



## COUNCIL BRIEFING Utility Rate Model Study

Town of Addison  
January 9, 2018



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## RATE STUDY PURPOSE

- » During the Fiscal Year 2018 budget process for the Utility Fund, it was determined that the Town's projected water and sewer fees would not raise enough revenues to cover operating expenditures necessary to maintain the current level of service.
- » To rectify this issue, Town staff and Raftelis Financial Consultants are creating a rate model that will help the Town achieve its goals and sustainably maintain the desired level of service.

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## TODAY'S DISCUSSION

I. Financial Plan Assumptions



II. Scenarios and Rate Impacts



III. Council Considerations and  
Next Steps

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## SUMMARY OF COUNCIL INPUT

- » Mix of Cash- and Bond-Funded Capital
- » Maintain Fund Balance at greater than 25% of O&M as needed to cash-fund capital
- » Systematic Rate Increases

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# I. Financial Plan Assumptions

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## FINANCIAL PLAN ASSUMPTIONS

### Operations

- » FY 2018 Operations and Maintenance Budget, as approved by Council
- » Incremental increases in Utility Staffing\*
- » 5% annual increase in DWU and TRA service

### Capital

- » FY 2018 5-year Capital Improvement Plan
- » FY 2023-2027 assumes additional infrastructure maintenance
- » Continued use of Series 2012 Bond Proceeds
- » Mix of Debt and Cash Financing\*

### Fund Balance

- » Ending Balance - *Decreases* 10% relative to total costs over 5 years\*
- » Fund Balance maintained above 25% of O&M

\* Detailed in subsequent slides

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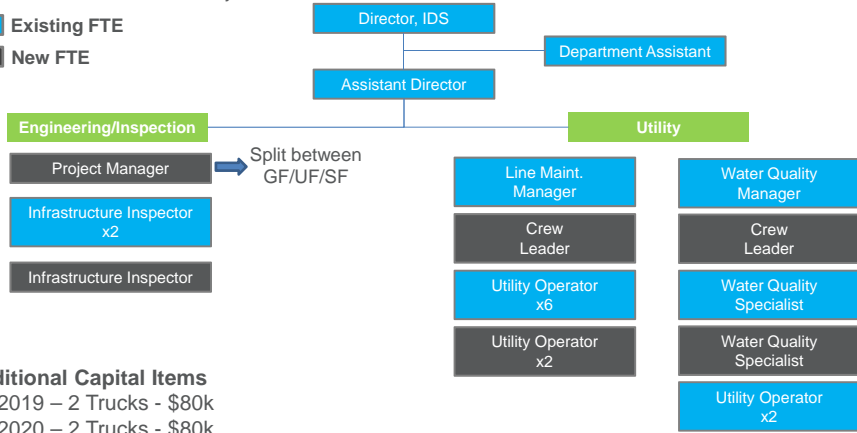
# SHORT-TERM STAFFING PLAN\* (FY 2019 – FY 2021)

Net increase of 7 FTEs\*

\*6.3 FTEs are funded out of the Utility Fund

Existing FTE

New FTE



### Additional Capital Items

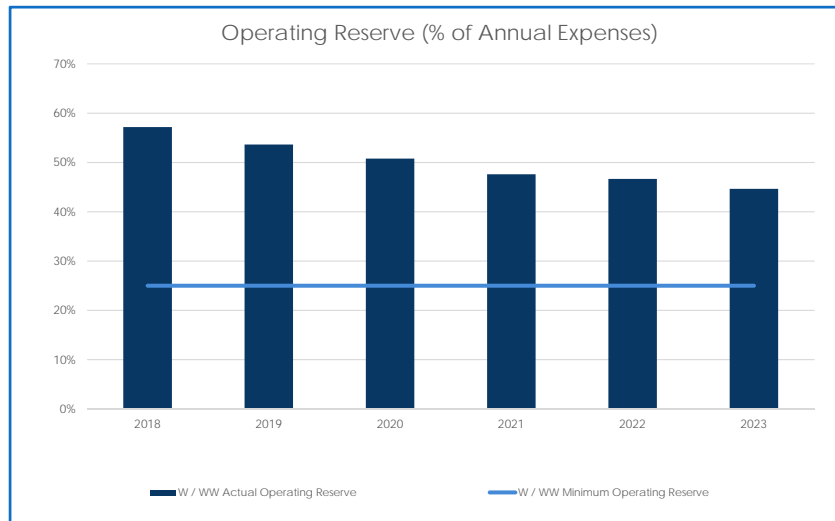
FY 2019 – 2 Trucks - \$80k

FY 2020 – 2 Trucks - \$80k

\*Applies to both scenarios

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# FUND BALANCE



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# CAPITAL FINANCING

## Cash and Debt Financing

### 5-Year CIP (2018-2022): Staff Provided

- » 5-Year total = \$16.0 million
- » Financing
  - Cash Funding 5-Year total = \$1 million
  - Existing 2012 Bond = \$4.6 million
  - Projected 2019 Bond = \$6.4 million
  - Projected 2021 Bond = \$4.0 million

