



City of Homer

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Memorandum 22-156

TO: Mayor Castner and Homer City Council
THROUGH: Rob Dumouchel, City Manager
FROM: Elizabeth Walton, Finance Director
DATE: September 8, 2022
SUBJECT: Water and Sewer Rate Model – Rate Scenarios

City staff has spent a great deal of time identifying three different scenarios that align with previous council conversations and also allowed for the following: acceptance of ARPA funds to cover eligible utility infrastructure repairs/upgrades, funding the utility operating reserve, funding a transfer to CARMA and a rate buyback.

Below are descriptions on three different rate scenarios. Included as supplemental information to this memo are detailed rate models for each scenario and a comparison chart. This chart compares each of the proposed rates with our existing rate established with Resolution 20-118(S).

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

This scenario removes the flat monthly service fee (due to FY23 waiver of admin fees), but keeps all other original inputs the same.

One modification to the model structure in this scenario is the inclusion of the American Rescue Plan Act (ARPA) funding that totaled \$716,675.16. This amount was split between water and sewer rates based on the selected eligible projects. These projects can be modified in Ordinance 22-60 and as such the rates could change. The ARPA funding essentially offset some of the rate increase necessary to fund requested capital projects.

The model under these terms proposes the following rates:

Water Rates:

Commodity (per gal): \$0.0157
Bulk (per gal): \$0.0197
Monthly Fees: \$0

Sewer Rates:

Non-Lift Station: \$0.0173
Lift Station: \$0.0285

Scenario 2 – Inclusion of ARPA Funding and Draw on Utility Operations Fund Balance (50% Rate Buyback, 25% Establish Utility Operating Reserve, 25% CARMA Transfer)

This scenario matches the inputs of Scenario 1, but it includes an element of drawing on Utility Operations Fund Balance to level the rates.

Scenario 2 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 operating reserve (\$208,716), and (4) 25% transfer to Utility CARMA (\$208,000 total - 25% to Water CARMA (\$52,000) and 75% to Sewer CARMA (\$156,000)).

The model under these terms proposes the following rates:

Water Rates:		Sewer Rates:	
Commodity (per gal):	\$0.0141	Non-Lift Station:	\$0.0151
Bulk (per gal):	\$0.0181	Lift Station:	\$0.0264
Monthly Fees:	\$0		

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

This scenario matches the inputs of Scenario 1, but it includes an element of drawing on Utility Operations Fund Balance to level the rates.

Scenario 3 allows for (1) full appropriation of ARPA funding to cover eligible utility infrastructure projects, (2) 25% rate buyback (\$208,716-split 50/50 between water and sewer rates), (3) 25% funding of operating reserve (\$208,716), and (4) 50% transfer to Utility CARMA (\$417,000 total - 25% to Water CARMA (\$104,250) and 75% to Sewer CARMA (\$312,750)).

The model under these terms proposes the following rates:

Water Rates:		Sewer Rates:	
Commodity (per gal):	\$0.0149	Non-Lift Station:	\$0.0162
Bulk (per gal):	\$0.0189	Lift Station:	\$0.0275
Monthly Fees:	\$0		

Current Rates:

To provide additional context our current rates are as follows:

Water Rates:		Sewer Rates:	
Commodity (per gal):	\$0.0107	Non-Lift Station:	\$0.0143
Bulk (per gal):	\$0.0147	Lift Station:	\$0.0243
Monthly Fees:	\$14		

Recommendation:

Introduce Ordinance 22-61 with a public hearing on September 26, 2022 to allow for public hearings on two Ordinances (22-60 Appropriating ARPA funds and 22-58 Utility Operations Fund Balance Transfer). These two pieces of legislation need to pass before the rates can be set in order to properly reflect the allocation of funding in the rate model.

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. To achieve this and to allow for adequate public notice (send out notice with the bills being mailed on September 27th), City Council would need to pass Ordinance 22-61 by September 26, 2022. If the rates are postponed past this meeting, the rates wouldn't be able to go cleanly into effect until December.

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.

