

# CITY OF KOTZEBUE UTILITY RATE STUDY

City Council Meeting

2-6-2025



# AGENDA

- 2024 Rate Study
- 2025 Adjustment Alternatives
  - Water
  - Sewer
  - Solid Waste
- Affordability

# 2024 RATE STUDY

- Built Financial Model for each Fund
- Multi-year Adjustments Recommended for:
  - Sewer
  - Solid Waste

| Customer                            | Old Rate | 2024           | 2025    | 2026    | 2027    | 2028    |
|-------------------------------------|----------|----------------|---------|---------|---------|---------|
| Residential Wastewater Flat Rate    | \$46.60  | <b>\$57.18</b> | \$67.87 | \$80.56 | \$89.99 | \$93.32 |
| Residential Refuse Pick-Up Services | \$40.45  | <b>\$46</b>    | \$52    | \$59    | \$63    | \$63    |

- City adopted Rate Adjustments for 2024 only

# **WATER FUND**

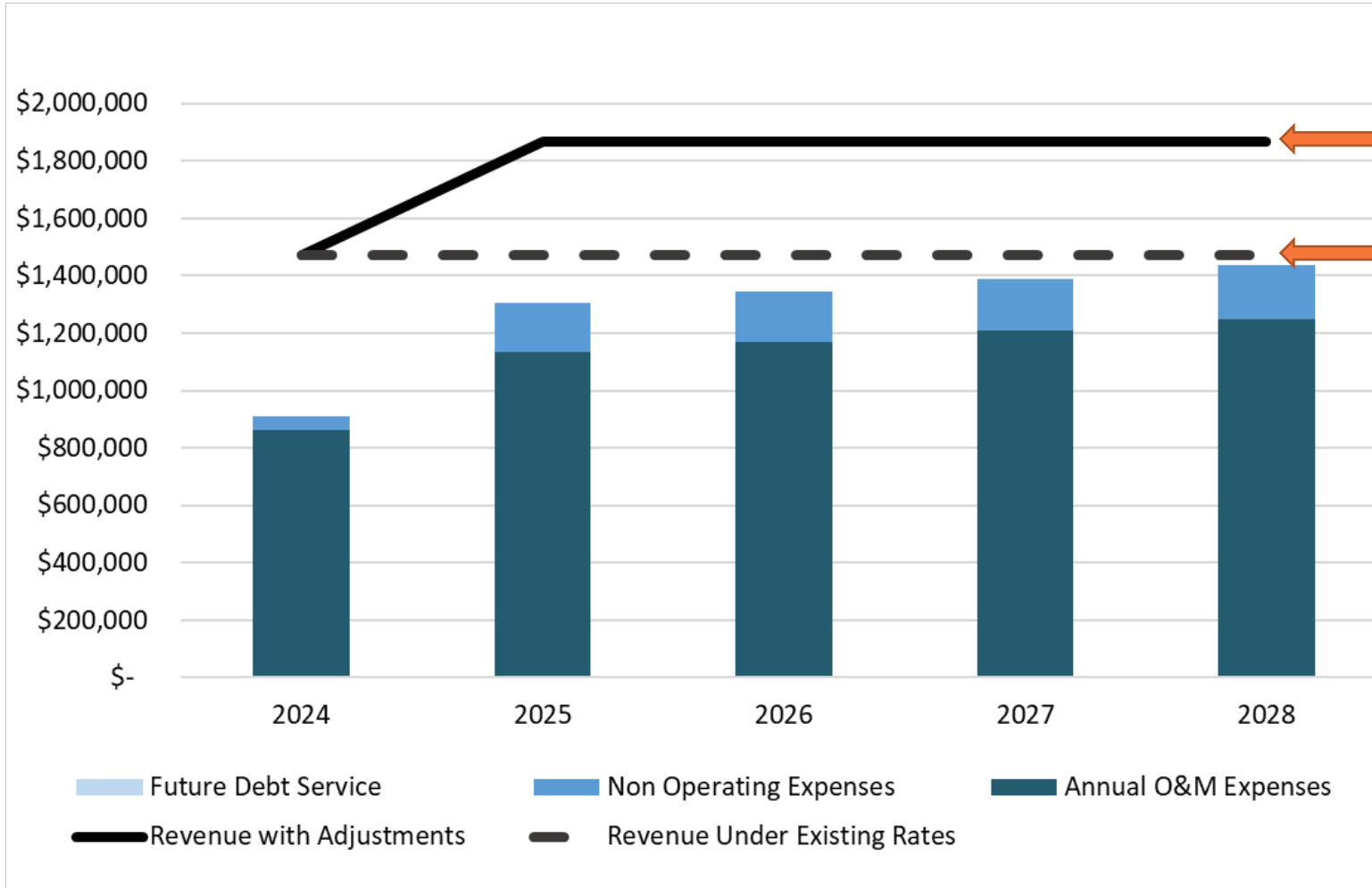
# WATER KEY DATA/ASSUMPTIONS

- 2024 Revenues came in under 2025 Budget
- 2024 Expenses came in under 2025 Budget
- 2024 Revenues exceeded Expenses
- No Rate Adjustments proposed
- All grant or Principal Forgiveness funding for capital projects

# **WATER FUND ALTERNATIVES**

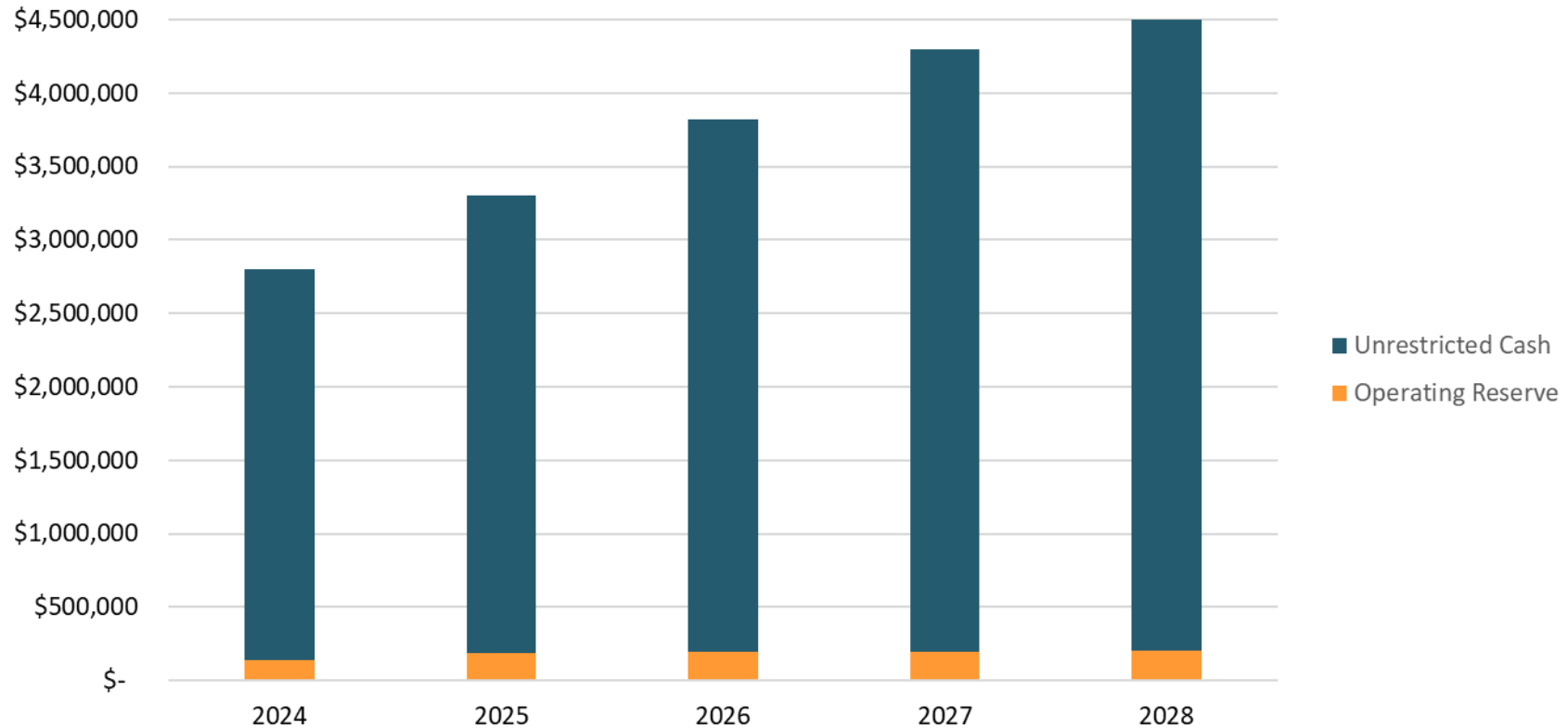
- Alternative 1 – 2025 Rate Study Recommendation

# WATER FUND: ALTERNATIVE 1 CASH FLOW



Conclusion: Revenues cover Expenses

# WATER FUND: ALTERNATIVE 1 CASH RESERVES



The water fund is in a solid position to fund the annual operating reserve requirement and build unrestricted cash.