### Next 5-Year CIP (2023-2027): Assumes additional annual Repair and Replacement of Infrastructure

- » 5-Year total = \$9.5 million (\$1.9 million per year)
- » Financing
  - Cash Funding 5-Year total = \$2 million
  - Projected 2023 Bond = \$4.4 million
  - Projected 2026 Bond = \$3.1 million

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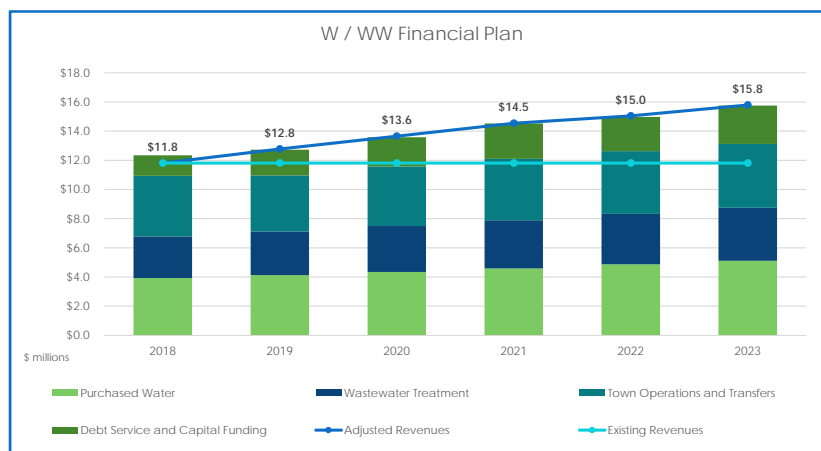
## II. Scenarios and Rate Impacts

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# SCENARIOS

- » Scenario #1 – Short-term Staffing Plan and Mix of Bond and Cash-Funding of Capital
- » Scenario #2 – Short-term Staffing Plan and 100% Bond-Funding

## SCENARIO #1 (No Rate Smoothing) FINANCIAL PLAN RESULTS



\*Annual Revenue meets Annual Revenue Requirements Beginning in FY 2019

## SCENARIO #1 (No Rate Smoothing) RATE RESULTS

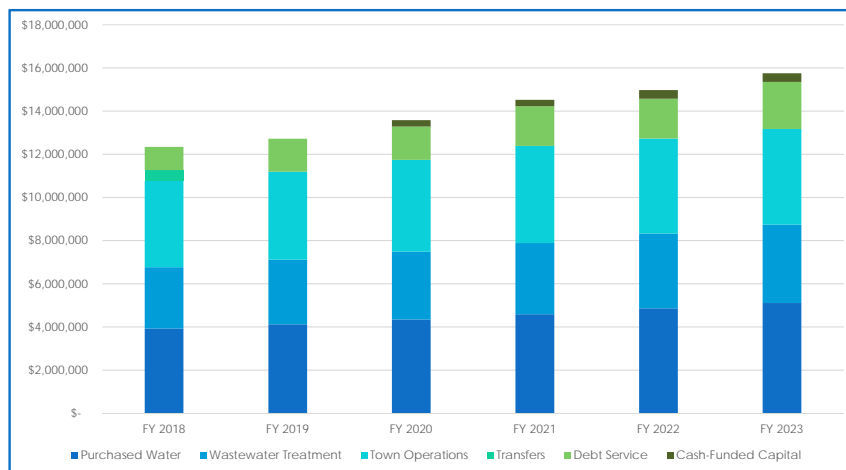
Financial Plan is supported with the following percentage rate increases\*:

