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Evergreen Water and Sewer District

Water and Sewer Rate Update

January 19, 2022

1. Rate Study Objectives
2. Financial Plan Review
3. Rate Design
4. Sample Monthly Bills
    1. Rate comparison
5. Recommendations
6. Discussion Q&A

Rate Study Objectives

Revenue Adequacy

- Rates that will generate sufficient revenues to meet projected costs and other requirements (e.g., fund operating contingency)

Rate Equity

- Rates designed to recover each customer class's estimated cost of service

Defensibility

- The methods used to develop rates are consistent with industry standard practices
- AWWA M1 Rate Manual provides industry guidance

System Revenue Requirements

Revenue Requirements are comprised of the following:

Operation and Maintenance Expenses

Add: Pay as you go Capital Projects

Add: Debt Service Requirements

Add: Funding of Operating and Capital Reserves

= Revenue Requirements

Less: Non-Rate Revenue (i.e. hookup fees, interest, other misc. revenue)

Less: Use of Reserves for Major Capital Projects

= Revenue Requirements from Rates

Financial Plan Assumptions

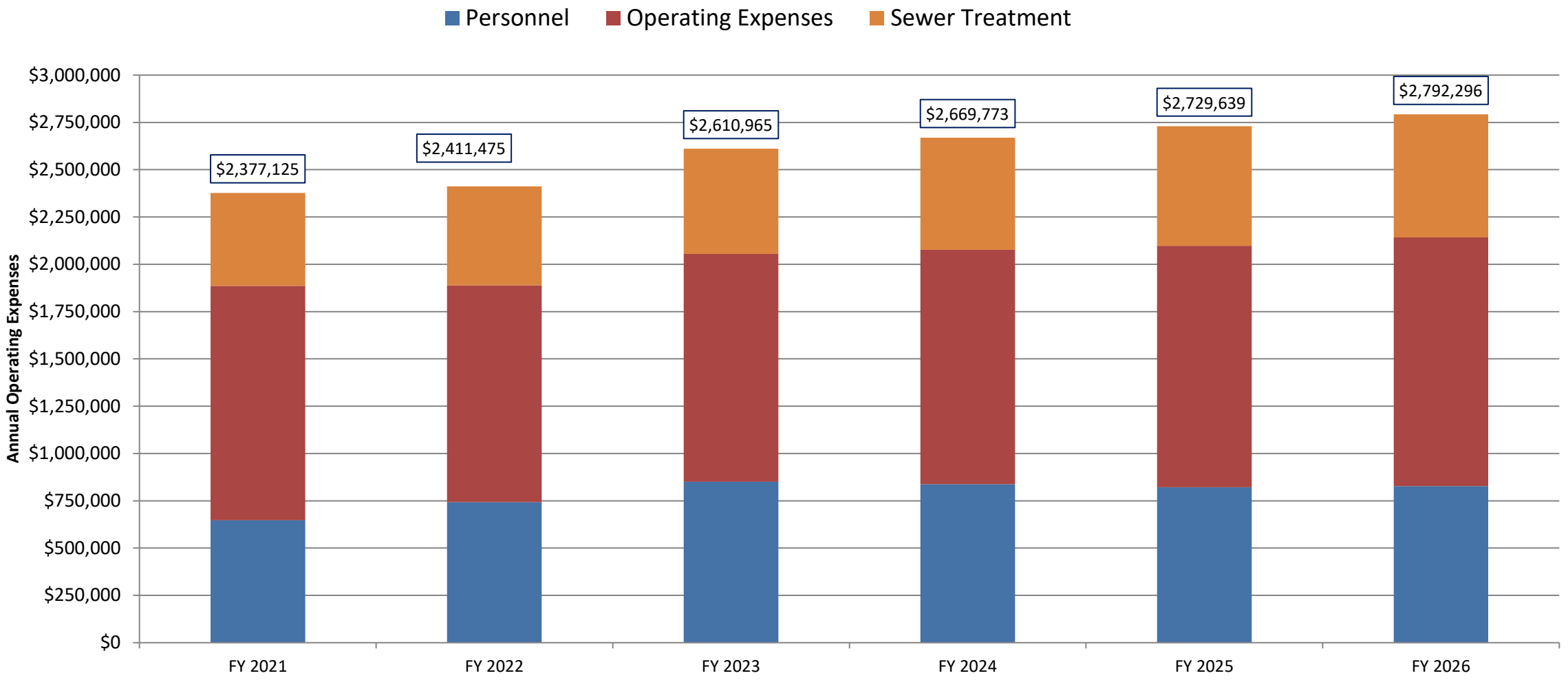
- General
  - Water Beg Balance: $300k
  - Sewer Beg Balance: $3.3 million
  - Maintain 90 days of operating expenses in each utility
  - Establish a $500,000 capital reserve for each utility
  - FY 2022 rate increase would be implemented in April, thus only 3 months of additional revenue would be realized

