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TO: Chair Woll and Assembly Finance Committee

FROM: Katie Koester, City Manager

DATE: April 22, 2025

RE: Utility Rate Increases

CBJ began work on utility rate increases almost a year and a half ago with the scheduled 2% rate increase sunsetting in calendar year 26. In November of 2024, the Assembly Finance Committee was presented with a proposed rate increases upwards of 10% (percentage varied between debt and cash financing and water versus sewer enterprise). This was after the Assembly used a $10M utility bond on the 2024 ballot to buy down rate increases by an additional 3%.

What has changed since November 2024?
For today's presentation, the consultants were able to lower needed rate increases by an average of 1% on the water side and 3% on the sewer side based on two new pieces of information: they now have FY2024 actuals (which have an increased contribution to fund balance than predicted) and they found an error in one of the inputs for a capital project that was double counted. I asked the consultants how much capital spend we would need to bring the utility rate increase down to 5%, which you see modeled for debt financing and cash in the presentation.

Debt vs. Cash
The debt scenarios provided seem like an obvious choice as strategically using debt puts significant downward pressure on rates under all the scenarios. However, keep in mind that this is principally because you are spreading those costs out over 20 years. Under the debt scenarios we will get to 2030 and be contributing approximately $750,000 out of the operating budget to cover the debt service for the next 15 plus years. Another thing to keep in mind is that by buying down the rate increases you are either committed to having to come up with outside capital sources in the future or face an even more significant rate shock in 2030.

Potential other capital funding sources

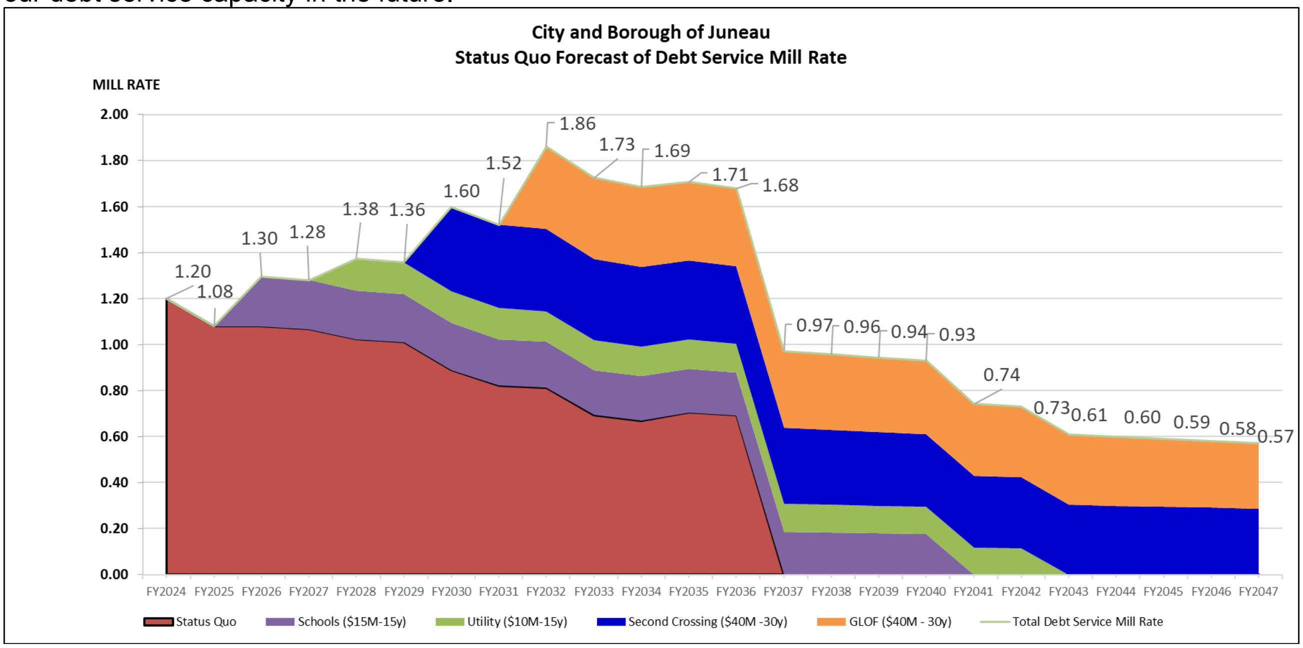
Sales Tax.
The **temporary 3%.** One percent of this portion of our sales tax dollars goes to fund street rehabilitation. Concurrently, we use Utility funds to do the underground utility replacement. CBJ could use some of the street sales tax funds to fund the underground utility infrastructure (and indeed has the last and current budget cycle). This would result in delays to needed street rehabilitation projects. The temporary 3% is also used for operating and non-street capital projects. It is scheduled to go before the voters for renewal in October 2026.