	2018	2019	2020	2021	2022	2023
Water Rate Increase	N/A	8.00%	6.50%	6.00%	2.50%	5.00%
Wastewater Rate Increase	N/A	8.00%	6.50%	6.00%	2.50%	5.00%
Total Customer Bill Increase		8.00%	6.50%	6.00%	2.50%	5.00%
<b>WATER: Single Family Rate Structure</b>						
<i>Fixed Charge</i>						
Minimum Charge (includes 2,000 gal)	\$ 11.89	\$ 12.84	\$ 13.67	\$ 14.49	\$ 14.85	\$ 15.59
<i>Volume Rates</i>						
Volumetric Rate	\$ 2.94	\$ 3.18	\$ 3.38	\$ 3.58	\$ 3.67	\$ 3.86
Conservation Rate (above 15,000 gal)	\$ 5.23	\$ 5.65	\$ 6.02	\$ 6.38	\$ 6.54	\$ 6.86
<b>WASTEWATER: Single Family Rate Structure</b>						
<i>Fixed Charge</i>						
Minimum Charge (includes 2,000 gal)	\$ 14.06	\$ 15.18	\$ 16.17	\$ 17.14	\$ 17.57	\$ 18.45
<i>Volume Rate</i>						
Volumetric Rate (8,000 gal cap)	\$ 4.74	\$ 5.12	\$ 5.45	\$ 5.78	\$ 5.92	\$ 6.22

\*Percentage rate increase is being applied to each class' existing rate structure, including conservation rates.

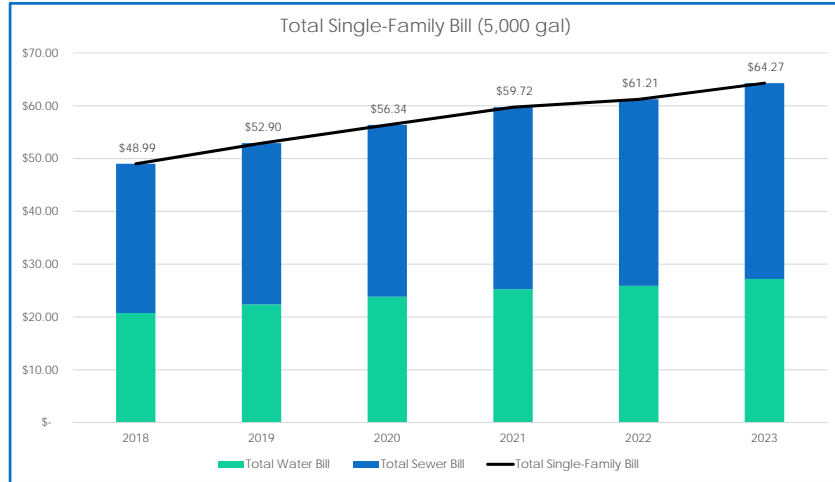
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## COMPONENTS OF RATE INCREASES



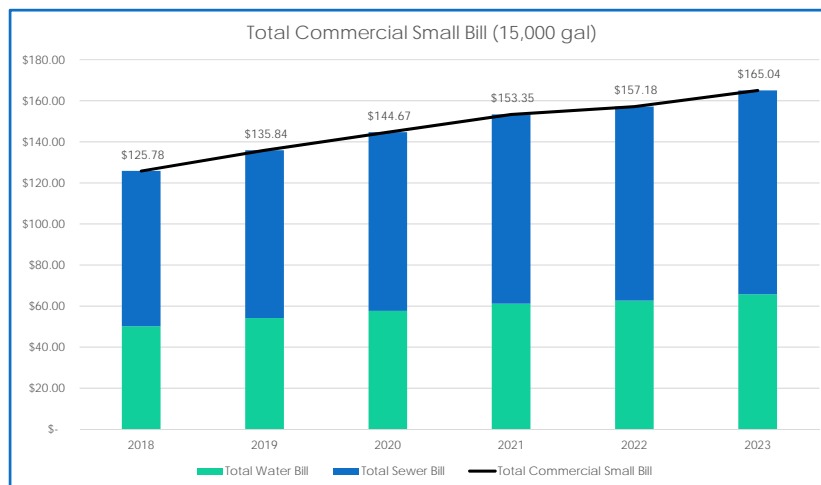
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## RATE RESULTS – SINGLE-FAMILY RESIDENTIAL



