



To: Mayor and City Council
From: Dawn Masko, City Manager
Date: November 3, 2023
Subject: Water Rate Increase – Follow-up Information

As part of the discussion at the October 30, 2023 study session, the City Council requested additional information regarding the proposed water rate increase. Concern was expressed that materials provided as part of the budget workshop packet did not correctly reflect the impact of a proposed 4.5% rate increase on residential customers. It was also discovered that the amounts shown in the comparison with other cities did not correctly reflect the average billing based on 1400 cubic feet for the 2%, 4%, and 4.5% increased rates.

Attached is additional information for Council review prior to the November 14th City Council meeting. Staff has provided numerous examples of the impact of the proposed 4.5% rate increase on various customers based upon water volume usage. The chart below illustrates that 55% of single-family residential customers are in Tier 1 and 42% are in Tier 2 during winter months and the majority are in Tier 2 during summer months.

| Single-Family Residential Customers by Tier | | | | | |
|---|--------|--------|--------|----------|-------|
| Billing Cycle | Tier 1 | Tier 2 | Tier 3 | No Usage | Total |
| February 2023 | 1,222 | 921 | 34 | 41 | 2,218 |
| August 2023 | 471 | 1,137 | 599 | 13 | 2,220 |

There are currently 100 accounts on Budget Billing.

Information provided by Public Works states that the single-family residential customer average water usage is 1,179 cubic feet in the winter billing cycles and 3,131 cubic feet (cf) in the summer billing cycles. Based on that data, staff have used those averages to calculate the impacts of a proposed rate increase. Additionally, we have provided examples at the end of this memo based on 800 cf, 1400 cf, 2800 cf, and 4500 cf to illustrate potential impacts to customers in each tier.

The Council has previously authorized 2% water rate increases in both 2022 and 2023. Prior to 2022, there had not been a rate increase since 2019.

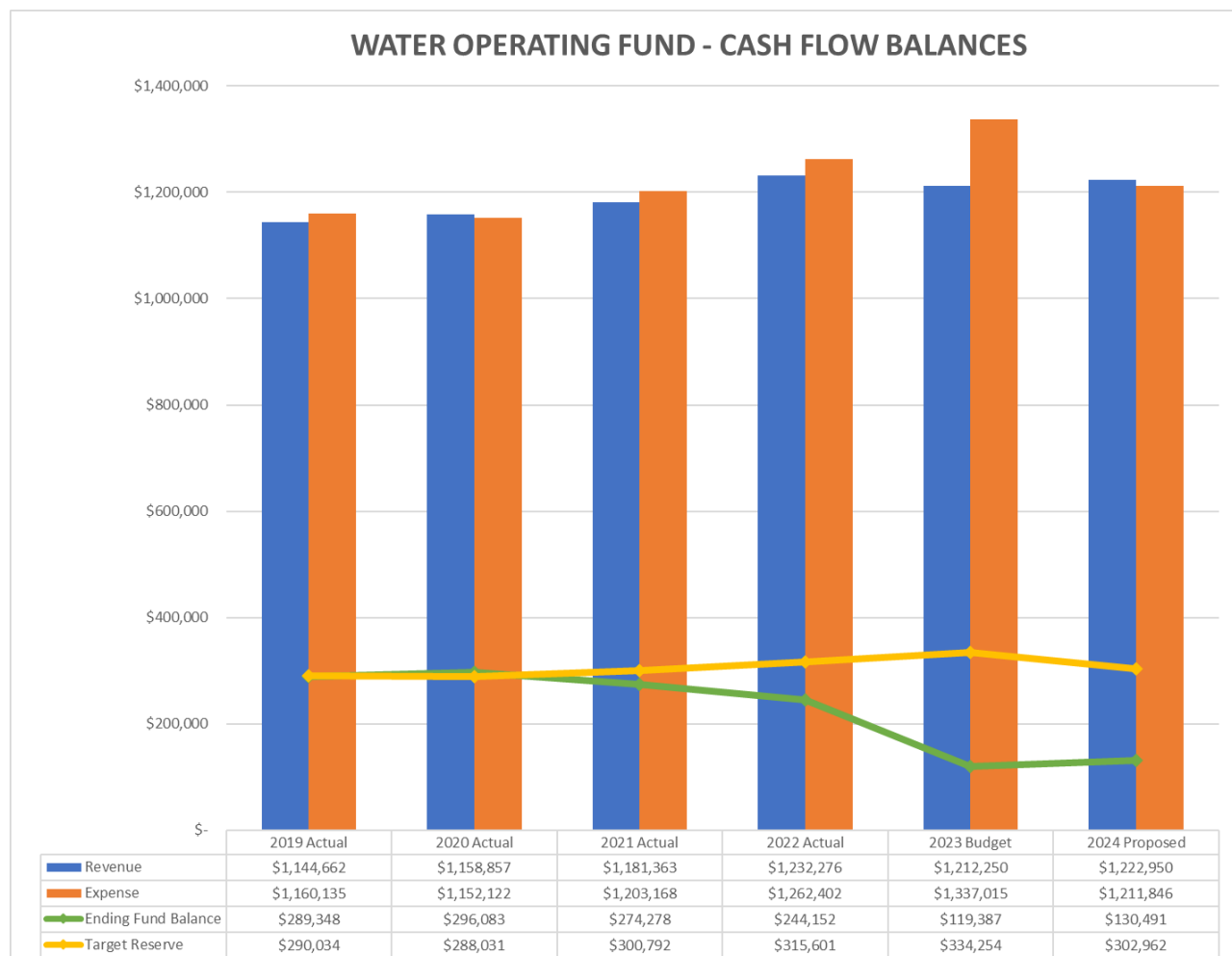
| Single Family Residential | | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 Proposed |
|---------------------------|------------------|----------|----------|----------|----------|----------|---------------|
| Base Rate | | \$37.00 | \$37.00 | \$37.00 | \$37.74 | \$38.49 | \$40.22 |
| Tier 1 | 0 – 1,000 cf | \$0.0109 | \$0.0109 | \$0.0109 | \$0.0109 | \$0.0113 | \$0.0118 |
| Tier 2 | 1,001 – 4,000 cf | \$0.0163 | \$0.0163 | \$0.0163 | \$0.0163 | \$0.0169 | \$0.0177 |
| Tier 3 | 4,001+ cf | \$0.0272 | \$0.0272 | \$0.0272 | \$0.0272 | \$0.0288 | \$0.0301 |
| Rate Increase | | 4.2% | 0.0% | 0.0% | 2.0% | 2.0% | 4.5% |

