



WATER RATE CHANGES

PRESENTED AUGUST 5, 2019



RATE HISTORY

- **LAST INCREASE WAS 2010**
 - **CITY SUSPENDED AUTOMATIC 3% INCREASE PROGRAM**
 - NO JUSTIFICATION TO DO SO
 - SIGNIFICANT LOSS IN REVENUE OVER LAST 9-10 YEARS
 - MORE ON THIS LATER
 - **CITY HAS UNDERFUNDED THE UTILITY IN SEVERAL WAYS**
 - **LACK OF COST CENTERING**
 - **OVERBURDENING THE GENERAL FUND**
 - HISTORICALLY NOT HAVING UTILITIES PAY FAIR SHARE OF CAPITAL PROJECTS
 - USE OF NON-OPERATING REVENUE TO FUND OPERATIONS
 - NO CAPITAL REPLACEMENT RESERVE
 - WHILE CASH BALANCE HAS BEEN MAINTAINED THE RATES HAVE BEEN KEPT FICTITIOUSLY LOW

RATE REVIEW METHODOLOGY

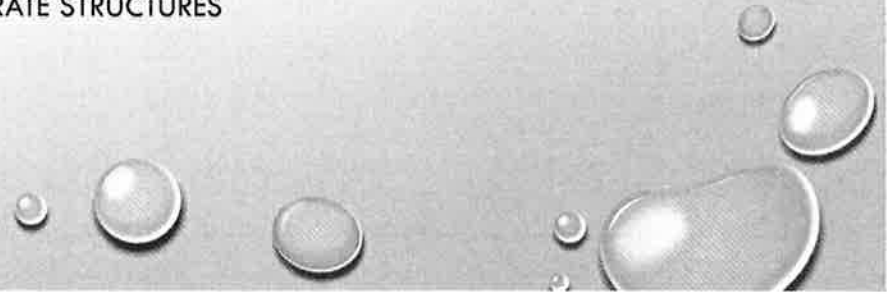
- **DEVELOPMENT OF TYPICAL YEAR BUDGETARY NEEDS**
 - REVIEW OF TRENDS
 - FACTORING IN REPLACEMENT RESERVES
 - DETERMINATION OF PLANNING WINDOW (50-60 YEARS)
 - DESIRED "DOWN PAYMENT" LEVELS (RECOMMENDED 10-15 PERCENT)
 - ANNUALIZING NON ANNUAL EXPENDITURES
 - ACTIVITIES DONE EVERY 3,5,10 YEARS ETC.
 - REVIEW OF COST CENTERING PRACTICES
 - **RATES MUST BE REFLECTIVE OF THE TRUE COSTS TO PROVIDE THE SERVICE**
 - ADMINISTRATIVE COSTS
 - MAYOR/COUNCIL COSTS
 - CITY HALL EXPENSES
 - FULLY FUNDING PREVENTATIVE AND PREDICTIVE MAINTENANCE-ASSET MANAGEMENT
 - AS SYSTEM AGES THE CITY WILL NEED TO OBLIGATE MORE RESOURCES (FINANCIAL AND PERSONNEL)

CURRENT RATE STRUCTURE

- **READY TO SERVE CHARGE**
 - BASE CHARGE TO COVER FIXED COSTS
 - CURRENTLY ACCOUNTS FOR 26.7% OF TOTAL REVENUE
 - TYPICAL SYSTEMS THIS SIZE HAVE APPROXIMATELY 60+% FIXED COSTS
 - RATE SHOULD BE SET BASED ON CAPACITY OBLIGATED TO CONNECTION
 - CURRENT MULTIPLIERS USED DON'T REFLECT PROPORTIONATE CAPACITY OBLIGATION
 - RATES SHOULD BE REFLECTIVE OF VALUE OF CAPACITY OBLIGATED
 - CURRENTLY RATEPAYERS (ESPECIALLY RESIDENTIAL) ARE SUPPLEMENTING LARGER CUSTOMERS THROUGH RATE INEQUITY
- **COMMODITY CHARGE**
 - USAGE RATE (BASED UPON METER READING)
 - CITY USES A SINGLE BLOCK RATE STRUCTURE