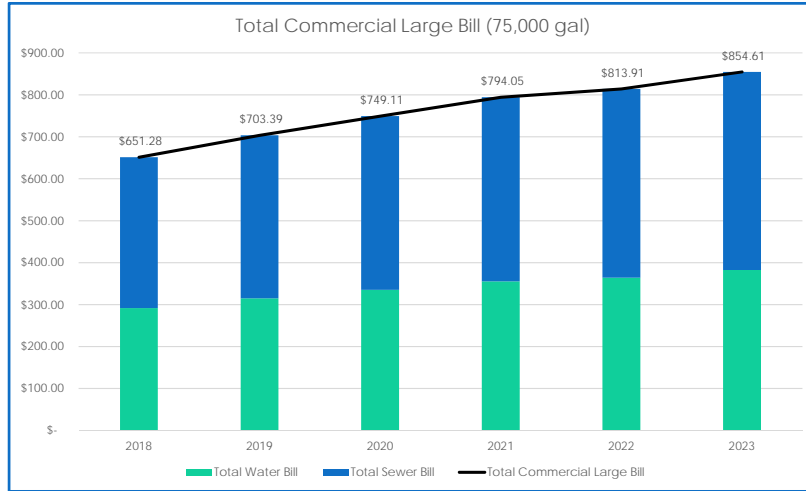
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## RATE RESULTS – COMMERCIAL SMALL



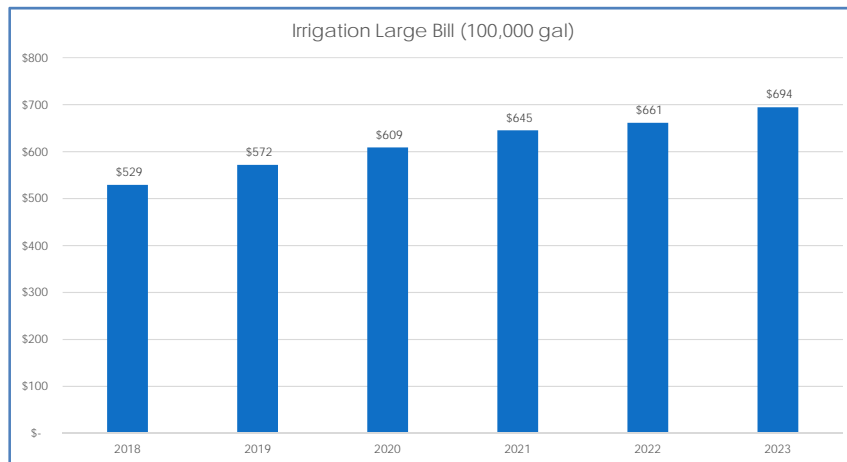
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# RATE RESULTS – COMMERCIAL LARGE



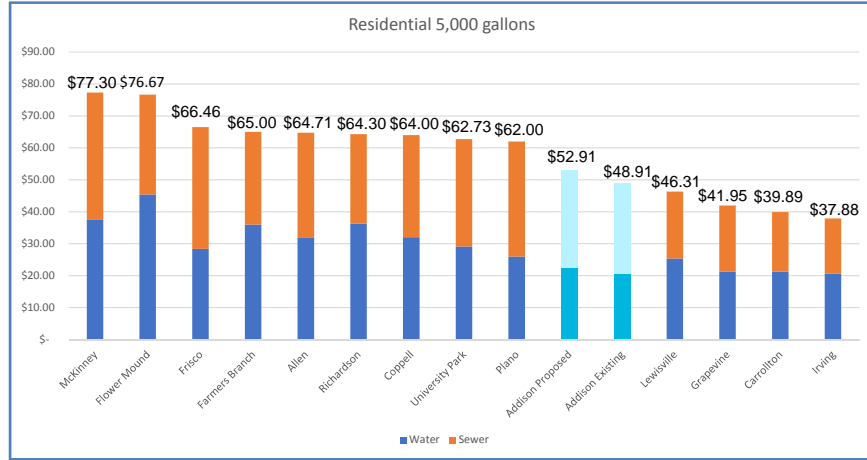
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# RATE RESULTS – IRRIGATION LARGE



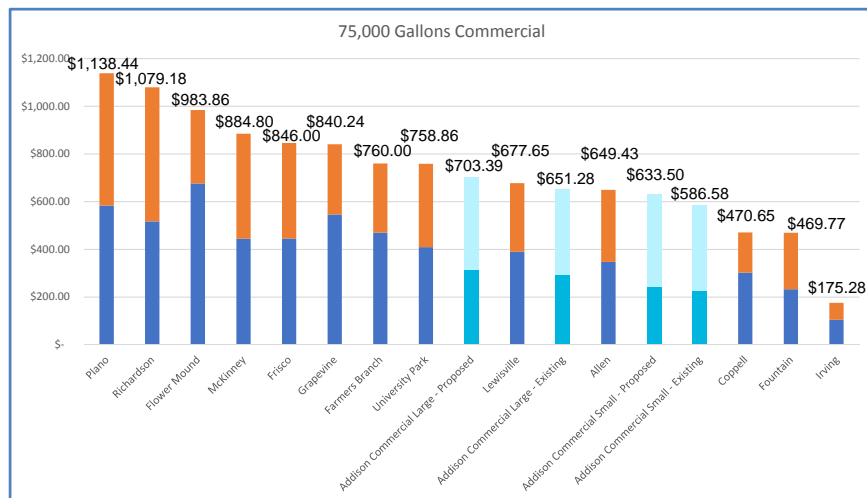
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# RATE COMPARISONS – FY 2019