Unfortunately, these rate increases have not kept pace with inflation and the impact on Water operating expenditures.

| | Rate Increase | Expenditure Increase | CPI-W June to June |
|------|---------------|----------------------|-----------------------|
| 2019 | 4.2% | -26.9% | 3.6% |
| 2020 | 0.0% | -0.7% | 1.7% |
| 2021 | 0.0% | 4.4% | 1.0% |
| 2022 | 2.0% | 4.9% | 6.3% |
| 2023 | 2.0% | 5.9% | 9.5% |

The Water Capital Fund was created in 2018 with a transfer from the Water Operating Fund. The 2019 expenditures reflect a decrease from 2018 due to the impact of that transfer.

City Financial Policies state that the goal is to maintain reserves equal to at least three (3) months of adopted operating expenditures. The chart below highlights the growing gap between the Water Operating Fund’s target reserve and its actual ending fund balance. Extraordinarily high inflation in recent years is the largest contributor along with capital repairs funded by operating funds. While the 2024 proposed Water operating budget is structurally balanced, without a rate increase the ending fund balance will continue to decline. The current projected ending fund balance for 2024 is \$130,491, which equates to approximately one month of expenditures. The current trend is not sustainable and will result in the need to drastically cut expenses in future years, which could have a detrimental impact on utility operations.



Below is the corrected residential water rate comparison to surrounding jurisdictions.

Residential Water Rate Comparison
Corrected Version
Based on Average of 1400 cf

| <u>Residential Water Service</u> | <u>2-Month Avg. Bill</u> | <u>Per Month Avg.</u> |
|----------------------------------|----------------------------|----------------------------|
| University Place - Summer | \$118.08 | \$59.04 |
| University Place - Winter | \$111.33 | \$55.66 |
| Steilacoom | \$100.10 | \$50.05 |
| Tacoma - Summer | \$91.18 | \$45.59 |
| Tacoma - Winter | \$85.94 | \$42.97 |
| Lakewood | \$51.37 | \$25.69 |
| Fircrest - Current | \$56.55 | \$28.28 |
| Fircrest - 2% | \$63.09 \$57.68 | \$31.55 \$28.84 |
| Fircrest - 4% | \$70.11 \$58.81 | \$35.06 \$29.41 |
| Fircrest - 4.5% | \$71.79 \$59.09 | \$35.90 \$29.55 |

Based solely on water rates, Fircrest’s rates continue to be among the lowest in our area. The table below shows how the proposed rate increase compares to the proposed rate increases for the same cities listed above, based on cubic feet of water usage.