The **temporary 1%** is also re-authorized every 5-years by the voters and consists of a list of capital projects over a 5-year period. The 1% collects, on average, $13M annually. In the last (2019-2024) round of 1% funding the Utility combined received a total of $15.5M in capital project funding. The 1% is up for re-authorization by the voters in October of 2027, making fiscal year 29 the first year we would collect towards projects listed in the next round.

The Assembly Finance Committee has considered buying down rate increases through a bond. $10 million in capital spend through general obligations bonds would look like using cash from the Utility's perspective because the debt service would live on the books of the general fund, not the Utility. A $10M cash spend + debt would allow us to land on a 5% annual rate increase.

The only decisions that need to be made this budget cycle are whether you want to use capital funding to buy down the rate and what the Utility rate increase should be. If that capital funding is sales tax, general fund, or a future bond sale (the Utility does not need the capital infusion until FY28) the body can have that conversation during future budget cycles. However, if you want to put a bond before the voters this year, the decision needs to be finalized before the end of July, which means introducing an ordinance no later than the June 9th Regular Assembly Meeting. That all being said – if you can give guidance regarding your intent for future budget cycles (i.e. do you want to use the 1%) it will give the manager a helpful starting place.

Bonds – in general
Let's digress a little and talk about all potential bonds for the October 2025 ballot (School and Utility). CBJ has 10 years from when a bond is approved to issue bonds. Bond proceeds should be expended within 18-24 months of the bond issuance. Within limits, we can structure debt to achieve a desired debt service mill rate over time. The image below layers potential large bond projects over the next 30 years. Obviously, what we bond for will look very different, but it gives you an idea of the magnitude of projects that will put a demand on our debt service capacity in the future.



Recommended Rate Increase
The consultant has presented you a variety of different scenarios that have varying impact on the long-term fiscal health of the Utility and the cost of living for our citizens. As the consultant points out, all of these scenarios are based on a minimum capital spend and defer significant capital investment to after 2030. I have proposed 3 scenarios below that attempt to bring the extensive conversation on rate increases to a close. If the body is not able to make a recommendation tonight, staff will need what additional information is required for the body to make a recommendation and when you would like to have this topic before you again for action.

The lowest impact on ratepayers and CBJ general fund is scenario 4 which is an annual 5% increase over 5 years with strategic use of debt. Scenario 4 requires a capital investment of $9.3M and borrowing $7.3M from the DEC Revolving Loan Fund. Under this scenario, I would propose using $1.4M in street sales tax funds in FY28 and asking the voters for authority to use $8M in FY29-FY30 for the next round of 1% funding. The use of debt under scenario 4 amortizes the $7.3M of debt over 20 years at 2.5% in the Utility operating budget.

Recommendation:

1. Move to approve Scenario 4 (debt + 5% rate increase) for introduction with direction on a plan for future capital funding assistance (bond, sales tax, general fund).

    - The alternative scenarios are endless. If the body would like to explore any of those, I can provide a worksheet to help through the decision points (1- cash or debt; 2- capital assistance; 3- percent rate increase) and bring back information on the impact that would have on the Utility.

2. Discuss appetite for Utility and School Bonds. Move introduction of a bond ordinance to the next regularly scheduled Assembly meeting.