RATE STRUCTURE REMEDIES

- CANNOT FIX IN ONLY 1-2 YEARS
 - RATE SHOCK IS COMPOUNDED WITH AN INCREASE **AND** A RESTRUCTURING TAKING PLACE AT THE SAME TIME
 - BE COGNIZANT AND IMPLEMENT OVER A LONGER PERIOD OF TIME
 - READY TO SERVE CHARGE
 - ADOPTION OF AWWA METER FACTORS
 - ENGINEERING BASIS FOR CHARGING OF READY TO SERVE CHARGE
 - JUSTIFIABLE AND EQUITABLE
 - MORE FOCUS ON ADJUSTMENTS TO READY TO SERVE CHARGE
 - FUTURE CONSIDERATION TO INCREASING OR DECLINING BLOCK RATE STRUCTURES
 - DEVELOPMENT GOALS OF COMMUNITY
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PROPOSED RATE CHANGES

- ADOPTION OF AWWA METER FACTOR FOR LARGE METER CUSTOMERS
 - USE OF $\frac{3}{4}$ INCH CONNECTION AS BASE
 - EXAMPLE: CUSTOMER WITH 2 INCH METER WOULD PAY 5.33 TIMES THE BASE READY TO SERVE CHARGE
- 3 OR 4 YEAR RATE PLAN (RECOMMENDED 4 YEAR)
- FRONT LOADED INCREASE PLAN
- RE-IMPLEMENTATION OF AUTOMATIC ANNUAL INCREASE BEGINNING IN YEAR 5

RATE INCREASE SUMMARY

Water Rate Schedule		
Effective Date*	Base Readiness to Serve	Commodity Charge
Upon Passage	\$ 10.50	\$ 2.50
July 1, 2020	\$ 13.00	\$ 2.75
July 1, 2021	\$ 14.00	\$ 3.00
July 1, 2022	\$ 15.00	\$ 3.00

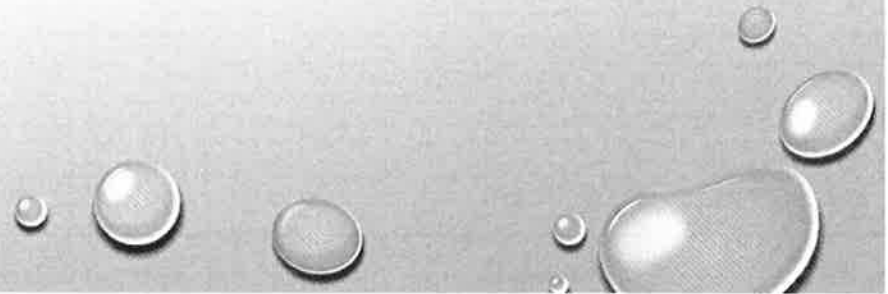


WHAT'S MY RATE INCREASE?

- 2,000 GALLON CUSTOMER (TYPICAL SINGLE PERSON HOUSEHOLD)
 - CURRENT MONTHLY RATE: \$11.71
 - YEAR 1: \$15.50
 - YEAR 2: \$18.50
 - YEAR 3: \$20.00
 - YEAR 4: \$21.00
 - TOTAL INCREASE: \$9.29 PER MONTH OVER 4 YEARS
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WHAT'S MY INCREASE?

- 4,500 GALLON CUSTOMER (AVERAGE HOUSEHOLD)
 - USAGE LEVEL USED FOR AFFORDABILITY RATING
 - CURRENT MONTHLY RATE: \$16.66
 - YEAR 1: \$21.75
 - YEAR 2: \$25.38
 - YEAR 3: \$27.50
 - YEAR 4: \$28.50
 - TOTAL INCREASE: \$11.84 PER MONTH OVER 4 YEARS
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WHAT'S MY INCREASE?

- **7,000 GALLON CUSTOMER (LARGE HOUSEHOLD-DEMOGRAPHIC OF HIGH CONSUMPTION)**
 - **CURRENT MONTHLY RATE: \$21.61**
 - **YEAR 1: \$28.00**
 - **YEAR 2: \$32.25**
 - **YEAR 3: \$35.00**
 - **YEAR 4: \$36.00**
 - **TOTAL INCREASE: \$14.39 PER MONTH OVER 4 YEARS**
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WHAT'S MY INCREASE?