# WATER ALTERNATIVE 1 RATE SCHEDULE

| Customer                              | Existing Rates | 2025  | 2026  | 2027  | 2028  | 2029  |
|---------------------------------------|----------------|-------|-------|-------|-------|-------|
|                                       |                | 0.0%  | 0.0%  | 0.0%  | 0.0%  | 0.0%  |
| Commercial Water Flat Rate            | \$232.18       | \$232 | \$232 | \$232 | \$232 | \$232 |
| Commercial Water Metered Rate         | \$41.35        | \$41  | \$41  | \$41  | \$41  | \$41  |
| Commercial Water Minimum Rate         | \$103.20       | \$103 | \$103 | \$103 | \$103 | \$103 |
| Multi Family Water Base Rate          | \$103.20       | \$103 | \$103 | \$103 | \$103 | \$103 |
| Multifamily Water Metered             | \$41.35        | \$41  | \$41  | \$41  | \$41  | \$41  |
| Residential Water Flat Rate           | \$101.46       | \$101 | \$101 | \$101 | \$101 | \$101 |
| Residential Senior/Disables Flat Rate | \$40.58        | \$41  | \$41  | \$41  | \$41  | \$41  |

# SEWER FUND

# SEWER FUND – PREVIOUS RECOMMENDATIONS

|                           | 2024   | 2025   | 2026   | 2027   | 2028        |
|---------------------------|--------|--------|--------|--------|-------------|
| Revenue Adjustments + CPI | 22.70% | 18.70% | 18.70% | 11.70% | 3.70% (CPI) |

# SEWER FUND – PREVIOUS RECOMMENDATIONS

|                                   | 2024           | 2025            | 2026     | 2027     | 2028           |
|-----------------------------------|----------------|-----------------|----------|----------|----------------|
| Customer                          | 22.70%         | 18.70%          | 18.70%   | 11.70%   | 3.70%<br>(CPI) |
| Commercial Wastewater Flat Rate   | \$118.42       | <b>\$140.56</b> | \$166.85 | \$186.37 | \$193.26       |
| Multi Family Wastewater Base Rate | <b>\$57.18</b> | <b>\$67.87</b>  | \$80.56  | \$89.99  | \$93.32        |
| Residential Wastewater Flat Rate  | <b>\$57.18</b> | <b>\$67.87</b>  | \$80.56  | \$89.99  | \$93.32        |
| Senior/Disabled Flat Rate         | <b>\$24.76</b> | <b>\$29.39</b>  | \$34.89  | \$38.97  | \$40.41        |

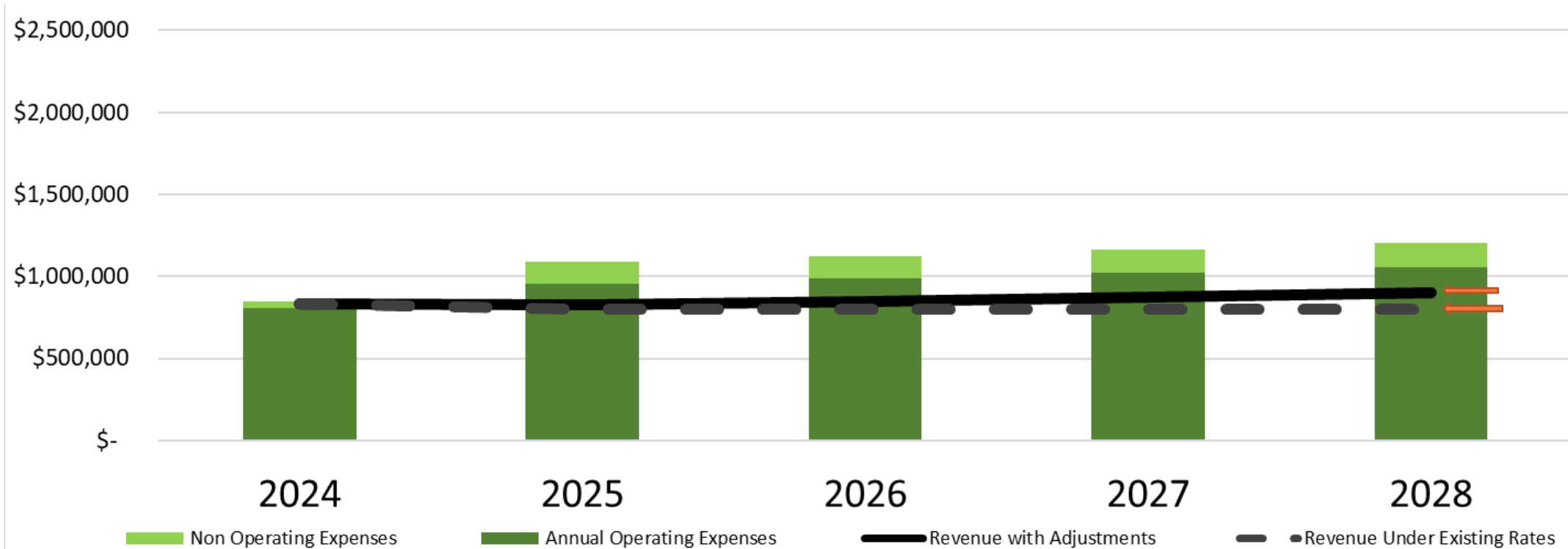
# SEWER FUND ALTERNATIVES

- Alternative 1 – Inflation-only Adjustments
- Alternative 2 – 2024 Rate Study Adjustments
- Alternative 3 – Updated Adjustment

# SEWER KEY DATA/ASSUMPTIONS

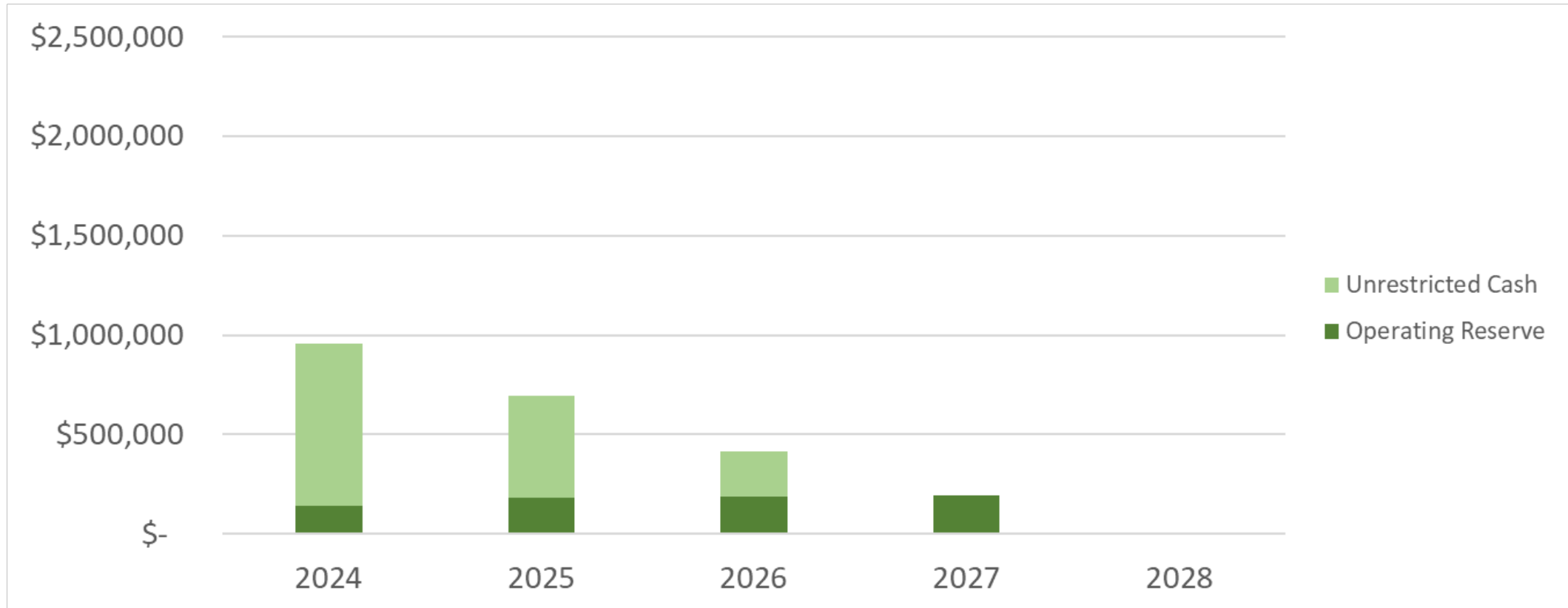
- 2024 Revenues came in over Budget but less than previous Rate Study projections
- 2025 Budget Revenues are \$25k lower than 2024 actuals
- 2024 Expenses exceeded Revenues
- 2024 Expenses were less than 2025 Budget
- All grant or Principal Forgiveness funding for capital projects

# SEWER FUND: ALTERNATIVE 1 CASH FLOW



Conclusion: Revenue increases above CPI are needed to fund annual operating expenses.