- Inflation Assumptions: Higher inflation rates for the first two years of the analysis because of current economic conditions
  - Personnel & Benefits: 5% in FY 2021-23; 3% in FY 2024-26
  - Capital: 10% in FY 2021, 7% in FY 2022, 5% in FY 2023, 3% in FY 2024-2026
  - General: same as capital
- Customer Growth Assumptions:
  - Residential: 2.0%
  - Multi Family: 2.0%
  - Commercial: 1.0%
  - Industrial: 0.0%

Financial Plan

- 5-year planning period (FY2022-2026)
- Revenues projected based on existing rate structure
- Assumed capital projects would be funded through rate revenue, debt financing and capital reserves
  - America Rescue Plan Act funds received for 3 water projects (25% local match)
- Assumed Kalispell Treatment Expenses would increase on average 6.5 percent per year
- Assumed debt financing for larger capital projects (utility currently has no outstanding debt)
  - Rates set to meet debt service coverage requirements of 1.20
- Increased number of personnel over the analysis period
  - Added 1 FTE in March 2021 and Nov 2021; add FTE in March 2022; add ½ FTE in FY 2023; add 1 FTE in March 2025; also included a temp hire

Projected Operating Expenses, Combined Water and Sewer



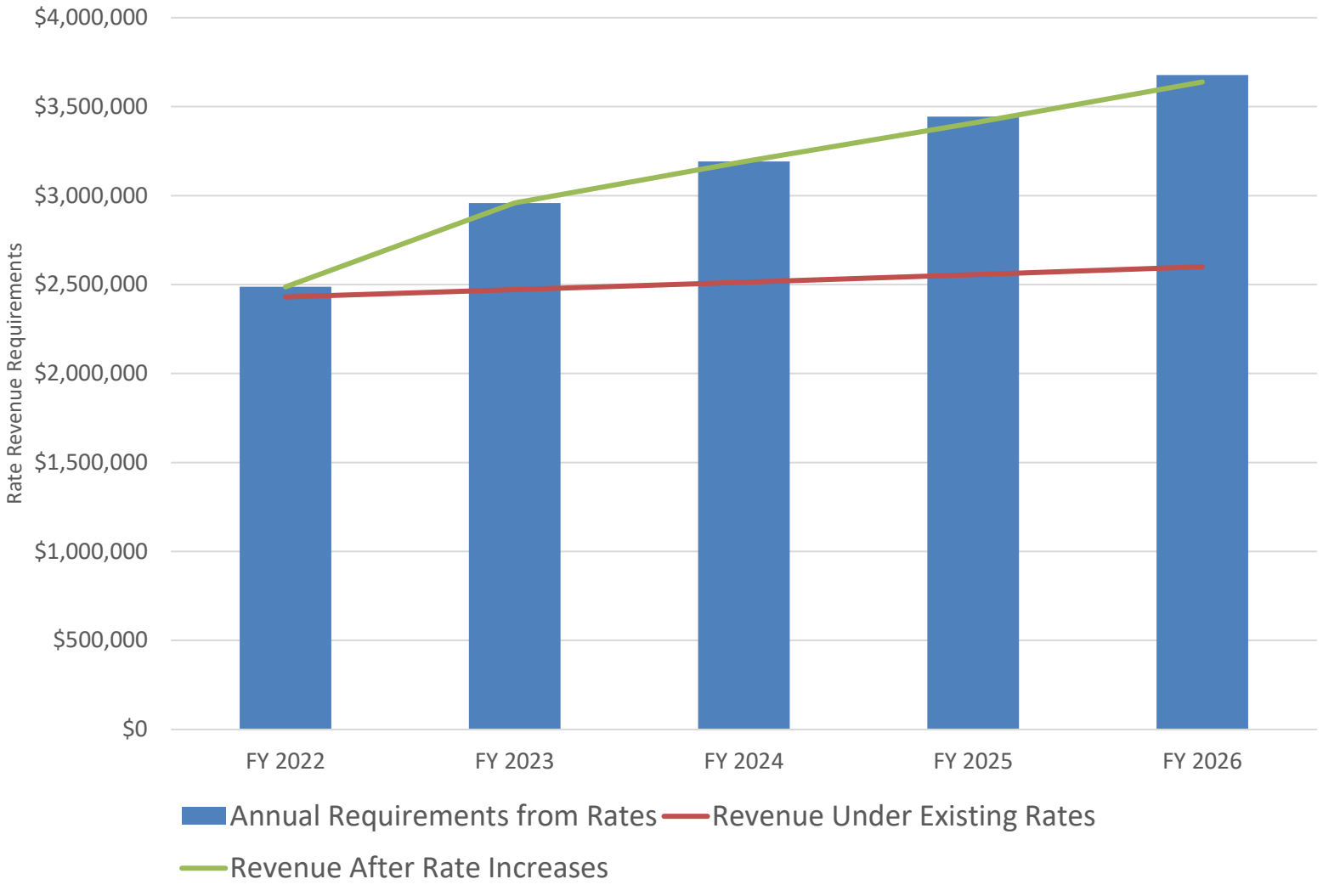
Capital Improvement Plan

CIP		FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	Total
	Water	$328,724	$808,808	$728,346	$777,548	$667,016	$996,435	**$4,306,876**
	Sewer	$318,119	$339,297	$2,678,096	$3,021,700	$2,992,813	$277,986	**$9,628,011**
	Fleet	$37,540	$78,645	$35,390	$121,507	$125,152	$0	**$398,233**
	Total	**$684,382**	**$1,226,750**	**$3,441,832**	**$3,920,754**	**$3,784,981**	**$1,274,422**	**$14,333,120**
Funding Sources								
	Rates	$684,382	$1,226,750	$241,832	$420,754	$284,981	$274,422	**$3,133,120**
	Debt	$0	$0	$3,200,000	$3,500,000	$3,500,000	$1,000,000	**$11,200,000**
	Total	**$684,382**	**$1,226,750**	**$3,441,832**	**$3,920,754**	**$3,784,981**	**$1,274,422**	**$14,333,120**

