

TOWN OF ALPINE – STAFF REPORT

Subject: Utility Rate Adjustments – 2025 Water & Wastewater Rates

Prepared For: Town Council

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I. PURPOSE OF REPORT

The purpose of this report is to summarize the findings from the Town's Water and Wastewater Rate Studies, evaluate the financial condition of the Town's utility enterprise funds, and document the justification for the 2025 utility rate increases suggested under Ordinance 2025-013. This report outlines the financial, operational, and regulatory factors necessitating the rate adjustments.

II. BACKGROUND

The Town of Alpine operates its water and wastewater utilities as self-sustaining enterprise funds. Wyoming State Statute and accepted utility-finance standards require each utility to fully recover its direct and indirect operating costs, system maintenance, regulatory compliance costs, capital needs, depreciation, and debt service.

In 2023–2024, the Town contracted with MAP to perform comprehensive rate studies for both systems using multi-year audited financials, system usage data, treatment plant performance data, and projected future needs.

Both studies concluded that the existing rate structures were insufficient to sustain operations, maintain compliance with state and federal requirements, address increased treatment demands, or support the capital reinvestment needed to keep both systems functional.

III. SUMMARY OF WHY WATER RATES WERE INCREASED

1. Water Fund Operating Deficit

The Water Rate Study identified an operating deficit of \$143,343 in 2023, with annual revenues of approximately \$545,000, well below the \$748,000 minimum required for a healthy operating ratio (1.1–1.2). The shortfall prevented the fund from meeting fixed operating costs, regulatory requirements, and maintenance obligations.

2. Base Rates Did Not Cover Fixed Costs

The prior flat residential base rate of \$31.00 covered only salaries and benefits, leaving other fixed costs—chemicals, electricity, equipment, maintenance, and regulatory testing—unfunded. This resulted in chronic under-recovery.

3. Ratepayer Inequity

The rate study revealed that:

- Low-use customers overpaid by 4.71%, and
- High-use customers underpaid by 6.99%

This imbalance necessitated restructuring the base rate and usage rate to better align costs with actual system demand.

4. Meter-Based Base Rates Were Required

MAP recommended restructuring the base rate to reflect meter size, as larger meters require larger system capacity. The lack of meter-based pricing resulted in residential users subsidizing commercial and high-capacity customers. The new ordinance implements a meter-specific rate schedule to restore fairness.

5. Capital Planning Needs – Mega Well & System Expansion

The Town must invest in long-term water source reliability, including bringing the new “mega well” into service. Current engineering estimates place the tie-in cost at approximately \$400,000, exclusive of remaining well construction and development costs.

Capacity Fee Restrictions:

The Town is in the process of adopting a capacity fee structure designed to ensure that new development pays for expansion-related capital improvements. However:

- Capacity fees are restricted revenue.
- They may only be used for expansion, not operations.
- They cannot be used for salaries, chemicals, electricity, testing, maintenance, repairs, or debt coverage.

Because capacity fee revenue must be reserved for expansion needs such as the mega-well tie-in, these funds do not offset the utility's operating deficit and reinforce the necessity of increasing monthly rates.

6. Required Operating Revenue Correction

The Utility Rate Logic analysis shows that the Town's updated rate structure increases water revenues from \$510,828 to \$749,543.60 (47% increase). This revenue level is

necessary to stabilize the fund, achieve an appropriate operating ratio, and meet long-term financial obligations.

IV. SUMMARY OF WHY WASTEWATER RATES WERE INCREASED

1. Operating Ratio Below Standards

The wastewater fund's three-year operating ratio averaged 0.99, below the recommended 1.2 threshold needed for long-term operational health, regulatory resilience, and loan eligibility.

2. Increased Sludge, BOD, and Treatment Demands

The wastewater plant has experienced increased organic loading, higher sludge volumes, more frequent membrane cleaning, and increased chemical and disposal costs. These pressures raise the cost of routine operations.

3. Capital Planning and Capacity Fee Restrictions

Wastewater expansion costs must be funded through capacity fees, which are restricted revenue. Wastewater capacity fees can be used only for:

- Plant expansions,
- Capacity increases,
- Equipment or system upgrades required by growth.

They cannot be used for:

- Labor,
- Chemicals,
- Membrane cleaning,
- Sludge hauling,
- Routine operations,
- Regulatory sampling or reporting,
- Debt coverage.

Because capacity fees are restricted, they do not relieve the wastewater fund's operational cost burden or reduce the need for monthly rate increases. Historically, connection fees were utilized as operating revenue. The new rate ordinance decreases these fees by approximately 90%.

V. MELVIN BREWING IMPACTS

A. Melvin's Required Responsibilities

Under the Town's Pretreatment Agreement, Melvin Brewing is required to pay all operating costs directly associated with pretreatment, including:

- Pretreatment system operation and maintenance,
- Sampling, monitoring, DEQ compliance testing,
- Chemicals and consumables,
- Labor associated with pretreatment,
- Any exceedance or violation costs,
- All increased costs attributable to their discharge.

B. Pretreatment Impact Study Underway

The Town is conducting a Pretreatment Impact Study to determine Melvin's fair and proportional share of:

- Pretreatment operating costs,
- Sludge hauling attributable to Melvin,
- Pretreatment facility debt service,
- Capital replacement and depreciation.

These costs will be assigned to Melvin according to the agreements that the Town of Alpine has with Melvin Brewing.

C. Clarification for the Public

The 2025 wastewater rate increase does not include any Melvin pretreatment costs. It applies only to the general wastewater system's operating costs and does not subsidize Melvin's pretreatment impact. To date the Town has utilized Capital Lease and Sewer Reserve Funds to pay for the construction of the pretreatment plant. Beginning October 1, 2025 (as agreed at start-up of the pretreatment plant), Melvin began paying a flat rate of \$12,000.00 per month for sewer.

VI. PUBLIC PROCESS

The Town reviewed rate study findings and financial data across multiple work sessions, Council meetings, committee meetings, and public hearings. Ordinance 2025-013 will be adopted only upon being passed at the required three readings per W.S. § 15-1-115.

VII. RECOMMENDATION

Staff recommend affirming that the updated rate structure:

1. Corrects structural revenue deficiencies,
2. Ensures fairness among ratepayers,
3. Avoids cross-subsidization,
4. Funds regulatory and operating requirements,
5. Prepares the utilities for long-term capital needs, including the \$400,000 mega-well tie-in,
6. Ensures Melvin continues to pay all pretreatment costs,
7. Maintains the financial stability of the enterprise funds.

VIII. ATTACHMENTS

- Water Rate Study (MAP)
- Wastewater Rate Study (MAP)
- Water Operating Budget
- Sewer Operating Budget
- System Rate Comparision