

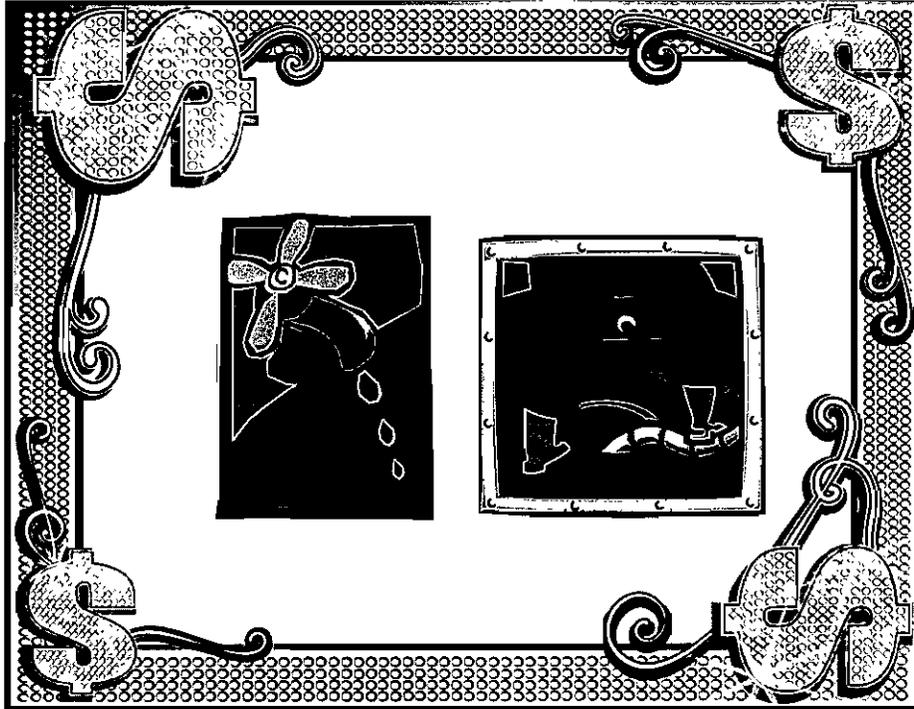
Water & Sewer Rate Task Force

Tuesday

May 22, 2012

Regular Meeting

5:15 p.m.



City Hall Cowles Council Chambers
491 E. Pioneer Avenue
Homer, Alaska 99603



**NOTICE OF MEETING
REGULAR MEETING**

- 1. CALL TO ORDER**
- 2. APPROVAL OF THE AGENDA**
- 3. PUBLIC COMMENTS REGARDING ITEMS ON THE AGENDA**
- 4. RECONSIDERATION**
- 5. APPROVAL OF MINUTES** (*Minutes are approved during regular meetings only*)
 - A. Approval of the Regular Meeting Minutes for May 9, 2012 Page 5
- 6. VISITORS**
- 7. STAFF & COUNCIL REPORT/COMMITTEE REPORTS/BOROUGH REPORTS**
- 8. PUBLIC HEARING**
- 9. PENDING BUSINESS**
- 10. NEW BUSINESS**
 - A. Open Meetings in Alaska – Information and State Statutes on the Meetings Act Page 11
 - B. Nomenclature – Discussion on terminology for the Project Page 33
 - C. Creating a Project Timeline – Setting Goals and Benchmarks Page 35
- 11. INFORMATIONAL ITEMS**
 - A. City of Kenai Water and Sewer Rate Study Page 43
 - B. City of Soldotna Water and Sewer Rate Study Page 69
 - C. Water and Sewer Special Revenue Fund – Budgets 2009 – 2014 Page 81
 - Revenues
 - Line Item Expenditures
 - Audited 2011 Budget – Utility Special Revenue Fund
 - D. Rate Setting for Small Water Systems – Texas Cooperative Extension, March 2007 Page 95
 - E. Basic Guide to Water Rates Chapter 2- www.lwua.gov.ph/water_rates_08/rates_two Page 101
 - F. EPA – Setting Small Drinking water System Rates for a Sustainable Future, January 2006 Separate Document
 - G. Price and Rate Structures, Chapter 5 Urban Water Demand Management and Planning Hanemann, 1997 Separate Document
- 12. COMMENTS OF THE AUDIENCE**
- 13. COMMENTS OF THE CITY STAFF**
- 14. COMMENTS OF THE CHAIR**
- 15. COMMENTS OF THE TASK FORCE**
- 16. ADJOURNMENT** next WORKSESSION is scheduled for **TUESDAY, JUNE 5, 2012** City Hall **Upstairs Conference Room at 5:15 p.m.** The next REGULAR MEETING is **TUESDAY JUNE 19, 2012** . at 5:15 p.m. Conference Room Upstairs in the City Hall located at 491 E. Pioneer Avenue, Homer Alaska.

Water and Sewer Rate Task Force Purpose:
TO EXAMINE THE EXISTING RATES AND RATE STRUCTURE
TO PREPARE A RECOMMENDATION TO COUNCIL ON A RATE AND RATE STRUCTURE FOR 2013.

Session 12-01 A Regular Meeting of the Water and Sewer Rate Task Force was called to order at 5:05 pm on May 9, 2012 by Acting Chair Bob Howard at City Hall Cowles Council Chambers located at 491 E. Pioneer Avenue, Homer, Alaska.

PRESENT: LLOYD MOORE, BARBARA HOWARD, KEN CASTNER, BOB HOWARD, SHARON MINSCH, TERRY YAGER, AND BETH WYTHE

STAFF: RENEE KRAUSE, CMC, DEPUTY CITY CLERK I

Mr. Moore arrived at 5:23 p.m.

APPROVAL OF THE AGENDA

Acting Chair Howard requested a motion to approve the agenda.

HOWARD/MINSCH – SO MOVED.

There was a brief discussion on time limits being extended for Public comment.

The agenda was approved by consensus of the Task Force.

PUBLIC COMMENT REGARDING ITEMS ON THE AGENDA *(3 Minute Time Limit)*

Mr. Larry Slone, city resident, thanked the members for volunteering. He commented that the current water rates and users are unbalanced and require modification. He recommended and summarized his recommendation of a "Fairshare" rate structure, and two phase approach.

RECONSIDERATION

There were no items for reconsideration.

APPROVAL OF MINUTES *(Minutes are approved during Regular Meetings only)*

There were no minutes for approval.

VISITORS

There were no visitors scheduled.

STAFF & COUNCIL REPORT/COMMITTEE REPORTS/BOROUGH REPORTS

(Chair set time limit not to exceed 5 minutes)

There were no reports submitted.

PUBLIC HEARING *(3 minute time limit)*

There were no items for public hearing.

PENDING BUSINESS

There were no pending business items on the agenda.

NEW BUSINESS

A. Electing a Chair and Vice Chair

Acting Chair Howard introduced the item and opened the floor for nominations of Chair.

Ms. Wythe, Mr. Castner and Mr. Howard were nominated.

CASTNER/MINSCH – MOVED TO CLOSE NOMINATIONS.

Mr. Howard and Mr. Castner declined their nominations stating they could better serve from the sidelines. There was no further discussion.

Acting Chair Howard read the motion to read Nomination of Ms. Wythe for Chair.

VOTE. YES. MINSCH, WYTHE, YAGER, CASTNER, HOWARD, HOWARD.

Motion carried.

Ms. Wythe opened the floor for nominations for Vice Chair.

HOWARD/CASTNER – MOVED TO NOMINATE MRS. HOWARD AS VICE CHAIR.

Chair Wythe called for additional nominations. There were none.

The motion was approved by consensus of the Task Force.

B. Establishing a Meeting Schedule

Chair Wythe opened discussion on the meeting frequency and schedule for the task force noting the recommendations from the Clerk's Office.

Discussion ensued on meeting more frequently than once every four weeks; limiting it to the conference room in order to limit confusion to the public, differentiating between a worksession and a meeting, public notice requirement is the same, a two week notice is required for notice/advertising requirements; the Task Force chose to meet the first and third Tuesdays of the month with the first Tuesday being a worksession and the third Tuesday as meetings would work for both the room and the Clerk's schedule; conducting a meeting of the Task Force is not as formal as the Council or Commission. It was noted that establishing a regular worksession will relieve the burden on the staff as their presence will not be required at the worksession

YAGER/HOWARD – MOVED TO HAVE THE MEETINGS ON THE FIRST AND THIRD TUESDAYS OF THE MONTH WITH THE FIRST MEETING OF THE MONTH TO BE A WORKSESSION.

Further discussion on scheduling a second meeting for May ensued and member's availability. It was noted that Mr. Howard and Mrs. Howard would not be in attendance at the next meeting.

HOWARD/CASTNER - MOVED TO AMEND THE MOTION TO START THE MEETING AT 5:15 P.M.

There was no discussion.

The amendment was approved by consensus of the Task Force.

Chair Wythe then reread the main motion.

VOTE. YES. NON-OBJECTION. UNANIMOUS CONSENT.

Motion carried.

It was noted that the schedule can be amended as required to accommodate other schedules.

MINSCH/YAGER - MOVED TO CANCEL THE MEETING OF JULY 3, 2012.

CASTNER/YAGER- MOVED TO AMEND THE MEETINGS IN JULY TO THE SECOND AND THIRD TUESDAYS.

Discussion was entertained to briefly clarify the meetings dates were July 10th and 17th. The clerk confirmed room and staff availability.

VOTE. YES. NON-OBJECTION. UNANIMOUS CONSENT.

Motion carried.

C. Preliminary Discussion on Scope of Work and Desired Outcome

Chair Wythe introduced the item to the floor for discussion. She noted the information provided by staff in the packet and summarized the enacting resolution; Ms. Wythe requested comments or input on the scope of this committee as they moved forward.

The following was put forward by the Task Force:

- Basic training from a third party on how rates
- Existing rate schedules and budgets for water and sewer
- withhold hiring an outside entity until they have a better grasp on what they the existing information provides
- going back to the beginning, input and information on the construction of the system from Public Works/ Staff.
- Costs of the systems; maintenance of the system and the rationale behind the existing systems.
- What has been used by staff to build the rates; Where/when did things change
- Good science, no politics, sustainable
- getting back to a statistical basis for the rate structure

Discussion on the suspected problems that came up over time, consideration of fire prevention in the rate model; recent studies completed by the City of Soldotna and Kenai which are available on their websites; the current rate model is effective and was established so council could make changes; the existing program is simple to use, changes are not the problem; the problem with the system is more fixed costs than variables; the system is small costs are fixed.

CASTNER/MINSCH - MOVED TO ESTABLISH THE PURPOSE OF THE TASK FORCE AS TO EXAMINE THE EXISTING RATES AND RATE STRUCTURE AND TO PREPARE A RECOMMENDATION FOR A NEW RATE AND RATE STRUCTURE.

There was a discussion on the process and purpose of the Task Force.

VOTE. YES. NON-OBJECTION. UNANIMOUS CONSENT.

Motion carried.

Ms. Howard requested the Clerk to include the purpose statement on every agenda so they can be objective in their comments and process.

Chair Wythe requested the members to include any requests for documents or materials during the end comment period of the meeting.

INFORMATIONAL MATERIALS

- A. Memorandum 12-056, Appointment of Task Force Members and Letters of Appointments to the Water & Sewer Rate Task Force
- B. Resolution 12-027(A), Establishing a Water and Sewer Rate Task Force
- C. Resolution 11-094(S), Maintaining the City of Homer Fee Schedule at the Current Rates and Amending Customer Classifications in the Water and Sewer Rate Schedules
- D. Ordinance 11-43, Amending Homer City Code 14.08.037, Water Meters; Regarding the Number of Water Meters Required Per Lot.
- E. Resolution 11-062(A), Maintaining the City of Homer Fee Schedule Under Water and Sewer Fees.

There was no discussion on the informational materials.

COMMENTS OF THE AUDIENCE

Mr. Slone, city resident, thanked the task force for agreeing to meeting several times each month. He felt it was important to keep the continuity of the process going; He commented on the remark made about setting the old rate schedule; having re-built a more complex and expensive system; increasing the fixed meter fees way out of proportion. He is very adamant about saying this; it is not fair the way it is structured now; you have fixed costs yes, they are going to be met anyway; the fixed costs do not have to be put on the backs of the low volume users; he referred to his "Fairshare" recommendation made earlier in the meeting; He asked if they intended to put the burden on the citizens and residents of this town to the great benefit of the personnel working in the city; where is your obligation?

COMMENTS OF THE CITY STAFF

Ms. Krause had no comments.

COMMENTS OF THE CHAIR

Chair Wythe said that she will submit a couple of items to the Clerk on a few things she has come across on the internet, She has found three basic options one is similar to what Mr. Slone is recommending, one is similar to existing rate structure and one was a variation of that; ultimately when you look at any of them the key costs become the fixed costs and if you attach them to the flat rate per gallon of water and usage goes down then you cannot cover your costs and cannot cover your system. She may provide links. She has inquired about having a rate structure specialist to provide generic information on rate structure design.

Chair Wythe noted that they will try to provide all the documents and information requested tonight but it may take some time since she knew the Finance Director was still out at this time. This information will come available in subsequent meetings.

COMMENTS OF THE TASK FORCE

Ms. Howard thanked Ms. Wythe for accepting the Chair position; she would hope that the committee has the patience and tolerance, with concerns and some of the frustrations, and that they can work toward a better product, the goal is to provide the council with a stellar piece of documentation that not only shows they thoroughly reviewed things and have become trained in this area, but that it is absent of politics, and a fool proof process that serves the good of the whole community.

Mr. Moore apologized for being late; he commented that there are a few things he has looked at over the years and he believes that apartment complexes should be charged a fee, whether this is the current fee, he is not sure; he noted they have a system that was built to handle the influx of people for the three or four months and then they turn it off and leave; they are not using it for the rest of the year and don't pay; whereas the rest of us pay all year; he doesn't believe that's fair; he was not referring to the seasonal meter that shows the water that doesn't go into the sewer system. He cited when the city accepted hook-ups to dump septic they required payment for 12 months whether the customer dumped once a month or every four months; this should be required for water; Mr. Moore commented on the requirements for fire flow rating, stating he would like to see the costs that are fire related. He questioned if the general fund should be picking up more of those costs? Mr. Moore noted the savings on insurance for homeowners by having the fire prevention which makes up for the monthly fee in his opinion; and his last comment was he was pretty sure they were still using the original rate model and he would like to see the model before council decided to make any tweaks to it and then go from there to see how they got where they are; he added that he has never fully supported this system, but it is needed, and you have to have water.

Mr. Castner is not ready to look at numbers right now, he thinks that there is a lot to discuss on how they want to proceed and the numbers can come later, when they can check and verify them when building the rate; he is anxious to look at numbers, just not ready; secondly is the process, he offered the analogy that the dog is the water and the tail is the sewer, he noted that the last rate study did not spend enough time on the waste side, and it is not directionally proportional, he believes work is needed; he further commented, with regards to fire service, the six inch service is unmetered because no one wants to pay for a six inch meter; he would like to spend more time addressing fire service component as it was not addressed comprehensively the last time.

Mr. Howard, is interested in seeing the information that Mr. Moore requested, plus as the city builds out and hits capacity of the plant, is the city capable of withdrawing from sales outside the city to meet the demands within the city and what legal ramifications this would bring to the city or are they obligated to continue the service outside the city.

Ms. Minsch, would like to see numbers now, to begin to understand the systems right from the very basics; there is a lot of assumptions that the system has been over built, the costs have increased, if there is a way to look at the budget from 10 years ago to last year, see how much administrative costs that are charged to the water and sewer budget; how much changes have been on the costs of items such as chemicals, all those things; be able to look along those lines; she commented that having argued for a long time that there are more than 1600 hundred customers, so she would like to know how many dwelling units, apartments, etc are benefitting from the system; how to get on the same sheet of music, who or what would be the best source to provide the historical information on the water/sewer system. This would provide the same starting point.

Mr. Yager, requested the committee's indulgence with his ignorance of the system and commented that what he is hearing is the fixed costs that are involved with operating the system are affecting the rates and this committee must figure a way to meet those costs; he provided the following analogy that being a business person during these challenging times who makes a decision to spend \$100,000.00 on a business model based on that amount invested and he doesn't make the revenue to meet the original investment he must be held accountable to that not the customer. His thinking is that the end users are thinking very much on the amount of money they are paying for water and sewer. He would like to see the original business model used to build the system and whether it was based on 25 years life span or 5years. If it costs so many millions of dollars to run the system and if a mistake was made in the original model then the residents of the community need to know that; he would appreciate being educated on how this was done.

Mr. Castner inquired about the Open Meetings Act and how it applied to this committee. Chair Wythe deferred to the Clerk, who explained the boundaries with regard to meeting, conversations and information gathering. Ms. Minsch did not agree and requested further guidance from the City Clerk, citing this committee was not making any decisions and was not quasi-judicial or legislative so they should be allowed to speak to whomever about whatever they wanted. Chair Wythe restated the information from the Clerk and that they would provide a response from the City Clerk in the next packet on OMA.

ADJOURN

There being no further business before the Water and Sewer Rate Task Force Chair Wythe adjourned the meeting at 6:20 p.m. The next regular meeting is scheduled TUESDAY, MAY 22, 2012 AT 5:15 p.m. at City Hall, Cowles Council Chambers, 491 E. Pioneer Avenue, Homer, Alaska.

Renee Krause, CMC, Deputy City Clerk I

Approved:_____

Office of the City Clerk

Jo Johnson, CMC, City Clerk

Melissa Jacobsen, CMC, Deputy City Clerk II
Renee Krause, CMC, Deputy City Clerk I



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MEMORANDUM

DATE: MAY 16, 2012

TO: WATER AND SEWER RATE TASK FORCE

FROM: RENEE KRAUSE, CMC, DEPUTY CITY CLERK

SUBJECT: OPEN MEETINGS ACT

The question was raised on the implications of the Open Meetings Act in regards to this Task Force. I have included the information that is used for training purposes for all new commissioners, committee members, etc. This document is used and reference by the State of Alaska, Alaska Association of Municipal Clerks and the Alaska Municipal League. It was produced by Gordon Tans, Attorney, Perkins Coie, LLP

Page 43- 61 of the Booklet is dedicated to holding and noticing Public Meetings.

You will notice that on:

- Page 46 Item C and Item D.2. it lists the bodies that the OMA regulations are applied.
- Page 48 Item B. Second Bullet Point number of members
- Page 49 Item B.2 number of members that can constitute a meeting



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OPEN MEETINGS IN ALASKA

ALASKA MUNICIPAL LEAGUE

NEWLY ELECTED OFFICIALS SEMINAR

ALASKA ASSOCIATION OF MUNICIPAL CLERKS

Fairbanks, Alaska
November 2007

**Gordon Tans, Attorney
Perkins Coie LLP**

Alaska's Open Meetings Law (3rd ed. 2002), a guide to the OMA
written by Gordon Tans, is available free at
www.perkinscoie.com/news/pubs_detail.aspx?publication=582

I. INTRODUCTION TO ALASKA'S OPEN MEETINGS ACT

A. Meetings Are Open To The Public — AS 44.62.310

- "All meetings of a governmental body of a public entity of the state are open to the public" — except as otherwise provided

B. State Policy Regarding Open Meetings — AS 44.62.312

- government exists to aid in conducting the people's business
- government units should act and deliberate openly
- the people do not yield sovereignty to government agencies that serve them
- public servants have not been given the right to decide what is good or not good for the people to know
- people should remained informed so they may retain control over the government they created
- use of teleconferences is for convenience of the parties, public and government
- OMA should be narrowly construed to effectuate these policies and avoid unnecessary exemptions and executive sessions

II. WHO IS COVERED BY THE ACT?

A. Public Entities

- city
- borough
- unified municipality
- school district
- public authorities and government corporations
- units of political subdivisions
- state government agencies

B. Governmental Bodies

- council
- assembly

- board
- commission
- committee and subcommittee (2 or more members)
- similar body (for example, task force or advisory team)

C. There Are Two Types of Bodies



- bodies with authority to establish policy or make decisions for a public entity
- bodies with authority only to advise or make recommendations
- both types are covered by OMA, but in different ways

D. Specific Examples of Bodies Subject to OMA

1. Policy-making and decision-making bodies

- city council
- borough assembly
- school board
- board of adjustment
- board of equalization
- planning and zoning commission
- port authority board
- service area board
- Local Boundary Commission

2. Advisory-only bodies



- neighborhood council
- advisory library board
- advisory commissions
- joint city-borough task force

E. Who and What Are Not Covered?

1. Individuals

- lobbying one member
- one person with authority to act

2. **Employees and staff**
3. **Quasi-judicial bodies solely when making decisions**
 - for example, board of adjustment, board of equalization, board of appeals, planning commission
 - adjudicatory proceedings only
4. **Organizational votes**
 - election of officers of the body
5. **Meetings of membership organizations**
 - for example, Alaska Municipal League conference, but no business of the governmental body may be conducted there
6. **Hospital staff**
7. **U.S. Government, Native Entities, and Corporations**
8. **Alaska Railroad**
 - but it is covered by similar law, AS 42.40.150—.170

III. WHAT IS A MEETING?

- two significantly different definitions depending on type of body

A. Meeting Of A Decision-Making Or Policy-Making Body

A meeting of a decision-making or policy-making body is defined as:

- any gathering . . .
 - where either a majority or 4 or more members of the body . . .
 - are present . . .
 - and members collectively consider . . .
 - any matter upon which the body is empowered to act
1. **A meeting may take any form**
 - formal or informal
 - regular or special
 - work sessions
 - not necessarily prearranged
 - social gatherings where business is conducted or members "collectively consider" a matter within their authority

- teleconference meetings are allowed
- 2. **Four members or a majority make a meeting**
 - four members
 - or a majority
 - whichever is less
- 3. **Issue: Telephone polls, serial communications, e-mail?**
 - a series of calls, or contacts may circumvent the OMA by predetermining the outcome without public discussion
 - sometimes an outsider acts as a go-between
- 4. **Issue: The meeting within a meeting?**
 - a private recess during a meeting may itself be a meeting
- 5. **Issue: Lobbying by the mayor?**
 - if mayor is a member of council, his lobbying probably will be considered a serial meeting if he contacts too many
 - if mayor is not a member of the governing body, it is uncertain if his lobbying constitutes a serial meeting
- 6. **Issue: Social gathering?**
 - a purely social gathering is not covered
 - but, if any public business is discussed collectively by four or a majority, it is no longer a social gathering
 - violation of OMA can occur even if it is a public social event

B. Meeting Of An Advisory-Only Body



A meeting of an advisory-only body is defined as:

- a gathering . . .
- *• of any number of members of the body . . .
- prearranged . . .
- for the purpose of considering any matter upon which the body is empowered to act

1. A meeting is prearranged

- a chance encounter is not a meeting
- any gathering prearranged for any step of deliberative process is a meeting

2. **Any number of members can constitute a meeting**
 - * • two or more
3. **Issue: Telephone polling or serial meeting?**
 - see above
4. **Issue: Social gathering?**
 - if not prearranged for business purposes, it is not a meeting
 - if prearranged for the purpose of considering a matter within its authority, it is a meeting

IV. PUBLIC PARTICIPATION RIGHTS

- A. **In General — Public Rights Under OMA**
 - OMA: public the right to be present
 - OMA: public the right to listen
 - OMA: public right to review agency materials at teleconference site and to know how each member votes on teleconference
- B. **Title 29 — Reasonable Opportunity To Be Heard**
 - AS 29.20.020(a): must give public a "reasonable opportunity . . . to be heard" at municipal meetings
 - same statute makes the council or assembly responsible to provide that opportunity at meetings of all municipal bodies
 - "reasonable opportunity" means also that reasonable restrictions are allowed, such as time limits and decorum rules
- C. **Implied Reasonable Opportunity To Attend**
 - a reasonable opportunity to be present and be heard implies reasonable opportunity to attend — no get-away retreats
 - reasonable accommodations should be made for public to attend and participate

V. WHAT NOTICE IS REQUIRED?

A. Reasonable Notice Is Always Required

"Reasonable public notice shall be given for all meetings required to be open" AS 44.62.310(e).

1. Public right to attend and be heard.

- notice must give public reasonable opportunity to attend
- notice must be public
- notice must be timely

2. Reasonable notice — where and how?

- Statutory minimum
 - must give notice of date, time, and place of meeting
 - must post at principal office or other official place
 - must use consistent method of notice for all meetings
- newspaper, radio, TV are also authorized, but not required — what is available and reasonable?

