



# City of Homer

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## Finance Department

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## Memorandum 20-196

TO: Mayor Castner and Homer City Council  
THROUGH: Rob Dumouchel, City Manager  
FROM: Elizabeth Walton, Finance Director  
DATE: November 18, 2020  
SUBJECT: Defining Inputs of Water and Sewer Rate Model

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The purpose of this memo is to provide Council with an updated Rate model and to also provide definitions for each of the model inputs.

### **Status Update:**

At a previous council meeting, Finance presented a multitude of different rate scenarios. The model being proposed to Council at this meeting utilizes Scenario 3 as the basic framework and then incorporates the following modifications:

- The transfer to reserves amount was removed from each rate model, as the general consensus was to remove this input. Given that FY21 is to be truncated and there is a possibility of us connecting rate setting with the FY22 budget process, it felt appropriate to accommodate to this request.
- The hydrant rents formula was modified to more accurately reflect the intent of the previous Water and Sewer Task Force. Previously the formula accounted for a 50/50 split of the 10% of total water revenue required. The intent was for this input to strictly represent 10% and not the shared cost component.
- The total meter count has been updated to 1843 (from 1808) to reflect a more current meter count.

### **Water Rate Model:**

The total operating revenue required represents total operating revenue less transfers to reserves. Please reference page 126 of the current budget document for the total operating revenue (\$2,168,670) and page 130 for the budgeted transfer to water reserves (\$206,071).

The model backs out three fixed fee components.

1. Portion Collected through the Service Fee
  - These costs cover a portion of the administrative costs associated with the processing of utility payments. This value is derived by taking 40% of total Finance budget for FY21 (\$752,789 – page 77 of current budget document).

## 2. Hydrant Rents

- These are costs associated with maintaining the water hydrants. This cost is budgeted at 10% of total water revenue required (\$1,962,599).

## 3. Surplus Water Sales (Bulk)

- This amount is determined by applying the bulk surcharge (0.004/gallon) to the prior year total gallons consumed by bulk users. This is backed out because these expenses are captured by the separate rate for bulk users.

## **Consumption**

The water consumption line is determined by prior years gross meters water sales (in gallons). The water usage at the Sewer Treatment Plant has been backed out of this figure, as it has been determined to be an operational cost. The model rounds up to the nearest million for ease of reporting.

## **Rates**

The water rates are broken into three categories. The commodity rate (per gallon) is generated by dividing the total revenue required by the estimated water sales. This ensures that the whole population of water users are contributing to an equal share of costs. The bulk rate (per gallon) is applying a surcharge of 0.004 per gallon to the set commodity rate. The monthly fees is determined by dividing the budgeted administrative costs by the current number of water meters. As of the most recent billing, there were a total of 1,843 meters.

## **Sewer Rate Model:**

The total operating revenue required represents total operating revenue less transfers to reserves. Please reference page 126 for the total operating revenue (\$1,788,617) and page 138 for the budgeted transfer to sewer reserves (\$54,594).

The model backs out four fixed fee components.

### 1. Costs associated with the Lift Station

- Please reference page 141 of the current budget document for the total cost of maintaining the lift station (\$222,021). These costs are backed out because the users on the lift station bear the complete costs associated with maintaining this infrastructure.

### 2. Pumping fee for Kachemak City users

- The City RFP's the pumping contract every three years and the costs of the contract is divided up amongst the number of users in this LID. As of March 2020 billing, there are currently 134 users.

### 3. Dumping station fee

- Please reference page 127 of the current budget document for the total dumping fee. This fee has been determined to be an operational cost and, as such the fee is not forwarded along to customers.

### 4. Set rate assigned to only multi-units and Kachemak City meters

- This is an additional fee charged to help offset added costs associated with maintaining such infrastructure.

## **Usage**

The sewer usage is determined by the by the number of gallons actually billed for in the prior fiscal year. The model rounds up to the nearest million for ease of reporting.

## **Rates**

The sewer rate is broken into two categories (non-lift and lift station). The non-lift rate is generated by dividing the total revenue required by the projected billable volume for non-lift. The lift station rate is generated by dividing the total revenue required by the projected billable volume for only the lift zone.

## **Items to Consider**

There are other items to consider when making rate decisions. The primary item to keep in mind is the budgetary impacts of rate changes. The conversation tends to focus on the direct impacts of rate changes, but the indirect impacts are sometimes forgotten. As rates decrease, so too will utility bills and that has an indirect impact on sales tax collection. Sales tax is a component of our water/sewer bills and if total billings decreases there will be a loss in sales tax revenue collected. It is important to keep this piece in mind as revenue expectations are getting tighter.

Transfers to reserves is a necessary component of the rate structure, but Administration felt it was a valid option to remove this piece from the model this round. When we go through the FY22/23 budget process more discussion will need to occur to determine better policy on incorporating the funding of reserves in the rate model and budget.

## **Recommendation:**

Review the model and approve the rates set forth.