- 2 INCH METER CUSTOMER USING 50,000 GALLONS PER MONTH
 - CURRENT MONTHLY RATE: \$110.60
 - YEAR 1: \$180.97
 - YEAR 2: \$206.79
 - YEAR 3: \$224.62
 - YEAR 4: \$229.95
 - TOTAL INCREASE: \$119.35 PER MONTH OVER 4 YEARS
 - NOTE THAT IT IS A SIGNIFICANTLY HIGHER PERCENTAGE INCREASE OVER TIME THAN TYPICAL RESIDENTIAL. HOWEVER THERE IS NO ENGINEERING BASIS FOR CURRENT MULTIPLIER OF ONLY 1.5 TIMES BASE RTS CHARGE. RATES FOR LARGE METER CUSTOMERS HAVE BEEN INEQUITABLY SUPPLEMENTED.

NON-OPERATING REVENUES

- **MANY CURRENT CHARGES FOR SERVICES (TURN ON, TURN OFF, IRRIGATION METER ADMINISTRATION, HYDRANT ACCESS, ETC.) WERE REVIEWED.**
 - RATES NOT REFLECTIVE OF COST MEANING SUPPLEMENTED BY OTHER RATE PAYERS
 - WAGES, BENEFITS, ADMINISTRATIVE TIME, VEHICLE RENTAL COSTS, ETC.
 - CUSTOMERS RECEIVING AN ENHANCED LEVEL OF SERVICE HAVE AN OBLIGATION TO PAY FOR IT
- **EXAMPLE: PERMANENT IRRIGATION METERS**
 - CUSTOMERS WISHING TO RECEIVE A REBATE ON SEWER CHARGES FOR OUTDOOR WATER CAN HAVE OUTSIDE METER INSTALLED (PAY FOR COST OF METER).
 - HISTORICALLY THERE HAS BEEN NO MONTHLY CHARGE
 - CITY HAS PERPETUAL COSTS OF READING METERS, ADJUSTING BILLS, AND MAINTAINING BACKFLOW PREVENTION RECORDS.
 - WITHOUT SOME SORT OF CHARGE TO COVER THIS COST OVER THE LIFE OF THE METER, OTHER CUSTOMERS ARE SUPPLEMENTING THIS ADDITIONAL SERVICE.

RATE AFFORDABILITY

- FUNDING AGENCIES WILL RATE A COMMUNITY'S UTILITY RATE AFFORDABILITY WITH REGARD TO THE MEDIAN HOUSEHOLD INCOME (MHI). CURRENT MHI FOR THE CITY OF WAYLAND IS \$52,831.
 - DEQ/EGLE/CDBG WANT TO SEE SINGLE UTILITY RATES AT 1.0% OF MHI. (4,500 GALLONS USAGE)
 - \$44.03 PER MONTH
 - USDA RURAL DEVELOPMENT WILL ONLY PROVIDE GRANT TO GET RATES AT 1.5% OF MHI.
 - \$66.04
- **RATES AT THE END OF THE 4-YEAR INCREASE PLAN WILL STILL BE \$16.53 BELOW 1.0% AFFORDABILITY THRESHOLD AND \$37.54 BELOW THE 1.5% THRESHOLD**
- IT IS NOT RECOMMENDED THAT A CITY ARBITRARILY ESTABLISH RATES AT THESE AFFORDABILITY STANDARDS AS RATES MUST BE BUDGETARILY SUPPORTED. HOWEVER THIS WOULD SHOW THAT THE CAPACITY FOR INCREASES IS PRESENT AND THE CITY WILL NEED TO BE PROACTIVE WHEN PLANNING FUTURE PROJECTS.