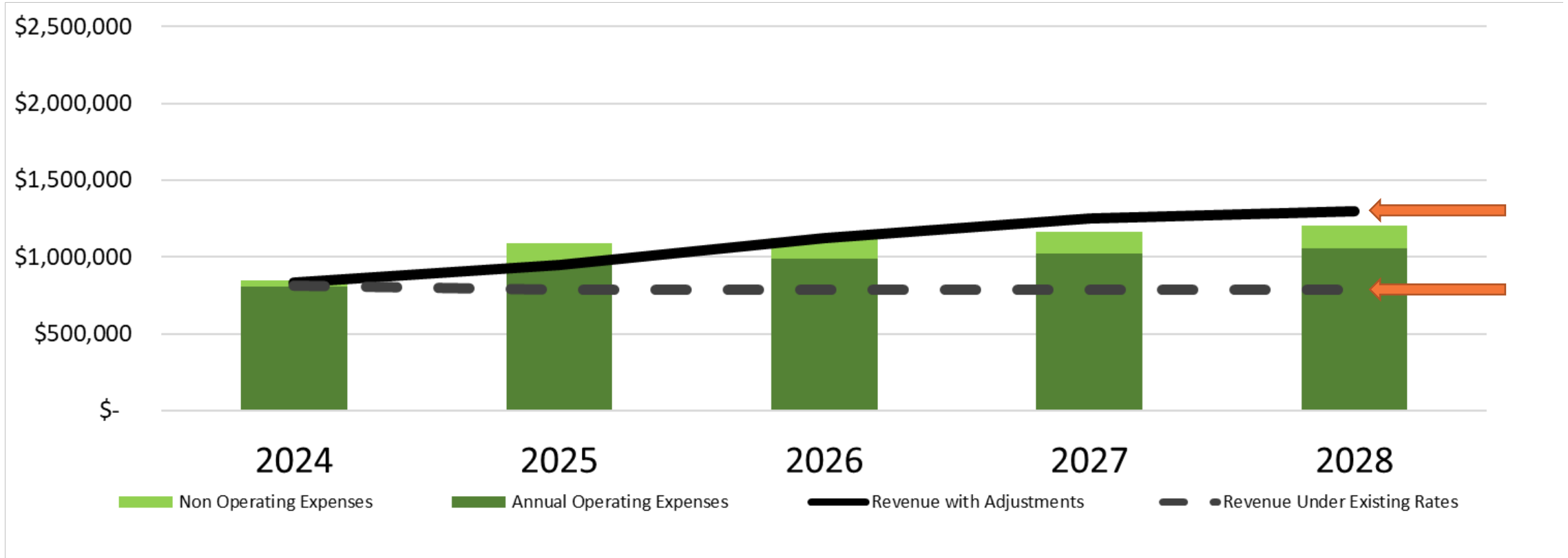
# SEWER FUND: ALTERNATIVE 1 CASH RESERVES



- Future Revenues do not cover future Expenses
- Any Capital Projects would need external funding source
- Fund runs out of reserves by CY 28

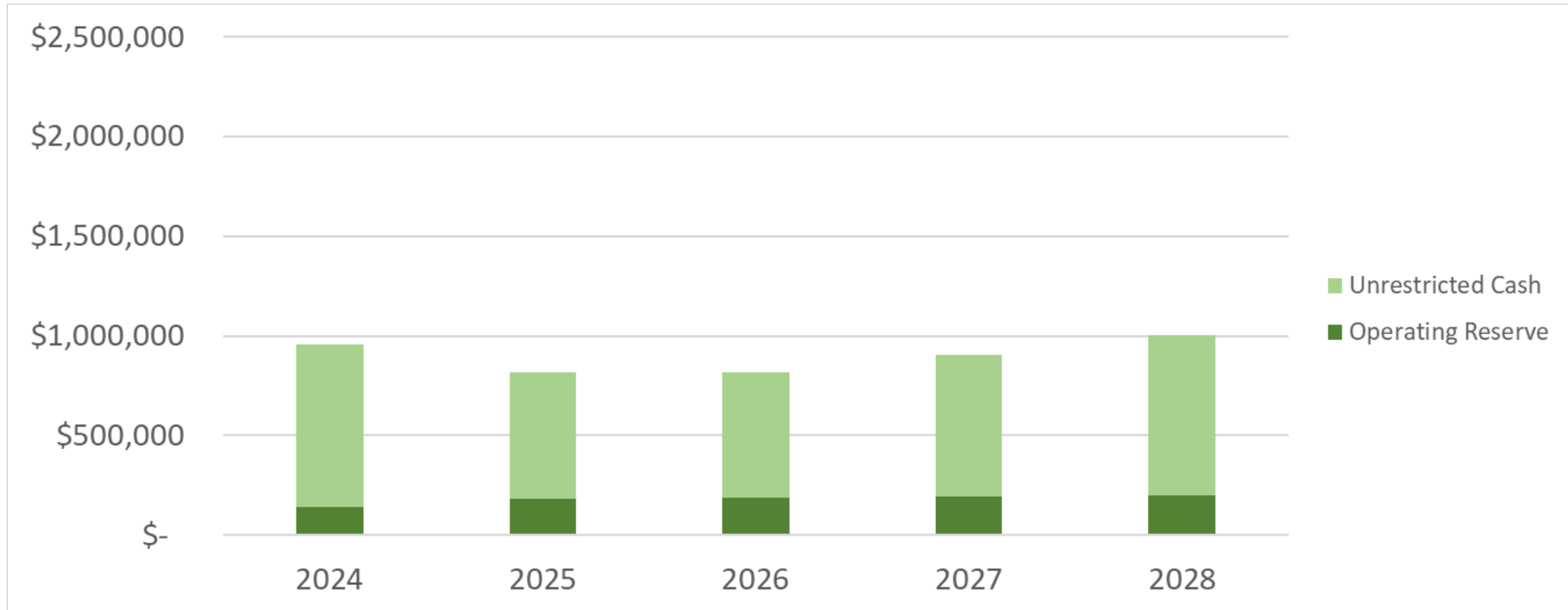


# SEWER FUND: ALTERNATIVE 2 CASH FLOW



Conclusion: Additional revenue increases are needed to fund annual operating expenses.