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# RATE COMPARISONS – FY 2019



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# RATE SMOOTHING

- » Use/Replenish Reserve Funds to implement programmatic rate adjustments over time.
  - Advantage: Reduces larger one-time increases
  - Disadvantage: Does not fully recover costs in certain years

**Full Annual Recovery versus Rate Smoothing**

	2018	2019	2020	2021	2022	2023
Cost of Service Adjustments	N/A	8.00%	6.50%	6.00%	2.50%	5.00%
A - Rate Smoothing to Cost of Service	N/A	8.00%	6.50%	6.00%	4.00%	4.00%
B - Rate Smoothing Adjustments*	N/A	6.50%	6.50%	6.50%	5.00%	5.00%

\*Rate Smoothing results in 5-year overall surplus, but annual deficits in 2019, 2020 and 2021.

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# OPTION A RATE RESULTS

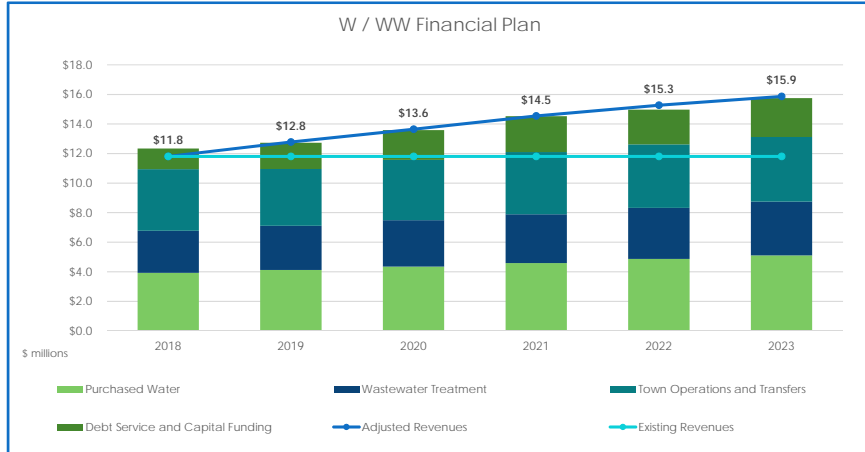
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<i>Fixed Charge</i>						
Minimum Charge (includes 2,000 gal)	\$ 11.89	\$ 12.84	\$ 13.67	\$ 14.49	\$ 15.07	\$ 15.67
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Volumetric Rate	\$ 2.94	\$ 3.18	\$ 3.38	\$ 3.58	\$ 3.73	\$ 3.88
Conservation Rate (above 15,000 gal)	\$ 5.23	\$ 5.65	\$ 6.02	\$ 6.38	\$ 6.63	\$ 6.90
<b>WASTEWATER: Single Family Rate Structure</b>						
<i>Fixed Charge</i>						
Minimum Charge (includes 2,000 gal)	\$ 14.06	\$ 15.18	\$ 16.17	\$ 17.14	\$ 17.83	\$ 18.54
<i>Volume Rate</i>						
Volumetric Rate (8,000 gal cap)	\$ 4.74	\$ 5.12	\$ 5.45	\$ 5.78	\$ 6.01	\$ 6.25

\*Percentage rate increase is being applied to each class' existing rate structure, including conservation rates.

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# OPTION A FINANCIAL PLAN RESULTS



\*Annual Revenue meets Annual Revenue Requirements Beginning in FY 2019

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## III. Council Considerations and Next Steps

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## COUNCIL CONSIDERATIONS

For Council Consideration:

- » Full Annual Cost Recovery versus Rate Smoothing
- » Overall Rate and Financial Plan for Utility
  - Effective date of Rate Ordinance
  - Rate Model Structure
    - Annual update
    - Multi-year w/incremental updates
    - Multi-year with annual update for pass thru costs

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## NEXT STEPS

I. Council Deliberation of Results

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II. Council Direction

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III. Council Action to Adopt Financial Model

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# THANK YOU



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