



2024 Utilities Fiscal Health Review



Presented by
Sergey Tarasov, Principal
Paul Quinn, Project Manager

November 27, 2023



Presentation Overview

- **Overview of the rate setting process**
- **Background**
- **Summary of findings**
 - » Sewer
 - » Water
 - » Stormwater
- **Recommendations / Questions / discussion**
- **Next steps**



Overview of the Rate Setting Process

Fiscal Policies – Set the Management Foundation

Step 1:
Revenue Requirement
(defining overall needs)

Revenue

Debt

Reserves

O&M

Capital

Step 2:
Cost of Service
(equity evaluation)

Define Customer Classes

Allocate Costs

Step 3:
Design Rates
(collect target revenue)

Fixed Charge

Variable Charge



Background

- **Previous study completed in 2020-2021**

- » Revenue requirement: resulted in a multi-year rate plan for each utility

Utility	2021	2022	2023	2024	2025	2026
Water	0.0%	3.70%	3.70%	3.70%	3.70%	3.70%
Sewer	0.0%	2.00%	1.97%	1.95%	1.92%	1.90%
Stormwater	0.0%	5.10%	5.10%	5.10%	5.10%	5.10%

Note : No increases in 2021 to assist with the impacts from the global pandemic.

- » Cost of service: interclass differences identified for water & sewer
 - Results of $\pm 5.0\%$ to 10.0% of average are within range of reasonableness

Water	2021 COSA
Residential	-1.03%
Multi Family	-43.28%
Commercial	6.33%
Retail Irrigation	63.48%
System Average	0.00%

Sewer	2021 COSA
Residential	-17.50%
Multi Family	-25.29%
Commercial Low	-0.46%
Commercial High	82.65%
Reclaimed Water	31.43%
System Average	0.00%



Background (continued)

- A gradual multi-year phase-in was developed, targeting approximately 40% progress by 2026 for non-residential classes combined

Water	2022	2023	2024	2025	2026
Residential	3.70%	3.70%	3.70%	3.70%	3.70%
Multi Family	-1.18%	-1.26%	-1.34%	-1.43%	-1.52%
Commercial	5.06%	4.89%	4.73%	4.57%	4.42%
Retail Irrigation	7.50%	7.50%	7.50%	7.50%	7.50%
System Average	3.70%	3.70%	3.70%	3.70%	3.70%

Sewer	2022	2023	2024	2025	2026
Residential	2.00%	1.97%	1.95%	1.92%	1.90%
Multi Family	-1.18%	-1.26%	-1.34%	-1.43%	-1.52%
Commercial Low	2.00%	1.97%	1.95%	1.92%	1.90%
Commercial High	3.67%	3.64%	3.63%	3.53%	3.49%
Reclaimed Water	3.00%	3.00%	3.00%	3.00%	3.00%
System Average	2.00%	1.97%	1.95%	1.92%	1.90%

- Selected alternative targeted
 - System average increase for residential
 - No increases for combined average bills for multi family
 - Non-residential made up the difference, not to exceed 8% impact

Class	Average Customer Impact by Class (All Utilities)				
	2022	2023	2024	2025	2026
Residential	3.07%	3.07%	3.07%	3.07%	3.07%
Multi Family	0.00%	0.00%	0.00%	0.00%	0.00%
Commercial Low	3.64%	3.60%	3.57%	3.53%	3.50%
Commercial High	4.40%	4.36%	4.32%	4.25%	4.20%

Background (continued)

- **Rate design**

- » No structure change evaluated; increases applied on an across-the-board basis

- **General facilities charges**

- » Updated charges to account for the system planning capital improvement program and capacity data

Water		
Meter		GFCs
3/4"	\$	10,465
1"		17,476
1.5"		34,847
2"		55,776
3"		104,645
4"		174,443
6"		348,782
Sewer		GFCs
per ERU	\$	8,354
Storm		GFCs
per ESU	\$	2,706
Total Res.	\$	21,525

Note: charges increased with CCI thereafter.