# SEWER FUND: ALTERNATIVE 2 CASH RESERVES



2024 Study's recommendations will keep fund healthy through 2028

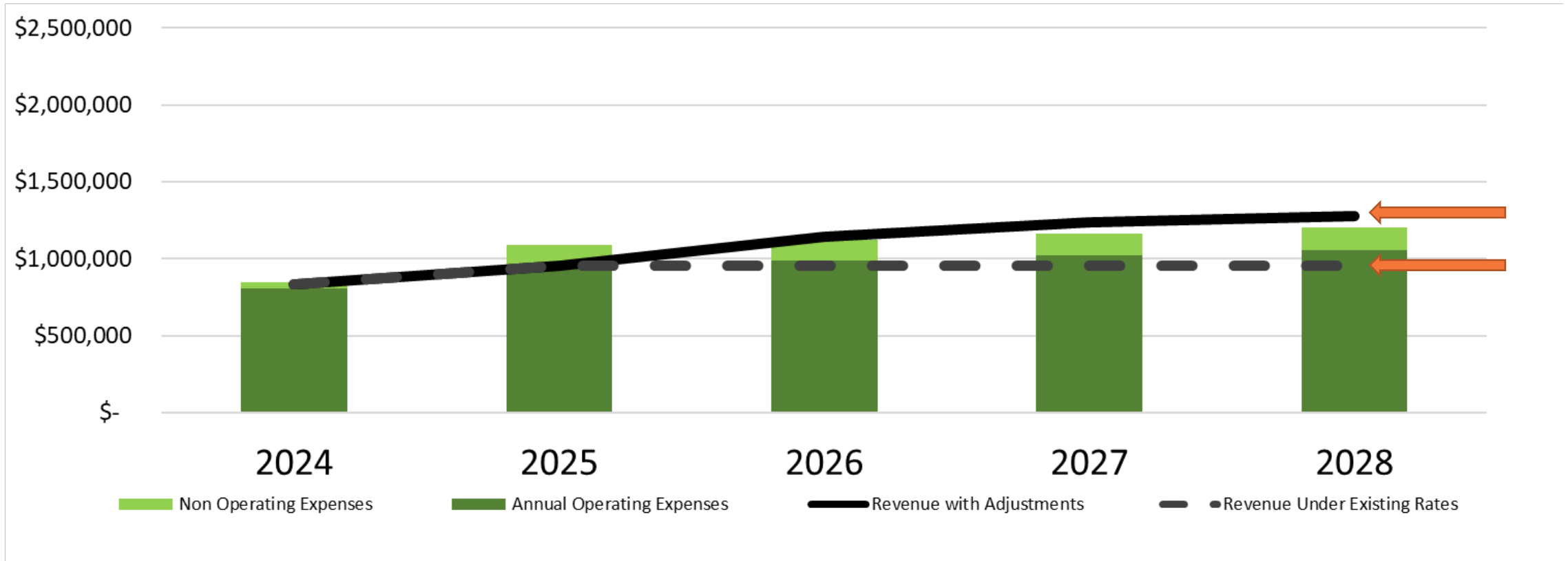
## ALTERNATIVE 2 TAKEAWAYS

- 2024 Study Rate Adjustments appear to be sufficient.
- 18.7% adjustment should generate another \$148k in Rate Revenue
- 2025 Revenue Goal = \$948,730
- 2025 Budgeted Expense = \$1,088,652
- Alternative 2 adjusts rates “equally” for all customers

## ALTERNATIVE 3 DATA

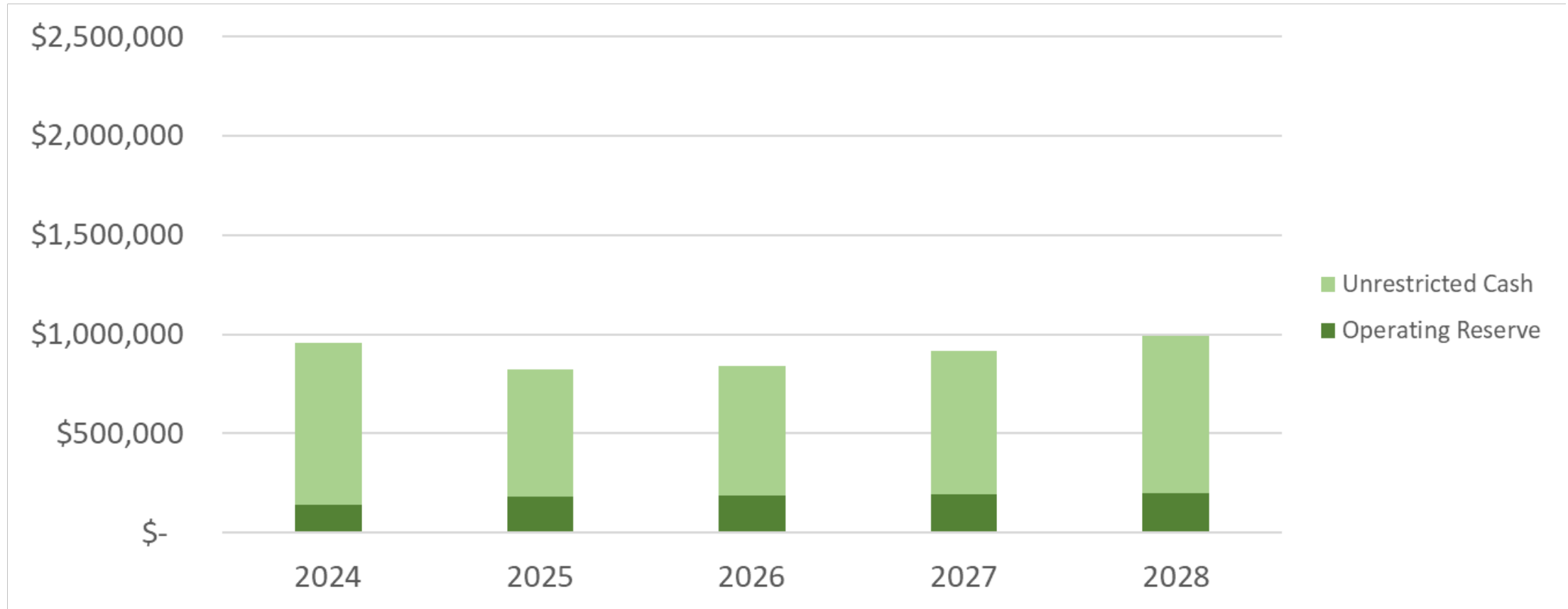
- Adjust Commercial differently from Residential
  - Commercial    x 24%    \$118 → 147
  - Residential    x 12%    \$57 → \$64
- Expected Revenue \$955,800 to \$990,151

# SEWER FUND: ALTERNATIVE 3 CASH FLOW



Conclusion: Additional revenue increases are needed to fund annual operating expenses.

# SEWER FUND: ALTERNATIVE 3 CASH RESERVES



24% Commercial + 12% Residential Adjustment in 2025 will work

# 2025 SEWER RATE SCHEDULE

| Customer   | Existing Rate | Alternative 1 | Alternative 2 | Alternative 3 |
|--|---------------|---------------|---------------|---------------|
|  |               | 3%            | 18.7%         | 24%   12%     |
| Commercial Wastewater Flat Rate                          | \$118.42      | \$122         | <b>\$140</b>  | \$147         |
| Commercial Wastewater Base Rate<br>(Up to 6,000 Gallons) | \$57.18       | \$59          | <b>\$68</b>   | \$71          |
| Commercial Commodity Rate<br>(per 1,000 gallons)         | \$18.26       | \$23          | <b>\$27</b>   | \$28          |
| Residential Wastewater Flat Rate                         | \$57.18       | \$59          | <b>\$68</b>   | \$64          |
| Senior/Disabled Flat Rate                                | \$24.76       | \$25          | <b>\$29</b>   | \$28          |

# **SOLID WASTE FUND**



# SOLID WASTE – PREVIOUS RECOMMENDATIONS

|                           | 2024   | 2025   | 2026   | 2027        | 2028        |
|---------------------------|--------|--------|--------|-------------|-------------|
| Revenue Adjustments + CPI | 13.70% | 13.70% | 12.70% | 3.70% (CPI) | 3.70% (CPI) |

# SOLID WASTE – PREVIOUS RECOMMENDATIONS

|                                   | 2024  | 2025        | 2026  | 2027 | 2028 |
|-----------------------------------|-------|-------------|-------|------|------|
| Customer                          | 13.7% | 13.7%       | 12.7% | 3.7% | 3.7% |
| Dumpster Lease                    | \$30  | <b>\$34</b> | \$38  | \$40 | \$41 |
| Commercial Pick-Up Service        | \$25  | <b>\$28</b> | \$32  | \$33 | \$34 |
| Landfill Drop-Off Commercial      | \$10  | <b>\$11</b> | \$13  | \$13 | \$14 |
| Residential Pick-Up Services      | \$46  | <b>\$52</b> | \$59  | \$63 | \$63 |
| Residential Pick-Up Elder Service | \$23  | <b>\$26</b> | \$29  | \$31 | \$32 |

# CAPITAL IMPROVEMENT PLAN

| Project Name           | Cost         | Year |
|------------------------|--------------|------|
| Baler Facility Upgrade | \$ 1,000,000 | 2025 |

This project will be funded by rate revenue and cash reserves for Alternatives 1, 2, and 3