| | 2024 PROPOSED Residential Rates | | | | | |
|-----------------------------------|---|----------|----------|----------|----------|----------|
| | Bi-monthly Customer Bill based on Base Rate + Volume Charge | | | | | |
| | 800 cf | 1179 cf | 1400 cf | 2800 cf | 3131 cf | 4500 cf |
| City of University Place – Summer | \$104.18 | \$119.67 | \$128.70 | \$185.91 | \$199.44 | \$255.38 |
| City of University Place – Winter | 101.73 | 114.12 | 121.35 | 167.11 | 177.93 | 222.68 |
| Town of Steilacoom | 82.10 | 96.31 | 104.60 | 157.13 | 169.54 | 220.90 |
| City of Tacoma – Summer | 80.36 | 92.37 | 99.38 | 143.77 | 154.27 | 197.68 |
| City of Tacoma – Winter | 78.45 | 88.07 | 93.67 | 129.18 | 137.58 | 172.30 |
| City of Lakewood | 40.09 | 49.34 | 53.68 | 86.87 | 95.73 | 132.35 |
| City of Fircrest – 4.5% Increase | 49.66 | 55.19 | 59.10 | 83.88 | 89.74 | 120.17 |
| City of Fircrest – 4% Increase | 49.47 | 54.98 | 58.87 | 83.51 | 89.34 | 119.63 |
| City of Fircrest – 2% Increase | 48.46 | 53.84 | 57.64 | 81.72 | 87.41 | 117.06 |
| City of Fircrest – No Increase | 47.53 | 52.82 | 56.55 | 80.21 | 85.80 | 114.89 |

Staff recommends that the Council approve a 4.5% rate increase (based on CPI-W June-to-June) for 2024. As indicated in the October 30th budget memo, this would generate approximately \$52,570 of additional revenue and while that still leaves a significant difference between the anticipated ending fund balance and the target reserve, it prevents the gap from increasing. The bi-monthly increases to customers are shown in the chart below.

| | 2023 Current | 2024 Proposed | Difference | % Increase |
|-----------|--------------|---------------|------------|------------|
| Base Rate | \$38.49 | \$40.22 | \$1.73 | 4.5% |
| 800 cf | 47.53 | 49.66 | 2.13 | 4.5% |
| 1179 cf | 52.82 | 55.19 | 2.37 | 4.5% |
| 1400 cf | 56.55 | 59.10 | 2.55 | 4.5% |
| 2800 cf | 80.21 | 83.88 | 3.67 | 4.5% |
| 3131 cf | 85.80 | 89.74 | 3.94 | 4.5% |
| 4500 cf | 114.89 | 120.17 | 5.28 | 4.5% |

Base rate does not include any water usage. All other rates shown include base rates plus water usage charges.

The Council previously requested to see the effect of a 4.5% increase in 2024 followed by 2% rate increases in 2025 and 2026. While staff is not recommending adoption of rate increases beyond 2024 without additional evaluation, the requested information is shown below.

| | Current Rate | 4.5% Increase | 2024 Rate | 2.0% Increase | 2025 Rate | 2.0% Increase | 2026 Rate |
|-----------|--------------|---------------|-----------|---------------|-----------|---------------|-----------|
| Base Rate | \$38.49 | \$1.73 | \$40.22 | \$0.80 | \$41.02 | \$0.82 | \$41.84 |
| 800 cf | 47.53 | 2.13 | 49.66 | 0.99 | 50.65 | 1.01 | 51.66 |
| 1179 cf | 52.82 | 2.37 | 55.19 | 1.10 | 56.29 | 1.13 | 57.42 |
| 1400 cf | 56.55 | 2.55 | 59.10 | 1.18 | 60.28 | 1.21 | 61.49 |
| 2800 cf | 80.21 | 3.67 | 83.88 | 1.68 | 85.56 | 1.71 | 87.27 |
| 3131 cf | 85.80 | 3.94 | 89.74 | 1.80 | 91.54 | 1.83 | 93.37 |
| 4500 cf | 114.89 | 5.28 | 120.17 | 2.40 | 122.57 | 2.45 | 125.02 |

Base rate does not include any water usage. All other rates shown include base rates plus water usage charges.

The Water Capital Fund is primarily funded by transfers from the Water Operating Fund. Other revenue sources include grants and capital contributions/tap fees. ARPA funds also provided a significant infusion of cash for specific projects in prior years. The ending fund balance for Water Capital has also been declining, with an estimated 2024 ending fund balance of \$105,203. The total projected 2024 ending fund balance for the combined Water Utility Fund is \$235,694, which is less than the target operating reserve of \$302,962 for just the Water Operating Fund.

Finance Director Colleen Corcoran provided additional information at the October 30th budget workshop which discusses the Water Capital Fund as well as a high-level 5-year projection. Additional work needs to be done in the coming year to evaluate the Water Utility Fund and explore options to address its long-range financial health.

A public hearing will need to be held before any rate increase can be adopted. Council can set the date for a public hearing at the November 14th City Council meeting, which will allow for sufficient time to advertise the public hearing as required. Following the public hearing, an ordinance will be brought forward to Council for adoption. The rate increase would take effect with the February 1st utility billing cycle and the increase will be reflected on the April 2024 utility statement.

Please let me know if you have any questions or require additional information in advance of the November 14th City Council meeting. Thank you.