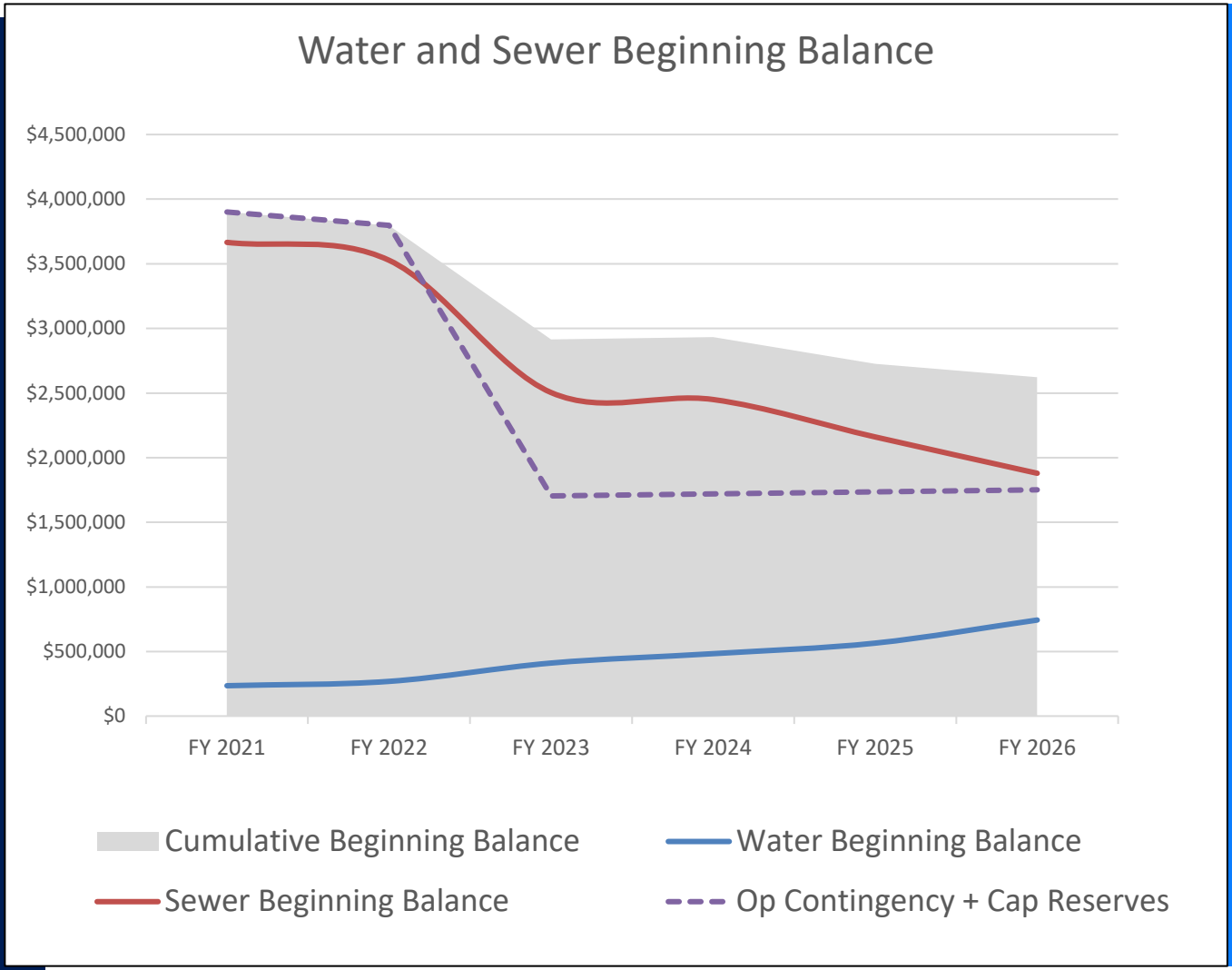
Proposed Rate Increases

Year	Water	Sewer
FY 2022	12.0%	8.0%
FY 2023	12.0%	8.0%
FY 2024	8.0%	5.0%
FY 2025	8.0%	5.0%
FY 2026	5.0%	5.0%

Rate Revenue Requirements



Financial Plan Summary



- Water Rate Revenue: Increase from $850k in FY2021 to nearly $1.4 million in FY2026
- Sewer Rate Revenue: Increase from $1.6 million to $2.3 million
- Annual debt service increases to $530,00 per year by FY2026
  - No existing debt for either system

Rate Structure Scenarios

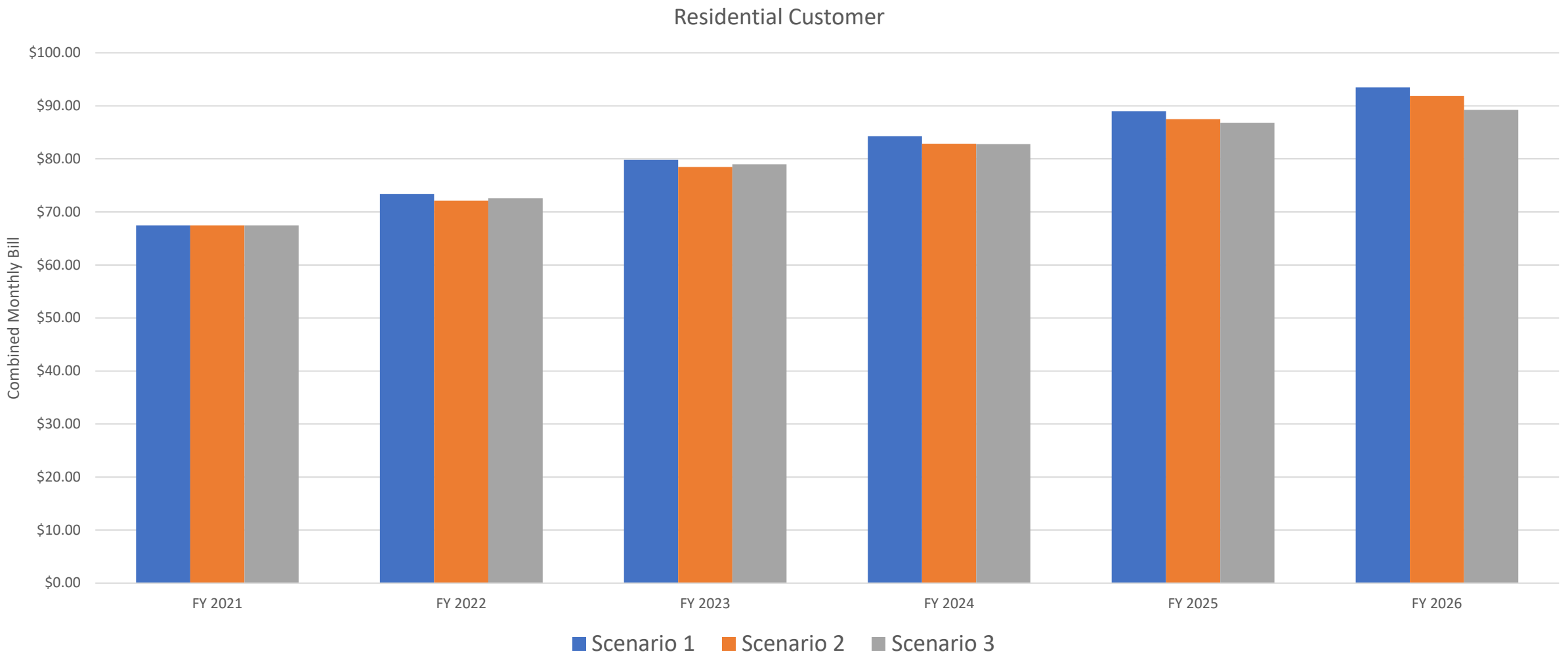
- All scenarios would generate the same amount of revenue
- Scenario 1: Across the Board Increases: apply increases universally to existing base rate and volume charge; base rate and volume charge would be the same for all customers
- Scenario 2: Develop a charge per connection for mobile home parks and multi-dwelling units; Mobile home parks would be 0.75 of a typical residential customers (5,000 gallons) and Multi Family Unit would be 0.50 of a typical residential customer; base charge would be the same regardless of meter size
- Scenario 3: Increase Base Rate based on Meter Size; Phase in change in base rate over a 5-year period; volume charge would be the same for all customers; total revenue generated = Scenario 1