Only 50% funded by rate revenue and cash reserves for Alternative 4

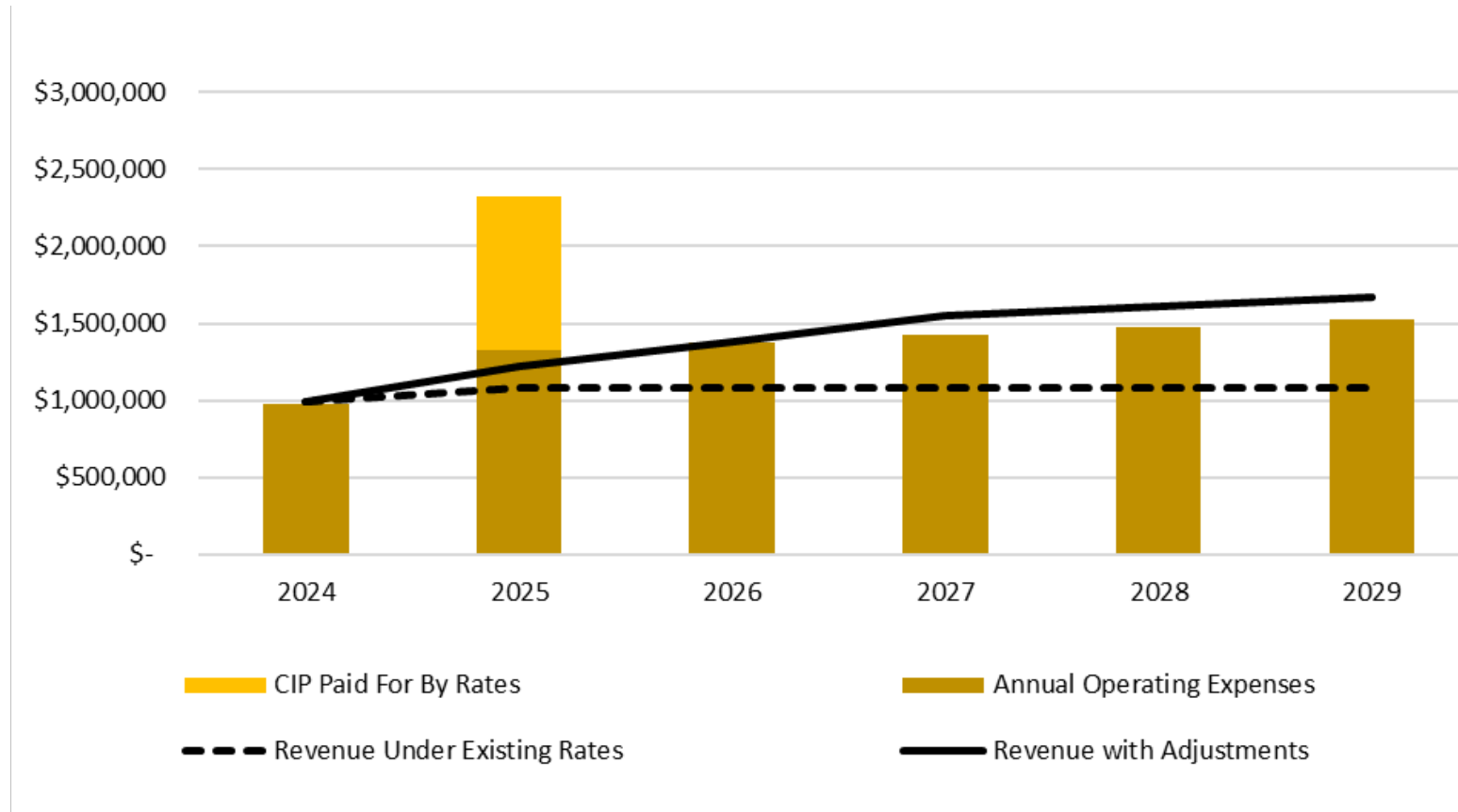
# SOLID WASTE FUND ALTERNATIVES

- Alternative 1 – 2024 Recommendation
- Alternative 2 – Updated Recommendation
- Alternative 3 – Double Tipping Rate + 50% of 2025 Adjustment
- Alternative 4 – 50% Baler Facility + Double Tipping Rate

# SOLID WASTE ALTERNATIVE 1 RATE SCHEDULE

|                                   |               | 2025        | 2026  | 2027  | 2028       | 2029       |
|-----------------------------------|---------------|-------------|-------|-------|------------|------------|
| Customer                          | Existing Rate | 13.7%       | 13.7% | 12.7% | 3.7% (CPI) | 3.7% (CPI) |
| Dumpster Lease                    | \$30          | <b>\$34</b> | \$39  | \$44  | \$45       | \$47       |
| Commercial Pick-Up Service        | \$25          | <b>\$28</b> | \$32  | \$36  | \$38       | \$39       |
| Landfill Drop-Off Commercial      | \$10          | <b>\$11</b> | \$13  | \$15  | \$15       | \$16       |
| Residential Pick-Up Services      | \$46          | <b>\$52</b> | \$59  | \$67  | \$69       | \$72       |
| Residential Pick-Up Elder Service | \$23          | <b>\$26</b> | \$30  | \$33  | \$35       | \$36       |

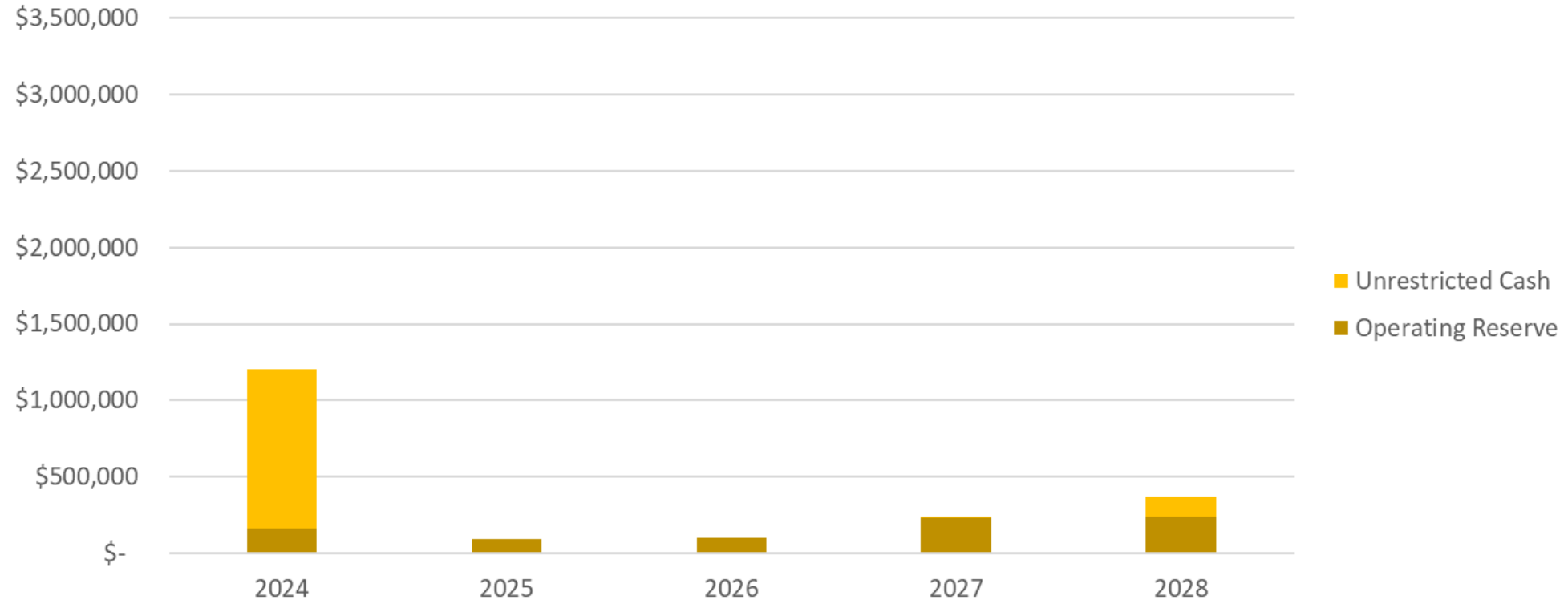
# SOLID WASTE FUND: ALTERNATIVE 1 CASH FLOW



## Takeaway:

- Revenue increases are needed to fund annual operating expenses.
- Baler Facility Upgrade is a significant expense.