3. Reasonable notice — when and how long?

- longer notice necessary for complex or controversial matters, for example:
 - tax or utility rate increases
 - curfew
 - leash law and barking dogs
- extent of notice will depend on community
- true emergency exception — still must give reasonable notice under the circumstances and at least post
- **WARNING** — 24 hour notice of special meetings to members (AS 29.20.160(b)) may not be reasonable public

notice. See *Tunley v. Municipality of Anchorage*, 631 P.2d 67 (1981) (five days' notice of school closure inadequate).

4. Reasonable notice — agenda requirements?

- reasonable notice must be clear and reasonably informative
- how specific depends on complexity and importance of matter
- absence of important item from public agenda notice might mean notice is not adequate. See *Anchorage Independent Longshore Union Local I v. Municipality of Anchorage*, 672 P.2d 891 (1983) (port permit taken up as "other items not on the agenda")
- confusing notices may also be inadequate. See *Hickel v. Southeast Conference*, 868 P.2d 919 (1994) (notice not clear about whether a "meeting" or "hearing" was going to occur)
- amending the agenda at beginning of meeting will not cure a problem of lack of reasonable notice
- Special rule for ordinances — AS 29.25.020(b)(3): notice of public hearing and summary of any proposed ordinance must be published five days before the hearing in a newspaper of general circulation if one is distributed in the municipality

B. Notice to specific individuals may be required

- a person whose reputation or character is the stated reason for executive session has a right to a public discussion, and must be told of that right in advance
- persons whose individual constitutional rights (life, liberty and property) are involved definitely need personal notice — due process

C. Special notice of teleconference locations

- allowed for convenience of public and government body
- must give notice of each location

- materials being considered available at each location, *if practicable*
- every participant must be able to hear the others
- public must know how the members vote — must hold roll call votes
- citizen phone-ins are acceptable — but it seems that reasonable notice requires that the notice tell the public how and when to call in

D. Municipal code requirements

- local code may impose additional notice requirements
- but be aware that municipal code provisions in conflict with OMA are preempted by OMA provisions, see *Walleri v. City of Fairbanks*, 964 P.2d 463 (Alaska 1998)

VI. EXECUTIVE SESSIONS

A. What is an executive session?

- is NOT a secret meeting
- is a part of a public meeting from which the public may be excluded
- the body determines who is invited
- important statutory policy — OMA is to be interpreted narrowly to avoid unnecessary executive sessions
- OMA preempts any municipal narrowing of subjects that may qualify for executive session, *Walleri v. City of Fairbanks*, 964 P.2d 463 (Alaska 1998)

B. What Subjects Qualify For Executive Session?

1. Adverse financial impacts

- matters the **immediate** knowledge of which would clearly have an adverse effect on finances of the public entity
- for example, contract negotiation strategies, settlement discussions

2. **Prejudice to reputation or character**
 - subjects that would prejudice the reputation or character . . .
 - of any person,
 - **but** that person may demand and get a public discussion
 - that person does **not** have right to demand executive session
3. **Matters confidential by law, ordinance, or charter**
 - matters that are **required** to be confidential . . .
 - by law, ordinance or charter
4. **Confidential records**
 - matters involving consideration of government records . . .
 - that by law are not subject to public disclosure.
 - examples:
 - certain crime victim information
 - invasion of privacy
 - sales tax records
5. **Attorney-client privilege**
 - *Cool Homes, Inc. v. Fairbanks North Star Borough*, 860 P.2d 1248 (Alaska 1993)
 - attorney-client privilege for confidential communications is recognized as a limited exception to OMA
 - not available for general legal advice or opinion
 - it is not enough that the entity is involved in lawsuit
 - limited to matters where public interest may be injured by disclosure; for example, how to avoid legal liability, litigation strategies and candid discussion of facts, settlement conference, conference on decision to appeal

6. **Exemption — adjudicatory deliberations and decision-making**
 - limited exemption from OMA for decision-making in adjudicatory proceedings
 - adjudicatory proceedings are court-like proceedings where the rights of specific individuals are decided
 - exemption from OMA available **only** for meetings solely to deliberate and make a decision
 - all other parts of adjudicatory proceedings, including hearings and taking testimony, are subject to OMA and must be public (unless another exception applies)
7. **Exception — organizational votes**
 - election of mayor pro-tem, chair and vice-chair, etc.

C. **How is an executive session called?**

1. **Public meeting — notice is required**
 - must be convened as a public meeting
 - notice requirements — generally, an executive session is part of a public meeting and the usual notice requirements apply
 - special notice must be given to any person whose character or reputation may be prejudiced — to allow exercise of the right to demand public discussion
 - OMA does not require that a published public notice say that an executive session will be held, but subject matter notice may still be necessary to give "reasonable notice"
 - exception — no notice required for meeting **solely** for decision-making in adjudicatory proceeding
2. **The motion for executive session**
 - must identify the legal grounds for executive session

- must *clearly* and *specifically* describe the subject matter of the executive session without defeating the purpose of addressing the subject in private
- motion or recorded discussion should say who, what, why, and how the matter qualifies for executive session — put it in the minutes or on tape
- to say merely "personnel matter" or "pending litigation" or "financial matter" is not adequate
- state policy: court must look to avoid unnecessary executive sessions (AS 44.62.312(b)), so the record should establish a proper legal and factual basis for the executive session

D. What can be done in executive session?

1. Stick to the issue

- discussion is limited to the subject stated in the motion to hold the executive session
- may also discuss subjects "auxiliary to the main question"

2. No action is the rule — limited exceptions

- generally, all action must be taken in public
- exception — may give direction to an attorney about handling a specific legal matter
- exception — may give direction to labor negotiator about pending labor negotiations

3. Decision-making in adjudicatory proceeding

- exception — in adjudicatory proceedings the body may make its decision in private (even without public notice, if meeting solely to make its decision in a quasi-judicial proceeding)

- E. How is action taken after coming out of executive session?**
- 1. Reconvene in public**
 - resume the public meeting
 - 2. Take action if necessary**
 - take action on the subject if necessary, or
 - announce if direction has been given to attorney or negotiator in a specific pending matter (without disclosing the direction, unless appropriate), and
 - continue with remainder of agenda

VII. REMEDIES AND PENALTIES FOR VIOLATIONS

- A. When a violation has occurred, attempt an informal cure**
- another meeting held in compliance with OMA
 - must have substantial and public reconsideration
- B. Policy-making or decision-making body — Action is voidable**
- 1. A lawsuit may be brought to declare the action void**
 - suit must be brought within 180 days of the challenged action
 - suit cannot name members in their personal capacity
 - if court finds an action is void, the government may then "discuss and act on the matter at another meeting held in compliance with" the OMA
 - a second chance
 - what are consequences in the interim?
 - 2. Action is voidable only after a public interest analysis**
 - court may void an action only if public interest in complying with OMA outweighs the harm caused to the public interest and to the public entity by voiding the action

- the nexus (strength or closeness of the link) between the OMA violation and the challenged action
- it is possible the court will find a violation of OMA has occurred, but *no remedy* is appropriate or necessary, e.g., *In re 2001 Redistricting Cases*, 44 P.3d 141 (Alaska 2002)

C. Advisory-only body — No voidability rule stated

- if body is only advisory (no authority to make policy or decisions),
- voidability rules do not apply
- by definition these bodies cannot make binding decisions for the public entity, so there is no significant decision or action to void
- Issue: can action taken by a decision-maker in reliance on defective advice from an advisory-only body render the decision voidable if the advice played a significant part in the decision-making?

D. Injunction against future violations

- the court has mentioned an injunction may be issued prohibiting future violations of the OMA

E. Recall of elected officials for violation of OMA

- the allegation of a violation of the OMA is legal ground for recall of an elected official
- classified as a failure to perform prescribed duties

F. Other Remedies

- Lawsuit for disclosure of executive session tape recordings
- Damages (e.g., back pay) paid to a harmed individual may be appropriate in some circumstances (to approximate status quo)

- court must consider all circumstances, including, at least:
 - **expense** that may be incurred by gov't and individuals if the action is voided
 - **disruption** caused to the affairs of gov't and individuals if the action is voided
 - degree to which the gov't and individuals may be exposed to **additional litigation** if the action is voided
 - extent of **previous consideration** of the subject by the body in compliance with the OMA
 - amount of **time** that has passed since the challenged action was taken
 - degree to which the gov't or individuals have come to **rely on** the action
 - whether the gov't has engaged or attempted to engage in **public reconsideration** of the action
 - degree to which the violation of OMA was **willful, flagrant, or obvious**
 - degree of failure to comply with **policies** behind the OMA (*e.g.*, sovereignty of the people, openness of gov't, and people's right to remain informed and participate)
- *Revelle v. Marston*, 898 P.2d 922 (Alaska 1995), may require consideration of additional factors:
 - whether the goal of maximizing **informed and principled decision-making** has been met
 - whether invalidation is necessary to **deter** future violations
 - whether the goal of **public participation and input** in the operation of government has been met

ALASKA OPEN MEETINGS ACT

(Current through 2007)

Sec. 44.62.310. Government meetings public. (a) All meetings of a governmental body of a public entity of the state are open to the public except as otherwise provided by this section or another provision of law. Attendance and participation at meetings by members of the public or by members of a governmental body may be by teleconferencing. Agency materials that are to be considered at the meeting shall be made available at teleconference locations if practicable. Except when voice votes are authorized, the vote shall be conducted in such a manner that the public may know the vote of each person entitled to vote. The vote at a meeting held by teleconference shall be taken by roll call. This section does not apply to any votes required to be taken to organize a governmental body described in this subsection.

(b) If permitted subjects are to be discussed at a meeting in executive session, the meeting must first be convened as a public meeting and the question of holding an executive session to discuss matters that are listed in (c) of this section shall be determined by a majority vote of the governmental body. The motion to convene in executive session must clearly and with specificity describe the subject of the proposed executive session without defeating the purpose of addressing the subject in private. Subjects may not be considered at the executive session except those mentioned in the motion calling for the executive session unless auxiliary to the main question. Action may not be taken at an executive session, except to give direction to an attorney or labor negotiator regarding the handling of a specific legal matter or pending labor negotiations.

(c) The following subjects may be considered in an executive session:

- (1) matters, the immediate knowledge of which would clearly have an adverse effect upon the finances of the public entity;
- (2) subjects that tend to prejudice the reputation and character of any person, provided the person may request a public discussion;
- (3) matters which by law, municipal charter, or ordinance are required to be confidential;
- (4) matters involving consideration of government records that by law are not subject to public disclosure.

(d) This section does not apply to

- (1) a governmental body performing a judicial or quasi-judicial function when holding a meeting solely to make a decision in an adjudicatory proceeding;
- (2) juries;
- (3) parole or pardon boards;
- (4) meetings of a hospital medical staff;
- (5) meetings of the governmental body or any committee of a hospital when holding a meeting solely to act upon matters of professional qualifications, privileges or discipline;
- (6) staff meetings or other gatherings of the employees of a public entity, including meetings of an employee group established by policy of the Board of Regents of the University of Alaska or held while acting in an advisory capacity to the Board of Regents; or

(7) meetings held for the purpose of participating in or attending a gathering of a national, state, or regional organization of which the public entity, governmental body, or member of the governmental body is a member, but only if no action is taken and no business of the governmental body is conducted at the meetings.

(e) Reasonable public notice shall be given for all meetings required to be open under this section. The notice must include the date, time, and place of the meeting and, if the meeting is by teleconference, the location of any teleconferencing facilities that will be used. Subject to posting notice of a meeting on the Alaska Online Public Notice System as required by AS 44.62.175(a), the notice may be given by using print or broadcast media. The notice shall be posted at the principal office of the public entity or, if the public entity has no principal office, at a place designated by the governmental body. The governmental body shall provide notice in a consistent fashion for all its meetings.

(f) Action taken contrary to this section is voidable. A lawsuit to void an action taken in violation of this section must be filed in superior court within 180 days after the date of the action. A member of a governmental body may not be named in an action to enforce this section in the member's personal capacity. A governmental body that violates or is alleged to have violated this section may cure the violation or alleged violation by holding another meeting in compliance with notice and other requirements of this section and conducting a substantial and public reconsideration of the matters considered at the original meeting. If the court finds that an action is void, the governmental body may discuss and act on the matter at another meeting held in compliance with this section. A court may hold that an action taken at a meeting held in violation of this section is void only if the court finds that, considering all of the circumstances, the public interest in compliance with this section outweighs the harm that would be caused to the public interest and to the public entity by voiding the action. In making this determination, the court shall consider at least the following:

- (1) the expense that may be incurred by the public entity, other governmental bodies, and individuals if the action is voided;
- (2) the disruption that may be caused to the affairs of the public entity, other governmental bodies, and individuals if the action is voided;
- (3) the degree to which the public entity, other governmental bodies, and individuals may be exposed to additional litigation if the action is voided;
- (4) the extent to which the governing body, in meetings held in compliance with this section, has previously considered the subject;
- (5) the amount of time that has passed since the action was taken;
- (6) the degree to which the public entity, other governmental bodies, or individuals have come to rely on the action;
- (7) whether and to what extent the governmental body has, before or after the lawsuit was filed to void the action, engaged in or attempted to engage in the public reconsideration of matters originally considered in violation of this section;
- (8) the degree to which violations of this section were wilful, flagrant, or obvious;
- (9) the degree to which the governing body failed to adhere to the policy under AS 44.62.312(a).

(g) Subsection (f) of this section does not apply to a governmental body that has only authority to advise or make recommendations to a public entity and has no authority to establish policies or make decisions for the public entity.

(h) In this section,

(1) "governmental body" means an assembly, council, board, commission, committee, or other similar body of a public entity with the authority to establish policies or make decisions for the public entity or with the authority to advise or make recommendations to the public entity; "governmental body" includes the members of a subcommittee or other subordinate unit of a governmental body if the subordinate unit consists of two or more members;

(2) "meeting" means a gathering of members of a governmental body when

(A) more than three members or a majority of the members, whichever is less, are present, a matter upon which the governmental body is empowered to act is considered by the members collectively, and the governmental body has the authority to establish policies or make decisions for a public entity; or

(B) the gathering is prearranged for the purpose of considering a matter upon which the governmental body is empowered to act and the governmental body has only authority to advise or make recommendations for a public entity but has no authority to establish policies or make decisions for the public entity;

(3) "public entity" means an entity of the state or of a political subdivision of the state including an agency, a board or commission, the University of Alaska, a public authority or corporation, a municipality, a school district, and other governmental units of the state or a political subdivision of the state; it does not include the court system or the legislative branch of state government. (§ 1 art VI (ch 1) ch 143 SLA 1959; am § 1 ch 48 SLA 1966; am § 1 ch 78 SLA 1968; am § 1 ch 7 SLA 1969; am §§ 1, 2 ch 98 SLA 1972; am § 2 ch 100 SLA 1972; am § 1 ch 189 SLA 1976; am §§ 2, 3 ch 54 SLA 1985; am § 2 ch 201 SLA 1990; am § 7 ch 74 SLA 1991; am §§ 2-8 ch 69 SLA 1994; am § 7 ch 54 SLA 2000)

Sec. 44.62.312. State policy regarding meetings. (a) It is the policy of the state that

(1) the governmental units mentioned in AS 44.62.310(a) exist to aid in the conduct of the people's business;

(2) it is the intent of the law that actions of those units be taken openly and that their deliberations be conducted openly;

(3) the people of this state do not yield their sovereignty to the agencies that serve them;

(4) the people, in delegating authority, do not give their public servants the right to decide what is good for the people to know and what is not good for them to know;

(5) the people's right to remain informed shall be protected so that they may retain control over the instruments they have created;

(6) the use of teleconferencing under this chapter is for the convenience of the parties, the public, and the governmental units conducting the meetings.

(b) AS 44.62.310(c) and (d) shall be construed narrowly in order to effectuate the policy stated in (a) of this section and to avoid exemptions from open meeting requirements and unnecessary executive sessions. (§ 3 ch 98 SLA 1972; am § 4 ch 54 SLA 1985; am § 9 ch 69 SLA 1994)

Office of the City Clerk

Jo Johnson, CMC, City Clerk

Melissa Jacobsen, CMC, Deputy City Clerk II
Renee Krause, CMC, Deputy City Clerk I



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MEMORANDUM

DATE: MAY 17, 2012

TO: WATER AND SEWER RATE TASK FORCE

FROM: RENEE KRAUSE, CMC, DEPUTY CITY CLERK

SUBJECT: NOMENCLATURE

Chair Wythe has requested this item to be on the agenda for discussion to get a common set of nomenclature for the discussion moving forward.

Office of the City Clerk

Jo Johnson, CMC, City Clerk

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MEMORANDUM

DATE: MAY 17, 2012

TO: WATER AND SEWER RATE TASK FORCE

FROM: RENEE KRAUSE, CMC, DEPUTY CITY CLERK

SUBJECT: TIMELINES

Chair Wythe has requested this item to be on the agenda for discussion.

As with any process or "Project" timelines are established to effectively move toward completion of set goals. Settings goals or benchmarks in relation to the "project" allows for the task or work to be accomplished in the established timeframe or sooner.

I have taken the liberty to provide tow samples, a simple form that is Excel based and can be modified to reflect the various goals this committee will determine. It is a changeable document and not set in stone.

The committee can add the activity or goal, such as obtaining certain information, historical documents, public input or hearings, etc. Applying a start date will automatically calculate how many days are remaining or show the information or goal is overdue. If the committee assigns individual members or Staff is to provide certain materials to the Task Force then that can be tracked also.

Or a simple Gantt timeline can be used with the project outlined with the first meeting date and the finish date of June 13, 2013. Items that can be projected on the Gantt timeline are as follow:

- Milestones: important checkpoints or interim goals for a project.
- Resources: for team projects, it often helps to have an additional column containing numbers or initials which identify who on the team is responsible for the task.
- Status: the projects progress, the chart is updated by filling in the task's bar to a length proportional to the amount of work finished.
- Dependencies: an essential concept that some activities are dependent on other activities being completed first.

Please do not edit data which are in orange!!! Edit only those except orange.

Name or section of the Project/Process and Activities	Start date	Duration (days)	Today's Date	Completed	Days to Complete/Provide Info	Staff/Committee person Responsible	Notes
Water Rate Model							
Hold First Meeting of Task Force	5/9/12	0	5/9/12	0		Krause	
Set Meeting Schedule	5/9/12	0	5/9/12	0		Committee	
Election of Chair & Vice Chair	5/9/12	0	5/9/12	0		Committee	
Budget - Revenue and Expenses	5/9/12	30	5/9/12	0		Mauras	
Rate Study City of Kenai	5/9/12	30	5/9/12	0		Krause	
Rate Study City of Soldotna	5/9/12	30	5/9/12	0		Krause	
Water Rate Setting Information	5/9/12	30	5/9/12	0		Wythe	
Historical Information	5/9/12	30	5/9/12	0		Finance	
Activity 9			5/9/12	0		Clerk's	
Activity 10			5/9/12	0		Public Works	
Activity 11			5/9/12	0			
Activity 12			5/9/12	0			
Activity 13			5/9/12	0			
Activity 14			5/9/12	0			
Activity 15			5/9/12	0			
Activity 16			5/9/12	0			
Activity 17			5/9/12	0			

Please do not edit data which are in orange!!! Edit only those except orange.

Name or section of the Project/Process and Activities	Start date	Duration (days)	Today's Date	Completed	Days to Complete/Provide Info	Staff/Committee person Responsible	Notes
Sewer Rate Model							
Activity 1							
Activity 2							
Activity 3							
Activity 4							
Activity 5							
Activity 6							
Activity 7							
Activity 8							
Activity 9							
Activity 10							
Activity 11							
Activity 12							
Activity 13							
Activity 14							
Activity 15							
Activity 16							
Activity 17							
Activity 18							
Activity 19							
Activity 20							
Activity 21							
Activity 22							
Activity 23							
Activity 24							
Activity 25							

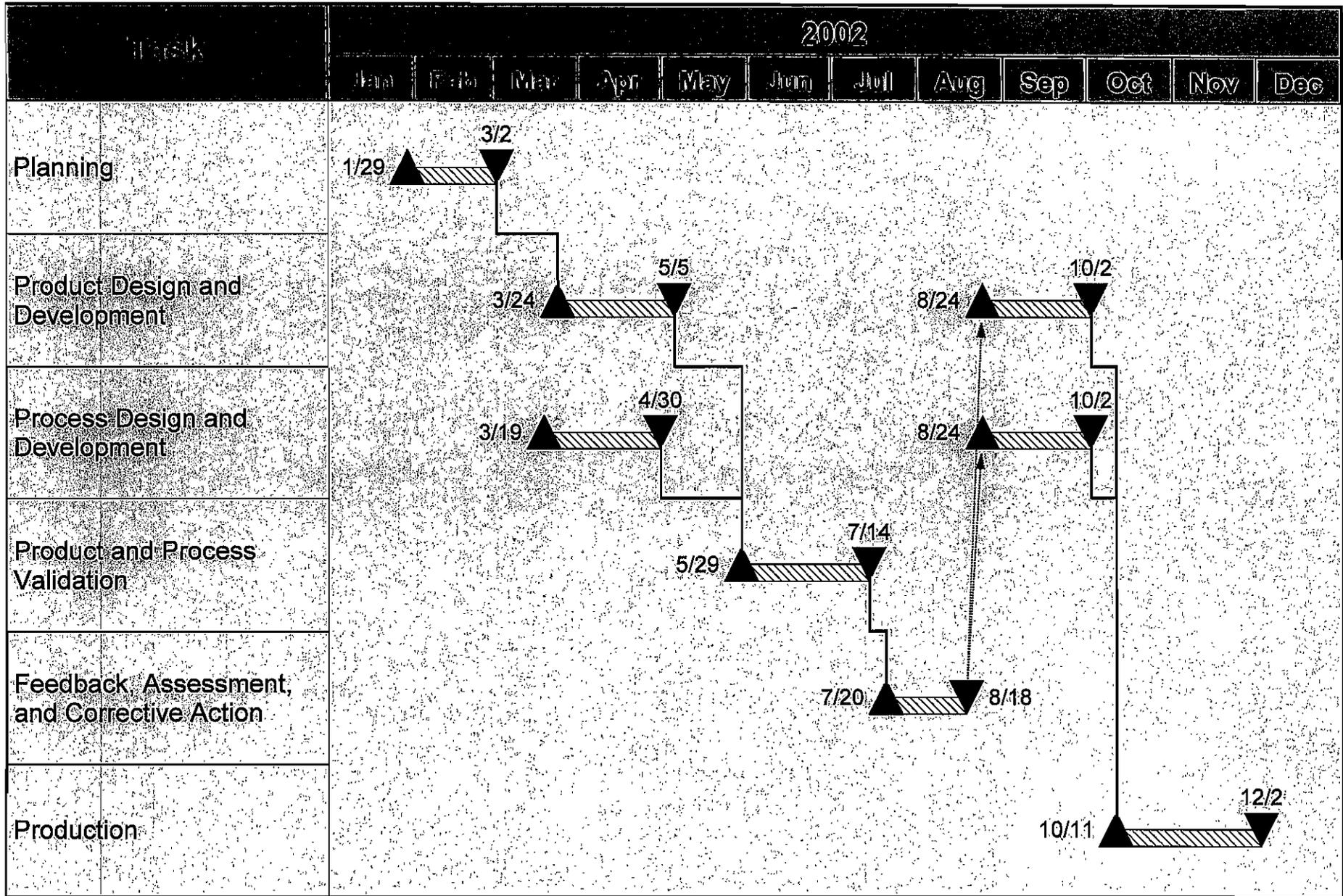
Please do not edit data which are in orange!!! Edit only those except orange.

Name or section of the Project/Process and Activities	Start date	Duration (days)	Today's Date	Completed	Days to Complete/Provide Info	Staff/Committee person Responsible	Notes
Fire Protection							
Activity 1							
Activity 2							
Activity 3							
Activity 4							
Activity 5							
Activity 6							
Activity 7							
Activity 8							
Activity 9							
Activity 10							
Activity 11							
Activity 12							
Activity 13							
Activity 14							
Activity 15							
Activity 16							
Activity 17							
Activity 18							
Activity 19							
Activity 20							

Product Development Schedule

Phase One

Created Using Milestones Software
www.kidasa.com



City of Kenai Water and Sewer Rate Study

PREPARED FOR: Rick Koch/City Manager, City of Kenai
PREPARED BY: Kurt Playstead/CH2M HILL
REVIEWED BY: Dave Green/CH2M HILL
DATE: February 7, 2011

Overview

In March 2010, the City of Kenai (the City) commissioned CH2M HILL to update its water and sewer rates. The purpose of the update is to determine if projected operation and maintenance expenses and capital improvement costs will require rate increases in the future. CH2M HILL completed a water and sewer rate study in 2003 in conjunction with the update to the City's Wastewater System Master Plan.