Base Charge

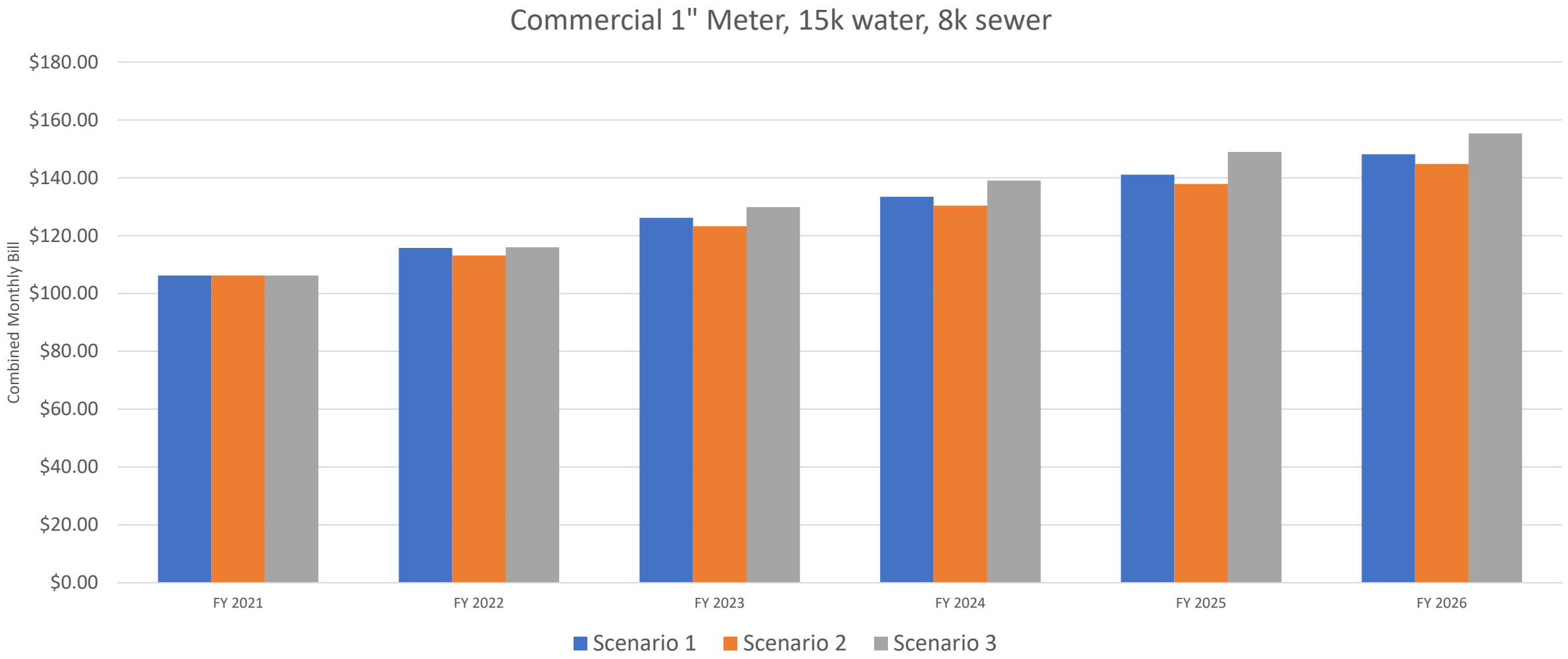
- General
  - Current rate structure has same rate for all meter sizes
  - Customer meter size is based on the demand the customer will place on the system as well as volume
  - The utility has fixed costs to meet the peak demands of its customers
  - Charging a larger base charge based on meter size will better reflect the costs to the system to meet those demands