# SOLID WASTE FUND: ALTERNATIVE 1 CASH RESERVES



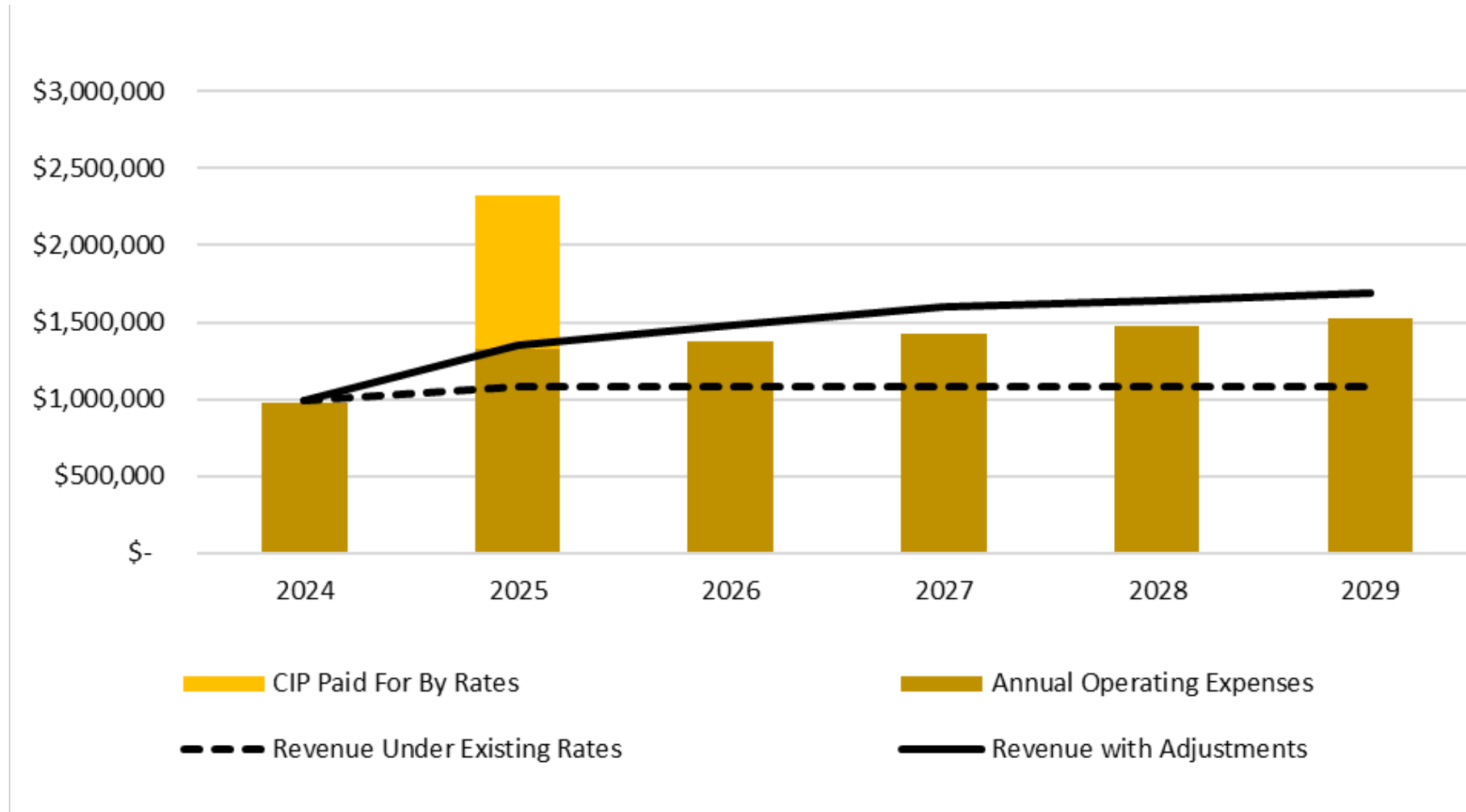
- Minimum Operating reserve not maintained in CY 25-27 (approx. \$225k).
- Utility must raise rates or fund the Baler Facility Upgrade project with external revenue source.

# SOLID WASTE: ALTERNATIVE 2 RATE SCHEDULE

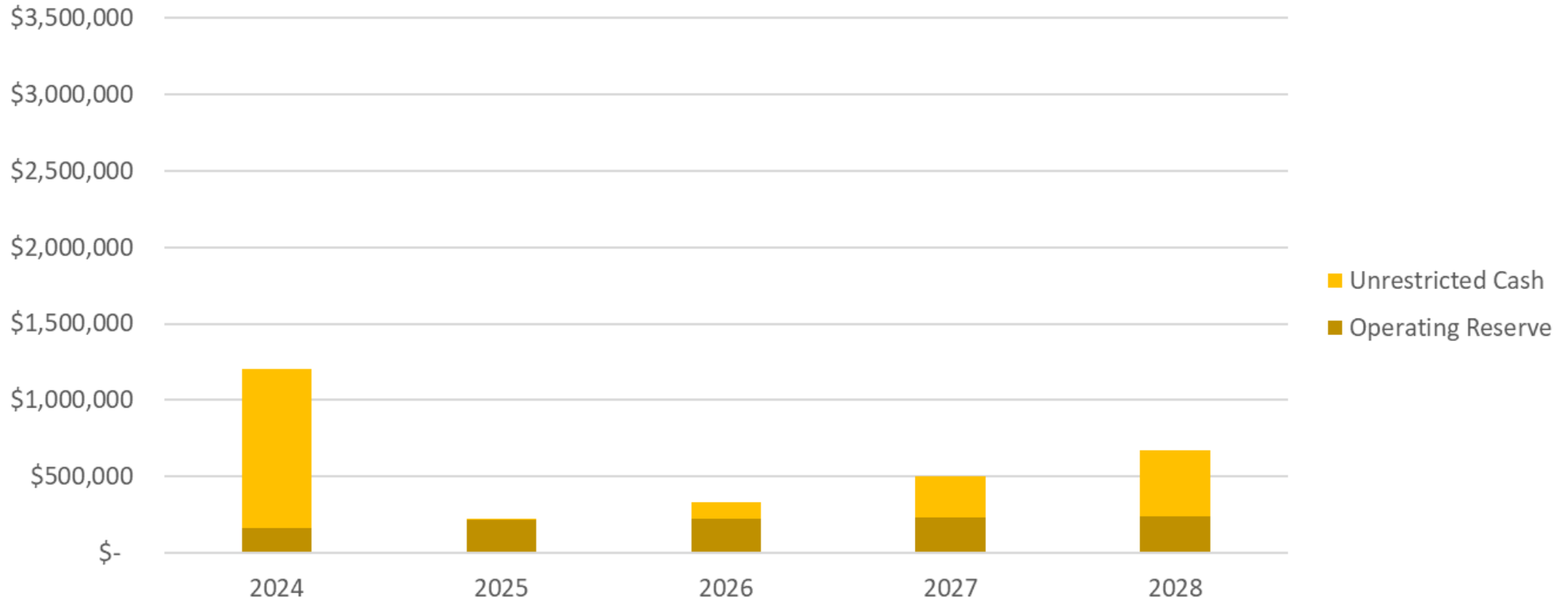
|                                   |               | 2025        | 2026 | 2027 | 2028     | 2029     |
|-----------------------------------|---------------|-------------|------|------|----------|----------|
| Customer                          | Existing Rate | 26%         | 10%  | 8%   | 3% (CPI) | 3% (CPI) |
| Dumpster Lease                    | \$30          | <b>\$38</b> | \$42 | \$45 | \$46     | \$48     |
| Commercial Pick-Up Service        | \$25          | <b>\$32</b> | \$35 | \$37 | \$39     | \$40     |
| Landfill Drop-Off Commercial      | \$10          | <b>\$13</b> | \$14 | \$15 | \$15     | \$16     |
| Residential Pick-Up Services      | \$46          | <b>\$58</b> | \$64 | \$69 | \$71     | \$73     |
| Residential Pick-Up Elder Service | \$23          | <b>\$29</b> | \$32 | \$34 | \$35     | \$37     |