This technical memorandum presents a 20-year financial plan for the water and sewer system. The memorandum begins with an introduction to the financial plan, including the planning assumptions. This is followed by a discussion of projected water and sewer system revenue requirements and revenues. The memorandum ends with a discussion of rate impacts, based on the City's current rate structure.

Introduction

This technical memorandum presents a financial analysis of the City's water and sewer system. A 20-year financial plan was developed to analyze the impact on water and sewer rates of implementing the capital improvement plan (CIP), as well as addressing annual operations and maintenance (O&M) requirements.

The building blocks of the financial plan are the projections of costs that the City will incur during the 20-year planning period, fiscal year 2010/11 through fiscal year 2029/30, and the revenues, under existing and proposed rates, which the City expects to generate during the same period. The financial plan is based on a set of overall assumptions related to customer growth, inflation, and other factors, as well as the specific phasing of the City's CIP.

The following general assumptions were used in developing the plan:

- Customer growth will occur at the following annual rates:
 - Residential Growth: 0.35%
 - Commercial Growth: 0.35%
- Operation and maintenance costs annual escalation factors:
 - Salaries and wages: 2.5%

- Operating expenses: 3.0%
- Interfund transfers: 4.0%
- Annual operating contingency equal to 30 days of operating expenses
- Capital costs will increase at an annual rate of 3.0 percent to account for inflation
- Interest earned on investments: 4.0%

The draft financial plan for the water and sewer system, in the form of projected sources and uses of funds for the water and sewer utility fund, is presented in Attachment 1. Each component of the financial plan is discussed in more detail below.

Revenue Requirements

The costs in the plan that are to be funded from annual revenues are referred to as 'revenue requirements' for rate-making purposes. Total requirements are composed of:

- Operations and maintenance costs
- Annual capital improvement projects funded directly from rate revenues and reserves
- Debt service requirements
- Transfers to the City's general fund and other funds for indirect and direct services provided to the utility (i.e. interfund charges)

Currently, the City does not have any outstanding debt related to the water and sewer utility and the financial plan presented herein does not anticipate the issuance of debt during the forecast period.

In addition, annual requirements include operating contingencies equal to 30 days of annual O&M costs. However, 100 percent of annual contingencies are assumed to be unspent and roll forward to subsequent year beginning balances.

Revenue requirements were projected based on data provided by the City, including adopted budget for FY 2009/10 and a proposed CIP with annual details from FY2010/11 through FY2029/30. The City's actual expenditures for FY 2007/08 and FY 2008/09, and FY2009/10 budget for the water and sewer utility fund are presented in Exhibits 1 and 2.

Water Utility Operation and Maintenance Costs

Operation and maintenance costs include all costs associated with operating and maintaining the water system, including personnel and materials and services costs. The City of Kenai's water and sewer systems operate as a consolidated enterprise unit but each utility is managed to be self supporting. The City of Kenai provided annual financial statements and budgets for the water and sewer systems to CH2M HILL.

Exhibit 1 shows historical O&M costs for the water system for FY2007/08 and FY2008/09, and budgeted O&M costs for FY2009/10. Because this analysis is being performed on a cash basis, depreciation expenses are not included. Total budgeted O&M costs for FY 2009/10 are

approximately \$558,000. Approximately 31 percent of this total is personnel related (salaries and wages and benefits).

EXHIBIT 1

Historical and Budgeted O&M Costs, Water Utility

City of Kenai Water and Sewer Rate Study

	Actual	Actual	Budget
	FY 2007-08	FY 2008-09	FY 2009-10
Salaries and Benefits			
Salaries	102,362	112,607	113,376
Overtime	11,056	10,476	8,300
Holiday Pay	0	0	0
Leave	4,095	9,920	5,125
Medicare	1,680	1,910	1,839
Social Security	0	0	0
PERS	41,011	43,188	49,096
Unemployment Insurance	0	0	634
Workers Compensation	5,134	4,551	6,124
Health & Life Insurance	19,944	20,017	22,568
Supplemental Retirement	2,739	2,677	2,813
Subtotal Personnel Expenses	188,021	205,346	209,875
Maintenance and Operations			
Office Supplies	1,263	672	1,200
Operating & Repair Supplies	44,676	40,794	52,530
Small Tools/Minor Equipment	4,929	12,504	11,825
Snack Bar Supplies	0	0	0
Computer Software	205	59	1,600
Professional Services	13,468	9,356	14,420
Communications	15,319	15,031	16,500
Travel & Transportation	3,169	2,447	5,150
Advertising	1,034	557	300
Printing & Binding	1,559	1,484	1,600
Insurance	6,500	6,600	7,200
Utilities	138,284	178,879	153,000
Repair & Maintenance	39,680	12,749	48,750
Rentals	3,561	3,706	12,000
Equipment Fund Pmts	0	0	0
Postage	0	0	0
Books	0	0	250
Dues & Publications	624	343	500
Contingency	0	0	20,000
Miscellaneous	1,093	370	1,700
Subtotal Operating Expenses	275,364	285,550	348,525
Total Operating Expenses	463,385	490,896	558,400

Source: City of Kenai, 2009/10 Budget

Sewer Utility Operation and Maintenance Costs

Exhibit 2 shows historical O&M costs for sewer system for FY2007/08 and FY2008/09, and budgeted O&M costs for FY2009/10. The operating expenses presented in Exhibit 2 are for the sewer department and the wastewater treatment department. Because this analysis is being performed on a cash basis, depreciation expenses are not included. Total budgeted

O&M costs for FY 2009/10 are approximately \$1.1 million. Approximately 47 percent of this total is personnel related (i.e. salaries and wages, benefits).

EXHIBIT 2

Historical and Budgeted O&M Costs, Combined Sewer and Wastewater Treatment Departments

City of Kenai Water and Sewer Rate Study

	Actual FY 2007-08	Actual FY 2008-09	Budget FY 2009-10
Salaries and Benefits			
Salaries	274,036	288,032	295,691
Overtime	9,128	11,342	10,300
Holiday Pay	9,846	10,077	10,456
Leave	20,077	19,825	12,247
Medicare	4,498	4,742	4,766
Social Security	0	0	0
PERS	105,950	108,609	102,950
Unemployment Insurance	0	0	1,643
Workers Compensation	10,603	9,469	12,403
Health & Life Insurance	52,731	51,479	58,568
Supplemental Retirement	6,922	6,928	7,313
Subtotal Personnel Expenses	493,791	510,504	516,337
Maintenance and Operations			
Office Supplies	1,538	1,002	1,900
Operating & Repair Supplies	86,618	115,794	110,450
Small Tools/Minor Equipment	7,916	12,260	9,090
Snack Bar Supplies	0	0	0
Computer Software	528	59	2,900
Professional Services	5,447	11,775	14,800
Communications	6,173	6,441	7,300
Travel & Transportation	2,850	6,249	8,750
Advertising	954	0	0
Printing & Binding	316	0	0
Insurance	12,700	12,600	13,500
Utilities	240,642	323,576	315,253
Repair & Maintenance	25,755	27,004	59,000
Rentals	0	150	500
Equipment Fund Pmts	0	0	0
Postage	0	0	0
Books	0	0	1,000
Dues & Publications	212	293	520
Contingency	0	0	40,000
Miscellaneous	3,782	3,654	5,930
Subtotal Operating Expenses	395,431	520,858	590,893
Total Operating Expenses	889,222	1,031,362	1,107,230

Source: City of Kenai, 2009/10 Budget

As shown in Attachment 1, O&M costs for the water and sewer system (including personnel services, materials and services, and operating contingency) are projected to increase to nearly \$3.9million by FY2029/30.

Capital Costs

Exhibit 3 summarizes the CIP for the water and sewer system from FY 2009/10 through FY2029/30 in 2010 dollars. Future capital outlay expenditures are based on the CIP as provided by city staff. Approximately \$22.3 million (in 2010 dollars) in capital improvements from FY 2010/11 through FY2029/30 have been estimated. The projects are necessary to maintain the current level of service provided by existing facilities, replace existing facilities/equipment that are near or beyond their design life, comply with state and federal regulations, and provide capacity to meet the needs of projected growth. Based on the anticipated project schedules and an estimated annual capital cost escalation rate of 3 percent, the total, inflation adjusted CIP for the combined water and sewer system is nearly \$32.8 million through FY2029/30.

As shown in Attachment 1, the projected capital improvements will be paid by a combination of current revenues and matching state funds. For this analysis, it is assumed the city will receive 70 percent matching funds from the state for every project listed in the CIP. The City must fund the remaining 30 percent of capital expenses via water and/or sewer rates or other sources. It was also assumed that many of the projects would be constructed over a number of construction seasons, thus their costs were spread out over a two to three year period.

The City may be eligible for a combination of lower-interest loans and grants from state and federal agencies. However, a public vote would be required to issue any debt on behalf of the utility. One advantage to issuing debt, such as revenue bonds or acquiring low interest loans from the Department of Environmental Conservation, is that the rate increases could be lessened and the additional revenue requirements would be spread over a number of years. No debt funding was assumed for this analysis.

EXHIBIT 3
Proposed Capital Improvement Program (2010\$)
City of Kenai Water and Sewer Rate Study

Project Name	Cost	Year of Construction
Water Utility		
Replace 10" AC Water Main with 10" HDPE Main	\$1,200,000	2012
Construct 10" HDPE Water Main along Swires Rd	\$1,100,000	2013
North Willow Street 10" Water Main Extension	\$750,000	2017
Construct New 16" Water Main along Beaver Loop Rd, Bridge Access to Dean St (7,000lf)	\$3,100,000	2020
Construct new 16" Water Main along Beaver Loop Rd, Togiak Ave to Ames St. (4,300lf)	\$1,800,000	2025
Water Truck	\$35,000	2026
Construct New 16" Water Main Along Beaver Loop Rd, Ames Rd. to Dean St. (6,600lf)	\$3,100,000	2028
Subtotal Water CIP (2010\$)	\$11,085,000	

Sewer Utility		
Sewer Truck	\$75,000	2012
WWTP Dump Truck	\$60,000	2014
WWTP Phase I - UV Disinfection system	\$1,000,000	2015
WWTP Upgrades Phase II - Belt Filter Press, Activated Sludge System Improvements, Control Bldg Exp.	\$2,000,000	2017
North Willow Street 12" Sewer Main Extension	\$750,000	2017
WWTP Upgrades Phase III - Filament control improvements	\$2,800,000	2021
WWTP Upgrade Phase IV - New pump house, influent manhole mods, Grit Removal, Cyclone & Bar Screens	\$2,000,000	2025
WWTP Upgrade Phase V-Upgrades for Aerobic Digester, Solids Handling System, Recoat Aerobic Digester	\$2,500,000	2028
Sewer Truck	\$75,000	2030
Subtotal Sewer CIP (2010\$)	\$11,250,000	
Total Water and Sewer CIP (2010\$)	\$22,335,000	

Revenues

The City of Kenai provided annual financial statements and budgets for the water and sewer systems to CH2M HILL. Each system's revenues and costs are shown as separate categories in the financial statements. However, other revenue sources, such as beginning fund balance and interest income, are not separated between the two utilities. For this analysis, other revenue sources were treated as shared revenue and were available to either utility.

With limited federal and state assistance available, the City must rely predominantly on water and sewer rates to fund the projected system costs over the next 20 years.

Water Revenues

Water sales revenues based on existing rates are projected to be approximately \$462,000 in FY2009/10. The rate schedule for FY 2009/10 is presented in Exhibit 4. The monthly rate for unmetered residential customers in FY 2009/10 is \$13.78.

Given the absence of meters, the City's current residential rate structure reflects a reasonable approach to achieve an equitable residential water rate structure. This report recommends no material change to the residential rate classifications or structure.

Many nonresidential customers are also unmetered. Most of these customers are commercial establishments and are generally minimal water users. For customers with meters, Kenai charges both a flat rate based on meter size and a usage charge based on metered water consumption.

The City has approximately 184 metered customers. This includes both residential and commercial customers. In FY 2009/10, the metered customers used approximately 5.3 million gallons of water per month. The current volume charge for metered customers is \$1.33 per 1,000 gallons of water used.

EXHIBIT 4
Current Water Rates by Customer Class, FY 2009/10
City of Kenai Water and Sewer Rate Study

Metered Customers		Accounts	\$/month		
5/8" or 3/4"		0	\$0.00		
1"		88	\$13.98		
1 1/2"		40	\$35.27		
2"		40	\$53.24		
3"		15	\$79.86		
4"		1	\$119.79		
Volume Charge (\$/000 gallons)			\$1.33		
Unmetered Customers					
Residential		Accounts	\$/month		
One or Two Family residence, per unit		1,502	\$13.78		
Single or double unit apartment, per unit		62	\$13.78		
Commercial		Accounts	Units	\$/Account	\$/Unit
Bowling Alleys		1	0	\$38.60	\$0.00
Churches		4	277	\$0.00	\$0.15
Dentist		1	5	\$0.00	\$8.32
Doctor		1	8	\$0.00	\$8.32
Garage/Service Station		3	0	\$16.64	\$0.00
Hanger-no wash		6	0	\$16.64	\$0.00
Hanger-with wash		1	0	\$19.29	\$0.00
Hotel		1	5	\$0.00	\$8.65
Laundry		1	1	\$0.00	\$15.65
Office		14	0	\$18.63	\$0.00
Recreation/per restroom		2	4	\$0.00	\$9.32
Residential		2	0	\$13.98	\$0.00
Restaurant		5	310	\$0.00	\$1.20
Restaurant/Bar		1	28	\$0.00	\$1.20
School		2	64	\$0.00	\$0.56
Shops		73	0	\$9.66	\$0.00
Sleeping Rooms		1	5	\$0.00	\$3.67
Theater		1	100	\$0.00	\$0.07

Sewer Revenues

Sewer sales revenues based on existing rates are projected to be approximately \$1.3 million in FY2009/10. The rate schedule for FY 2009/10 is presented in Exhibit 5. The monthly rate for unmetered residential customers in FY 2009/10 is \$40.35.

Given the absence of meters, the City's current residential rate structure reflects a reasonable approach to achieve an equitable residential sewer rate structure. This report recommends no material change to the residential rate classifications or structure.

Many nonresidential customers are also unmetered. For customers with meters, Kenai charges both a demand rate based on meter size and a usage charge based on metered water consumption.

The City has approximately 176 metered customers. This includes both residential and commercial customers. In FY 2009/10, the metered customers used approximately 5.3 million gallons of water per month. The current volume charge for metered customers is \$4.00 per 1,000 gallons of water used.

EXHIBIT 5

Current Sewer Rates by Customer Class, FY 2009/10
City of Kenai Water and Sewer Rate Study

Metered Customers	Accounts	\$/month
5/8" or 3/4"	0	\$0.00
1"	86	\$40.74
1 1/2"	38	\$102.56
2"	37	\$153.14
3"	13	\$231.81
4"	2	\$348.42
Volume Charge (\$/000 gallons)		\$4.00

Unmetered Customers

Residential	Accounts	\$/month
One or Two Family residence, per unit	1,483	\$40.35
Single or double unit apartment, per unit	61	\$40.35

Unmetered Commercial-Demand Charge	Accounts	\$/month
5/8" or 3/4"	0	\$0.00
1"	34	\$40.74
1 1/2"	5	\$102.56
2"	1	\$153.14
3"	0	\$231.81
4"	0	\$348.42

Unmetered Commercial-Use Charge	Accounts	Units	\$/Account	\$/Unit
Bowling Alleys	1		\$113.10	\$0.00
Churches	4	277	\$0.00	\$0.43
Dentist	1	5	\$0.00	\$24.24
Doctor	1	8	\$0.00	\$24.24
Garage/Service Station	3		\$49.17	\$0.00
Hanger-no wash	6		\$48.82	\$0.00
Hanger-with wash	1		\$56.20	\$0.00
Hotel	1	5	\$0.00	\$24.94
Laundry	1	1	\$0.00	\$45.31
Office	14		\$53.39	\$0.00
Recreation/per restroom	2	4	\$0.00	\$27.04
Residential	2		\$40.35	\$0.00
Restaurant	5	310	\$0.00	\$3.59

EXHIBIT 5

Current Sewer Rates by Customer Class, FY 2009/10

City of Kenai Water and Sewer Rate Study

Restaurant/Bar	1	28	\$0.00	\$3.59
School	2	64	\$0.00	\$1.62
Shops	71		\$9.66	\$28.10
Sleeping Rooms	1	5	\$0.00	\$10.89
Theater	1	100	\$0.00	\$0.19

As stated previously, it was assumed that total sewer and water system miscellaneous revenues, such as interest earnings and penalty fees, would be treated as shared revenue. Nonrate revenues, including revenue from penalty and interest, grant funding (excluding grants for capital expenditures), interest income, and miscellaneous revenues, are estimated at approximately \$109,000 for the water and sewer system in FY 2009/10. Over the 20 year analysis period, other revenues, excluding grant funding for capital projects, are estimated to average about \$63,000 per year.

Rate Impacts

In FY 2010/11, the City is expected to have approximately \$2.0 million available in beginning reserves in the combined Water and Sewer fund to pay for operating expenses and capital improvement projects. As discussed previously, the beginning fund balance is not reported separately for the water and sewer funds. For this analysis, the beginning fund balance was treated as shared funds for the two utilities. These funds will be drawn down to pay for planned capital projects and operating expenses. It should also be noted that a minimum combined beginning fund balance of approximately \$1.0 million dollars was maintained for each year of the analysis.

This report does not recommend changes to the structure of the City's current water or sewer rates. Proposed rate increases will be proportional increases across all existing rate classes. This analysis will not require the City to invest in additional metering equipment or billing software that would likely be required if the City were to extensively modify its existing structure. Thus, the rate increase proposed in this analysis will be across the board increases and could be easily implemented by the City.

The financial analysis also assumes that the City will receive a 70 percent matching grant from the State of Alaska to cover the costs associated with the CIP. The City will be required to cover the remaining 30 percent of capital expenditures.

Exhibit 6 presents the revenue requirements for the combined utilities and the required percentage rate increase for each utility. Rate revenue requirements consist of operation and maintenance expenses (including transfers) and pay-as-you-go capital expenses. Non-rate revenue sources, such as interest and miscellaneous revenue, and use of reserves are deducted from the revenue requirements to estimate the required revenue from rates. As Exhibit 6 illustrates, increased revenues will be necessary to cover the revenue requirements associated with the planned capital expenditures presented in Exhibit 3. Thus, rate increases will be necessary over the course of the analysis period to fund the capital program.

EXHIBIT 6
Revenue Requirements
City of Kenai Water and Sewer Rate Study

	FY 2010-11	FY 2011-12	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20
Beginning Balance	1,492,369	1,526,375	1,274,325	1,108,373	1,069,092	1,276,139	1,561,268	1,417,509	1,764,947	2,137,521
Revenue Requirements										
Water O&M	621,003	704,032	724,051	744,642	765,823	787,610	810,022	833,075	856,789	881,182
Sewer O&M	345,175	354,932	364,974	375,310	385,948	396,897	408,168	419,770	431,713	444,007
Treatment O&M	895,946	922,221	949,283	977,158	1,005,869	1,035,443	1,065,906	1,097,286	1,129,610	1,162,908
Rate Funded Capital	0	176,640	344,209	327,523	173,891	179,108	701,028	394,025	313,146	249,968
Total Revenue Requirements	1,862,124	2,157,825	2,382,517	2,424,633	2,331,531	2,399,059	2,985,124	2,654,155	2,731,257	2,738,065
Less: Non Rate Revenue	112,533	115,959	120,919	128,377	134,886	137,793	141,019	134,999	134,002	138,339
Use of Reserves	-	258,669	213,425	15,646	-	116,865	367,215	187,635	498,177	765,984
Net Revenue Requirements	1,749,591	1,783,197	2,048,174	2,280,809	2,196,645	2,144,401	2,476,889	2,331,522	2,099,078	1,833,743
Water Rate Revenue - Existing	463,677	465,300	466,929	468,563	470,203	471,849	473,500	475,157	476,820	478,489
Sewer Rate Revenue - Existing	1,313,301	1,317,897	1,322,510	1,327,138	1,331,783	1,336,445	1,341,122	1,345,816	1,350,527	1,355,253
Subtotal Rate Revenue - Existing	1,776,978	1,783,197	1,789,438	1,795,701	1,801,986	1,808,293	1,814,622	1,820,973	1,827,347	1,833,743
Water Rate Revenue - Increase	0	0	233,464	318,623	414,531	504,765	604,535	714,831	777,041	804,925
Sewer Rate Revenue - Increase	0	0	68,125	136,032	180,557	226,717	274,570	324,171	358,823	394,385
Subtotal Rate Revenue - Increase	0	0	299,590	454,655	595,087	731,482	879,105	1,039,003	1,135,863	1,199,311
Total Rate Revenue	1,776,978	1,783,197	2,089,028	2,250,358	2,397,074	2,539,775	2,693,727	2,859,976	2,963,210	3,033,053
Proposed Increase Water Rate	0%	0%	50%	12%	12%	10%	10%	10%	5%	2%
Proposed Increase Sewer Rate	0%	0%	5%	5%	3%	3%	3%	3%	2%	2%

EXHIBIT 6 (CONTINUED)
Revenue Requirements
City of Kenai Water and Sewer Rate Study

	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29	FY 2029-30
Beginning Balance	2,577,467	2,536,925	2,231,798	2,429,000	3,125,547	3,492,251	3,477,207	3,452,846	3,604,974	3,151,992
Revenue Requirements	906,276	932,089	958,643	985,957	1,014,055	1,042,958	1,072,691	1,103,277	1,134,740	1,167,106
Water O&M	456,665	469,697	483,113	496,926	511,148	525,791	540,868	555,393	572,379	588,842
Sewer O&M	1,197,213	1,232,552	1,268,959	1,306,466	1,345,107	1,384,917	1,425,934	1,468,193	1,511,735	1,556,598
Treatment O&M	747,486	1,009,439	493,427	0	355,217	748,596	753,699	572,018	1,178,356	1,254,344
Rate Funded Capital	3,307,640	3,543,777	3,204,142	2,789,349	3,225,526	3,702,262	3,793,191	3,689,880	4,397,210	4,586,889
Total	155,937	154,315	142,110	149,998	177,860	192,528	191,926	190,952	197,037	178,918
Less: Non Rate Revenue										
Use of Reserves	1,233,550	1,152,691	806,037	779,800	1,181,607	1,637,144	1,722,121	1,623,207	1,902,541	1,398,486
Total Revenue Requirements	1,918,153	2,336,771	2,255,995	1,859,550	1,866,059	1,872,590	1,879,144	1,885,721	2,297,632	2,989,486
Water Rate Revenue - Existing	480,164	481,844	483,531	485,223	486,922	488,626	490,336	492,052	493,774	495,503
Sewer Rate Revenue - Existing	1,359,997	1,364,757	1,369,533	1,374,327	1,379,137	1,383,964	1,388,808	1,393,669	1,398,546	1,403,441
Subtotal Rate Revenue - Existing	1,840,161	1,846,601	1,853,064	1,859,550	1,866,059	1,872,590	1,879,144	1,885,721	1,892,321	1,898,944
Water Rate Revenue - Increase	833,501	862,783	892,790	923,537	955,043	987,326	1,020,404	1,054,296	1,089,022	1,124,600
Sewer Rate Revenue - Increase	430,881	468,332	506,761	546,192	586,648	628,155	670,737	714,419	759,229	805,193
Subtotal Rate Revenue - Increase	1,264,382	1,331,115	1,399,551	1,469,729	1,541,692	1,615,481	1,691,141	1,768,716	1,848,251	1,929,793
Total Rate Revenue	3,104,542	3,177,716	3,252,615	3,329,279	3,407,750	3,488,071	3,570,285	3,654,436	3,740,572	3,828,737
Required Increase in Revenues	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%
Proposed Increase Water Rate	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%

It was assumed the City would not have a rate increase in FY 2010/11. However, in order to fund the capital program utilizing a pay-as-you-go strategy, increases will be required over the next 20 years. The analysis has projected significant percentage increases to the water rates beginning in 2011/12 through 2018/19. Inflationary adjustments are programmed starting in FY 2019/20. The analysis assumes annual, incremental increases for the sewer utility to maintain a sufficient fund balance and to keep up with the pace of inflation.

If the City is successful in obtaining additional external funding (i.e. grants) for the planned capital projects, some of the rate increases may be reduced or eliminated. These rate increases have been structured to allow the City to meet projected annual revenue requirements, while continuing to maintain an adequate fund balance. By FY 2029/30, the sewer utility will have an ending fund balance of approximately \$2.6 million.