**Rate Calculations
Scenario 1
Presented September 8, 2022**

WATER Rate Model	
Revenues	
FY23 Operating Revenue Required - Water	\$ 2,013,046
CARMA Transfer Requirement	450,000
Deduct ARPA	(250,000)
Deduct Portion Collected through Service Fee	0
Hydrant Rents (10% of Total)	(91,734)
Surplus Water Sales (Bulk) surcharge only	(67,796)
Revenue Required for Commodity Rate Calculation	\$ 2,053,516
Water Consumption (Gallons)	
Total Estimated Water Sales	131,000,000
Water Rates:	
Commodity Rate (per gal)	\$ 0.0157
Bulk Rate (per gal)	\$ 0.0197
Monthly Fees	\$ -
Consumption Additional Information:	
FY22 Gross Meters Water Sales (Gallons)	130,971,800
SEWER Rate Model	
Revenues	
FY23 Operating Revenue Required - Sewer	\$ 1,754,682
CARMA Transfer Requirement	705,000
Deduct ARPA	(466,685)
Lift Stations Costs	(225,231)
Pumping Fee	(10,224)
Dumping Station Fees	(5,986)
Multi-Units and K-city (\$5/unit/mo.)	(76,020)
Revenue Required for Commodity Rate Calculation	\$ 1,675,536
Sewer Usage (Gallons)	
Projected Billable Volume	77,000,000
Projected Billable Volume - Lift Zone Only	20,000,000
Total Projected Billable Volume	97,000,000
Sewer Rate	
Non-Lift Station Rate	\$ 0.0173
Lift Station Rate	\$ 0.0285
Lift Station Additional Information:	
FY 22 Actually Billed Gallons (Lift-Station Zone Only)	19,581,500

**Rate Calculations
Scenario 2
Presented September 8, 2022**

WATER Rate Model	
Revenues	
FY23 Operating Revenue Required - Water	\$ 2,013,046
CARMA Transfer Requirement	450,000
Deduct Operating Fund Balance	(208,716)
Deduct ARPA	(250,000)
Deduct Portion Collected through Service Fee	0
Hydrant Rents (10% of Total)	(91,734)
Surplus Water Sales (Bulk) surcharge only	(67,796)
Revenue Required for Commodity Rate Calculation	\$ 1,844,800
Water Consumption (Gallons)	
Total Estimated Water Sales	131,000,000
Water Rates:	
Commodity Rate (per gal)	\$ 0.0141
Bulk Rate (per gal)	\$ 0.0181
Monthly Fees	\$ -
Consumption Additional Information:	
FY22 Gross Meters Water Sales (Gallons)	130,971,800
SEWER Rate Model	
Revenues	
FY23 Operating Revenue Required - Sewer	\$ 1,754,682
CARMA Transfer Requirement	705,000
Deduct Operating Fund Balance	(208,716)
Deduct ARPA	(466,685)
Lift Stations Costs	(225,231)
Pumping Fee	(10,224)
Dumping Station Fees	(5,986)
Multi-Units and K-city (\$5/unit/mo.)	(76,020)
Revenue Required for Commodity Rate Calculation	\$ 1,466,820
Sewer Usage (Gallons)	
Projected Billable Volume	77,000,000
Projected Billable Volume - Lift Zone Only	20,000,000
Total Projected Billable Volume	97,000,000
Sewer Rate	
Non-Lift Station Rate	\$ 0.0151
Lift Station Rate	\$ 0.0264
Lift Station Additional Information:	
FY 22 Actually Billed Gallons (Lift-Station Zone Only)	19,581,500

**Rate Calculations
Scenario 3
Presented September 8, 2022**

WATER Rate Model	
Revenues	
FY23 Operating Revenue Required - Water	\$ 2,013,046
CARMA Transfer Requirement	450,000
Deduct Operating Fund Balance	(104,358)
Deduct ARPA	(250,000)
Deduct Portion Collected through Service Fee	0
Hydrant Rents (10% of Total)	(91,734)
Surplus Water Sales (Bulk) surcharge only	(67,796)
Revenue Required for Commodity Rate Calculation	\$ 1,949,158
Water Consumption (Gallons)	
Total Estimated Water Sales	131,000,000
Water Rates:	
Commodity Rate (per gal)	\$ 0.0149
Bulk Rate (per gal)	\$ 0.0189
Monthly Fees	\$ -
Consumption Additional Information:	
FY22 Gross Meters Water Sales (Gallons)	130,971,800
SEWER Rate Model	
Revenues	
FY23 Operating Revenue Required - Sewer	\$ 1,754,682
CARMA Transfer Requirement	705,000
Deduct Operating Fund Balance	(104,358)
Deduct ARPA	(466,685)
Lift Stations Costs	(225,231)
Pumping Fee	(10,224)
Dumping Station Fees	(5,986)
Multi-Units and K-city (\$5/unit/mo.)	(76,020)
Revenue Required for Commodity Rate Calculation	\$ 1,571,178
Sewer Usage (Gallons)	
Projected Billable Volume	77,000,000
Projected Billable Volume - Lift Zone Only	20,000,000
Total Projected Billable Volume	97,000,000
Sewer Rate	
Non-Lift Station Rate	\$ 0.0162
Lift Station Rate	\$ 0.0275
Lift Station Additional Information:	
FY 22 Actually Billed Gallons (Lift-Station Zone Only)	19,581,500