# SOLID WASTE FUND: ALTERNATIVE 2 CASH FLOW



# SOLID WASTE FUND: ALTERNATIVE 2 CASH RESERVES

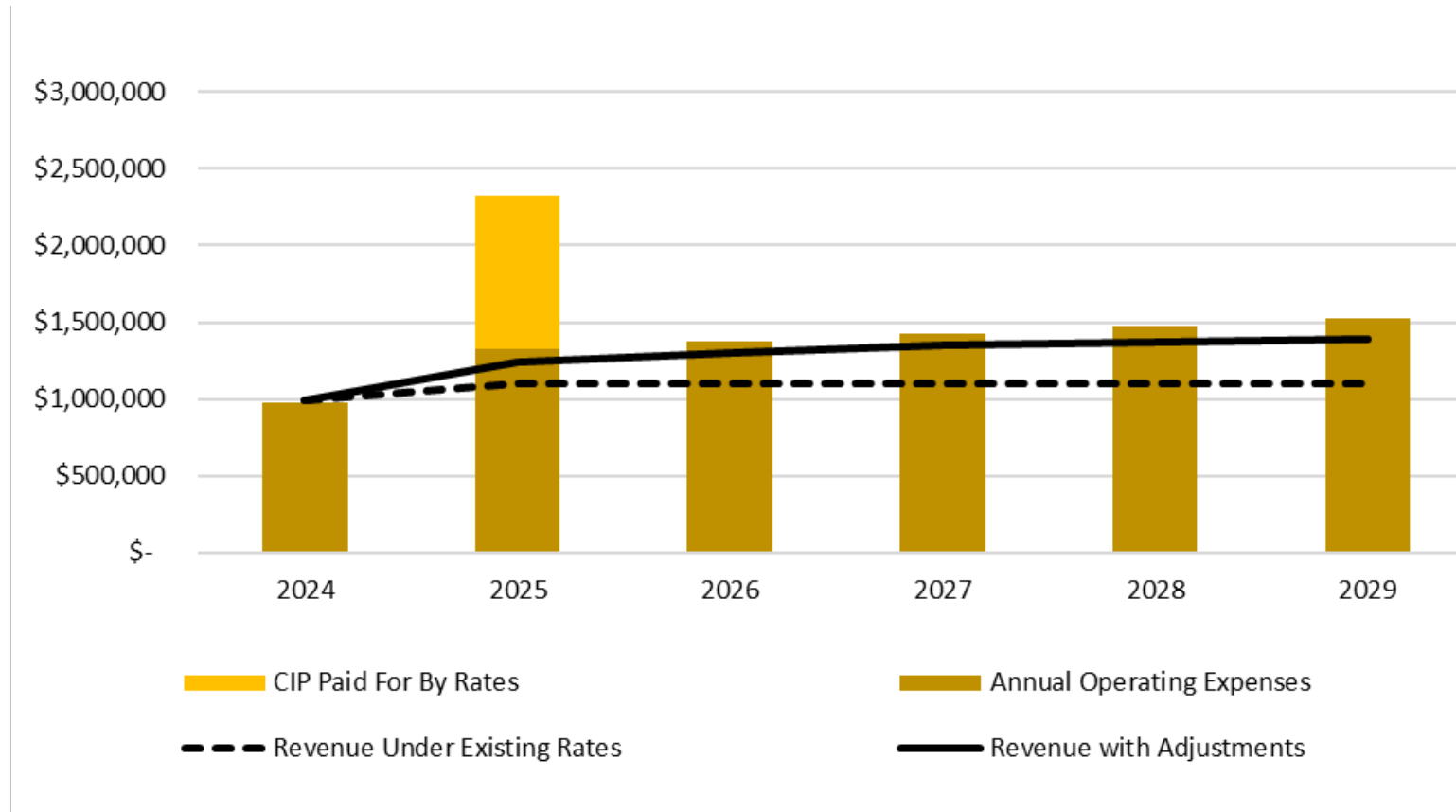


The City maintains an Operating Reserve of approximately \$225,000 in all years

## **SOLID WASTE FUND: ALTERNATIVE 3**

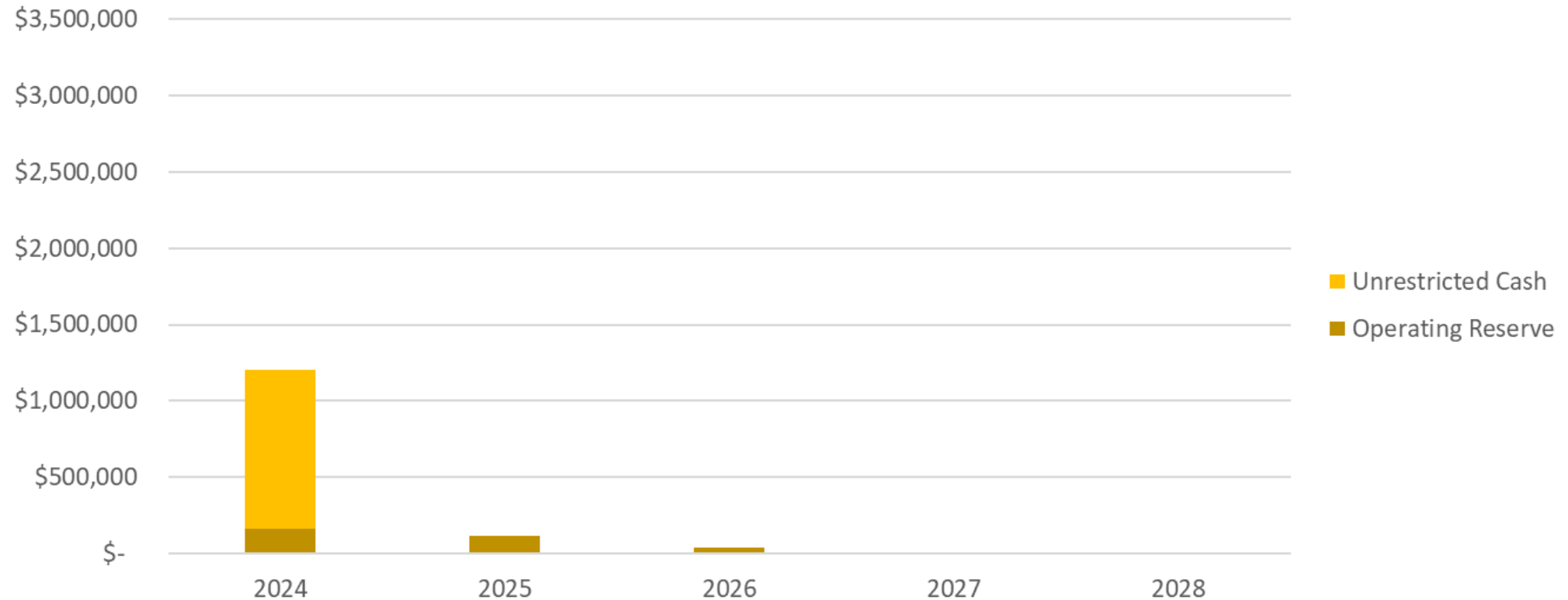
- Current Tipping Rate (i.e., drop-off rate) is low for AK
- What if we modified the Tipping Rate differently from the other customer rates?
- 2024 Baler Revenue was ~\$30k
- 2024 Residential Rate Revenue was ~\$350k
- Alternative adjusts all other rates at ½ of Alternative 2

# SOLID WASTE FUND: ALTERNATIVE 3 CASH FLOW



Takeaway: Revenue increases are needed to fund capital project and annual operating expenses.

# SOLID WASTE FUND: ALTERNATIVE 3 CASH RESERVES

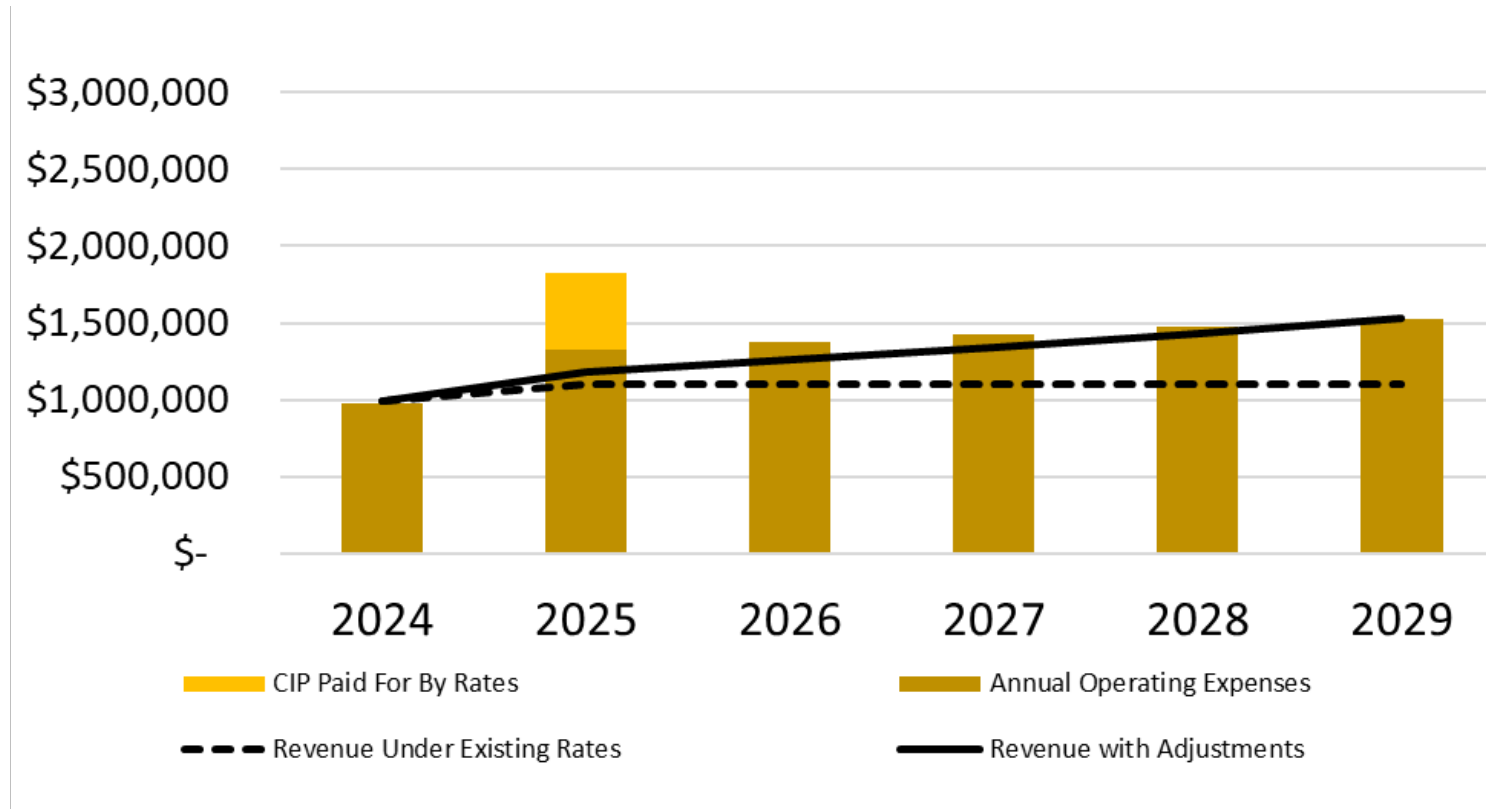


- Utility must raise rates or fund the Baler Facility Upgrade project with external revenue source.