Exhibits 7 and 8 present the forecast water and sewer rates for unmetered residential customers based on the City's existing rates and the projected rate increases discussed above. Based on the projected rate increases, the residential unmetered water rate will be \$45.06 per month in FY 2029/30. The unmetered residential sewer rate will be \$63.50 per month. Attachments 2 and 3 present the projected rates for all customer classes.

EXHIBIT 7
 Residential Unmetered Water Rate
 City of Kenai Water and Sewer Rate Study

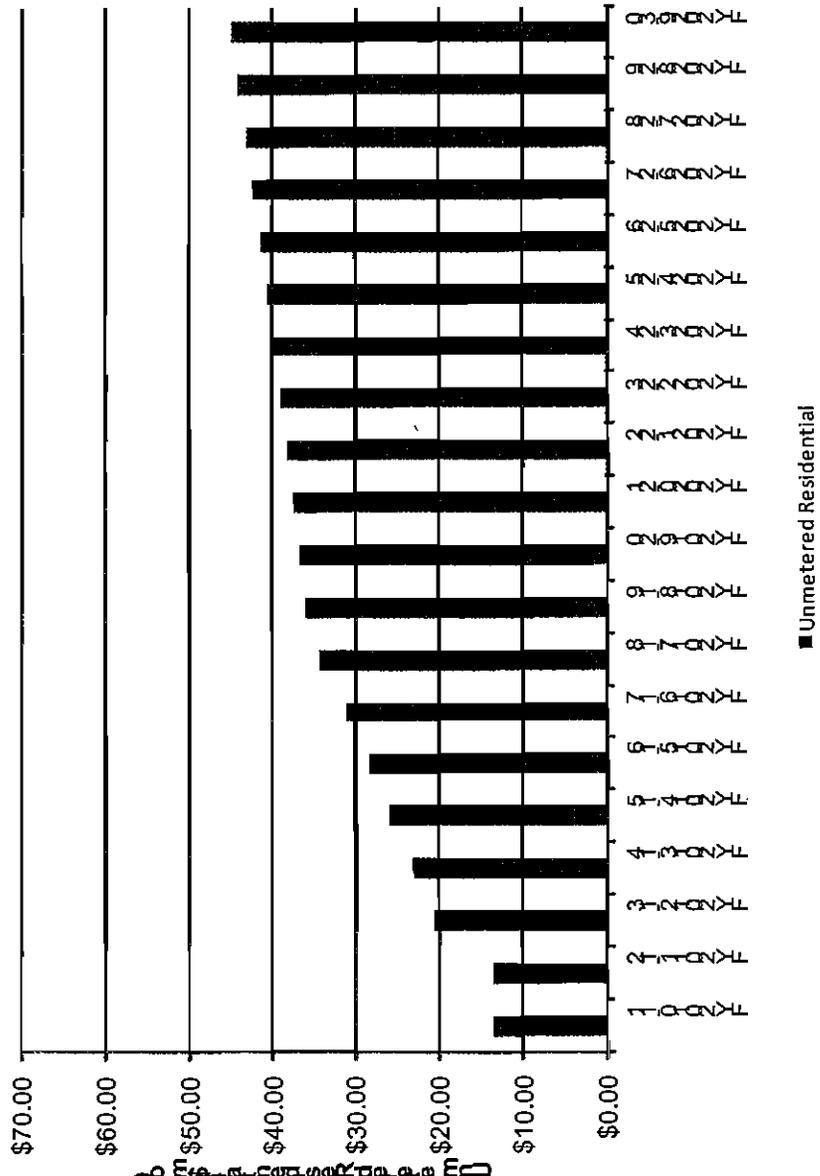
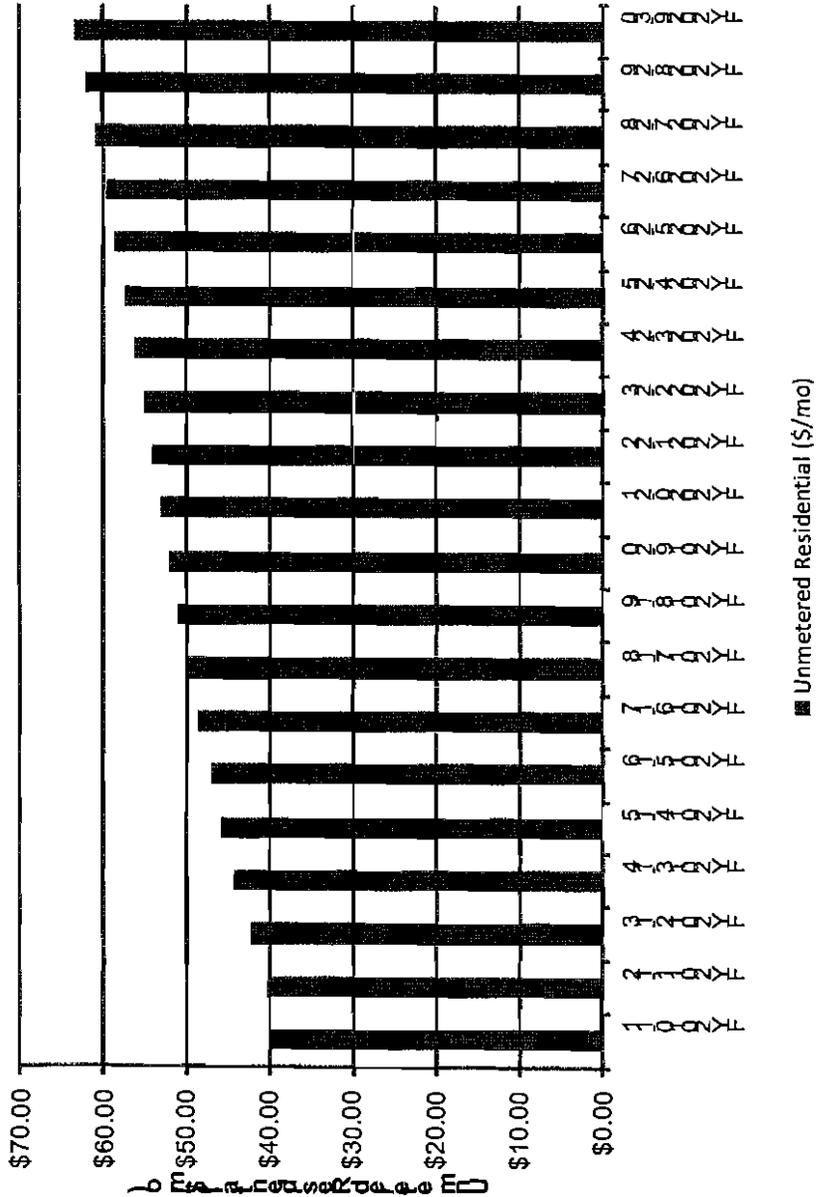


EXHIBIT 8
 Unmetered Residential Sewer Rate
 City of Kenai Water and Sewer Rate Study



It should be noted that changes to the timing of particular projects listed in the CIP and/or the ability of the City to obtain alternative sources of funding could impact the rate increases estimated in this analysis. Alternative rate increase strategies could be explored to smooth increases over the entire planning period, or achieve other objectives.

Rate Comparison

Exhibit 9 presents water and sewer rate comparison for Kenai and other communities in Alaska. Information for other communities is for adopted rates as of 2010 and was obtained from each city's website. For this comparison, it was assumed the average monthly water consumption was 7,500 gallons per month. Currently, Kenai has the lowest monthly water rate at \$13.78 per month. Only Soldotna and Palmer have a lower combined water and sewer rate than Kenai.

EXHIBIT 9
Water and Sewer Rate Comparison
City of Kenai Water and Sewer Rate Study

Community	Monthly Water Bill	Monthly Sewer Bill	Combined Monthly Bill	% Difference from Kenai
Kenai	\$13.78	\$40.35	\$54.13	NA
Kodiak	\$37.58	\$54.55	\$92.13	70%
Anchorage	\$40.04	\$29.26	\$69.30	28%
Juneau	\$23.06	\$56.01	\$79.07	46%
Cordova	\$29.58	\$38.95	\$68.53	27%
Soldotna	\$19.56	\$28.50	\$48.05	-11%
Palmer	\$19.88	\$27.75	\$47.63	-12%
Seward	\$49.19	\$77.20	\$126.38	133%
Homer	\$56.50	\$92.75	\$149.25	176%

Notes:

1) All rates as of 2010. Rates verified via internet search.

2) For metered accounts, assumed average monthly water consumption of 1,000 cubic feet (7,500 gallons)

It should be noted that direct bill comparisons between communities are difficult because of differing system requirements (i.e. filtered system vs. unfiltered), policy decisions, tax structures, and usage levels for the various utilities. Seasonality and pricing structures also drive different usage levels. Finally, future rate increases of other communities are not known at this time, which makes comparisons of future water and sewer rates difficult.

Water Meters

Currently, the City only meters a portion of their commercial and residential customer base. The decision to install meters has many implications on the City and its customers. Some of the issues surrounding metering include:

- **Water Consumption:** Installing meters has proven to curb overall water usage when compared to unmetered customers. The reduction of water usage could benefit the City by reducing the need for future water supply, decrease the amount of water entering the wastewater treatment plant, and encourage water conservation.
- **Equality:** Metered customers only pay for the water they actually use, which gives customers the opportunity to manage their water consumption and potentially decrease their water bills. Meters also provide the City with better information about water consumption. This can help the City effectively plan for future demand and can also assist the City when developing equitable rates.
- **Leak Detection:** Water meters assist customers and the City with leak detection in the water system.
- **Water Rates:** As stated previously, meters provide the City with better data on water demand and consumption among customer classes. This data can help develop rate structures that are more fair and equitable. A possible limitation to installing water meters is the City's billing system and whether it can be modified to adapt to a metered customer base.
- **Installation and O&M Costs:** Installing meters will result in capital costs for the City and/or its customer. It could also require a change to the City's billing system if the current system cannot accommodate a modified rate structure. The City would also likely experience an increase in operating costs as additional personnel time would be needed to read and maintain the meters.
- **Revenue Impacts:** To ensure the City continues to meet the revenue requirements necessary to operate the utility, a detailed cost of service analysis should be conducted. This would need to be completed as the City moves from a stable revenue stream of unmetered, flat rate customers to a more variable revenue stream that is based on water usage. The cost of service study would develop rates to meet the required revenue needs of the utility.

Conclusion

Based on the study findings summarized in previous sections the following recommendations are presented for the City's consideration:

- Implement first 5-years of rate increases presented in Attachment 2 starting in FY 2011/12.
- Increase rates as needed in future years to meet the financial needs of the systems. The projected rate increases shown in Exhibit 5, are based on the best available data and assumptions developed by the City and CH2M HILL as of June 2010.

- Review financial plan regularly to ensure actual revenues and expenditures are tracking with the projections developed in this analysis. The City should review the financial plan annually and adjust the rates as needed to reflect current conditions and assumptions.
- The American Water Works Association (AWWA) rate manual recommends creating separate funds for the water and sewer utilities to separately account for revenues and expenditures. Currently, the operating expenses for the City's water and sewer utility are accounted for separately. However the revenues, including non-rate revenues and fund balances, are co-mingled. This is not an uncommon practice, especially for smaller communities. At this time, it is not recommended to create separate revenue accounts for the water and sewer fund. The City should revisit the feasibility of establishing separate funds when doing so would not create a financial hardship for either of the utilities. Separating the funds at this time would require even larger rate increases to the water utility to make it self-sustaining.

Attachments

ATTACHMENT 1
Projected Sources and Uses of Funds
City of Kenai Water and Sewer Rate Study

Description	Projected FY 2010-11	Projected FY 2011-12	Projected FY 2012-13	Projected FY 2013-14	Projected FY 2014-15	Projected FY 2015-16	Projected FY 2016-17	Projected FY 2017-18	Projected FY 2018-19	Projected FY 2019-20
Beginning Balance	1,492,369	1,526,375	1,274,325	1,108,373	1,069,092	1,276,139	1,561,268	1,417,509	1,764,947	2,137,521
Water Rate Revenue	463,677	465,300	700,393	787,186	884,734	976,613	1,078,035	1,189,988	1,253,861	1,283,415
Sewer Rate Revenue	1,313,301	1,317,897	1,388,635	1,463,170	1,512,340	1,563,162	1,615,692	1,689,988	1,709,349	1,749,639
Hook up fees	3,700	3,700	3,700	3,700	3,700	3,700	3,700	3,700	3,700	3,700
Penalty and Interest	6,760	6,760	6,760	6,760	6,760	6,760	6,760	6,760	6,760	6,760
Interest Revenue & Misc	81,935	85,361	90,321	97,779	104,287	107,194	110,421	104,401	103,403	107,741
Grant Funding	25,457	437,617	828,611	632,106	431,203	443,375	1,661,189	734,848	756,130	608,717
Other Revenue	1,300	1,300	1,300	1,300	1,300	1,300	1,300	1,300	1,300	1,300
Bond Proceeds	0	0	0	0	0	0	0	0	0	0
Total Sources of Funds	3,388,498	3,844,310	4,294,045	4,100,374	4,013,416	4,378,245	6,038,365	5,128,494	5,599,451	5,898,792
Water Utility O&M	621,003	704,032	724,051	744,642	765,823	787,610	810,022	833,075	856,789	881,182
Water Utility Capital	0	509,232	1,147,363	866,642	0	0	922,405	0	0	833,228
Sewer Utility	345,175	354,932	364,974	375,310	385,948	396,897	408,168	419,770	431,713	444,007
Treatment O&M	895,946	922,221	949,283	977,158	1,005,869	1,035,443	1,065,906	1,097,286	1,129,610	1,162,908
Sewer Utility Capital	0	79,568	0	67,531	579,637	597,026	1,414,355	1,013,416	1,043,819	0
Debt Service	0	0	0	0	0	0	0	0	0	0
Available Ending Fund Balance	1,385,196	1,123,836	963,683	910,083	1,112,689	1,393,251	1,244,798	1,587,410	1,955,021	2,389,865
Minimum Fund Balance	141,178	150,489	154,690	159,010	163,450	168,016	172,711	177,537	182,500	187,602
Total Uses of Funds	3,388,498	3,844,310	4,294,045	4,100,374	4,013,416	4,378,245	6,038,365	5,128,494	5,599,451	5,898,792

Description	Projected FY 2020-21	Projected FY 2021-22	Projected FY 2022-23	Projected FY 2023-24	Projected FY 2024-25	Projected FY 2025-26	Projected FY 2026-27	Projected FY 2027-28	Projected FY 2028-29	Projected FY 2029-30
Beginning Balance	2,577,467	2,536,925	2,231,798	2,429,000	3,125,547	3,492,251	3,477,207	3,452,846	3,604,974	3,151,992
Water Rate Revenue	1,313,665	1,344,628	1,376,321	1,408,761	1,441,965	1,475,952	1,510,740	1,546,348	1,582,796	1,620,102
Sewer Rate Revenue	1,790,878	1,833,089	1,876,294	1,920,519	1,965,785	2,012,119	2,059,545	2,108,088	2,157,776	2,208,634
Hook up fees	3,700	3,700	3,700	3,700	3,700	3,700	3,700	3,700	3,700	3,700

Penalty and Interest	6,760	6,760	6,760	6,760	6,760	6,760	6,760	6,760	6,760	6,760	6,760	6,760	6,760
Interest Revenue & Misc	125,339	123,717	119,400	147,262	161,328	161,930	161,328	161,328	160,354	166,439	148,320	148,320	148,320
Grant Funding	1,769,592	2,380,814	25,457	854,296	1,784,087	1,772,180	1,784,087	1,784,087	1,360,165	2,774,954	2,952,260	2,952,260	2,952,260
Other Revenue	1,300	1,300	1,300	1,300	1,300	1,300	1,300	1,300	1,300	1,300	1,300	1,300	1,300
Bond Proceeds	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Sources of Funds	7,588,699	8,230,932	5,914,896	7,546,615	9,004,667	8,926,192	9,004,667	9,004,667	8,639,561	10,298,699	10,093,068	10,093,068	10,093,068
Water Utility O&M	906,276	932,089	985,957	1,014,055	1,072,691	1,042,958	1,072,691	1,072,691	1,103,277	1,134,740	1,167,106	1,167,106	1,167,106
Water Utility Capital	1,716,450	1,767,943	0	560,868	1,190,050	1,211,553	1,190,050	1,190,050	1,055,508	2,174,348	2,239,578	2,239,578	2,239,578
Sewer Utility O&M	456,665	469,697	496,926	511,148	540,868	525,791	540,868	540,868	556,393	572,379	588,842	588,842	588,842
Treatment O&M	1,197,213	1,232,552	1,306,466	1,345,107	1,425,934	1,384,917	1,425,934	1,425,934	1,468,193	1,511,735	1,556,598	1,556,598	1,556,598
Sewer Utility Capital	775,171	1,596,852	0	623,187	1,322,278	1,283,765	1,322,278	1,322,278	851,217	1,753,506	1,941,570	1,941,570	1,941,570
Debt Service	0	0	0	0	0	0	0	0	0	0	0	0	0
Available Ending Fund Balance	2,344,077	2,033,556	2,916,057	3,276,898	3,225,267	3,255,826	3,225,267	3,225,267	3,371,021	2,911,485	2,352,131	2,352,131	2,352,131
Minimum Fund Balance	192,848	198,242	209,490	215,353	227,580	221,381	227,580	227,580	233,953	240,506	247,244	247,244	247,244
Total Uses of Funds	7,588,699	8,230,932	5,914,896	7,546,615	9,004,667	8,926,192	9,004,667	9,004,667	8,639,561	10,298,699	10,093,068	10,093,068	10,093,068

ATTACHMENT 2
Projected Water Rates
City of Kenai Water and Sewer Rate Study

	FY 2010-11	FY 2011-12	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20
Proposed Increase	0%	0%	50%	12%	12%	10%	10%	10%	5%	2%
Unmetered Residential	\$13.78	\$13.78	\$20.67	\$23.15	\$25.93	\$28.52	\$31.37	\$34.51	\$36.24	\$36.96
Unmetered Commercial-Demand Charge										
5/8" or 3/4"	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
1"	\$13.98	\$13.98	\$20.97	\$23.49	\$26.30	\$28.94	\$31.83	\$35.01	\$36.76	\$37.50
1 1/4"	\$21.30	\$21.30	\$31.95	\$35.78	\$40.08	\$44.09	\$48.49	\$53.34	\$56.01	\$57.13
1 1/2"	\$35.27	\$35.27	\$52.91	\$59.25	\$66.36	\$73.00	\$80.30	\$88.33	\$92.75	\$94.60
2"	\$53.24	\$53.24	\$79.86	\$89.44	\$100.18	\$110.19	\$121.21	\$133.33	\$140.00	\$142.80
3"	\$79.86	\$79.86	\$119.79	\$134.16	\$150.26	\$165.29	\$181.82	\$200.00	\$210.00	\$214.20
Over 3"	\$119.79	\$119.79	\$179.69	\$201.25	\$225.40	\$247.94	\$272.73	\$300.00	\$315.00	\$321.30
Unmetered Commercial-Use Charge										
Bowling Alleys (per account)	\$38.60	\$38.60	\$57.90	\$64.85	\$72.63	\$79.89	\$87.88	\$96.67	\$101.50	\$103.53
Churches (per unit)	\$0.15	\$0.15	\$0.23	\$0.25	\$0.28	\$0.31	\$0.34	\$0.38	\$0.39	\$0.40
Dentist (per unit)	\$8.32	\$8.32	\$12.48	\$13.98	\$15.65	\$17.22	\$18.94	\$20.84	\$21.88	\$22.32
Doctor (per unit)	\$8.32	\$8.32	\$12.48	\$13.98	\$15.65	\$17.22	\$18.94	\$20.84	\$21.88	\$22.32
Garage/Service Station (per account)	\$16.64	\$16.64	\$24.96	\$27.96	\$31.31	\$34.44	\$37.88	\$41.67	\$43.76	\$44.63
Hanger-no wash (per account)	\$16.64	\$16.64	\$24.96	\$27.96	\$31.31	\$34.44	\$37.88	\$41.67	\$43.76	\$44.63
Hanger-with wash (per account)	\$19.29	\$19.29	\$28.94	\$32.41	\$36.30	\$39.93	\$43.92	\$48.31	\$50.73	\$51.74
Hotel (per unit)	\$8.65	\$8.65	\$12.98	\$14.53	\$16.28	\$17.90	\$19.69	\$21.66	\$22.75	\$23.20
Laundry (per unit)	\$15.65	\$15.65	\$23.48	\$26.29	\$29.45	\$32.39	\$35.63	\$39.19	\$41.15	\$41.98
Office (per account)	\$18.63	\$18.63	\$27.95	\$31.30	\$35.05	\$38.56	\$42.42	\$46.66	\$48.99	\$49.97
Recreation/per restroom (per unit)	\$9.32	\$9.32	\$13.98	\$15.66	\$17.54	\$19.29	\$21.22	\$23.34	\$24.51	\$25.00
Residential (per account)	\$13.98	\$13.98	\$20.97	\$23.49	\$26.30	\$28.94	\$31.83	\$35.01	\$36.76	\$37.50
Restaurant (per unit)	\$1.20	\$1.20	\$1.80	\$2.02	\$2.26	\$2.48	\$2.73	\$3.01	\$3.16	\$3.22
Restaurant/Bar (per unit)	\$1.20	\$1.20	\$1.80	\$2.02	\$2.26	\$2.48	\$2.73	\$3.01	\$3.16	\$3.22
School (per unit)	\$0.56	\$0.56	\$0.84	\$0.94	\$1.05	\$1.16	\$1.27	\$1.40	\$1.47	\$1.50
Shops (per account)	\$9.66	\$9.66	\$14.49	\$16.23	\$18.18	\$19.99	\$21.99	\$24.19	\$25.40	\$25.91
Sleeping Rooms (per unit)	\$3.67	\$3.67	\$5.51	\$6.17	\$6.91	\$7.60	\$8.36	\$9.19	\$9.65	\$9.84
Theater (per unit)	\$0.07	\$0.07	\$0.11	\$0.12	\$0.13	\$0.14	\$0.16	\$0.18	\$0.18	\$0.19
Metered Customers										
5/8" or 3/4"	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
1"	\$13.98	\$13.98	\$20.97	\$23.49	\$26.30	\$28.94	\$31.83	\$35.01	\$36.76	\$37.50