Today's Focus

- **Significant changes have occurred since the completion of the last study**
 - » Above average inflation due to the continuing impacts of the global pandemic
- **Prior to the 2024 Comprehensive Rate Study Update the City would like to perform a fiscal health review for the adopted 2024 rate strategy**
 - » Review historical actual vs. budget performance
 - May impact upcoming rate study
 - » Intent is to confirm or adjust 2024 only
 - Utilizing the prior study models to
 - Account for unanticipated inflation for O&M and CIP
 - Update growth and GFC revenue projections
 - Update beginning fund balances
 - Keep all other components unchanged
- **Upcoming rate study will update forecast for future years**



Actual vs. Budget Review: Sewer

Rate Revenue After Increase	2020	2021	2022
Annual Budget	\$ 5,912,548	\$ 5,968,243	\$ 6,147,692
Actual Performance	5,480,578	5,803,647	5,920,532
Actual vs. Budget	\$ (431,970)	\$ (164,596)	\$ (227,160)
Actual % of Budget	93%	97%	96%

O&M Expenses	2020	2021	2022
Annual Budget	\$ 2,864,953	\$ 2,868,358	\$ 2,939,523
Actual Performance	3,004,669	2,838,118	3,036,803
Actual vs. Budget	\$ 139,716	\$ (30,240)	\$ 97,280
Actual % of Budget	105%	99%	103%

Annual CIP	2020	2021	2022	Total
Annual Budget	\$ 5,731,329	\$ 5,874,228	\$ 4,240,713	\$ 15,846,270
Actual Performance	867,845	1,163,740	1,825,379	3,856,963
Actual vs. Budget	\$ (4,863,484)	\$ (4,710,489)	\$ (2,415,334)	\$ (11,989,306)
Actual % of Budget	15%	20%	43%	24%

- **Rate revenue has come in below budget in every year**
 - » Driven by residential, casino and reclaimed revenue projection
 - » Growth appears below projections
- **O&M expenses have come in close to budget**
- **Annual CIP has been executed below budget**



2024 Sewer Projection

- **Considerations**

- » Growth has not materialized at projected levels: 1.16% - 2.50% per year
 - Impacts rate revenue and GFCs: projected \$1.8MM GFC revenue in 2023, which has not occurred
 - Future GFC projections were between \$1.9MM in 2024 to \$1.0MM thereafter
- » 2024 O&M expenses are projected at \$310k above 2020 study
 - Does not include current labor negotiations

- **Bookend for consideration before 2024 rate study**

- » Conservative option: no growth / GFC revenue
- » Optimistic option: original 2020 study growth



2024 Sewer Projection (continued)

- **Original 1.95% 2024 overall increase can be maintained**
 - » Reduced fund balances compared to 2020 rate study projections
 - » Received one-time GFC payment from Casino alleviates pressure on CIP
- **Depending on inflation, and additional budgetary impacts, greater increases may be required in 2024 (e.g., 3.00%)**



Actual vs. Budget Review: Water

Rate Revenue After Increase	2020	2021	2022
Annual Budget	\$ 4,493,808	\$ 4,424,734	\$ 4,736,953
Actual Performance	4,376,295	4,637,773	4,700,466
Actual vs. Budget	\$ (117,513)	\$ 213,039	\$ (36,487)
Actual % of Budget	97%	105%	99%

O&M Expenses	2020	2021	2022
Annual Budget	\$ 2,892,515	\$ 2,933,424	\$ 2,999,123
Actual Performance	2,742,282	2,581,206	2,554,942
Actual vs. Budget	\$ (150,233)	\$ (352,218)	\$ (444,181)
Actual % of Budget	95%	88%	85%

Annual CIP	2020	2021	2022	Total
Annual Budget	\$ 2,573,208	\$ 4,461,015	\$ 1,286,622	\$ 8,320,845
Actual Performance	1,856,512	3,062,110	997,076	5,915,698
Actual vs. Budget	\$ (716,696)	\$ (1,398,905)	\$ (289,546)	\$ (2,405,147)
Actual % of Budget	72%	69%	77%	71%

Weather Data	Study Baseline	2020	2021	2022
Cooling Degree Days	53	76	157	149
Jun-Sep Rainfall (inches)	6.57	5.24	5.04	3.15

- **Rate revenue has come in close to budget**
 - » Lower growth appears to be offset by warmer / dryer weather patterns
- **O&M expenses have come in below budget**
 - » Unfilled positions, budget vs. actual professional services
- **Annual CIP has been executed below budget**

2024 Water Projection

- **Considerations**

- » Growth has not materialized at projected levels: 1.16% - 2.50% per year
 - Impacts rate revenue and GFCs: projected \$1.3MM GFC revenue in 2023, which has not occurred
 - Future GFC projections were between \$1.4MM in 2024 to \$700k thereafter
 - 2024 O&M expenses are projected at 2020 study levels
 - Does not include current labor negotiations