- America Water Works Association (AWWA) provides meter equivalent ratios to estimate the different demands for different meter sizes.
- Meter equivalent ratios:
  - ¾” Meter: 1.0
  - 1” Meter: 1.7
  - 1 ½” Meter: 3.3
  - 2” Meter: 5.3
  - 3” Meter: 14.5
  - 4” Meter: 25.0
  - 6” Meter: 53.3
  - 8” Meter 93.3

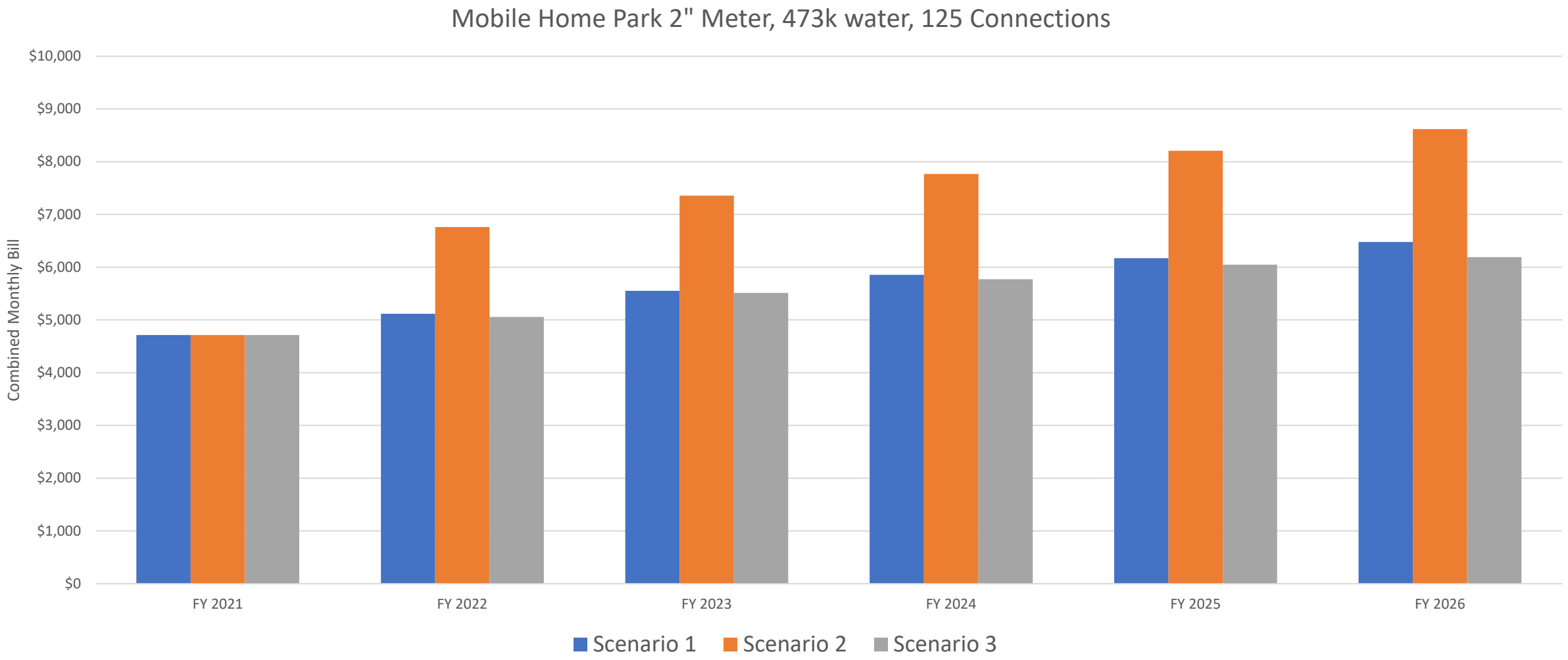
Rate Structure Scenario Comparison, Residential