	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29	FY 2029-30
1 1/2"	\$35.27	\$35.27	\$52.91	\$59.25	\$66.36	\$73.00	\$80.30	\$88.33	\$92.75	\$94.60
2"	\$53.24	\$53.24	\$79.86	\$89.44	\$100.18	\$110.19	\$121.21	\$133.33	\$140.00	\$142.80
3"	\$79.86	\$79.86	\$119.79	\$134.16	\$150.26	\$165.29	\$181.82	\$200.00	\$210.00	\$214.20
4"	\$119.79	\$119.79	\$179.69	\$201.25	\$225.40	\$247.94	\$272.73	\$300.00	\$315.00	\$321.30
Volume Charge (\$/1000 gallons)	\$1.33	\$1.33	\$2.00	\$2.23	\$2.50	\$2.75	\$3.03	\$3.33	\$3.50	\$3.57
	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%
Proposed Increase	\$37.70	\$38.45	\$39.22	\$40.01	\$40.81	\$41.62	\$42.46	\$43.31	\$44.17	\$45.06
Unmetered Residential Charge	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Unmetered Commercial-Demand Charge	\$38.25	\$39.01	\$39.79	\$40.59	\$41.40	\$42.23	\$43.07	\$43.93	\$44.81	\$45.71
5/8" or 3/4"	\$58.27	\$59.44	\$60.63	\$61.84	\$63.08	\$64.34	\$65.63	\$66.94	\$68.28	\$69.64
1"	\$96.49	\$98.42	\$100.39	\$102.40	\$104.45	\$106.54	\$108.67	\$110.84	\$113.06	\$115.32
1 1/4"	\$145.66	\$148.57	\$151.54	\$154.57	\$157.66	\$160.82	\$164.03	\$167.31	\$170.66	\$174.07
1 1/2"	\$218.49	\$222.86	\$227.31	\$231.86	\$236.50	\$241.23	\$246.05	\$250.97	\$255.99	\$261.11
2"	\$327.73	\$334.28	\$340.97	\$347.79	\$354.74	\$361.84	\$369.08	\$376.46	\$383.99	\$391.67
3"										
Unmetered Commercial-Use Charge	\$105.60	\$107.72	\$109.87	\$112.07	\$114.31	\$116.60	\$118.93	\$121.31	\$123.73	\$126.21
Bowling Alleys (per account)	\$0.41	\$0.42	\$0.43	\$0.44	\$0.44	\$0.45	\$0.46	\$0.47	\$0.48	\$0.49
Churches (per unit)	\$22.76	\$23.22	\$23.68	\$24.16	\$24.64	\$25.13	\$25.63	\$26.15	\$26.67	\$27.20
Dentist (per unit)	\$22.76	\$23.22	\$23.68	\$24.16	\$24.64	\$25.13	\$25.63	\$26.15	\$26.67	\$27.20
Doctor (per unit)	\$45.52	\$46.44	\$47.36	\$48.31	\$49.28	\$50.26	\$51.27	\$52.29	\$53.34	\$54.41
Garage/Service Station (per account)	\$45.52	\$46.44	\$47.36	\$48.31	\$49.28	\$50.26	\$51.27	\$52.29	\$53.34	\$54.41
Hanger-no wash (per account)	\$52.77	\$53.83	\$54.91	\$56.01	\$57.13	\$58.27	\$59.43	\$60.62	\$61.83	\$63.07
Hanger-with wash (per account)	\$23.67	\$24.14	\$24.62	\$25.11	\$25.62	\$26.13	\$26.65	\$27.18	\$27.73	\$28.28
Hotel (per unit)	\$42.82	\$43.67	\$44.55	\$45.44	\$46.35	\$47.27	\$48.22	\$49.18	\$50.17	\$51.17
Laundry (per unit)	\$50.97	\$51.99	\$53.03	\$54.09	\$55.17	\$56.27	\$57.40	\$58.55	\$59.72	\$60.91
Office (per account)	\$25.50	\$26.01	\$26.53	\$27.06	\$27.60	\$28.15	\$28.72	\$29.29	\$29.88	\$30.47
Recreation/per restroom (per unit)	\$38.25	\$39.01	\$39.79	\$40.59	\$41.40	\$42.23	\$43.07	\$43.93	\$44.81	\$45.71
Residential (per account)	\$3.28	\$3.35	\$3.42	\$3.48	\$3.55	\$3.62	\$3.70	\$3.77	\$3.85	\$3.92
Restaurant (per unit)	\$3.28	\$3.35	\$3.42	\$3.48	\$3.55	\$3.62	\$3.70	\$3.77	\$3.85	\$3.92
Restaurant/Bar (per unit)	\$1.53	\$1.56	\$1.59	\$1.63	\$1.66	\$1.69	\$1.73	\$1.76	\$1.80	\$1.83
School (per unit)	\$26.43	\$26.96	\$27.50	\$28.05	\$28.61	\$29.18	\$29.76	\$30.36	\$30.97	\$31.58
Shops (per account)	\$10.04	\$10.24	\$10.45	\$10.66	\$10.87	\$11.09	\$11.31	\$11.53	\$11.76	\$12.00
Sleeping Rooms (per unit)	\$0.19	\$0.20	\$0.20	\$0.20	\$0.21	\$0.21	\$0.22	\$0.22	\$0.22	\$0.23
Theater (per unit)										
Metered Customers										

ATTACHMENT 3
Projected Sewer Rates
City of Kenai Water and Sewer Rate Study

	FY 2010-11	FY 2011-12	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20
Proposed Increase	0%	0%	5%	5%	3%	3%	3%	3%	2%	2%
Unmetered Residential	\$40.35	\$40.35	\$42.37	\$44.49	\$45.82	\$47.20	\$48.61	\$50.07	\$51.07	\$52.09
Unmetered Commercial-Demand Charge										
5/8" or 3/4"	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
1"	\$40.74	\$40.74	\$42.78	\$44.92	\$46.26	\$47.65	\$49.08	\$50.55	\$51.56	\$52.60
1 1/4"	\$60.41	\$60.41	\$63.43	\$66.60	\$68.60	\$70.66	\$72.78	\$74.96	\$76.46	\$77.99
1 1/2"	\$102.56	\$102.56	\$107.69	\$113.07	\$116.46	\$119.96	\$123.56	\$127.26	\$129.81	\$132.41
2"	\$153.14	\$153.14	\$160.80	\$168.84	\$173.90	\$179.12	\$184.49	\$190.03	\$193.83	\$197.70
3"	\$231.81	\$231.81	\$243.40	\$255.57	\$263.24	\$271.13	\$279.27	\$287.65	\$293.40	\$299.27
Over 3"	\$348.42	\$348.42	\$365.84	\$384.13	\$395.66	\$407.53	\$419.75	\$432.35	\$440.99	\$449.81
Unmetered Commercial-Use Charge										
Bowling Alleys (per account)	\$113.10	\$113.10	\$118.76	\$124.69	\$128.43	\$132.29	\$136.26	\$140.34	\$143.15	\$146.01
Churches (per unit)	\$0.43	\$0.43	\$0.45	\$0.47	\$0.49	\$0.50	\$0.52	\$0.53	\$0.54	\$0.56
Dentist (per unit)	\$24.24	\$24.24	\$25.45	\$26.72	\$27.53	\$28.36	\$29.20	\$30.08	\$30.68	\$31.29
Doctor (per unit)	\$24.24	\$24.24	\$25.45	\$26.72	\$27.53	\$28.36	\$29.20	\$30.08	\$30.68	\$31.29
Garage/Service Station (per account)	\$49.17	\$49.17	\$51.63	\$54.21	\$55.84	\$57.51	\$59.24	\$61.01	\$62.23	\$63.48
Hanger-no wash (per account)	\$48.82	\$48.82	\$51.26	\$53.82	\$55.44	\$57.10	\$58.81	\$60.58	\$61.79	\$63.03
Hanger-with wash (per account)	\$56.20	\$56.20	\$59.01	\$61.96	\$63.82	\$65.73	\$67.71	\$69.74	\$71.13	\$72.55
Hotel (per unit)	\$24.94	\$24.94	\$26.19	\$27.50	\$28.32	\$29.17	\$30.05	\$30.95	\$31.57	\$32.20
Laundry (per unit)	\$45.31	\$45.31	\$47.58	\$49.95	\$51.45	\$53.00	\$54.59	\$56.22	\$57.35	\$58.50
Office (per account)	\$53.39	\$53.39	\$56.06	\$58.86	\$60.63	\$62.45	\$64.32	\$66.25	\$67.58	\$68.93
Recreation/per restroom (per unit)	\$27.04	\$27.04	\$28.39	\$29.81	\$30.71	\$31.63	\$32.58	\$33.55	\$34.22	\$34.91
Residential (per account)	\$40.35	\$40.35	\$42.37	\$44.49	\$45.82	\$47.20	\$48.61	\$50.07	\$51.07	\$52.09
Restaurant (per unit)	\$3.59	\$3.59	\$3.77	\$3.96	\$4.08	\$4.20	\$4.32	\$4.45	\$4.54	\$4.63
Restaurant/Bar (per unit)	\$3.59	\$3.59	\$3.77	\$3.96	\$4.08	\$4.20	\$4.32	\$4.45	\$4.54	\$4.63
School (per unit)	\$1.62	\$1.62	\$1.70	\$1.79	\$1.84	\$1.89	\$1.95	\$2.01	\$2.05	\$2.09
Shops (per account)	\$9.66	\$9.66	\$10.14	\$10.65	\$10.97	\$11.30	\$11.64	\$11.99	\$12.23	\$12.47
Sleeping Rooms (per unit)	\$10.89	\$10.89	\$11.43	\$12.01	\$12.37	\$12.74	\$13.12	\$13.51	\$13.78	\$14.06
Theater (per unit)	\$0.19	\$0.19	\$0.20	\$0.21	\$0.22	\$0.22	\$0.23	\$0.24	\$0.24	\$0.25

ATTACHMENT 3
Projected Sewer Rates
City of Kenai Water and Sewer Rate Study

Metered Customers		FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29	FY 2029-30
		2%	2%	2%	2%	2%	2%	2%	2%	2%	2%
5/8" or 3/4"	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
1"	\$40.74	\$40.74	\$42.78	\$44.92	\$46.26	\$47.65	\$49.08	\$50.55	\$51.56	\$51.56	\$52.60
1 1/2"	\$102.56	\$102.56	\$107.69	\$113.07	\$116.46	\$119.96	\$123.56	\$127.26	\$129.81	\$129.81	\$132.41
2"	\$153.14	\$153.14	\$160.80	\$168.84	\$173.90	\$179.12	\$184.49	\$190.03	\$193.83	\$193.83	\$197.70
3"	\$231.81	\$231.81	\$243.40	\$255.57	\$263.24	\$271.13	\$279.27	\$287.65	\$293.40	\$293.40	\$299.27
4"	\$348.42	\$348.42	\$365.84	\$384.13	\$395.66	\$407.53	\$419.75	\$432.35	\$440.99	\$440.99	\$449.81
Volume Charge (\$/1000 gallons)	\$4.00	\$4.00	\$4.20	\$4.41	\$4.54	\$4.68	\$4.82	\$4.96	\$5.06	\$5.06	\$5.16
Proposed Increase											
Unmetered Residential	\$53.13	\$54.20	\$55.28	\$56.39	\$57.51	\$58.66	\$59.84	\$61.03	\$62.25	\$62.25	\$63.50
Unmetered Commercial-Demand Charge											
5/8" or 3/4"	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
1"	\$53.65	\$54.72	\$55.81	\$56.93	\$58.07	\$59.23	\$60.42	\$61.62	\$62.86	\$62.86	\$64.11
1 1/4"	\$79.55	\$81.14	\$82.76	\$84.42	\$86.11	\$87.83	\$89.59	\$91.38	\$93.20	\$93.20	\$95.07
1 1/2"	\$135.05	\$137.75	\$140.51	\$143.32	\$146.19	\$149.11	\$152.09	\$155.13	\$158.24	\$158.24	\$161.40
2"	\$201.66	\$205.69	\$209.81	\$214.00	\$218.28	\$222.65	\$227.10	\$231.64	\$236.28	\$236.28	\$241.00
3"	\$305.25	\$311.36	\$317.59	\$323.94	\$330.42	\$337.02	\$343.76	\$350.64	\$357.65	\$357.65	\$364.81
Over 3"	\$458.81	\$467.98	\$477.34	\$486.89	\$496.63	\$506.56	\$516.69	\$527.03	\$537.57	\$537.57	\$548.32
Unmetered Commercial-Use Charge											
Bowling Alleys (per account)	\$148.93	\$151.91	\$154.95	\$158.05	\$161.21	\$164.43	\$167.72	\$171.08	\$174.50	\$174.50	\$177.99
Churches (per unit)	\$0.57	\$0.58	\$0.59	\$0.60	\$0.61	\$0.63	\$0.64	\$0.65	\$0.66	\$0.66	\$0.68
Dentist (per unit)	\$31.92	\$32.56	\$33.21	\$33.87	\$34.55	\$35.24	\$35.95	\$36.67	\$37.40	\$37.40	\$38.15
Doctor (per unit)	\$31.92	\$32.56	\$33.21	\$33.87	\$34.55	\$35.24	\$35.95	\$36.67	\$37.40	\$37.40	\$38.15
Garage/Service Station (per account)	\$64.75	\$66.04	\$67.36	\$68.71	\$70.09	\$71.49	\$72.92	\$74.38	\$75.86	\$75.86	\$77.38
Hanger-no wash (per account)	\$64.29	\$65.57	\$66.88	\$68.22	\$69.59	\$70.98	\$72.40	\$73.85	\$75.32	\$75.32	\$76.83
Hanger-with wash (per account)	\$74.01	\$75.49	\$77.00	\$78.54	\$80.11	\$81.71	\$83.34	\$85.01	\$86.71	\$86.71	\$88.44
Hotel (per unit)	\$32.84	\$33.50	\$34.17	\$34.85	\$35.55	\$36.26	\$36.98	\$37.72	\$38.48	\$38.48	\$39.25
Laundry (per unit)	\$59.67	\$60.86	\$62.08	\$63.32	\$64.58	\$65.88	\$67.19	\$68.54	\$69.91	\$69.91	\$71.31
Office (per account)	\$70.31	\$71.71	\$73.15	\$74.61	\$76.10	\$77.62	\$79.18	\$80.76	\$82.37	\$82.37	\$84.02
Recreation/per restroom (per unit)	\$35.61	\$36.32	\$37.05	\$37.79	\$38.54	\$39.31	\$40.10	\$40.90	\$41.72	\$41.72	\$42.55
Residential (per account)	\$53.13	\$54.20	\$55.28	\$56.39	\$57.51	\$58.66	\$59.84	\$61.03	\$62.25	\$62.25	\$63.50

ATTACHMENT 3
Projected Sewer Rates
City of Kenai Water and Sewer Rate Study

Restaurant (per unit)	\$4.73	\$4.82	\$4.92	\$5.02	\$5.12	\$5.22	\$5.32	\$5.43	\$5.54	\$5.65
Restaurant/Bar (per unit)	\$4.73	\$4.82	\$4.92	\$5.02	\$5.12	\$5.22	\$5.32	\$5.43	\$5.54	\$5.65
School (per unit)	\$2.13	\$2.18	\$2.22	\$2.26	\$2.31	\$2.36	\$2.40	\$2.45	\$2.50	\$2.55
Shops (per account)	\$12.72	\$12.97	\$13.23	\$13.50	\$13.77	\$14.04	\$14.33	\$14.61	\$14.90	\$15.20
Sleeping Rooms (per unit)	\$14.34	\$14.63	\$14.92	\$15.22	\$15.52	\$15.83	\$16.15	\$16.47	\$16.80	\$17.14
Theater (per unit)	\$0.25	\$0.26	\$0.26	\$0.27	\$0.27	\$0.28	\$0.28	\$0.29	\$0.29	\$0.30
Metered Customers										
5/8" or 3/4"	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
1"	\$53.65	\$54.72	\$55.81	\$56.93	\$58.07	\$59.23	\$60.42	\$61.62	\$62.86	\$64.11
1 1/2"	\$135.05	\$137.75	\$140.51	\$143.32	\$146.19	\$149.11	\$152.09	\$155.13	\$158.24	\$161.40
2"	\$201.66	\$205.69	\$209.81	\$214.00	\$218.28	\$222.65	\$227.10	\$231.64	\$236.28	\$241.00
3"	\$305.25	\$311.36	\$317.59	\$323.94	\$330.42	\$337.02	\$343.76	\$350.64	\$357.65	\$364.81
4"	\$458.81	\$467.98	\$477.34	\$486.89	\$496.63	\$506.56	\$516.69	\$527.03	\$537.57	\$548.32
Volume Charge (\$/1000 gallons)	\$5.27	\$5.37	\$5.48	\$5.59	\$5.70	\$5.82	\$5.93	\$6.05	\$6.17	\$6.29

The City hired HDR Engineering Inc. to perform a comprehensive water and sewer rate study. A comprehensive rate study typically utilizes three interrelated analyses to address the adequacy and equity of utility rates. These three analyses are a:

- revenue requirement analysis
- cost of service analysis, and
- rate design analysis.

The revenue requirement analysis determines the overall rate adjustment necessary for each utility by comparing the sources of funds (i.e., rate revenues, late fees, interest income, etc.) to the expenses of each utility (O&M expenses and capital). Next, the cost of service analysis allocates the expenses of the utility to the various customer classes of service (e.g., residential, multi-family, commercial, etc.) using generally accepted water and sewer methodologies (AWWA and WEF) based on each customer class' customer characteristics (consumption/volume, peak/strength, etc.). The final step is to design rates around the results of the revenue requirement and cost of service results to develop cost-based and equitable rates.

Each utility was financially evaluated on a stand-alone basis. That is, no subsidies between the water and sewer funds, or any other City funds, should occur. By viewing the water and sewer utilities on a stand alone basis, the need to adequately fund both O&M and capital infrastructure must be balanced against the rate impacts to customers.

Based on the technical analysis undertaken as part of this study, the following findings, conclusions, and recommendations were noted.

- A revenue requirement analysis was developed for the City's water and sewer utilities for the fiscal years (FY) of 2010 - 2015.
- For the water utility, overall revenues for the utility were recommended to be adjusted annually by 2.5% in FY 2012 through FY 2015 to prudently fund the operating and capital needs of the water utility.
- For the sewer utility, overall revenues for the utility were recommended to be adjusted annually by 6.5% in FY 2012 through FY 2015 to adequately fund the operating and capital needs of the sewer utility.
- The existing water and sewer rate structures were maintained and only the level of the rates was adjusted.
- The relationship between the un-metered flat rate and the metered rates were revised to reflect the impact to a un-metered customer based on the average metered customers use (i.e., un-metered rate equals the same rate as the average metered customer).
- Variable meter charges were implemented for the water rates to reflect the fixed costs of the system and the capacity of the meter by size.
- Each customer will pay the monthly meter charge, by specific customer size, regardless of use, or service status with an active account, for both water and sewer.
- Based on the revisions to the un-metered and metered rates individual customer impacts will be different than the overall utility rate adjustment (i.e., specific customer bills may be different than the overall system adjustment of 2.5% for water or 6.5% for sewer).

Water Utility Summary

Based on the 2011 water utility budget the revenue requirement has been developed. Provided below is a summary of the water revenue requirement.

Summary of the Water Revenue Requirement (\$000s)						
	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Sources of Funds						
Rate Revenue	\$397	\$401	\$405	\$409	\$413	\$417
Miscellaneous Revenue	65	46	47	49	51	44
Total Source of Funds	\$462	\$447	\$452	\$458	\$464	\$461
Applications of Funds						
Total O&M Expenses	\$359	\$394	\$411	\$428	\$445	\$463
CIP from Rates	0	55	55	55	55	55
Debt Service	0	0	0	0	0	0
Change in Working Capital (+/-)	102	(6)	(9)	(9)	(9)	(20)
Total Application of Funds	\$460	\$443	\$457	\$474	\$491	\$498
Balance/(Deficiency) of Funds	\$2	\$3	(\$6)	(\$16)	(\$27)	(\$37)
Balance as % of Rev from Rates	-0.6%	-0.8%	1.4%	3.8%	6.4%	8.8%
Proposed Rate Adjustment	0.0%	0.0%	2.5%	2.5%	2.5%	2.5%

The results of the water revenue requirement indicate that annual adjustments of 2.5% are necessary to prudently fund the water operating and capital needs. The key driver of the results is inflationary increases in O&M and adequate funding of capital needs through rates.

HDR also completed a cost of service study which equitably allocates the expenses of the water utility between the different customer classes of service. The results of the cost of service showed minor cost differences. Given the goal to adequately fund the water utility needs no cost of service adjustments were implemented at this time.

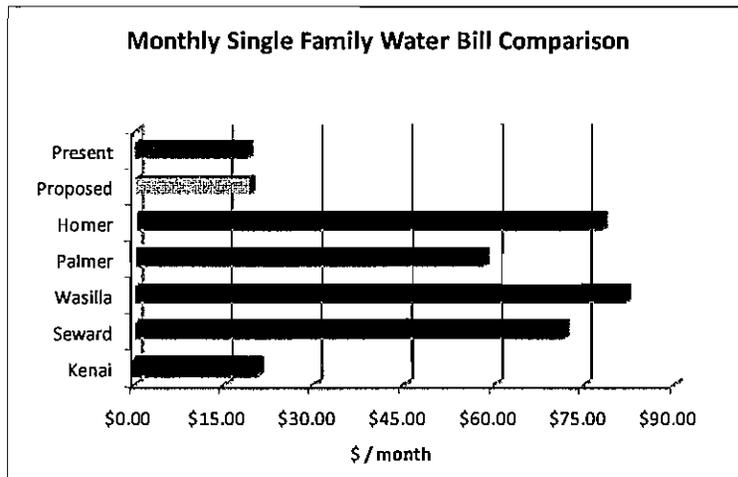
The rate designs were based on the results of the revenue requirement and rate transition plan (i.e., 2.5% annually in 2012 - 2015). The rate structure was not adjusted, that is how the customer is billed. However, the level of the rates, the amount to be collected from the customers, was adjusted to reflect the annual increase in rates of 2.5%. Based on the proposed metered rates, the un-metered rate was calculated based on the average metered customer's bill. Provided below is a summary of the present and proposed rates for 2012 through 2015.

Present and Proposed Single Family Water Rates

	Present FY 2011	Proposed FY 2012	Proposed FY 2013	Proposed FY 2014	Proposed FY 2015
Flat Rate Customer - \$ / Month					
per customer	\$18.90	\$19.35	\$19.85	\$20.35	\$20.85
Metered Rate Customer					
Monthly Meter Charge	\$5.65	N/A	N/A	N/A	N/A
3/4" Meter	N/A	\$9.25	\$9.50	\$9.75	\$10.00
1" Meter	N/A	9.75	10.00	10.25	10.50
1 1/4" Meter	N/A	10.25	10.50	10.75	11.00
1 1/2" Meter	N/A	11.50	11.80	12.10	12.40
Consumption Charge					
(\$ / gallon)	\$0.00224	\$0.00185	\$0.00190	\$0.00195	\$0.00200

The single family rate has two separate rate structures. The flat rate, or unmetered, rate is a monthly flat charge per customer. The metered rate is comprised of a meter charge specific to meter size per month and a volumetric charge per gallon of consumption. When the metered rate structure is compared to the present rate, the rate structure remained the same except for the meter charge varies by the size of the meter which reflects the capacity, or fixed, costs related to having a larger meter.

Under the present un-metered rates, the customer bill would be \$18.90. Under the proposed un-metered rates, the same would pay \$19.35 or a \$0.45/month difference. The proposed metered rate for a customer using 6,000 gallons a month would be \$20.35, very close to the typical un-metered customer. It should be noted that with the implementation of the variable monthly meter charges the impact to the metered customer will not be the system average increase of 2.5%.



Trailer court customers pay a flat monthly charge for service. At this time there are no metered trailer court customers. It was determined that the trailer court rate would be transitioned over the next five-year period to the single family rate.

Present and Proposed Trailer Court Water Rates

	Present FY 2011	Proposed FY 2012	Proposed FY 2013	Proposed FY 2014	Proposed FY 2015
Flat Rate Customer - \$ / Month					
per living unit	\$15.34	\$16.45	\$17.85	\$19.35	\$20.85
Metered Rate Customer					
Monthly Meter Charge	\$5.65	N/A	N/A	N/A	N/A
3/4" Meter	N/A	\$9.25	\$9.50	\$9.75	\$10.00
1" Meter	N/A	9.75	10.00	10.25	10.50
1 1/4" Meter	N/A	10.25	10.50	10.75	11.00
1 1/2" Meter	N/A	11.50	11.80	12.10	12.40
Consumption Charge (\$ / gallon)	\$0.00224	\$0.00157	\$0.00171	\$0.00185	\$0.00200

Beginning in FY 2012 the un-metered trailer court rate is 85% of the single family rate and increases annually by approximately 5% of the single family rate each year until FY 2015 when it is the same as the single family flat rate. At the present time there are no metered trailer court customers. However, if the City does meter trailer court customers, they would be charged the metered rate until FY 2015 when they would be charged the same rate as metered single family customers.

Multi-family customers are either metered or un-metered. The current flat un-metered rate charge is a single monthly charge per living unit which is approximately 37% of the single family un-metered rate. The metered rate is comprised of a meter charge specific to meter size per month and a volumetric charge per gallon.

Present and Proposed Multi-Family Water Rates

	Present FY 2011	Proposed FY 2012	Proposed FY 2013	Proposed FY 2014	Proposed FY 2015
Flat Rate Customer - \$ / Month					
per unit	\$7.02	\$7.15	\$7.55	\$7.95	\$8.35
Metered Rate Customer					
Monthly Meter Charge	\$5.65	N/A	N/A	N/A	N/A
3/4" Meter	N/A	\$9.25	\$9.50	\$9.75	\$10.00
1" Meter	N/A	9.75	10.00	10.25	10.50
1 1/4" Meter	N/A	10.25	10.50	10.75	11.00
1 1/2" Meter	N/A	11.50	11.80	12.10	12.40
2" Meter	N/A	13.25	13.60	13.95	14.30
Consumption Charge (\$ / gallon)	\$0.00169	\$0.00155	\$0.00159	\$0.00163	\$0.00167

When the multi-family metered rate structure is compared to the present rate, the rate structure remained the same except for the meter charge is now dependent on the size of the

meter. The un-metered rate is based on 40% of the single family un-metered rate based on the average consumption for a multi-family living unit compared to the average single family consumption. Similar to the metered single family proposed rate structure, the impact to the various metered customers will vary depending on the size of the meter and the specific monthly consumption given the transition towards a higher monthly meter charge that varies by meter size and a slight decrease in the consumption charge.

Duplexes are charged a flat un-metered rate on a per unit basis. Currently, un-metered duplex customers are charged approximately 55% of the single family un-metered rate. The current rate structure was maintained, and the proposed rate was transitioned to reflect 60% of the single family un-metered rate per living unit based on the estimated consumption per living unit when compared to a single family customer. The proposed metered duplex rate is the same as the multi-family metered rate.