City of Homer
Water and Sewer Rates Comparison
Presented September 8, 2022

	Average Volume				High Volume				Lift-Station (Year-Round)			
	City Hall				Library				Port & Harbor - Maintenance			
	Existing	Scenario 1	Scenario 2	Scenario 3	Existing	Scenario 1	Scenario 2	Scenario 3	Existing	Scenario 1	Scenario 2	Scenario 3
Consumption	3800	3800	3800	3800	6600	6600	6600	6600	1800	1800	1800	1800
Water Rate	0.0107	0.0157	0.0141	0.0149	0.0107	0.0157	0.0141	0.0149	0.0107	0.0157	0.0141	0.0149
Sewer Rate	0.0143	0.0173	0.0151	0.0162	0.0143	0.0173	0.0151	0.0162	0.0243	0.0285	0.0264	0.0275
Charges:												
Water	40.66	59.66	53.58	56.62	70.62	103.62	93.06	98.34	19.26	28.26	25.38	26.82
Sewer	54.34	65.74	57.38	61.56	94.38	114.18	99.66	106.92	43.74	51.3	47.52	49.5
Service	14	0	0	0	14	0	0	0	14	0	0	0
Total Bill	\$ 109.00	\$ 125.40	\$ 110.96	\$ 118.18	\$ 179.00	\$ 217.80	\$ 192.72	\$ 205.26	\$ 77.00	\$ 79.56	\$ 72.90	\$ 76.32
Impact		\$ 16.40	\$ 1.96	\$ 9.18		\$ 38.80	\$ 13.72	\$ 26.26		\$ 2.56	\$ (4.10)	\$ (0.68)

Scenario 1: Utilitize 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

Utility Fund
 Unaudited Fund Balance Summary
 Presented 9/8/22

Utility Operations Fund (200)					
	FY18	FY19	FY20	FY21	FY22
Beginning Fund Balance	\$ 3,291,818	\$ 3,325,819	\$ 673,608	\$ 1,030,917	\$ 979,016
Ending Fund Balance	\$ 3,325,819	\$ 673,608	\$ 1,030,917	\$ 979,016	\$ 1,205,126
Net Change	\$ 34,001	\$ (2,652,211)	\$ 357,309	\$ (51,901)	\$ 226,110

Water CARMA Fund (256-0378)						
	FY18	FY19	FY20	FY21	FY22	FY23
Beginning Fund Balance	\$ 2,593,246	\$ 2,650,270	\$ 2,615,008	\$ 2,555,103	\$ 2,391,139	\$ 2,044,196
Ending Fund Balance	\$ 2,650,270	\$ 2,615,008	\$ 2,555,103	\$ 2,391,139	\$ 2,044,196	\$ 2,032,054
Net Change	\$ 57,024	\$ (35,262)	\$ (59,905)	\$ (163,964)	\$ (346,943)	\$ (12,143)
					Encumbered	\$ 359,155
					Pending Encumbrance (ORD 22-xx)	\$ 270,000
					Current Balance Available	\$ 1,402,899
					FY23 Budgeted CARMA Transfer	\$ 106,804

Sewer CARMA Fund (256-0379)						
	FY18	FY19	FY20	FY21	FY22	FY23
Beginning Fund Balance	\$ 2,153,985	\$ 1,979,619	\$ 2,065,381	\$ 1,929,114	\$ 1,792,300	\$ 1,357,240
Ending Fund Balance	\$ 1,979,619	\$ 2,065,381	\$ 1,929,114	\$ 1,792,300	\$ 1,357,240	\$ 1,356,081
Net Change	\$ (174,366)	\$ 85,762	\$ (136,267)	\$ (136,814)	\$ (435,060)	\$ (1,160)
					Encumbered	\$ 907,689
					Pending Encumbrance (ORD 22-xx)	\$ 208,000
					Balance Available	\$ 240,392
					FY23 Budgeted CARMA Transfer	\$ 234,166