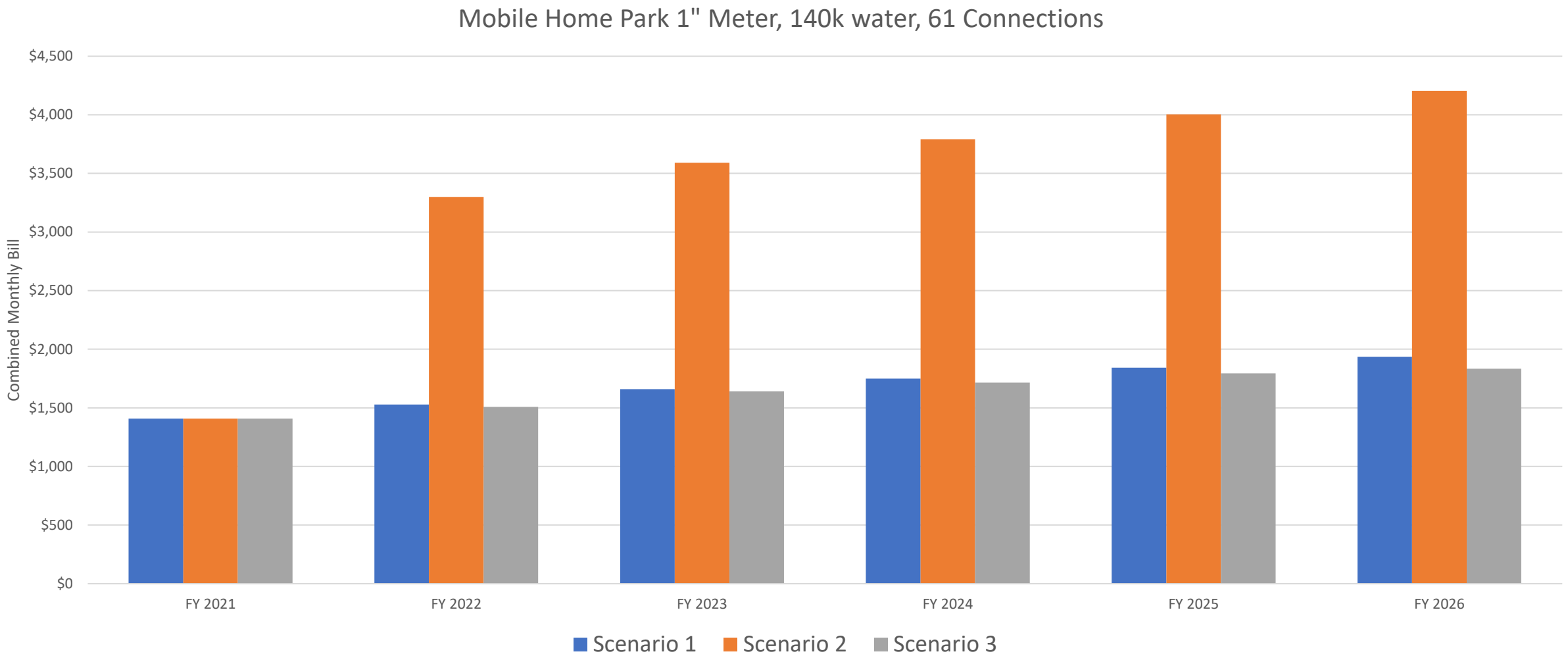
Rate Structure Scenario Comparison, Commercial