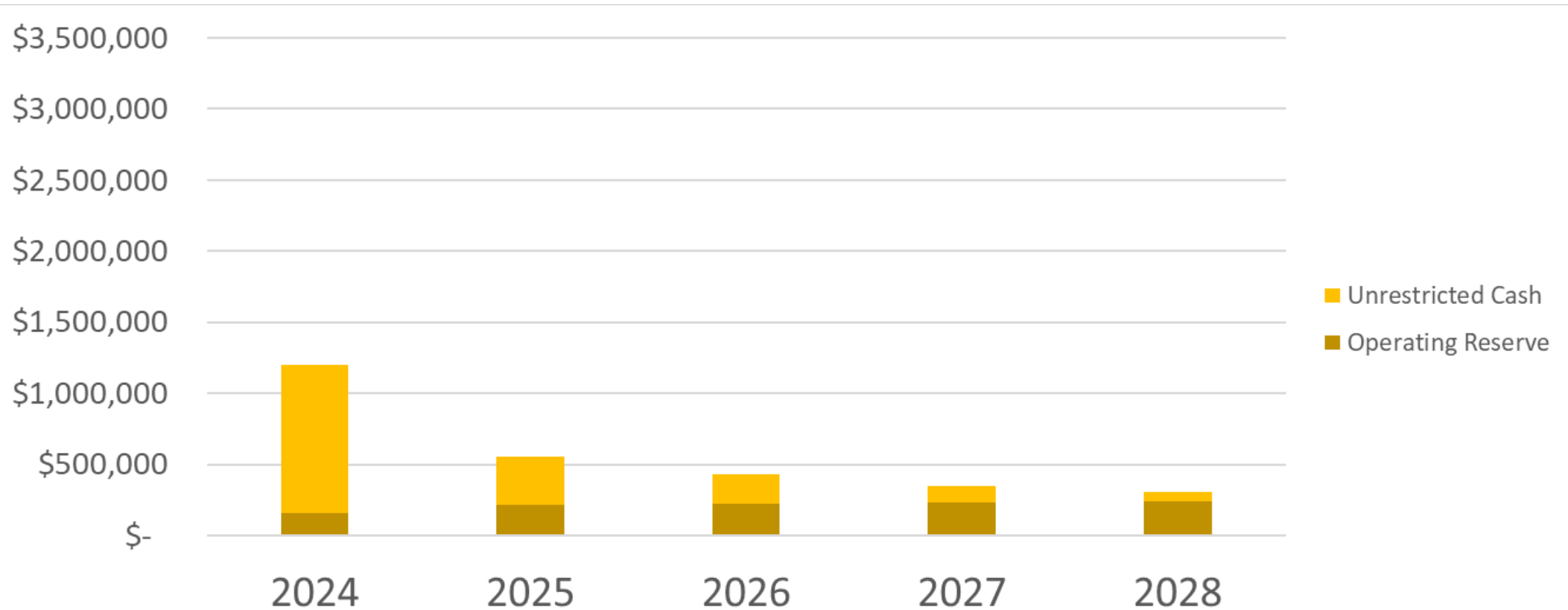
## **SOLID WASTE FUND: ALTERNATIVE 4**

- 50% of Baler Facility funded from another source
- Same Tipping Rate as Alternative 3
- 7% rate increase compared to 14% (Alt 1) or 24% (Alt 2)

# SOLID WASTE FUND: ALTERNATIVE 4 CASH FLOW



# SOLID WASTE FUND: ALTERNATIVE 4 CASH RESERVES



Takeaway: Revenue increases are needed but at a much lower level if Baler Facility funding can come from a different source



# SOLID WASTE ALTERNATIVE SUMMARY - 2025

|               | Dumpster Lease | Commercial Pick-Up Service | Landfill Drop-Off Commercial | Residential Pick-Up Services | Residential Pick-Up Elder Service |
|---------------|----------------|----------------------------|------------------------------|------------------------------|-----------------------------------|
| Current       | \$30           | \$25                       | \$10                         | \$46                         | \$23                              |
| Alternative 1 | \$34           | \$28                       | \$11                         | \$52                         | \$26                              |
| Alternative 2 | <b>\$38</b>    | <b>\$32</b>                | <b>\$13</b>                  | <b>\$58</b>                  | <b>\$29</b>                       |
| Alternative 3 | \$34           | \$28                       | <b>\$20</b>                  | \$52                         | \$26                              |
| Alternative 4 | <b>\$32</b>    | <b>\$27</b>                | <b>\$20</b>                  | <b>\$49</b>                  | <b>\$25</b>                       |

# 2025 RECOMMENDATIONS

Water:

## Alternative 1

| 2025 | 2026 | 2027 | 2028 | 2029 |
|------|------|------|------|------|
| 0%   | 0%   | 0%   | 0%   | 0%   |

Sewer:

## Alternative 2

| 2025 | 2026 | 2027 | 2028       | 2029       |
|------|------|------|------------|------------|
| 19%  | 19%  | 12%  | 3.7% (CPI) | 3.7% (CPI) |

Solid Waste:

## Alternative 4

| 2025 | 2026 | 2027 | 2028 | 2029 |
|------|------|------|------|------|
| 7%   | 7%   | 7%   | 7%   | 5%   |

# AFFORDABILITY

Kotzebue MHI = \$101,071

| Source                               | US EPA       | ADEC         | VSWP                            |
|--------------------------------------|--------------|--------------|---------------------------------|
| Affordability<br>(% of MHI)          | 4.5%         | 5%           | See Matrix for<br>Medium Burden |
| Annual Cost to<br>Customers          | \$4,548      | \$5,054      | \$2,616                         |
| <b>Monthly Cost to<br/>Customers</b> | <b>\$379</b> | <b>\$421</b> | <b>\$218</b>                    |

# AFFORDABILITY CONTINUED

Affordability Framework of the Village Safe Water Program (VSWP):

- **FCI Score** of 2.3 (Medium Burden) based on socioeconomic indicators such as households on SNAP, households below the poverty level, and the amount of working age adults with full time jobs.
- **RI Score** is 2.8% (Medium Burden) based on the percent burden on the lowest income, second lowest income, and middle income.
- **Existing Rates** are considered a medium burden
- **Proposed Rates** remains within the medium burden classification

The Affordability Framework

|                                |                             | Residential Indicator      |                               |                     |
|--------------------------------|-----------------------------|----------------------------|-------------------------------|---------------------|
|                                |                             | Low Burden<br>> 0% to ≤ 2% | Medium Burden<br>> 2% to ≤ 5% | High Burden<br>> 5% |
| Financial Capability Indicator | Strong<br>> 2.5 to ≤ 3.0    | Low Burden                 | Low Burden                    | Medium Burden       |
|                                | Mid-Range<br>> 1.5 to ≤ 2.5 | Low Burden                 | Medium Burden                 | High Burden         |
|                                | Weak<br>≥ 1.0 to ≤ 1.5      | Medium Burden              | High Burden                   | High Burden         |

# COMBINED WATER AND SEWER RESIDENTIAL RATES

| Fund            | Existing         | 2025 Proposed    |
|-----------------|------------------|------------------|
| Water           | \$ 101.46        | \$ 101.00        |
| Sewer           | \$ 57.18         | \$ 68.00         |
| <b>Combined</b> | <b>\$ 158.64</b> | <b>\$ 169.00</b> |

# COMBINED WATER AND SEWER RATE COMPARISON (2020 DATA)

| Utilities       | Monthly Fees  |
|-----------------|---------------|
| Port Alsworth   | \$ 479        |
| Naknek          | \$ 392        |
| Sterling        | \$ 355        |
| Tazlina         | \$ 316        |
| Bethel          | \$ 247        |
| Nome            | \$ 204        |
| Utqiagvik       | \$ 187        |
| <b>Kotzebue</b> | <b>\$ 169</b> |

# THANK YOU...

**Any Questions? Comments?**