



MEMORANDUM

Ordinance 24-25, An Ordinance of the City Council of Homer, Alaska, Amending the City of Homer Water and Sewer Rates and Updating the City Fee Schedule Accordingly. City Manager/Finance Director.

Item Type: Backup Memorandum
Prepared For: Mayor Castner and Homer City Council
Meeting Date: May 28, 2024
From: Elizabeth Fischer, Finance Director
Through: Melissa Jacobsen, Interim City Manager

Purpose:

The purpose of this memo is to provide an overview of the model used to generate the water and sewer rates.

Introduction:

The basic principles and assumptions of this model were developed by the most recent Water and Sewer Task Force. The purpose of this model is to generate a utility rate that is a product of budget assumptions and the backing out of fixed fee components. The intent was to provide the City with a mechanism that connected the water and sewer rates to the actual costs to maintain the infrastructure.

The format of the rate model has changed from the one the Water and Sewer Task Force generated, but the basic principles and assumptions remain the same. These changes were made to more accurately reflect the City's budget structure.

The rate model is to be presented prior to the beginning of the fiscal year and will be directly connected to the budgeted revenue requirements for that year.

Recommendation:

Review the model and approve the rates as proposed.

Water Rate Model:

This model generates a rate based on water revenues and consumption.

Revenues

The revenue inputs are defined as follows:

- FY25 Operating Revenue Required – pulled directly from the operating budget
 - Formula: Total Water Revenue - Water CARMA Transfer –
 - $\$2,504,619 - \$326,689 = \$2,177,929$
- CARMA Budget Transfer – pulled directly from the operating budget
 - Formula: Total Water Operating Expenditures * 15%
 - $\$2,177,929 * 0.15 = \$326,689$
- Deduct Operating Fund Balance – amount of Utility Operating Fund Balance to be used for rate buyback. Not used in FY25 calculation.
- Deduct Portion Collected through Other Revenues – pulled directly from the operating budget
 - Formula: Connection Fees + Services & Meters + Penalty & Interest + Draw on Fund Balance for Exempt Wage Scale
 - $\$17,696 + \$34,490 + \$3,717 + \$4,470 = \$60,374$
- Deduct Portion Collected through Service Fee – Not used in FY25 calculation.
- Hydrant Rents – This is related to the costs associated with maintaining the water hydrants.
 - Formula: Budgeted at 10% of operating revenue required and the costs are shared 50/50 between the General Fund and the Water/Sewer Fund.
 - $(\$2,177,929 / 2) * 10\% = \$108,896$
- Surplus Water Sales (Bulk) Surcharge Only – This amount is determined by applying the bulk surcharge (0.004/gallon) to the prior fiscal year total gallons consumed by bulk users. This is backed out because these expenses are captured by the separate rate for bulk users.
 - $20,962,800 \text{ gallons} * 0.004 = \$83,851$
- Revenue Required for Commodity Rate Calculation – Summation of revenue required less deductions. This represents the amount of revenue necessary to generate to meet operating budget needs for upcoming fiscal year.

Consumption

The water consumption line is determined by prior calendar 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:

1. 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.
2. The bulk rate (per gallon) is applying a surcharge of 0.004 per gallon to the set commodity rate.
3. The monthly fees is determined by dividing the budgeted administrative costs by the current number of water meters. This fee was not used in FY25 calculation.

Sewer Rate Model:

This model generates a rate based on sewer revenues and usage.

Revenues

The revenue inputs are defined as follows:

- FY24 Operating Revenue Required – pulled directly from the operating budget
 - Formula: Total Water Revenue - Sewer CARMA Transfer
 - $\$2,222,334 - \$289,870 = \$1,932,464$
- CARMA Budget Transfer – pulled directly from the operating budget
 - Formula: Total Sewer Operating Expenditures * 15%
 - $\$1,932,464 * 0.15 = \$289,870$
- Deduct Operating Fund Balance – amount of Utility Operating Fund Balance to be used for rate buyback. Not used in FY25 calculation.
- Deduct Portion Collected through Other Revenues – pulled directly from the operating budget
 - Formula: Services & Meters + Draw on Fund Balance for Exempt Wage Scale
 - $\$18,509 + \$4,471 = \$22,980$
- Fixed Fee Components
 - Lift Stations Costs - These costs are pulled straight from the current operating budget. These costs are backed out because the users on the lift station bear the complete costs associated with maintaining this infrastructure.

- Pumping Fee - The City RFP's the pumping contract every three years and the costs of the contract is divided up amongst the number of Kachemak City users.
- Dumping Station Fee - These costs come directly from the current operating budget. This fee has been determined to be an operational cost and, as such the fee is not forwarded along to customers.
- Multi-Units and Kachemak City meters - This is an additional fee charged to help offset added costs associated with maintaining such infrastructure.
- Revenue Required for Commodity Rate Calculation – Summation of revenue required less deductions. This represents the amount of revenue necessary to generate to meet operating and capital budget needs for upcoming fiscal year.

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:

1. Non-lift rate is generated by dividing the total revenue required by the projected billable volume for non-lift.
2. Lift station rate is generated by dividing the total revenue required by the projected billable volume for only the lift zone.

Rate Analysis:

Current Rates

Water Rates:

Commodity (per gal): \$0.0161
\$0.0167

Bulk (per gal): \$0.0201
\$0.0275

Monthly Fees: \$0

Sewer Rates:

Non-Lift Station:

Lift Station:

Proposed Rates – Scenario 1

Water Rates:

Sewer Rates:

Commodity (per gal): \$0.0172
\$0.0171

Non-Lift Station:

Bulk (per gal): \$0.0212
\$0.0272

Lift Station:

Monthly Fees: \$0

Rate Comparison

	Average Volume		High Volume		Lift-Station (Year-Round)	
	City Hall		Library		Port & Harbor - Maintenance	
	Existing	Scenario 1	Existing	Scenario 1	Existing	Scenario 1
Consumption	3800	3800	6600	6600	1800	1800
Water Rate	0.0161	0.0172	0.0161	0.0172	0.0161	0.0172
Sewer Rate	0.0167	0.0171	0.0167	0.0171	0.0275	0.0272
Charges:						
Water	61.18	65.36	106.26	113.52	28.98	30.96
Sewer	63.46	64.98	110.22	112.86	49.50	48.96
Service	0	0	0	0	0	0
Total Bill	\$ 124.64	\$ 130.34	\$ 216.48	\$ 226.38	\$ 78.48	\$ 79.92
Impact	\$ 5.70		\$ 9.90		\$ 1.44	