Present and Proposed Duplex Water Rates					
	Present FY 2011	Proposed FY 2012	Proposed FY 2013	Proposed FY 2014	Proposed FY 2015
Flat Rate Customer - \$ / Month					
per living unit	\$10.42	\$11.05	\$11.50	\$12.00	\$12.50
Metered Rate Customer					
Monthly Meter Charge	\$5.65	N/A	N/A	N/A	N/A
3/4" Meter	N/A	\$9.25	\$9.50	\$9.75	\$10.00
1" Meter	N/A	9.75	10.00	10.25	10.50
1 1/4" Meter	N/A	10.25	10.50	10.75	11.00
1 1/2" Meter	N/A	11.50	11.80	12.10	12.40
2" Meter	N/A	13.25	13.60	13.95	14.30
Consumption Charge (\$ / gallon)	\$0.00169	\$0.00155	\$0.00159	\$0.00163	\$0.00167

Irrigation customers are separately metered customers for outdoor use only. Currently these customers are charged a consumption charge, but no meter charge. Provided below is a summary of the present and proposed irrigation water rates.

Present and Proposed Irrigation Water Rates					
	Present FY 2011	Proposed FY 2012	Proposed FY 2013	Proposed FY 2014	Proposed FY 2015
Metered Rate Customer					
3/4" Meter	N/A	\$9.25	\$9.50	\$9.75	\$10.00
1" Meter	N/A	9.75	10.00	10.25	10.50
1 1/4" Meter	N/A	10.25	10.50	10.75	11.00
1 1/2" Meter	N/A	11.50	11.80	12.10	12.40
2" Meter	N/A	13.25	13.60	13.95	14.30
Consumption Charge (\$ / gallon)	\$0.00158	\$0.00150	\$0.00154	\$0.00158	\$0.00162

To maintain consistency with the other customer classes, meter charges were added to the irrigation proposed rate structure. The meter charges are the same charges as all other metered customers. To adjust for adding in meter charges to the rate structure's billing for FY 2012, consumption charges were not increased by the full 2.5%. The consumption charges were set equal to the commercial customer metered rate consumption charges.

Similar to the proposed residential rates, the commercial rate structure was revised to reflect the variable meter charges based on the size of the customer meter. The rate structure is based on a variable meter charge and a uniform rate structure for consumption. Shown below is a summary of the present and proposed commercial water rates.

Present and Proposed Commercial Water Rates					
	Present FY 2011	Proposed FY 2012	Proposed FY 2013	Proposed FY 2014	Proposed FY 2015
Flat Rate Customer - \$ / Month					
3/4" Service	\$20.16	\$22.33	\$22.90	\$23.45	\$24.05
1" Service	40.03	41.12	42.15	43.20	44.30
1 1/4" Service	54.46	54.89	56.25	57.65	59.10
1 1/2" Service	69.50	69.95	71.70	73.50	75.35
2" Service	161.70	156.56	160.45	164.45	168.55
3" Service	268.63	259.15	265.65	272.30	279.10
4" Service	732.18	692.09	709.40	727.15	745.35
Metered Rate Customer					
Monthly Meter Charge	\$5.65	N/A	N/A	N/A	N/A
3/4" Meter	N/A	\$9.25	\$9.50	\$9.75	\$10.00
1" Meter	N/A	9.75	10.00	10.25	10.50
1 1/4" Meter	N/A	10.25	10.50	10.75	11.00
1 1/2" Meter	N/A	11.50	11.80	12.10	12.40
2" Meter	N/A	13.25	13.60	13.95	14.30
3" Meter	N/A	17.50	17.95	18.40	18.85
4" Meter	N/A	23.75	24.35	24.95	25.55
Consumption Charge (\$ / gallon)	\$0.00158	\$0.00150	\$0.00154	\$0.00158	\$0.00162

The proposed commercial water rate structure is the same as the current rate structure except variable monthly meter charges have been proposed. The un-metered customer rates were adjusted to reflect the average customer's bill assuming the average use for those similar metered customers. In other words, each un-metered rate is based on the metered rate for that meter size and the average consumption. In this way, based on average use, the metered and un-metered customer should have the same monthly bill. Similar to the prior metered rate designs the bill impacts in year 1 of the proposed rate transition plan will vary depending on the customer meter size and specific monthly use. However, in the following years of the rate transition plan the rate adjustment is implemented equally among all customers.

It should also be noted that a monthly minimum charge is being proposed to reflect the fixed costs incurred by the water utility regardless of water consumption. Given the high percentage of fixed costs each customer will pay the monthly fixed charge by meter size even if the water

is turned off. For those un-metered customers they will pay the monthly meter charge for a 3/4" meter.

Sewer Utility Summary

Based on the proposed 2012 sewer utility budget the revenue requirement has been developed. Provided below is a summary of the sewer revenue requirement analysis.

Summary of the Sewer Revenue Requirement (\$000s)						
	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Sources of Funds						
Rate Revenue	\$690	\$697	\$703	\$711	\$718	\$725
Miscellaneous Revenue	54	57	60	62	60	57
Total Source of Funds	\$744	\$753	\$763	\$772	\$778	\$782
Applications of Funds						
Total O&M Expenses	\$734	\$776	\$850	\$928	\$1,007	\$1,090
CIP from Rates	0	0	5	10	15	20
Debt Service	0	0	0	0	0	0
Use of Reserves (+/-)	10	(22)	(47)	(70)	(95)	(121)
Total Application of Funds	\$744	\$754	\$809	\$868	\$927	\$990
Balance/(Deficiency) of Funds	\$0	(\$0)	(\$46)	(\$96)	(\$150)	(\$208)
Balance as % of Rev from Rates	0.0%	0.0%	6.5%	13.5%	20.8%	28.7%
Proposed Rate Adjustment	0.0%	0.0%	6.5%	6.5%	6.5%	6.5%

The results of the sewer revenue requirement indicate that annual adjustments of 6.5% are necessary to prudently fund the sewer operating and capital needs starting in 2012. The key driver of the results is inflationary increases in O&M and adequate funding of capital needs through rates. It should also be noted that existing reserves are being utilized to fund annual deficiencies to minimize the rate increases.

HDR also completed a cost of service study which equitably allocates the expenses of the sewer utility between the different customer classes of service. The results of the cost of service showed cost differences between the customer classes of service. Specifically the commercial low and commercial high customer rates should be adjusted. Given the goal to adequately fund the sewer utility needs the only cost of service adjustments implemented were for the low and high commercial customers.

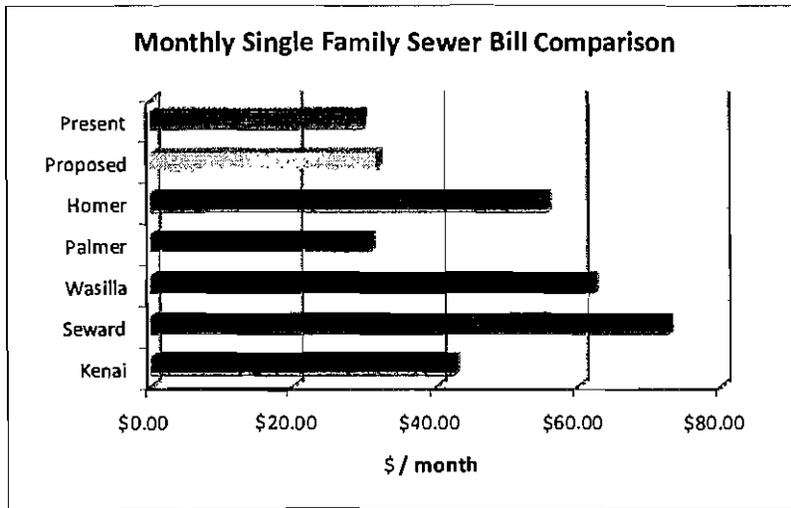
The rate designs were based on the results of the revenue requirement and rate transition plan (i.e., 6.5% annually in 2012 - 2015). The rate structure was not adjusted, that is how the customer is billed. However, the level of the rates, the amount to be collected from the customers, was adjusted to reflect the annual increase in rates of 6.5%. In addition, the un-

metered rates were adjusted to reflect the average bill for a metered customer. Provided below is a summary of the present and proposed rates for 2012 through 2015.

The following tables provide the present and proposed rates for the single family, multi-family, duplex, low, medium, and high base commercial user, and other commercial customers. The single family rate has two rate structures, a flat un-metered rate structure and a metered rate with a monthly meter charge with a volumetric charge.

Present and Proposed Single Family Sewer Rates					
	Present FY 2011	Proposed FY 2012	Proposed FY 2013	Proposed FY 2014	Proposed FY 2015
Flat Rate Customer - \$ / Month					
per customer	\$29.62	\$31.75	\$33.90	\$36.25	\$38.75
Metered Rate Customer					
Monthly Meter Charge	\$11.93	14.45	15.25	16.45	17.65
Volume Charge (\$ / gallon)	\$0.00276	\$0.00280	\$0.00300	\$0.00320	\$0.00341

When compared to the present rate, the rate structure has remained the same and the proposed rate has been adjusted by 6.5%.



For a typical un-metered single family customer, under the present rates, the bill would be \$29.62 per month. Under the proposed rates, the same customer would pay \$31.75 or a \$2.13/month difference. In comparison a metered single family customer monthly bill would be \$31.25 assuming 6,000 gallons of water consumption.

The multi-family customers have two rate structures, a flat rate structure and a monthly meter charge with a volumetric charge.

Present and Proposed Multi-Family Sewer Rates

	Present FY 2011	Proposed FY 2012	Proposed FY 2013	Proposed FY 2014	Proposed FY 2015
<u>Flat Rate Customer - \$ / Month</u> per living unit	\$12.40	\$12.70	\$13.55	\$14.50	\$15.50
<u>Metered Rate Customer</u> Monthly Meter Charge	\$11.15	14.45	15.25	16.45	17.65
Volume Charge (\$ / gallon)	\$0.00284	\$0.00280	\$0.00300	\$0.00320	\$0.00341

Both the flat and metered rate structures were maintained, however, the basis for the monthly flat rate and metered rate were adjusted. This structure was adjusted to reflect the current relationship that un-metered multi-family flat monthly rate is approximately 42% of the un-metered single family flat monthly rate. To maintain that relationship HDR adjusted multi-family rates by 40% of the single family flat monthly rate on a per living unit basis. To maintain consistency the metered multi-family rate is the same as the metered single family rate.

Similar to the multi-family customers, duplex customers have two rate structures, a flat rate structure and a monthly meter charge with a volumetric charge.

Present and Proposed Duplex Sewer Rates

	Present FY 2011	Proposed FY 2012	Proposed FY 2013	Proposed FY 2014	Proposed FY 2015
<u>Flat Rate Customer - \$ / Month</u> per living unit	\$19.56	\$19.05	\$20.35	\$21.75	\$23.25
<u>Metered Rate Customer</u> Monthly Meter Charge	\$11.93	14.45	15.25	16.45	17.65
Volume Charge (\$ / gallon)	\$0.00276	\$0.00280	\$0.00300	\$0.00320	\$0.00341

Both the flat, un-metered, rate and the metered rate were based on a percentage of the single-family rate. The un-metered, flat rate structure was adjusted to reflect the usage requirements of a duplex, two living units, when compared to typical single family home. Based on water and sewer data it was determined that the duplex flat monthly rate is 60% of the single family flat monthly rate. To maintain consistency the metered duplex rate is the same as the metered single family rate.

Similar to the water trailer court rate structure, the sewer trailer court rate was transitioned over the four-year period to be the same as the single family flat rate.

Present and Proposed Trailer Court Sewer Rates

	Present FY 2011	Proposed FY 2012	Proposed FY 2013	Proposed FY 2014	Proposed FY 2015
Flat Rate Customer - \$ / Month					
per living unit	\$25.70	\$27.95	\$31.20	\$34.80	\$38.75
Metered Rate Customer					
Monthly Meter Charge	\$11.15	14.45	15.25	16.45	17.65
Volume Charge (\$ / gallon)	\$0.00284	\$0.00280	\$0.00300	\$0.00320	\$0.00341

By FY 2015 un-metered trailer court rates are the same as the single family flat monthly rate at the end of the four year rate transition period. The metered rates are the same as all other residential customer metered rate structures.

Similar to the previous classes of service the commercial low base user rate structure includes both the flat monthly rate based on the size of the water meter and a metered rate, which includes a monthly meter charge, and a uniform volumetric charge based on water use. The low base user proposed rates included a minor cost of service adjustment to reflect the costs imposed on the system.

Present and Proposed Commercial Low Base User Sewer Rates

	Present FY 2011	Proposed FY 2012	Proposed FY 2013	Proposed FY 2014	Proposed FY 2015
Flat Rate Customer - \$ / Month					
3/4" Service	\$38.31	\$42.22	\$44.95	\$47.85	\$50.95
1" Service	71.93	77.61	82.65	88.00	93.70
1 1/4" Service	96.14	103.09	109.80	116.95	124.55
1 1/2" Service	121.49	129.78	138.20	147.20	156.75
2" Service	277.33	293.82	312.90	333.25	354.90
Metered Rate Customer					
Monthly Meter Charge	\$11.93	14.45	15.25	16.45	17.65
Volume Charge (\$ / gallon)	\$0.00266	\$0.00280	\$0.00300	\$0.00320	\$0.00341

Based on the cost of service analysis the low base user rate would need to be increased in FY 2012 by a slightly higher rate than the proposed rate adjustment. For the low base user a rate increase of 7.5% was applied to determine the revenue needs in FY 2012. The monthly flat rates were adjusted to reflect the average use of a similar customer and the metered rate. In the following years the rates were adjusted by the annual adjustment of 6.5%.

Similar to the low base user, the medium base user rates consist of a flat monthly rate based on the size of the water meter and a metered rate including a monthly meter charge and a uniform volumetric charge.

Present and Proposed Commercial Medium Base User Sewer Rates

	Present FY 2011	Proposed FY 2012	Proposed FY 2013	Proposed FY 2014	Proposed FY 2015
<u>Flat Rate Customer - \$ / Month</u>					
3/4" Service	\$48.03	\$52.59	\$56.00	\$59.65	\$63.55
1" Service	91.62	98.82	105.25	112.10	119.40
1 1/4" Service	122.48	131.55	140.10	149.20	158.90
1 1/2" Service	154.75	165.77	176.55	188.05	200.25
2" Service	362.61	386.21	411.30	438.05	466.50
<u>Metered Rate Customer</u>					
Monthly Meter Charge	\$11.93	\$14.45	\$15.25	\$16.45	\$17.65
Volume Charge (\$ / gallon)	\$0.00351	\$0.00376	\$0.00400	\$0.00426	\$0.00454

The commercial medium base user flat and metered rate structure has been maintained. The flat rate is based on the average metered customer use and metered rate. The metered rate was adjusted to have the same monthly meter charge as all other customers, and increase the volume charge by the overall rate adjustment of 6.5% in FY 2012. Future year's adjustments were based on increasing the revenues by 6.5%.

The commercial high base user also includes a flat and metered rate. For the commercial high base user there was no adjustment proposed for FY 2012, however the base monthly rate was adjusted as was the flat rate. The flat rate was based on the metered rate and the customer's average metered use by meter size. Shown in the table is a summary of the high base user present and proposed sewer rates.

Present and Proposed Commercial High Base User Sewer Rates

	Present FY 2011	Proposed FY 2012	Proposed FY 2013	Proposed FY 2014	Proposed FY 2015
<u>Flat Rate Customer - \$ / Month</u>					
3/4" Service	\$58.50	\$61.02	\$65.00	\$69.20	\$73.70
1" Service	115.98	118.50	126.20	134.40	143.15
1 1/2" Service	200.38	202.90	216.10	230.15	245.10
2" Service	465.05	467.57	497.95	530.30	564.75
<u>Metered Rate Customer</u>					
Monthly Meter Charge	\$11.93	\$14.45	\$15.25	\$16.45	\$17.65
Volume Charge (\$ / gallon)	\$0.00454	\$0.00454	\$0.00484	\$0.00515	\$0.00548

Based on the cost of service results, the high base user rate structures were not increased in FY 2012. Although to maintain consistency between the City's metered rates, the monthly meter charge was adjusted to be the same as all other metered rate meter charges. The flat

rate was gain based on the metered rate and the average use for each meter size. This adjustment was the only adjustment in the FY 2012 to the high base user rates. In FY 2013 through FY 2015 the proposed rate increases of 6.5% per year is applied to determine the target revenues.

Similar to the water utility rates a monthly minimum charge is being proposed to reflect the fixed costs incurred by the sewer utility regardless of wastewater volumes. Given the high percentage of fixed costs each customer will pay the monthly fixed charge if the service is turned off. For those un-metered customers they will pay the monthly charge for the appropriate meter size.

City of Homer
2012 Operating Budget

FUND: 200 WATER AND SEWER SPECIAL REVENUE FUND						
FUND BUDGET:	FY 2009	FY 2010	FY 2011	FY 2012	FY2013	FY2014
	Actual	Actual	Actual	Adopted Budget	Projection	Projection
Revenue						
Water Revenue	\$ 1,551,497	\$ 1,685,020	\$ 1,742,491	\$ 1,717,101	\$ 1,751,443	\$ 1,786,471
Sewer Revenue	1,478,825	1,483,423	1,507,452	1,572,089	1,603,531	1,635,602
Total Operating Revenue:	\$ 3,030,321	\$ 3,168,443	\$ 3,249,942	\$ 3,289,190	\$ 3,090,928	\$ 3,314,941
Operating Expenses before Depreciation :						
Personnel	\$ 1,846,907	\$ 1,714,978	\$ 1,689,797	\$ 1,660,472	\$ 1,693,681	\$ 1,727,555
Operations & Maintenance	1,091,714	874,559	1,078,562	916,106	934,428	953,117
Debt Service	3,038	(222)	523	-	-	-
Other Charges (Administrative Costs)	467,316	476,861	479,981	536,518	547,248	558,193
Total Operating Expenses	\$ 3,408,975	\$ 3,066,176	\$ 3,248,863	\$ 3,113,096	\$ 3,175,358	\$ 3,238,865
Operating Income before Depreciation:	(378,653)	102,266	1,079	176,094	(84,430)	76,076
Depreciation Expense	2,225,964	-	-	-	-	-
Earnings from Operations	\$ (2,604,617)	\$ 102,266	\$ 1,079	\$ 176,094	\$ (84,430)	\$ 76,076
Total Non - Operating Revenue	132,265	210,709	134,461	61,000	137,150	137,150
Earnings before contributions & transfers	\$ (2,472,352)	\$ 312,976	\$ 135,540	\$ 237,094	\$ 52,720	\$ 213,226
Capital Contributions (4999)	1,251,292	-	-	-	-	-
Reserves	100,000	500,000	500,000	200,000	200,000	200,000
Leave Cash Out Bank	37,439	30,849	36,623	35,792	37,582	39,461
Change in Net Assets	(1,358,499)	(217,873)	(401,083)	1,301	(184,863)	(26,235)
Beginning Net Assets	12,671,166	15,196,339	3,613,804	3,212,721	3,214,023	3,029,160
Fixed asset adj for contributed Assets	3,883,672	-	-	-	-	-
Adjust to Special Revenue Fund		(11,091,161)				
Ending Net Assets	15,196,339	3,613,804	3,212,721	3,214,023	3,029,160	3,002,925
<i>During the 2011 Budget process, Council approved Resolution 10-91 and Memorandum 10-131, changing the Water/Sewer Enterprise Fund to operate as a "Special Revenue Fund".</i>						

**City of Homer
2012 Operating Budget**

Fund 200

400 Water & 500 Sewer Fund Revenues

	FY 2009 Actual	FY 2010 Actual	FY 2011 Actual		Difference Between 2011 Amended & 2012 Adopted Budget	
Water Revenue						
Operating Revenue:						
4616 Metered Sales Residential	\$ 455,712	\$ 460,681	\$ 443,853	\$ 713,541		
4617 Metered Sales Commercial	1,035,770	1,154,757	1,230,033	932,560		
4618 Metered Sales Industrial	23,503	31,318	33,594	32,000		
4661 Connection Fees	15,600	14,813	15,516	15,000		
4662 Services & Meters	20,912	23,452	19,495	24,000		
Total Operating Revenue	1,551,497	1,685,020	1,742,491	1,717,101	(25,390)	-1.46%
Non- Operating Revenue						
4801 Interest on Investments	23,846	4,566	4,668	5,000		
4802 Penalty & Interest (Utilities)	9,069	8,812	8,772	6,000		
4527 PERS Revenue	93,758	49,838	108,649	50,000		
4902 Other Revenue	5,592	147,493	12,371	-		
Total Non-Operating Revenue	132,265	210,709	134,461	61,000	(73,461)	-54.63%
Total Water Revenue	\$ 1,683,762	\$ 1,895,729	\$ 1,876,952	\$ 1,778,101	(98,851)	-5.27%
Sewer Revenue						
Operating Revenue						
4616 Metered Sales	589,008	634,165	600,522	953,785		
4617 Meter Sales Commercial	846,763	818,798	882,664	582,305		
4618 Meter sales Industrial	26,030	17,925	16,036	20,000		
4619 Inspection Fees	-	-	-	-		
4662 Services & Meters	13,770	9,609	5,220	13,000		
4701 RV Dump Station	3,253	2,924	3,010	3,000		
Total Operating Revenue	1,478,825	1,483,423	1,507,452	1,572,089	64,638	4.29%
Total Sewer Revenue	\$ 1,478,825	\$ 1,483,423	\$ 1,507,452	\$ 1,572,089	64,638	4.29%
Operating Transfers						
Total Operating Revenue	\$ 3,030,321	\$ 3,168,443	\$ 3,249,942	\$ 3,289,190		
Total Non-Operating Revenue	\$ 132,265	\$ 210,709	\$ 134,461	\$ 61,000		
Total Water & Sewer Revenues	\$ 3,162,586	\$ 3,379,152	\$ 3,384,403	\$ 3,350,190	(34,213)	-1.01%

City of Homer
2012 Operating Budget

EXPENDITURE SUMMARY BY LINE ITEM

	FY 2009 Actual	FY 2010 Actual	FY 2011 Actual	FY 2012 Adopted Budget	Difference Between 2011 Amended & 2012 Adopted Budget	
Salaries and Benefits						
5101 Permanent Employees	528,422	509,706	504,172	516,318	12,146	2.41%
5102 Fringe Benefits	413,459	383,986	378,848	344,372	(34,476)	-9.10%
5103 Part Time Employees	8,299	2,532	590	4,720	4,130	700.33%
5104 P/T Fringe Benefits	857	741	159	637	-	0.00%
5105 Overtime	36,760	32,633	39,736	26,000	(13,736)	-34.57%
5107 Part Time Overtime	30	2	-	-	-	0.00%
Total Salaries and Benefits	987,827	929,599	923,505	892,047	\$ (31,935)	-3.46%
Maintenance and Operations						
5201 Office Supplies	242	1,274	2,010	1,200	(810)	-40.31%
5202 Operating Supplies	95,369	50,785	57,190	45,700	(11,490)	-20.09%
5203 Fuel/Lube	25,746	34,490	49,307	36,000	(13,307)	-26.99%
5204 Chemicals	44,398	43,714	122,401	32,000	(90,401)	-73.86%
5207 Vehicle/Boat Maintenance	-	414	327	1,200	873	266.70%
5208 Equipment Maintenance	35,014	15,203	16,994	42,500	25,506	150.09%
5209 Building & Grounds Maintenance	101,675	12,088	2,628	12,500	9,872	375.71%
5210 Professional & Spec Services	23,422	28,683	18,587	33,600	15,013	80.77%
5211 Accounting/Auditing	6,715	7,392	8,414	9,496	1,082	12.86%
5213 Survey/Appraisal	-	950	-	1,200	1,200	0.00%
5214 Rents & Leases	-	394	-	2,000	2,000	0.00%
5215 Communications	4,119	3,887	4,020	4,200	180	4.48%
5216 Postage/Freight	1,684	83	441	1,500	1,059	239.79%
5217 Electricity	143,794	122,864	188,969	127,000	(61,969)	-32.79%
5220 Refuse/Disposal	270	170	-	-	-	0.00%
5221 Property Insurance	11,108	12,243	13,088	13,444	356	2.72%
5222 Auto Insurance	14,086	11,808	11,033	11,439	406	3.68%
5223 Liability Insurance	21,695	19,274	14,996	17,777	2,781	18.55%
5226 Testing/Analysis	14,444	19,009	17,024	16,000	(1,024)	-6.02%
5227 Advertising	-	249	210	700	490	233.02%
5231 Tools/Equipment	6,985	9,980	5,570	9,700	4,130	74.14%
5233 Computer Related Items	-	-	-	-	-	0.00%
5234 Recording/Permit Fees	235	150	249	1,000	751	301.61%
5235 Memberships/Dues	724	343	553	1,000	447	80.83%
5236 Transportation	-	386	2,006	-	(2,006)	-100.00%
5237 Subsistence	-	301	910	-	(910)	-100.00%
5252 Credit Card Expense	23,043	24,712	25,699	15,000	(10,699)	-41.63%
5261 Construction	-	6,072	59,463	-	(59,463)	-100.00%
5602 Safety Equipment	2,426	1,508	1,863	2,000	137	7.35%
5603 Employee Training	5,123	7,331	170	8,400	8,230	4843.50%
5606 Bad Debt Expense	12,164	3,635	3,163	-	(3,163)	-100.00%
Total Maintenance & Operations	594,480	439,390	627,285	446,556	(180,729)	-28.81%
Capital Outlay, Transfers and Reserves						
5990 Transfers To Reserves	50,000	250,000	250,000	100,000	(150,000)	-60.00%
Leave Cash Out Bank Transfer	15,901	12,785	16,211	15,699	(512)	-3.16%
Total Capital Outlay, Transfers & Res	65,901	262,785	266,211	115,699	(150,512)	-56.54%
5607 Debt Payment	-	(909)	-	-	-	0.00%
5608 Interest Expense	1,673	1,354	523	-	(523)	-100.00%
Total Debt Service	1,673	445	523	-	(523)	-100.00%
5241 G/F Admin Services	183,822	195,392	200,968	226,432	25,464	12.67%
Total Other Charges	183,822	195,392	200,968	226,432	25,464	12.67%
TOTAL	\$ 1,833,703	\$ 1,827,611	\$ 2,018,492	\$ 1,680,735	(337,757)	-16.73%

City of Homer
2012 Operating Budget

NARRATIVE

WATER FUND - ADMINISTRATION

Provide professional, technical, supervisory and administrative resources necessary to support the operation and maintenance of the City's water system. This includes the water source, treatment plant, storage tanks, pressure reducing stations, booster pumps, transmission and distribution pipelines.