NEED FOR ANNUAL INCREASE

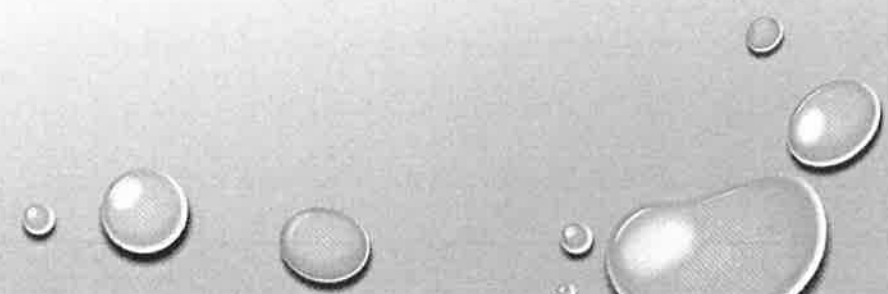
- **PLACING AN ANNUAL INCREASE PROVISION IN THE ORDINANCE BEGINS TO DE-POLITICIZE THE RATE MAKING PROCESS.**
 - **ORDINANCES CAN ONLY BE CHANGED BY FUTURE ORDINANCES RATHER THAN THE WHIMS OF A FEW INDIVIDUALS**
 - **DOES RESIDENTS A FAVOR OVER TIME BY HELPING TO AVOID HUGE "STICKER SHOCK" INCREASES**
 - **OFTEN SMALL INCREASES GO UNNOTICED CREATING LESS NEGATIVE FERVOR**
 - **HELPS TO ENSURE THAT CAPITAL PLANS ARE PROTECTED**
 - **INFLATION OVER TIME IS EFFECTIVELY A GUARANTEE.**
 - **PRUDENT MANAGEMENT WOULD INCLUDE PUTTING THE UTILITY IN A POSITION TO CONTINUALLY HANDLE THIS.**
 - **ALSO KNOWING THAT THE CITY WILL HAVE LIMITED GRANT FUNDING AVAILABILITY IT WOULDN'T BE A TERRIBLE THING TO BEGIN TO GAIN SOME GROUND WITH REGARD TO FUND BALANCE OVER TIME.**

WHAT IF THE CITY HAD MAINTAINED IT'S 3% INCREASE MANDATE

- ASSUME A SIMPLISTIC SYSTEM
 - 10 CUSTOMERS ALL USING AVERAGE OF 4,500 GALLONS PER MONTH
 - REVENUE FOR THESE CUSTOMERS OVER LAST 10 YEARS HAS BEEN \$19,992.00. HAD WE INCREASED RATES 3% PER YEAR THE CITY WOULD HAVE HAD \$22,919 IN REVENUES FOR THESE 10 CUSTOMERS.
 - THE DIFFERENCE IN REVENUE OVER THE LAST 10 YEARS FOR THESE 10 CUSTOMERS WAS \$2,927.
 - THAT NUMBER MULTIPLIED BY THE CITY'S 1,210 CONNECTIONS MEANS THE CITY HAS MISSED OUT ON \$3,541,670 IN POTENTIAL REVENUE OVER THAT TIMEFRAME. THIS JUST ASSUMES A GENERIC SCENARIO. WITH LARGER CUSTOMERS THIS NUMBER WOULD LIKELY BE HIGHER.
 - NO RATE STRUCTURE COULD BE FEASIBLY IMPLEMENTED TO "MAKE-UP" THIS REVENUE IN A SHORT AMOUNT OF TIME. AT SOME POINT WE KNOW THAT THESE FUNDS WILL BE NEEDED.
 - HISTORICAL INFLATION RATES (1913-PRESENT) HAVE BEEN AN AVERAGE OF 3.25% PER YEAR



