Unpacking Water and Sewer Rates and other mysteries

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The Water/Sewer Rate Setting Process

- Is complex!
- Involves multiple, intertwining factors
- Is governed by policy decisions, which haven't always been well documented
- Can be unpacked into smaller bites

Multiple, Intertwining Factors

- The Tariff *a.k.a* the rate
- Water & Sewer Rate Model
- The Budget
- The Reserve Funds
- The HAWSP Fund

The 2013 Water & Sewer Task Force

- Was born out of complaints about rising rates and lack of fairness
- Five Homer residents and two Councilmembers
- Conducted extensive research and deliberations for over 10 months

Conclusions of the 2013 Task Force

- Some factors (geography, etc.) made Homer's systems more costly those in similar communities
- Costs should be billed reflect customer usage
- Administrative charges should reflect costs
- Did not address capital needs

Modifications to the Model

- Changes had been made to the Model between 2013 and 2018:
  - To better define the “inputs” to the equation
  - A 15% Reserve Element was introduced
  - Basic principles and assumptions stayed the same

Questions for 2021 Rates

- Should we change the rate model?
- How should the rate setting exercise be connected to Budget Process?
- How should the Reserves & HAWSP connect?
- What projects should the Reserves be used for?
- How should the Reserves be administered?
- Does the allocation of administration and other overhead costs properly reflect the actual expenses being charged to water/sewer?

Questions for 2021 – Should we change the rate model?

- NO!
- The 2013 Task Force did good work.
- All adjustments maintained 2013 guidelines.
- The 15% Reserve was adopted by City Council.

Questions for 2021 - **How should the water/sewer rate setting exercise be connected to the City's Budget Process?**

- The Rate Setting Exercise needs good data.
- Rates should be synchronized with budgets.
- This may trigger an awkward transition!
- It will get better.

Question for 2021 – **How should the 15% Reserve element & HAWSP connect?**

- Additional Capital Funds must have been deemed necessary
- Use Reserve Funds for existing equipment/facilities to serve existing customers
- Use HAWSP Funds to extend service for new customers or to increase system-wide capacity

Question for 2021 – **What projects should the Reserves be used for?**

- Use Reserve Funds to keep systems in a state of good repair for existing customers
- Strengthen and use the tools we started:
  - Water Capital Improvement Plan
  - Sewer Capital Improvement Plan
  - Asset Management Plan

Question for 2021 – **How should the Reserves be administered?**

- Base Reserves on needs
- Document policies/strategies in a Reserve Manual
- Reconcile accounting methods with policies
- Reduce the Reserve element from 15% to 0%, for the 2021 rates, for immediate rate relief, until we get better data is available

Question for 2021 - **Does the allocation of administration & other overhead expenses reflect the actual expenses being charged, as recommended by the 2013 Task Force?**

- Analyze costs
- Ensure water/sewer accounts are paying their proper share, and no more
- Maintain the $13 fee until we get better data
- Be prepared to make adjustments later

What can we do now?

- Reduce the Reserve Element from 15% to 0%
- Maintain $13 Service Fee
- Set the rate for 2021

What do we need to do later?

- Connect rate setting with Budget process
- Strengthen tools to get better data
- Recalibrate rates, as necessary
- Adopt polices related to uses of Reserve Funds
- Adopt policies related to use of HAWSP Fund

The Bottom Line

- We have a good model.
- Don't try to do too much all at once.
- Focus on getting good data.
- It's ok to have a transition period.