Maintain the system to provide for reliable fire suppression, commercial, industrial, bulk water usage, and complete all testing required to ensure the drinking water for City residents meet or exceed all state and federal requirements.

Expenditures reflect costs for producing the EPA mandated water quality report annually.

*** NOTE:**

THE 2012 ADOPTED BUDGET WAS PASSED WITHOUT REGARD TO THE \$12,863.66 LOAN REPAYMENTS TO THE ENERGY FUND AND DEPRECIATON RESERVES OVER THE NEXT 13.4 YEARS. ACCORDING TO AN ANALYSIS THAT WAS COMPLETED, THE LOANS WERE TO BE REPAYED BY SAVINGS ACHIEVED THROUGH REDUCED ENERGY EXPENSES. AT THE TIME BUDGET WAS BEFORE COUNCIL, THE EXACT AMOUNT FOR EACH PROJECT HAD YET TO BE DETERMINED. THIS WILL NEED TO BE APPROVED BY COUNCIL AND THE 2012 BUDGET WILL NEED TO BE AMENDED ACCORDINGLY.			
Loan Amounts:	Energy Fund	\$ 6,284	\$ 468.96 Annually
	Depreciation Reserves	<u>\$166,089</u>	<u>\$12,394.70</u> Annually
	Totals	\$172,373	\$12,863.66 Annually

**City of Homer
2012 Operating Budget**

**FUND 200
400 - WATER FUND ADMINISTRATION**

	FY 2009 Actual	FY 2010 Actual	FY 2011 Actual	FY 2012 Adopted Budget	Difference Between 2011 Amended & 2012 Adopted Budget		
Salaries and Benefits							
5101 Regular Employees	\$ 128,604	\$ 117,390	\$ 123,520	\$ 128,650	5,131	4.15%	
5102 Fringe Benefits	133,287	99,554	70,075	75,017	4,942	7.05%	
5102 PERS Revenue Offset	-	-	54,325	25,000	(29,325)	-53.98%	
5103 P/T Employees	1,457	288	590	-	(590)	-100.00%	
5104 Fringe Benefits P/T	-	36	159	-	(159)	-100.00%	
5105 Overtime	-	1,141	404	1,000	596	147.57%	
5107 P/T Overtime	-	2	-	-	-	0.00%	
Total Salaries and Benefits	263,347	218,411	249,073	229,667	\$ (19,405)	-7.79%	
Maintenance and Operations							
5201 Office Supplies	242	1,274	2,010	1,200	(810)	-40.31%	
5202 Operating Supplies	787	716	556	900	344	61.80%	
5203 Food/Staples	1,511	-	-	-	-	0.00%	
5208 Equipment Maintenance	-	292	50	1,000	950	1900.40%	
5210 Professional & Special Services	7,668	7,581	9,290	13,500	4,210	45.31%	
5211 Accounting/Audit	6,715	7,392	8,414	9,496	1,082	12.86%	
5215 Communications	4,119	3,887	4,020	4,200	180	4.48%	
5216 Postage/Freight	1,684	83	441	1,500	1,059	239.79%	
5221 Property Insurance	11,108	12,243	13,088	13,444	356	2.72%	
5222 Auto Insurance	14,086	11,808	11,033	11,439	406	3.68%	
5223 Liability Insurance	21,695	19,274	14,996	17,777	2,781	18.55%	
5227 Advertising	-	249	210	700	490	233.02%	
5231 Tools/Equipment	803	1,706	375	1,200	825	219.62%	
5233 Computers and Related Items	-	-	-	-	-	0.00%	
5234 Recording/Permit Fees	235	150	249	1,000	751	301.61%	
5235 Memberships/Dues	724	343	553	1,000	447	80.83%	
5236 Transportation	-	386	2,006	-	(2,006)	-100.00%	
5237 Subsistence	-	301	910	-	(910)	-100.00%	
5252 Credit Card Service Fees	23,043	24,712	25,699	15,000	(10,699)	100.00%	
5261 Construction	-	6,072	59,463	-	(59,463)	-100.00%	
5602 Safety Equipment	427	612	721	750	29	4.00%	
5603 Employee Training	3,346	6,885	419	7,200	6,781	1619.03%	
5606 Bad Debt Expense	12,164	3,635	3,163	-	(3,163)	-100.00%	
Total Maintenance and Operations	110,356	109,599	157,667	101,306	(56,360)	-35.75%	
Capital Outlay, Transfers and Reserves							
5106 Leave Cash Out Bank	15,901	12,785	16,211	15,699	(512)	-3.16%	
5990 Transfers to Reserves	50,000	250,000	250,000	100,000	(150,000)	-60.00%	
Total Capital Outlay, Transfers & Reserves	65,901	262,785	266,211	115,699	(150,512)	-56.54%	
Debt Payment							
5607 Debt Payment	-	(909)	-	-	* Note	0.00%	
5608 Debt Payment Interest	1,673	1,354	523	-	(523)	-100.00%	
Total Debt Payment	1,673	445	523	-	(523)	-100.00%	
5241 G/F Administrative Services	183,822	195,392	200,968	226,432	25,464	12.67%	
Total	\$ 625,099	\$ 786,633	\$ 874,442	\$ 673,105	\$(201,336)	-23.02%	
Staffing History	2.15	1.85	1.85	1.95			

LINE - ITEM EXPLANATIONS:

Transfer to Reserves: Although there was a decrease in the budgeted transfer to reserves, any balance of revenues over expenditures is to be transferred to the depreciation reserve account at 2012 Year End.

*Account Number Explanations: See "Appendix" Tab
Capital Outlay: See "Projects" Tab*

Dept	Reserve	2012		Budgeted Expenditure	2012 Ending Balance
		Beginning Balance	Transfer In		
378	Depreciation Reserve	2,365,356	100,000	2,750	2,462,606
	Leave Bank	-	15,699	15,699	

**City of Homer
2012 Operating Budget**

NARRATIVE

WATER FUND - WATER TREATMENT PLANT OPERATIONS

Provide for the operation and maintenance of the water treatment plant. The plant is rated at 2 million gallons per day, utilizing mostly automated controls.

Treatment requires the use of chemicals including chlorine, alum caustic soda, soda ash and a corrosion inhibitor. Fluctuating water source quality demands the constant attention of plant operators.

FUND 200

401 - WATER TREATMENT PLANT

	FY 2009 Actual	FY 2010 Actual	FY 2011 Actual	FY 2012 Adopted Budget	Difference Between 2011 Amended & 2012	
<u>Salaries and Benefits</u>						
5101 Regular Employees	\$ 93,026	\$ 93,697	\$ 91,542	\$ 97,400	5,858	6.40%
5102 Fringe Benefits	72,628	76,025	67,282	63,933	(3,349)	-4.98%
5103 P/T Employees	5,987	1,588	-	4,130	4,130	0.00%
5104 Fringe Benefits P/T	753	625	-	558	558	0.00%
5105 Overtime	21,234	16,217	24,475	11,500	(12,975)	-53.01%
5107 P/T Overtime	27	-	-	-	-	0.00%
<u>Total Salaries and Benefits</u>	193,655	188,151	183,299	177,521	\$ (5,778)	-3.15%
<u>Maintenance and Operations</u>						
5202 Operating Supplies	14,455	6,722	8,092	6,000	(2,092)	-25.85%
5203 Fuel/Lube	24,234	34,490	49,307	35,000	(14,307)	-29.02%
5204 Chemicals	44,398	43,714	122,401	32,000	(90,401)	-73.86%
5207 Vehicle/Boat Maintenance	-	414	327	1,200	873	266.70%
5208 Equipment Maintenance	15,124	10,123	14,261	21,000	6,739	47.26%
5209 Building & Grounds Maintenance	4,756	10,104	2,628	4,000	1,372	52.23%
5210 Professional & Special Services	1,036	2,815	1,655	3,800	2,145	129.58%
5214 Rents & Leases Expense	-	-	-	2,000	2,000	0.00%
5217 Electricity	46,085	40,510	66,508	40,000	(26,508)	-39.86%
5226 Testing/Analysis	504	-	81	-	(81)	-100.00%
5602 Safety Equipment	888	160	217	500	283	130.10%
5603 Employee Training	-	-	(484)	-	484	-100.00%
<u>Total Maintenance and Operations</u>	151,481	149,052	264,992	145,500	(119,492)	-45.09%
Total	\$ 345,135	\$ 337,202	\$ 448,291	\$ 323,021	(125,271)	-27.94%
Staffing History	2.00	1.94	1.94	1.94		

LINE - ITEM EXPLANATIONS:

<p>5204 - Increased cost of chemical purchases 5217 - Projected increase in electric costs</p>

Account Number Explanations: See "Appendix" Tab

City of Homer
2012 Operating Budget

NARRATIVE

WATER FUND - WATER TREATMENT PLANT TESTING

All water testing is completed by certified personnel per ADEC and EPA requirements. This testing assures water system users that the water meets the state and federal drinking water standards. Testing equipment maintenance, special services calibration of testing equipment and testing/analysis costs in support of the water system are reflected here.

FUND 200

402 - WATER TREATMENT PLANT TESTING

		FY 2009	FY 2010	FY 2011	FY 2012	Difference	
		Actual	Actual	Actual	Adopted	Amended & 2012	Between 2011
					Budget	Adopted Budget	
<u>Salaries and Benefits</u>							
5101	Regular Employees	\$ 20,585	\$ 14,425	\$ 12,868	\$ 16,600	3,732	29.01%
5102	Fringe Benefits	12,656	10,483	9,264	10,590	1,326	14.31%
5105	Overtime	267	117	245	500	255	104.05%
<u>Total Salaries and Benefits</u>		33,509	25,025	22,377	27,690	5,313	23.74%
<u>Maintenance and Operations</u>							
5202	Operating Supplies	5,564	2,044	4,966	4,600	(366)	-7.38%
5208	Equipment Maintenance	4,255	2,275	2,519	4,000	1,481	58.81%
5210	Professional & Special Services	-	2,004	607	2,200	1,593	262.70%
5220	Refuse/Disposal	270	170	-	-	-	0.00%
5226	Testing/Analysis	13,940	19,009	16,944	16,000	(944)	-5.57%
<u>Total Maintenance and Operations</u>		24,029	25,502	25,035	26,800	1,765	7.05%
Total		\$ 57,538	\$ 50,527	\$ 47,412	\$ 54,490	7,078	14.93%
Staffing History		0.30	0.30	0.30	0.32		

LINE - ITEM EXPLANATIONS:

Account Number Explanations: See "Appendix" Tab
Capital Outlay: See "Projects" Tab

City of Homer
2012 Operating Budget

NARRATIVE

WATER FUND - PUMP STATIONS

Provide for operation and maintenance of the two pumping stations on the water system, the raw water pump station at the Bridge Creek Reservoir and the Spit fire pump station. Fuel for the raw water pump back-up generator and the diesel fired fire pump as well as associated supplies are reflected here.

FUND 200
403 - WATER PUMP STATION

		FY 2009	FY 2010	FY 2011	FY 2012	Difference Between	
		Actual	Actual	Actual	Adopted	2011 Amended &	2012 Adopted
					Budget		
<u>Salaries and Benefits</u>							
5101	Regular Employees	\$ 19,136	\$ 23,143	\$ 24,054	\$ 19,558	(4,496)	-18.69%
5102	Fringe Benefits	14,261	15,495	14,537	11,647	(2,890)	-19.88%
5103	P/T Employees	855	635	-	590	590	0.00%
5104	Fringe Benefits P/T	104	80	-	80	80	0.00%
5105	Overtime	633	146	269	400	131	48.56%
5107	P/T Overtime	4	-	-	-	-	0.00%
<u>Total Salaries and Benefits</u>		34,993	39,498	38,860	32,275	(6,585)	-16.95%
<u>Maintenance and Operations</u>							
5202	Operating Supplies	-	14	-	2,200	2,200	0.00%
5203	Fuel/Lube	-	-	-	1,000	1,000	0.00%
5208	Equipment Maintenance	10,234	12	85	7,000	6,915	8155.69%
5209	Building & Grounds Maintenance	95,661	1,943	-	5,000	5,000	0.00%
5217	Electricity	53,931	41,484	50,899	45,000	(5,899)	-11.59%
5231	Tools/Equipment	-	395	11	1,000	989	8957.97%
<u>Total Maintenance and Operations</u>		159,826	43,848	50,995	61,200	10,205	20.01%
Total		\$ 194,819	\$ 83,346	\$ 89,855	\$ 93,475	3,620	4.03%
Staffing History		0.40	0.42	0.42	0.40		

LINE - ITEM EXPLANATIONS:

Account Number Explanations: See "Appendix" Tab

City of Homer
2012 Operating Budget

NARRATIVE

WATER FUND - DISTRIBUTION SYSTEM

Operates and maintains the water distribution system. The activities include annual hydrant flushing, bi-annual topography of the City requires the water distribution system wide flushing of all water mains, thawing be separated into six pressure zones. This account reflects the repair of mains and services, exercising 476 cost of maintaining 14 pressure-reducing stations, air release valves, testing of cross-connection control devices valves, over 36 miles of distribution mains, over 1,100 water and monitoring of flows and pressures. All water services and 263 fire hydrants. Distribution maintenance personnel are certified.

FUND 200

404 - WATER DISTRIBUTION SYSTEMS

		FY 2009	FY 2010	FY 2011	FY 2012	Difference Between	
		Actual	Actual	Actual	Adopted	2011 Amended &	2012 Adopted
					Budget		
<u>Salaries and Benefits</u>							
5101	Regular Employees	\$ 134,468	\$ 129,723	\$ 129,140	\$ 125,121	(4,018)	-3.11%
5102	Fringe Benefits	91,141	92,280	84,007	77,358	(6,649)	-7.91%
5103	P/T Employees		21	-	-	-	0.00%
5105	Overtime	13,042	14,219	13,549	10,000	(3,549)	-26.19%
<u>Total Salaries and Benefits</u>		238,652	236,243	226,696	212,479	(14,217)	-6.27%
<u>Maintenance and Operations</u>							
5202	Operating Supplies	17,377	8,666	15,486	9,000	(6,486)	-41.88%
5208	Equipment Maintenance	1,731	2,501	-	6,500	6,500	0.00%
5209	Building & Grounds Maintenance	1,222	41	-	1,500	1,500	0.00%
5210	Professional & Special Services	10,278	10,168	4,435	7,500	3,065	69.11%
5214	Rents & Leases Expense	-	394	-	-	-	0.00%
5217	Electricity	43,778	40,871	71,562	42,000	(29,562)	-41.31%
5231	Tools/Equipment	4,789	6,500	4,196	6,000	1,804	43.00%
<u>Total Maintenance and Operatio</u>		79,176	69,140	95,679	72,500	(23,179)	-24.23%
Total		\$ 317,827	\$ 305,382	\$ 322,375	\$ 284,979	(37,395)	-11.60%
Staffing History		2.25	2.30	2.30	2.30		

LINE - ITEM EXPLANATIONS:

5210 - Increase for annual pavement patching associated with repairs in paved streets.

Account Number Explanations: See "Appendix" Tab

City of Homer
2012 Operating Budget

NARRATIVE

WATER FUND - WATER RESERVOIR

Provide adequate funding to operate and maintain the Bridge Creek Reservoir. This includes the reservoir proper, the dam, the inlet and outlet facilities and telemetry components. Special services include safety inspections, diver contracts, watershed and land surveys and permit fees. DNR requires that we keep the bush and vegetation cleared away from the reservoir.

FUND 200

405 - WATER RESERVOIR

		FY 2009 Actual	FY 2010 Actual	FY 2011 Actual	FY 2012 Adopted Budget	Difference Between 2011 Amended & 2012 Adopted	
<u>Salaries and Benefits</u>							
5101	Regular Employees	\$ 29,916	\$ 26,158	\$ 20,472	\$ 27,347	6,875	33.58%
5102	Fringe Benefits	19,255	18,262	14,797	17,589	2,792	18.87%
5105	Overtime	438	213	216	500	284	131.73%
<u>Total Salaries and Benefits</u>		49,610	44,633	35,485	45,437	9,951	28.04%
<u>Maintenance and Operations</u>							
5202	Operating Supplies	1,430	352	49	1,000	951	1939.98%
5208	Equipment Maintenance	3,669	-	80	3,000	2,920	3652.35%
5209	Building & Grounds Maintenance	37	-	-	2,000	2,000	0.00%
5210	Professional & Special Services	-	6,115	850	5,600	4,750	558.82%
5213	Survey/Appraisal	-	950	-	1,200	1,200	0.00%
<u>Total Maintenance and Operations</u>		5,135	7,417	979	12,800	11,821	1207.50%
Total		\$ 54,745	\$ 52,050	\$ 36,464	\$ 58,237	21,772	59.71%
Staffing History		0.50	0.50	0.50	0.50		

LINE - ITEM EXPLANATIONS:

Account Number Explanations: See "Appendix" Tab

City of Homer
2012 Operating Budget

NARRATIVE

WATER FUND - WATER METERS/CROSS CONNECTION INSPECTION

Operates and maintains water meters on the distribution system – includes bulk water sales, connects/disconnects, delinquent notices, shut-off notices, relay installation, customer service support and seasonal meter sales. Coordinate testing of commercial/industrial cross connections control device.

FUND 200

406 - WATER METERS

		FY 2009	FY 2010	FY 2011	FY 2012	Difference Between	
		Actual	Actual	Actual	Adopted	2011 Amended &	2012 Adopted
					Budget	2012 Adopted	
<u>Salaries and Benefits</u>							
5101	Regular Employees	\$ 50,094	\$ 52,491	\$ 54,455	\$ 54,021	(435)	-0.80%
5102	Fringe Benefits	34,699	36,785	34,120	35,304	1,184	3.47%
5105	Overtime	27	179	367	2,000	1,633	444.53%
<u>Total Salaries and Benefits</u>		84,820	89,455	88,943	91,325	2,382	2.68%
<u>Maintenance and Operations</u>							
5202	Operating Supplies	42,031	30,091	18,981	15,000	(3,981)	-20.97%
5231	Tools/Equipment	1,393	1,379	988	1,500	512	51.84%
5602	Safety Equipment	1,111	737	925	750	(175)	-18.88%
5603	Employee Training	1,777	446	235	1,200	965	409.60%
<u>Total Maintenance and Operations</u>		46,311	32,653	21,129	18,450	(2,679)	-12.68%
Total		\$ 131,131	\$ 122,108	\$ 110,072	\$ 109,775	(296)	-0.27%
Staffing History		0.95	1.00	1.00	1.00		

LINE - ITEM EXPLANATIONS:

5202 - Increase due to additional meters req'd to comply with new water meter ordinance.
5231 - Increase for additional specialty tools for meters install/maintenance

Account Number Explanations: See "Appendix" Tab

City of Homer
2012 Operating Budget

NARRATIVE

WATER FUND - WATER HYDRANTS

Operate and maintain fire hydrants on the water distribution system at an acceptable level. Costs associated with the installation of hydrants under the hydrant replacement program are reflected in this account.

