- Introduce Ordinance 22-58 to transfer funds from Utility Operations
- Introduce Ordinance 22-60 to appropriate ARPA funds
- Introduce Ordinance 22-61 to establish utility rates for FY23
  - This ordinance is written to match rates proposed in Utility Rate Model Scenario 2

- Schedule of Events:
  - Pass Ordinances 22-58 and 22-60
  - Once those pass, establish utility rates per Ordinance 22-61
  - Set new rates to go into effect the first full billing period in November 2022

  To achieve this and to allow for adequate public notice (send out notice with bills in September), City Council would need to pass ORD 22-61 by September 26, 2022. If the rates are postponed past this meeting, the rates wouldn’t be able to go into effect until December.

- Any questions?