FUTURE PROJECTS

- THE PROPOSED RATE STRUCTURE IS NOT A FIX ALL
 - THERE WILL BE CAPITAL IMPROVEMENTS THAT THE CITY IS CURRENTLY UNDERFUNDED FOR.
 - DEBT ISSUANCES
 - DEBT IS NOT A BAD THING. MULTIPLE GENERATIONS SHOULD PAY IF MULTIPLE GENERATIONS BENEFIT
 - MANDATED PROCESS CHANGES
 - REGARDLESS OF POLITICAL ALIGNMENTS IT SHOULD BE ASSUMED THAT THE CITY WILL CONTINUE TO OPERATE IN A WORLD OF EVER-CHANGING UNFUNDED MANDATES.
 - LEAD AND COPPER EXAMPLE
 - WHAT DOES FUNDING A PROJECT LOOK LIKE?
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				FUNDING SCENARIOS			
				Project:			
				Scenario	Scenario	Scenario	Scenario
				2	3	4	
CUSTOMERS (EDU)				1480	1480	1480	1480
TOTAL PROJECT COST				\$ -	\$ -	\$ -	\$ -
TOTAL ANNUAL OMR				\$ -	\$ -	\$ -	\$ -
FINANCING							
SRF 20	20	2.00%	\$ -	\$ -	\$ 1,000,000		
SRF 30	30	2.25%	\$ -	\$ -	\$ -	\$ 1,000,000	
Bonds	20	3.35%	\$ 1,000,000		\$ -	\$ -	
OEPA Loan	20	3.00%	\$ -	\$ -	\$ -	\$ -	
USDA Loan	40	4.25%	\$ -	\$ 1,000,000	\$ -	\$ -	
Total Financing				\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000
ANNUAL DEBT							
Annual SRF 20 year Loan Payment				\$ -	\$ -	\$ 61,157	\$ -
Annual SRF 30 Year Loan Payment				\$ -	\$ -	\$ -	\$ 46,199
Annual Bond Payment				\$ 69,409	\$ -	\$ -	\$ -
Annual USDA Loan Payment				\$ -	\$ 52,418	\$ -	\$ -
USDA 10% Required Reserve				\$ -	\$ 5,242	\$ -	\$ -
ANNUAL DEBT & OMR				\$ 69,409	\$ 57,660	\$ 61,157	\$ 46,199
Total Future Av. Mo. Cost Per Customer				\$ 3.91	\$ 3.25	\$ 3.44	\$ 2.60
SRF 20 Year Payback				\$ -	\$ -	\$ 1,223,134	\$ -
SRF 30 Year Loan Payback				\$ -	\$ -	\$ -	\$ 1,385,980
Municipal Bond payback				\$ 1,388,190	\$ -	\$ -	\$ -
USDA Payback				\$ -	\$ 2,096,736	\$ -	\$ -

FREQUENTLY ASKED QUESTIONS/CRITICISMS

- WHY CAN'T THE RATES JUST BE INCREASED BY A SET PERCENTAGE RATHER THAN CHANGING THE STRUCTURE.
 - OVER TIME AN INEQUITABLE RATE STRUCTURE WILL ONLY BECOME MORE INEQUITABLE IF NOT ADJUSTED PROPERLY
- HOW DOES WAYLAND'S RATES COMPARE TO OTHER COMMUNITIES?
 - COMPARING OUR RATE TO OTHER COMMUNITIES IS LARGELY IRRELEVANT DUE TO THE VERY LOCALIZED NATURE OF UTILITIES AND THEIR DESIGN. IT IS ALMOST IMPOSSIBLE TO HAVE TWO SYSTEMS THAT ARE COMPLETELY THE SAME WHICH MAKES COMPARING THEM DIFFICULT.
- I AM ONLY A PART-YEAR RESIDENT. WHY DO I HAVE TO PAY A READY TO SERVE CHARGE FOR THE WHOLE YEAR?
 - BECAUSE THE CITY HAS OBLIGATED CAPACITY TO YOUR CONNECTION THAT IT CANNOT SELL TO ANOTHER USER WHEN YOU ARE GONE. BECAUSE WE ARE OBLIGATED TO PROVIDE THIS CAPACITY YEAR ROUND, THERE IS AN OBLIGATION BY THE CUSTOMER TO PAY FOR THIS ON A YEAR ROUND BASIS

CONTINUED

- I ALREADY PAY HIGH TAXES AND THEREFORE UTILITY RATES SHOULD BE LOW
 - THE TAXES ARE DESIGNED TO COVER ITEMS PAID FOR BY THE GENERAL FUND. UTILITIES ARE SEPARATE ENTERPRISE FUNDS THAT SHOULD BE SOLELY FUNDED BY THEIR USER BASE (WITH RATES PROPORTIONATE TO THE LEVEL OF SERVICE DERIVED) AND HAVE NO IMPACT ON TAXES/TAX RATES
- THE CITY HAS TOO MUCH MONEY IT IS FUND ALREADY
 - THE CURRENT CASH BALANCE IN THE WATER FUND IS SLIGHTLY BELOW \$500,000. THIS WOULD NOT BE ENOUGH TO FUND EVEN ONE LARGE PROJECT. ADDITIONALLY SYSTEM REPLACEMENT WOULD LIKELY COST UPWARDS OF \$25,000,000. ASSUMING A 50 YEAR PLANNING WINDOW THERE NEEDS TO BE CONSIDERABLE EFFORTS MADE TO INCREASE THE CAPITAL REPLACEMENT RESERVES
- THE RESIDENTS CAN'T AFFORD IT.
 - WHILE EVERYONE'S FINANCIAL SITUATION IS DIFFERENT AND IT IS ACKNOWLEDGED THAT THIS INCREASE WON'T GO UNNOTICED BY THE RATE PAYERS WITH REGARD TO THEIR MONTHLY BUDGETS THE PROPOSED RATES ARE STILL WELL BELOW THE AFFORDABILITY THRESHOLDS USED IN DETERMINING ELIGIBILITY. FURTHERMORE THE FAILURE TO ACT NOW WILL RESULT IN MISSED OPPORTUNITIES REGARDING REVENUE COLLECTIONS. THIS WOULD RESULT IN EVEN LARGER INCREASES LATER.