Rate Structure Scenario Comparison, Mobile Home Park #1



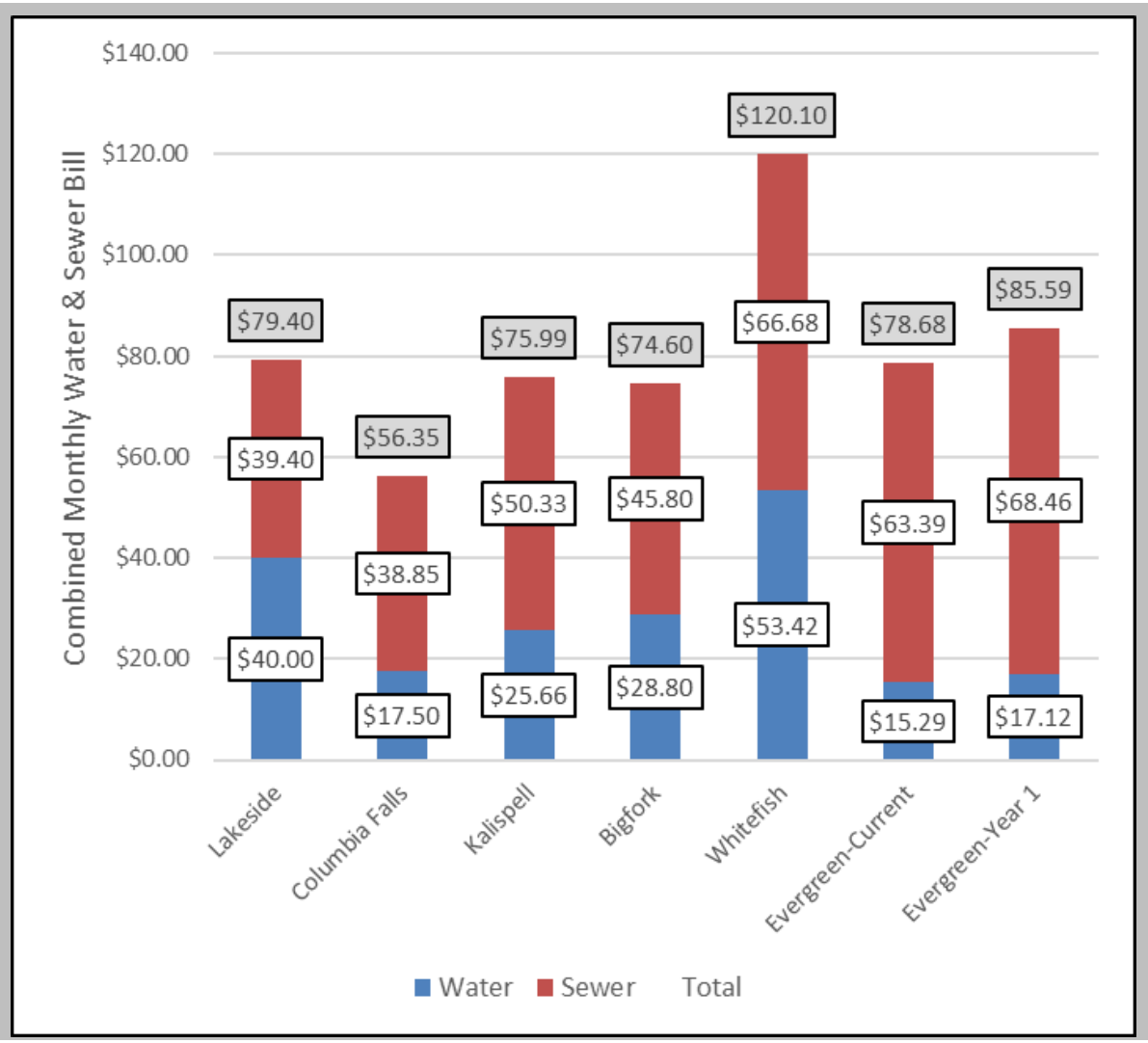
Rate Structure Scenario Comparison, Mobile Home Park #2



Rate Structure Comparison

Scenario	Description	Positive	Negative
Scenario 1	-Apply increases universally to existing base and volume charge	-Ease of implementation -Known rate structure	-Not the most equitable rate structure
Scenario 2	-Develop connection charge per mobile home and multi -dwelling unit; other customers would pay same base and volume charge regardless of meter size (similar to current structure)	-Base charge would reflect additional demands and costs multifamily and mobile home parks place on the system	-Large impact to some mobile home parks and MDU customers -Impacts to lower income customers -New structure will require additional communication with customers
Scenario 3	-Modify base charge rate depending on meter size	-More fixed cost associated with meeting customer demands would be collected through the base charge	-New structure will require additional communication with customers -Some customers will experience relatively larger rate impact than under Scenario 1 or 2

Water and Sewer Rate Comparison



- Conducted rate comparison with other communities
- Evergreen has relatively high sewer rates and low water rates (no treatment)
- Rate comparisons aren't always "apples to apples" comparisons because of policy decisions, differences in utility systems, and other factors:
  - Paying for capital costs through property taxes
  - Impact fee revenues help offset capital costs associated with new development (Evergreen doesn't currently have a water impact fee)

Recommendations

- Implement Scenario 3 over a 5-year period to phase in changes to base charge based on meter size
- Review actual revenues and expenditures and adjust rates as necessary
- Consider developing a water impact fee to raise funds to pay for capital associated with new growth
- Update rates after 5 years
- Pursue other sources of funds for capital projects i.e. Infrastructure Bill, grants

Thank you!

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