

## **MEMORANDUM**

**To:** Columbus Utility Commission

**From:** Randall Myrum, Utilities Director

**Date:** [Insert Date]

**Subject:** Updated Sanitary Sewer Rate Study – Background, Rationale, and Next Steps

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### **Purpose**

The purpose of this memorandum is to provide background and context regarding the updated sanitary sewer rate study that will be brought forward for Commission consideration in 2026. This update responds to prior concerns raised by partner communities, reflects updated capital planning information, and addresses emerging financial requirements of the sanitary sewer utility.

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### **Background**

In early 2025, the Utility Commission approved a sanitary sewer rate study that included rate adjustments for the City of Columbus, the Village of Fall River, and the Town of Elba. Following adoption of that study, the Village of Fall River requested additional clarification regarding the assumptions and information contained in the analysis. Their concerns focused primarily on how requirements of the Intergovernmental Agreement (IGA) were reflected, including capital planning assumptions and the evaluation of rate alternatives. As a result, Fall River has not implemented the 2025 rate increase to date.

Later in 2025, the City and Utilities Department undertook a more comprehensive long-term Capital Improvement Planning (CIP) effort intended to better coordinate sanitary sewer, water, stormwater, and street infrastructure investments. As part of this effort, the wastewater treatment facility CIP was updated to reflect current system needs and project timing. This updated plan differed in several respects from the capital assumptions that had been under consideration in 2024.

Given these changes, the updated CIP was applied to a revised rate review for Fall River to address their concerns and to determine whether adjustments to the previously approved rates were warranted. At the same time, the rate study was updated to evaluate the impact of the revised capital plan on rates for the City of Columbus and the Town of Elba.

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### **Financial Considerations**

During preparation for anticipated borrowing in 2026 to fund upcoming CIP improvements, it was identified that the sanitary sewer utility's current debt service coverage ratio is below the minimum level required for revenue bond financing. This condition presents a short-term financial constraint that must be addressed to ensure the utility can proceed with planned infrastructure investments while maintaining fiscal stability.

As a result, the updated rate study prepared to address Fall River's review also includes updated rate recommendations for Columbus and Elba. These recommendations are intended to restore required financial coverage levels, support near-term borrowing needs, and maintain the long-term viability of the utility.

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### **Long-Term Planning and Rate Stability**

The IGA requires that sanitary sewer rates be reviewed every two years, a practice that has not been consistently followed in the past. The updated rate study now under development includes recommendations that align with a 10-year CIP, provide for more regular rate reviews, and emphasize more frequent but modest rate adjustments over time. This approach is intended to improve transparency, reduce financial volatility, and avoid the need for larger, less predictable rate increases in the future.

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### **Current Status and Next Steps**

The updated rate study has been provided to the Village of Fall River in draft form to address prior concerns and to allow for review consistent with the IGA. Following completion of that review period, the updated study is anticipated to be presented to the Utility Commission for consideration and potential adoption in 2026.

Commission discussion at that time will include not only the immediate rate adjustments proposed, but also the broader policy direction related to long-term capital planning, financial sustainability, and future rate stability.

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## **Anticipated Commissioner Questions**

### **Why are rates being revisited so soon after the 2025 increase was approved?**

The updated rate study reflects new information that was not fully incorporated into the earlier analysis, including an updated capital improvement plan and current financial conditions related to upcoming borrowing. In addition, the Village of Fall River did not implement the 2025 rate increase and requested further review under the IGA, which prompted a broader update to the study.

### **Is this rate adjustment related to Fall River's concerns?**

Yes, in part. The updated study was prepared to address Fall River's request for additional clarity and to confirm compliance with the IGA. However, the update also reflects revised capital planning and financial requirements that affect all participating communities, including Columbus and Elba.

### **Why is an increase being recommended for Columbus and Elba as well?**

While the review was initiated to address Fall River's concerns, updated financial analysis identified a short-term issue related to debt service coverage for the sanitary sewer utility. The recommended adjustments are intended to ensure the utility can meet borrowing requirements and maintain financial stability.

### **Is this increase required for planned 2026 borrowing?**

Yes. Current financial metrics indicate the utility does not meet the minimum coverage ratio required for revenue bond financing. The recommended rate adjustments address this issue and support the utility's ability to fund planned infrastructure improvements. The borrowing for 2026 will be done by the city under the general fund and was reduced to the minimum level to complete the projects already going to construction. Everything else in 2026 was postponed to a later date reflected in the updated CIP.

### **Does this mean additional rate increases should be expected in the future?**

The updated study recommends a long-term approach that includes regular rate reviews and smaller, more predictable adjustments over time. While future rate increases are likely as part of long-term capital planning, this approach is intended to reduce the likelihood of large or sudden increases. This plan will need to be updated every two years to incorporate any changes or updates for future projects.

### **Why wasn't the two-year rate review requirement followed in the past?**

Historically, rate reviews were conducted on a less consistent schedule. The updated study specifically recommends returning to regular review intervals, consistent with the IGA, to improve transparency, planning, and financial management.

**What happens if the Commission does not adopt the updated rates?**

Without action, the utility may face challenges related to financing planned capital projects and maintaining required financial coverage levels. The updated study is intended to provide options and a path forward that balances infrastructure needs with rate stability.