FUND 200
407 - WATER HYDRANTS

		FY 2009	FY 2010	FY 2011	FY 2012	Difference Between	
		Actual	Actual	Actual	Adopted	2011 Amended &	2012 Adopted Budget
					Budget	2012 Adopted Budget	
<u>Salaries and Benefits</u>							
5101	Regular Employees	\$ 52,592	\$ 52,680	\$ 48,121	\$ 47,620	(501)	-1.04%
5102	Fringe Benefits	35,531	35,102	30,441	27,934	(2,507)	-8.24%
5105	Overtime	1,119	401	210	100	(110)	-52.39%
<u>Total Salaries and Benefits</u>		89,242	88,184	78,772	75,653	(3,118)	-3.96%
<u>Maintenance and Operations</u>							
5202	Operating Supplies	13,726	2,180	9,060	7,000	(2,060)	-22.73%
5210	Professional & Special Services	4,440	-	1,750	1,000	(750)	-42.86%
<u>Total Maintenance and Operations</u>		18,166	2,180	10,810	8,000	(2,810)	-25.99%
Total		\$ 107,408	\$ 90,364	\$ 89,581	\$ 83,653	(5,928)	-6.62%
Staffing History		0.95	0.90	0.90	0.90		

LINE - ITEM EXPLANATIONS:

Account Number Explanations: See "Appendix" Tab

CITY OF HOMER, ALASKA

Utility Special Revenue Fund
 Combining Schedule of Revenues, Expenditures and Changes in Fund Balances (Deficits)
 Year Ended December 31, 2011

	Utility Operations	HAWSP Debt Service	Utility Capital Projects	Utility Reserves	Total Utility Fund
Revenues:					
Sales tax	\$ -	1,179,108	-	-	1,179,108
Intergovernmental:					
Capital grants	-	-	803,598	-	803,598
State of Alaska PERS relief	108,649	-	-	-	108,649
Total intergovernmental	108,649	-	803,598	-	912,247
Charges for services:					
Water charges and connection fees	1,751,263	-	-	-	1,751,263
Sewer charges and connection fees	1,507,452	-	-	-	1,507,452
Total charges for services	3,258,715	-	-	-	3,258,715
Water and sewer special assessments	-	278,722	-	-	278,722
Investment income	4,666	-	-	-	4,666
Other	12,371	-	-	-	12,371
Total revenues	3,384,401	1,457,830	803,598	-	5,645,829
Expenditures:					
Water:					
Pumping system	89,855	-	-	-	89,855
Treatment plant and operations testing	495,703	-	-	-	495,703
Distribution system and reservoir	358,839	-	-	-	358,839
Water meters	110,071	-	-	-	110,071
Water hydrants	89,581	-	-	-	89,581
Administration	623,918	126,177	-	-	750,095
Total water	1,767,967	126,177	-	-	1,894,144
Sewer:					
Pumping system	751,539	-	-	-	751,539
Collection system	148,226	-	-	-	148,226
Administration	617,229	133,646	-	-	750,875
Total sewer	1,516,994	133,646	-	-	1,650,640
Debt service:					
Principal	-	977,814	-	-	977,814
Interest	523	168,909	-	-	169,432
Total debt service	523	1,146,723	-	-	1,147,246
Capital outlay	-	-	3,016,157	238,972	3,255,129
Total expenditures	3,285,484	1,406,546	3,016,157	238,972	7,947,159
Excess of revenues over (under) expenditures	98,917	51,284	(2,212,559)	(238,972)	(2,301,330)
Other financing sources (uses):					
Issuance of long-term debt	-	2,162,442	-	-	2,162,442
Eliminating transfers	(500,000)	(1,451,149)	1,451,149	500,000	-
Transfers out	-	-	-	(172,932)	(172,932)
Net other financing sources (uses)	(500,000)	711,293	1,451,149	327,068	1,989,510
Change in fund balances	(401,083)	762,577	(761,410)	88,096	(311,820)
Beginning fund balances (deficits)	3,613,804	(3,961,860)	(244,202)	4,249,543	3,657,285
Ending fund balances (deficits)	\$ 3,212,721	(3,199,283)	(1,005,612)	4,337,639	3,345,465

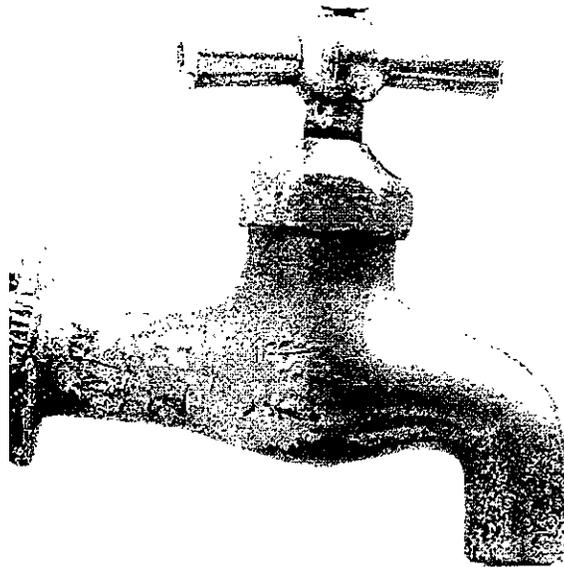
CITY OF HOMER, ALASKA

Utility Special Revenue Fund
Combining Balance Sheet
December 31, 2011

<u>Assets</u>	<u>Utility Operations</u>	<u>HAWSP Debt Service</u>	<u>Utility Capital Projects</u>	<u>Utility Reserves</u>	<u>Eliminating Entries</u>	<u>Total Utility Fund</u>
Cash and investments	\$ 2,774,480	(7,342,899)	(1,038,268)	4,338,958	1,267,729	-
Receivables:						
Accounts	312,710	-	-	-	-	312,710
Sales taxes	-	188,414	-	-	-	188,414
Assessments	-	2,623,106	-	-	-	2,623,106
State and federal grants and loans	-	3,955,202	41,775	-	-	3,996,977
Total receivables	<u>312,710</u>	<u>6,766,722</u>	<u>41,775</u>	<u>-</u>	<u>-</u>	<u>7,121,207</u>
Inventory	270,190	-	-	-	-	270,190
Prepaid items	<u>35,182</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>35,182</u>
Total assets	\$ <u>3,392,562</u>	<u>(576,177)</u>	<u>(996,493)</u>	<u>4,338,958</u>	<u>1,267,729</u>	<u>7,426,579</u>
<u>Liabilities and Fund Balance</u>						
Liabilities:						
Accounts payable	91,706	-	9,119	1,319	-	102,144
Accrued payroll and related liabilities	51,237	-	-	-	-	51,237
Customer deposits	36,898	-	-	-	-	36,898
Deferred assessments	-	2,623,106	-	-	-	2,623,106
Due to other funds	-	-	-	-	1,267,729	1,267,729
Total liabilities	<u>179,841</u>	<u>2,623,106</u>	<u>9,119</u>	<u>1,319</u>	<u>1,267,729</u>	<u>4,081,114</u>
Fund balances (deficits):						
Nonspendable - inventory and prepaid items	305,372	-	-	-	-	305,372
Assigned - water and sewer	<u>2,907,349</u>	<u>(3,199,283)</u>	<u>(1,005,612)</u>	<u>4,337,639</u>	<u>-</u>	<u>3,040,093</u>
Total fund balances (deficits)	<u>3,212,721</u>	<u>(3,199,283)</u>	<u>(1,005,612)</u>	<u>4,337,639</u>	<u>-</u>	<u>3,345,465</u>
Total liabilities and fund balances	\$ <u>3,392,562</u>	<u>(576,177)</u>	<u>(996,493)</u>	<u>4,338,958</u>	<u>1,267,729</u>	<u>7,426,579</u>

Rate Setting for Small Water Systems

Gene Theodori, Associate Professor and Extension Specialist;
Monty Dozier, Assistant Professor and Extension Specialist; and
Ric Jensen, Assistant Research Scientist, Texas Water Resources Institute;
The Texas A&M University System



Knowing how to set the proper rate for water service is a daunting challenge for small water systems. The rates must be high enough to recover the full cost of providing water, or the system will lose money. But if rates are too high customers will be irate, especially if they believe the rates are not set up in a fair manner. A proposed rate hike almost always causes a public outcry.

Some of the difficulties small water systems face when setting rates are caused by

- the need to modify infrastructure and management strategies to deal with population growth,
- a small customer base that makes them vulnerable to wide fluctuations in production costs, and
- water quality regulations and other factors that increase the cost of doing business.

The challenge for small water systems is to provide affordable drinking water while generating enough revenue from rates to remain solvent over time.

Publications to Help with Rate Setting

Several agencies and organizations have publications to help with rate setting.

In 2005, the U. S. Environmental Protection Agency (EPA) published a handbook titled "Setting Small Drinking System Rates for a Sustainable Future." It helps managers of small systems understand how to set rates to reflect the full costs of providing a safe and reliable supply of drinking water to customers. The handbook recommends informing customers of a supplier's water rate structure so they will understand that they are paying a fair share of the cost of providing safe drinking water. Outreach programs to educate customers can include mailings, announcements in newspapers, flyers and public meetings to explain why a rate increase is needed. If customers understand system finances they may be more likely to support rate proposals.

The handbook suggests this step-by-step procedure for developing and implementing proper water rates:

- Determine the full cost of doing business.
- Determine current revenues.
- Consider revenue needs (including the cost of anticipated repairs).
- Calculate the amount of money customers must be charged to fully cover current and projected costs.
- Evaluate various rate structures and design the appropriate rates.
- Implement the rates.
- Regularly review the rates and make changes when appropriate.

The EPA suggests that small rate increases implemented over a number years may be more acceptable to customers than infrequent, large rate increases. It also recommends that small water systems consider setting different rates for various classes of water users such as residential customers, industries, businesses and agricultural producers, because different types of customers may have distinctly different water use patterns.

The handbook discusses different water rate strategies and describes circumstances in which each rate type might be appropriate:

- *Flat or fixed rates* charge customers the same amount regardless of how much water they use. This may save small systems the expense of installing meters to record water use.
- *Uniform rates* charge a standard rate per unit of water used. This structure may encourage conservation because the average cost of water does not decrease as larger volumes of water are used
- *Decreasing block rates* can be used when a system serves industrial, commercial or agricultural customers who use large amounts of water, but this method offers little incentive for customers to conserve. Customers are charged lower rates per unit for fixed quantities of water.
- *Increasing block rates* charge customers higher rates per unit of water use. This rate structure offers the greatest incentive to conserve.

The 2005 handbook and other EPA reports make the following points:

- Rates should generate sufficient revenue to cover the full cost of operating a water system. By charging customers the full cost of water, small water systems send a message that water is a valued commodity that must be used wisely and not wasted.
- Rates should be equitable, with each class of customers paying a fair share of the cost of providing water service.
- When rates are set to cover the full cost of production, water systems are more likely to have financial stability and security.
- Revenues from rates should not be used to subsidize other municipal services.
- If the full cost of producing and distributing water exceeds revenues, managers should consider setting higher rates or pursuing other options such as reducing operating costs, finding additional sources of revenue such as grants or loans, and restructuring (that is, purchasing water from another system or contracting out operations and maintenance).
- Rates should be viewed as short-term strategies and reviewed periodically.

The EPA (2005) has also published case studies of small water systems that have implemented sustainable water pricing strategies. These strategies achieve full-cost pricing, improve the management of finances and assets, and focus on efficient water use. One Texas system, the Grimes & Waller (G&W) Water Supply Corporation, was cited as an outstanding example of how small systems can address rate issues. G&W is faced with rapid population growth as suburbs from Houston expand to its service area, and is developing a new rate structure to ensure that new customers bear much of the financial burden associated with expanding the system to meet increased demand.

Another source of information for managers is The Community Resource Group, Inc. (CRG), which has a series of fact sheets about rate setting and financial management. These fact sheets cover such topics as how to develop appropriate rates and charges; how to ensure that revenues achieve a balanced budget and how to prepare, understand and use a budget; how to establish internal accounting and financial management controls to safeguard system finances; and how to work with customers and stakeholders to determine if rate increases are needed. CRG advises small water system managers to divide expenses into fixed and variable costs and use that data to determine the minimum water bill that can be charged. Once this is done, rate structures for specific customer classes can be considered. Customers should be informed about why rate increases are needed (for example, to meet regulations that enhance drinking water quality and protect public health, to pay for needed expansions or improvements, etc.).

The Texas Commission on Environmental Quality (TCEQ) has several reports and publications to help small water systems with rate setting and financial management. One fact sheet explains to customers how rates are set, which factors can be considered when a rate increase is proposed and which cannot. When a privately owned small water system applies for a rate increase, the TCEQ assesses the system's ability to operate and can suggest improved management practices. A TCEQ report titled "The Water District Financial Management Guide" (2004) contains guidelines for

developing and following audits and related accounting practices for water districts.

The *WaterSense* newsletter (part of the National Drinking Water Clearinghouse at West Virginia University) published a series of articles about how to set water rates and win approval for rate increases. The newsletter advises that involving the public early in the process can mitigate negative publicity or ill feelings customers may have about a rate hike. Managers of small systems must identify the specific reason a rate increase is being proposed and should consider holding town meetings and using mass media to communicate with the public about these issues (Campeon, 1996, 1995).

Two other resources from the EPA can be helpful to managers. A national study of small water systems (2000) recommends that managers calculate their operating ratio by dividing total operating revenues by operations and maintenance expenses. Generally, a ratio of less than 1.0 suggests that a system is operating at a loss. This study shows that 30 to 40 percent of small water systems operated at a loss between 1995 and 2000. A report titled "Asset Management: A Handbook for Small Water Systems" contains strategies for funding infrastructure replacement from rates and external sources.

Finally, The American Water Works Association published a handbook titled "Developing Rates for Small Systems" (2004). The manual is specifically for systems that lack data on customer water demands, system water use and physical assets the system may own. It describes how to compile such data, develop a financial plan, and set water rates based on revenue requirements and expenses.

University Research

In 2005, Greg Landreth and David Eaton of the LBJ School of Public Affairs at the University of Texas at Austin assessed economic, performance and management issues associated with small water systems throughout Texas. They studied six drinking water providers in Texas (including small and medium-sized utilities) to compare the performance of public and privately owned systems. The researchers looked at the advantages and disadvantages of

public and private water providers, including whether these systems have taxing authority, have power to condemn property through eminent domain, and are eligible for federal and state grants and loans. They gathered data on the rates the systems charge, the extent to which systems of all sizes violate state water quality rules, and the number of state-certified treatment plant operators each system employs on a per-customer basis. They found that publicly financed small water systems have certain advantages over privately owned systems—primarily taxing authority, easier access to lower cost capital, and flexibility in how to allocate costs.

Other Resources

Several other organizations provide guidance and information about rate setting.

Texas Cooperative Extension, with its network of county Extension agents and state-wide specialists, can work one-on-one with small water system managers to help them develop strategic plans, make financial plans and set rates.

The Texas Commission on Environmental Quality, the state agency with authority to consider and approve rate increases, also helps small water systems with rate and financial management issues. Its annual Public Drinking Water Conference is an excellent resource for managers. Regional TCEQ offices are located throughout the state.

The Texas Office of Rural and Community Affairs (ORCA) helps small water systems and communities manage finances and obtain federal and state funds. ORCA has field offices in the High Plains and South Texas that can provide on-site assistance. The agency administers the Texas Community Development Block Grant Program, which offers grants to eligible rural and small communities to plan and build such public facilities as water and wastewater projects.

The Texas Rural Water Association helps small water system managers develop budgets, conduct rate studies and create reserve funds to pay for unanticipated expenses. TRWA has a contract with TCEQ to provide financial, managerial and technical assistance to small water systems.

The EPA has nine research and education centers at universities throughout the nation to assist small water systems with such issues as system management, capacity building and rate setting. The EPA-funded center at Boise State University has developed a free software program ("RATE Checkup") that helps small water systems set rates and prepare budget forecasts. The center that serves Texas is located at New Mexico Tech University. In addition to other services, these centers can facilitate focus groups and meetings with stakeholders.

Summary

Setting the right rates for water service is one of the most important obligations of small water systems. Proper rates ensure that these systems cover their costs while still providing affordable service. Setting fair rates builds positive relationships with the people they serve. Fortunately, there are many resources and people in Texas who can help.

For More Information

American Water Works Association. 2004. *Developing Rates for Small Systems*. Denver, Colorado.

Brown, C. 2004. "Making Small Water Systems Strong." *Journal of Contemporary Water Research & Education*, 128: 27-30.

Cameon, P. 1996. "Rate Increases: Dealing with the Public." *WaterSense* newsletter, published by the National Drinking Water Clearinghouse, West Virginia University, Morgantown, West Virginia.

Cameon, P. 1995. "Rate Reviews Are Critical for System Finances." *WaterSense* newsletter, published by the National Drinking Water Clearinghouse, West Virginia University, Morgantown, West Virginia.

Community Resource Group, Inc., Fayetteville, Arkansas. *Community Water Bulletin* fact sheet series:

"Establishing Internal Controls to Protect Your Financial Health." No. 264.

"Financial Management and Your Water System." No. 254.

"Gaining Customer Support for a Rate Increase." No. 262.

"Protecting the Financial Health Your

Small Water System Has Achieved." No. 259.

"Rate Setting: How Much Should You Charge?" No. 259.

"Revenue and the Balanced Budget." No. 255.

"Setting Rate Breaks and Rate Blocks." No. 261.

"The Budget Process." Nos. 254 and 255.

"The Cost of Water Production." No. 260.

Texas Commission on Environmental Quality. 2004. *Water District Financial Management Guide*. Austin, Texas.

Texas Commission on Environmental Quality. 2005. *Report to the Governor: Public Water System Capacity Development Program*. Austin, Texas.

Texas Commission on Environmental Quality. 2006. *Utility Funding & Rate Design: A Guide for Customers of Private or Investor-Owned Utilities*. Austin, Texas.

Texas Office of Rural and Community Affairs and the United States Army Corps of Engineers. 2003. *Utilizing Technology for Small Water Systems in Texas*. Austin, Texas.

U.S. Environmental Protection Agency. 2000. *Community Water System Survey*. Washington, D.C.

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U.S. Environmental Protection Agency. 2005. *Case Studies of Sustainable Water and Wastewater Pricing*. Washington, D.C.

U.S. Environmental Protection Agency. 2005. *Setting Small Drinking Water System Rates for a Sustainable Future*. Washington, D.C.

Williams, A. 1999. *A Guide for Financing and Rate-Setting Options for Small Water Systems*. Virginia Water Resources Research Center, Blacksburg, Virginia.

Websites with More Information

American Water Works Association:
<http://www.awwa.org>

Community Resource Group:
<http://www.crg.org/>

EPA:
<http://www.epa.gov/safewater/smallsys/ssinfo.htm>

National Drinking Water Clearinghouse:
http://www.nesc.wvu.edu/ndwc/ndwc_index.htm

New Mexico Environmental Finance Center:
<http://efc.nmt.edu>

Texas Commission on Environmental Quality:
http://www.tceq.state.tx.us/nav/util_water

Texas Cooperative Extension Community Development Programs:
<http://comdev.tamu.edu>

Texas Office of Rural and Community Affairs:
<http://www.orca.state.tx.us>

Texas Rural Water Association:
<http://www.trwa.org>

Texas Water Resources Institute:
<http://twri.tamu.edu>



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...nd on the Web at: <http://www.texaswaterresources.com>

<http://texasextension.com>

Chapter 2- Basic Guide to Water Rates

[Home](#)

This subject should be used as a guide to address the need for basic but useful information on setting water rates. It is intended for small water systems to be used with proper consideration for higher methodology of procedures for bigger water systems.

1. FULL-COST PRICING

Full cost pricing means establishing a price per unit of water (per cu.m.) that covers all the costs involved in producing water and delivering it to the customer.

There are several reasons why full-cost pricing is used. First, it is the fairest way of charging for water. The price tells the customer what it costs to deliver the water to a house or place of business. Second, knowing that everyone must pay the full price, customers will have a tendency not to waste, and therefore, full-cost pricing acts as a conservation measure. Finally, water income will cover expenditures plus provide extra funds for emergencies and small additions or replacements of the system.

In all likelihood the accounting system may need to be updated to show true expenses, public meetings may be necessary to explain the rates and the system's operation, and meters may have to be installed.

To charge the total cost of water to the customers as fairly as possible, the system must be 100 percent metered. That means every service or customer must have a meter, and there must be a master meter on the outlet of each source of supply to show how much water was provided. If some customers are unmetered, a flat rate must be incorporated as part of the total rate schedule.

2. RATE STRUCTURE

A basic rate structure should be made up of two parts. The first part, the base rate, is a charge per customer to recover fixed expenses, including the cost of debt service, reserve requirements, and capital improvements. This charge guarantees enough income to meet the utility's basic costs during periods of low water sales due to drought or other reasons. The second part, called the unit rate, is a charge per unit of water sold to cover the cost of operation, maintenance, and administration. With this two-part structure, all customers share equally in the basic costs of the water system and each pays only for the water used.

It is important to note that a rate schedule that shares the fixed cost equally among all customers, regardless of how much water each uses, is fair only when the demand by all customers is relatively uniform (1/2 inch or 3/4 inch meters, for example). Customers with greater demand who require larger meters need to have an increased "base rate". The increase is calculated using an equivalent meter and service ratio.

a. Determining a base rate to cover fixed expenses. The base rate should cover debt service (repayment of all loan principal and interest payments, capital expenditures (capex), and a reserve. No matter how fair the rates are, sudden large increases upset customers and raise questions about the operations of the system. Income and expense needs may be projected for three to five years. Good practice calls for a yearly review of income and expenses to determine if the rate structure is still satisfactory or needs adjustment.

If there exists a 10 to 15 percent difference between water produced and water sold (as a result of leaks, unauthorized use, and so forth), there is the need to address the problem. That certainly is the case in the example (Figure 1), where the difference between water produced (238,000 cu.m.) and water sold (195,000 cu.m.) is 18 percent. Any reduction in unaccounted-for water will either produce savings (most likely in power, and chemicals) that will reduce the O & M costs or increase income. These savings should be included in the annual rate structure review.

To determine the base rate per month per meter (see [Figure 2-1](#)):

(1) Add all the fixed costs, such as the annual loan payment or debt service (P436,000.00), the capex (P261,000.00), and the reserve (P79,000.00), for a total of P776,000.00.

(2) Divide the annual cost of P776,000.00 by 12 to obtain the monthly cost of P64,667.00.

(3) To arrive at the base rate per month per customer, divide the P64,667.00 by the number of customers (865) for a price of P74.75.

b. Determining water unit cost (per thousand cu.m.).The O & M costs listed in Figure 1 form the basis for water unit cost. For most small systems, the unit rate will be the same for all users. In the example, provisions for inflation of 15 percent per year, which amounts to 30 percent the second year and 45 percent the third year, based on current expenses, has been included. This averages to an increase of 30 percent per year.

To determine the cost of water (per thousand cu.m.):

(1) Multiply the total O & M costs (P1,488,000.00) by 15 percent and add the result (P223,200.00) to the P1,488,000.00 for a total of P1,711,200.00.

(2) Divide this figure by the amount of water expected to be sold in thousands of cu.m. on average over the next three years (no expected increase in sales in the example) to determine the cost per thousand cu.m.

The calculations are P1,711,200.00 divided by 195 for a cost of P8,775.00 per thousand cu.m. For the purpose, this figure may be broken down further into 10-cu.m. segments or P87.75 per ten cu.m.

Under this rate structure, the bill for a customer using 30 cu.m. during a billing period would be calculated as follows:

Base charge = P 74.75
 Water cost: (3.0 x 87.75) = 263.25
 Total due = P338.00

Now that the rate has been established it should be tested to make sure it will produce the required revenues. Table 1 shows the estimated annual funds needed for operation of the sample system.

The expected annual revenues under the established rate of P74.75 for base cost and P8,775.00 per thousand cu.m. sold would be:

Base rate: P74.75 x 865 x 12 mos = P 775,905.00
 Water sales: P8,775.00 x 195 (thousand cu.m.) = 1,711,125.00
 Total Income = P2,487,030.00

Referring to Table 1, note that the total funds needed amount to P2,487,200.00. The water rate very slightly underfunds the system the first year. At this point there is the need to make a rate chart based on the systems needs. The rate chart should include the base rate and the unit rate. For this example, the chart would look like this:

Water Used	Water Bill
0 cu.m.	P75.75
0 -10 cu.m.	162.50*
11 - 20 cu.m.	250.25
21 - 30 cu.m.	338.00
31 - 40 cu.m.	425.75
41 - 50 cu.m.	513.50

* Add P87.75 for each step

Note that in the example are not included income from other sources which for most small systems this additional revenue would be very small and can be ignored. In cases in which this added income becomes significant, however, it should be subtracted from the O & M costs before the calculating the cost of water per thousand cu.m.

3. EQUIVALENT METER AND SERVICE RATIO

When there are a number of customers that require considerably more water than residential customers, but still do not use a major portion of the system capacity, it may be necessary to use an equivalent meter and service ratio in establishing the water cost charge.

Assume that all 865 customers in the example are metered. That total includes 710 with 1/2-in. meters, 145 with 3/4-in. meters, and 10 with 1-in. meters. Recognizing that meter and service costs vary (depending on service pipe size, meter size, and materials used), the base cost will vary and can be distributed by an equivalent meter and service ratio. For this example (Table 2), a ratio of 1.0 for 1/2-in. meters, 1.6 for 3/4-in. meters, and 3.2 for 1-in. meters should be used. Table 2 shows how to calculate the charge compared to 1/2-in. meters. The table shows that the smallest meters pay a little less of the base rate and the larger meters pay a little more. The rest of the calculations (cost per thousand cu.m.) remains the same.

If the 974 equivalent 1/2-in. meters are to recover the monthly base charge of P64,667.00, divide P64,667.00 by 974, giving a monthly charge of P66.39. That figure compares to P74.75 in the original example. The monthly base charge would be P66.39 x 1.6 or P106.22, for the 3/4-in. meters, and P66.39 x 3.2, or P212.45, for the 1-in. meters.

4. UNMETERED RATE

If the water system has metered and unmetered customers, the utility must have a rate for both types of customers. In

calculating unmetered rates, consider that:

- a. Unmetered rates should reflect the fact that these customers generally use more water and, therefore, the use estimate can be adjusted upward. Waste can be a major cost problem.
- b. Customers on unmetered rates do not require meter maintenance and meter reading costs and this can be a savings.

After determining the revenue requirements for unmetered customers, it is necessary to design the rates to produce this revenue (number of homes x average use in cu.m.).

One method of designing unmetered rates involves the use of family units or equivalent family units. Using metered customer records, determine the amount of water used by the average family and adjust that figure upward (10 - 20 percent should be adequate) to account for potential waste because the service is not metered. For non-metered, multifamily buildings, multiply the single-family rate by the number of families living in the building. Industrial or commercial customers can be billed on the basis of equivalent family units. These can be determined by comparing water use by the various nonresidential services with single-family residential services. An alternate method uses the number of water fixtures in the building to determine billing.

5. PUBLIC FIRE PROTECTION RATES

The cost of fire protection can be distributed to all customers benefiting from such protection or through a separate charge. In the first case, the charge is usually the same for each customer and is added to the base charge. The second, and preferred method, is to make a separate charge directly to the municipality or fire district. The simplest method for recovering fire protection costs is on a per-hydrant basis. Determine the total fire protection expenses by adding the cost of all hydrants (including appurtenances) and all water used. The total cost is then divided by the number of hydrants to yield the cost per hydrant per year.

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Table 2-1 Annual Funds Required			
	First Year	Second Year	Third Year
Debt Service	P328,000	P328,000	P328,000
Capex	261,000	261,000	261,000
Reserves*	79,000	79,000	79,000
Depreciation	108,000	108,000	108,000
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Subtotal--Fixed Costs	P776,000	P776,000	P776,000
O & M	P1,488,000	P1,488,000	P1,488,000
Inflation**	223,200	446,400	669,600
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Subtotal--O&M Costs	P1,711,200	P1,934,400	P2,157,600
Total Funds Needed	P2,487,200	P2,710,400	P2,933,600
Reserves based on 10 percent of total receipts.			
** Inflation based on 15 percent each year of the O & M amount of P1,488,000 (doubles second year, triples third year).			