- **Bookend for consideration before 2024 rate study**

- » Conservative option: no growth / GFC revenue
- » Optimistic option: original 2020 study growth



2024 Water Projection (continued)

- **Original 3.70% 2024 overall increase can be maintained**
 - » Conservative option: 2025 and thereafter may required greater than 3.70% increases and more debt than originally anticipated
 - E.g., 6.0% in 2025-2027 instead of 3.70%
 - » Optimistic option: relatively close to 2020 rate study
- **Depending on inflation, and additional budgetary impacts, greater increases may be required in 2024 (e.g., 6.00%)**



Actual vs. Budget Review: Stormwater

Rate Revenue After Increase	2020	2021	2022
Annual Budget	\$ 2,429,000	\$ 2,467,716	\$ 2,623,654
Actual Performance	2,440,297	2,549,118	2,709,664
Actual vs. Budget	\$ 11,297	\$ 81,402	\$ 86,010
Actual % of Budget	100%	103%	103%

O&M Expenses	2020	2021	2022
Annual Budget	\$ 1,244,639	\$ 1,331,978	\$ 1,364,163
Actual Performance	977,985	1,206,004	1,318,860
Actual vs. Budget	\$ (266,654)	\$ (125,974)	\$ (45,303)
Actual % of Budget	79%	91%	97%

Annual CIP	2020	2021	2022	Total
Annual Budget	\$ 2,193,452	\$ 2,003,818	\$ 2,907,488	\$ 7,104,759
Actual Performance	496,405	3,823,559	835,230	5,155,194
Actual vs. Budget	\$ (1,697,047)	\$ 1,819,741	\$ (2,072,259)	\$ (1,949,565)
Actual % of Budget	23%	191%	29%	73%

- Rate revenue has come in at or above budget
- O&M expenses have come in relatively close to budget in most recent year
 - » Primary difference in 2020 due to unfilled positions
- Annual CIP has been executed below budget except 2021

2024 Stormwater Projection

- **Considerations**

- » Revenues appear at or above projections; growth needs to be reviewed
 - GFC revenue much smaller for stormwater utility: \$82k - \$42k
 - Lower impacts on projections if below forecast
 - 2024 O&M expenses are projected \$363k above 2020 rate study
 - Does not include labor negotiations

- **Bookend for consideration before 2024 rate study**

- » Conservative option: no growth / GFC revenue
- » Optimistic option: original 2020 rate study growth



2024 Stormwater Projection (continued)

- **Original 5.10% 2024 overall increase can be maintained**
 - » Conservative option: may be very close to reserve targets in future years
 - May require more debt than 2020 rate study
 - » Optimistic option: relatively close to 2020 rate study
- **Depending on inflation, and additional budgetary impacts, greater increases may be required in 2024 (e.g., 7.25%)**



Findings & Recommendations for 2024

- **Sewer**

- » O1: maintain 1.95% overall increases - follow 2020 cost of service phase-in
- » O2: adjust all classes by 3.00% in anticipation of increased inflation

- **Water**

- » O1: maintain 3.70% overall increase - follow 2020 cost of service phase-in
- » O2: adjust all classes by 6.00% in 2024 in anticipation of increased inflation

- **Stormwater**

- » O1: maintain 5.10% overall increases for all classes of service
- » O2: adjust all classes by 7.25% in 2024 in anticipation of increased inflation

- **Future rate strategy may change based on results of the comprehensive 2024 rate study**



Findings & Recommendations for 2024

Average Residential Monthly Bill	2023 Existing	2024 Original	2024 Modified
Water (3/4", 7 ccf)	\$ 60.60	\$ 62.84	\$ 64.24
Sewer	82.16	83.76	84.62
Stormwater	26.64	28.00	28.57
Total Monthly Bill	\$ 169.40	\$ 174.60	\$ 177.43
<i>\$ Difference vs. 2023</i>		\$ 5.20	\$ 8.03
<i>% Difference vs. 2023</i>		3.07%	4.74%



Next Steps

- **Incorporate feedback / direction**
- **Second reading December 11, 2023**
- **2024 rates effective January 1, 2024**
- **Comprehensive Rate Study Update in 2024**

Thank you!

Questions?

www.fcsgroup.com