CONTINUED

- **THE EMPLOYEES ALL MAKE TOO MUCH. CUT THEIR WAGES TO KEEP RATES LOW**
 - THE OPERATORS ARE PROFESSIONALS WHO ARE RESPONSIBLE FOR THE HEALTH OF THE RESIDENTS AS WELL AS THE CARE OF SOME OF THE COMMUNITIES BIGGEST INVESTMENTS. THE PROFESSION CONTINUES TO BECOME MORE AND MORE COMPLICATED WITH NEW REGULATIONS. THERE IS ALREADY A NATIONWIDE SHORTAGE OF QUALIFIED EMPLOYEES IN THIS INDUSTRY THAT WILL CONTINUE TO DRIVE PERSONNEL COSTS UPWARD. AS SUCH THE CITY WILL NEED TO CONTINUE PROVIDE A MARKET COMPETITIVE COMPENSATION PACKAGE TO ATTRACT A QUALIFIED WORKFORCE.
- **THE CITY JUST NEEDS TO FIND WAYS TO WORK WITH LESS**
 - BECAUSE RATES HAVEN'T BEEN INCREASED IN 9-10 YEARS IT IS VERY OBVIOUS THAT WE HAVE BEEN WORKING WITH LESS EACH YEAR. THIS COUPLED WITH NOT MAKING REGULAR CONTRIBUTIONS TO REPLACEMENT RESERVES WILL MAKE REHABILITATION AND REPLACEMENT OF ASSETS MORE EXPENSIVE WHEN THE TIME COMES.
- **MY OTHER BILLS SUCH AS ELECTRICITY, PHONE, AND CABLE HAVE ALL INCREASED IN PRICE. CAN'T I GET A BREAK ON WATER AT LEAST?**
 - THE CITY'S WATER UTILITY IS AN ENTERPRISE FUND THAT ALMOST FUNCTIONS LIKE A BUSINESS. ALL OF THE EXPENSES NEED TO BE COVERED. ALSO AS THESE EXPENSES HAVE INCREASED FOR YOU, THEY HAVE INCREASED FOR THE UTILITY AS WELL.
- **I'M ON A FIXED INCOME, CAN I GET SOME SORT OF A DISCOUNT?**
 - UNFORTUNATELY, HAVING THE REMAINING CUSTOMERS SUPPLEMENT ANOTHER CUSTOMER GROUP IS A DEVIATION FROM AN EQUITABLE RATE STRUCTURE AND COULD BRING THE RATE MAKING METHODOLOGY TO SHAKY LEGAL GROUND. EVERYONE NEEDS TO CONTRIBUTE TO THEIR FAIR SHARE OF FUNDING THE UTILITY. ALSO IT COULD BE ARGUED THAT WE ARE ALL ON FIXED INCOMES IN SOME MANNER.

DEFENDING THE DECISION

- THERE WILL ALWAYS BE CRITICS OF THE PLAN. HOWEVER IT SHOULD BE NOTED THAT MANY CRITICS IN THIS CASE USUALLY COME TO THE TABLE WITH FEW ALTERNATIVES.
- THE LONGER THIS DECISION IS DELAYED THE MORE RISK YOU ARE PLACING ON THE RESIDENTS.
- SMALLER INCREMENTAL INCREASES ARE MUCH EASIER AND FAR LESS POLITICAL THAN DRASTIC INCREASES. TAKE THE OPPORTUNITIES TO HELP DE-POLITICIZE THE PROCESS AND KEEP IN PLACE AUTOMATIC INCREASES.
- REMEMBER HITTING A TARGET REVENUE LEVEL IS A BUSINESS DECISION SINCE THE UTILITY SHOULD FUNCTION LIKE A BUSINESS.