

City and Borough of Sitka

100 Lincoln Street • Sitka, Alaska 99835

MEMORANDUM

То:	Mayor Hunter and Assembly Members Keith Brady, Municipal Administrator
From:	Jay Sweeney, Chief Finance and Administrative Officer, Melissa Haley, Controller, Michael Harmon, Public Works Director
Date:	5 June 2018
Subject:	Approval of Ordinance 2018-26 FY2019 Rate increase for Water Service

The rate increase for the Water fund is the highest increase proposed for FY2019. The increase is driven by the need for significant investment in a backup water supply, as our former backup supply (Indian River) can no longer be used under federal regulations. In order to secure the funding (via low interest loans through the state of Alaska) necessary to undertake this project, we must demonstrate that the fund can generate the revenue necessary to pay the debt service on the loans needed to fund this project. The 22% increase this year will be followed by much lower future year increases (barely above the rate of inflation). As with other funds, the proposed rate structure leads us towards a future in which we must still rely on debt financing, but the level of debt does slowly decrease as we go further out.

The primary goals for the Water Fund during the next year are to:

- Refine plans, cost estimate, and financing for critical secondary water supply.
- Continue to identify infrastructure that is most at risk of failure and plan for needed improvements.

Below is an example demonstrating the total increased cost of a scenario which could be applicable to an average family in Sitka:

Example of typical household	Total additional cost
service	
Monthly service fee for water	\$8.92
Total cost	\$8.92
Average monthly recurring cost	\$8.92

As is illustrated in the following chart, in the past, water rates have been structured so that general operations are covered by the revenue generated, but not much has been set aside for future infrastructure needs (as can be roughly estimated by using the rate of depreciation). In order to be truly setting aside an amount that would bring the fund closer to generating enough working capital to replace aging assets, the net income (which includes depreciation expense) would need to be positive. In addition, some assets are allowed to stay in use beyond their usable life, thus, in many cases, using annual depreciation expense as a goal for asset replacement may be understating the true need.



Rates for water services, until quite recently, have remained quite low with increases being passed quite infrequently. Had rates from 1973 been adjusted (just to keep up with inflation) the water fund would now have lower rates and would also be able to fund a significant portion of its infrastructure through working capital (as demonstrated by the level of cumulative revenue forgone in the chart below. As with other funds, long periods in which rate stay flat, mean that (due to inflation) the service becomes less expensive and unrealistic expectations are set.



As noted above, the upfront 22% increase this fiscal year (rather than, for example, an increase of 11% this year and 11% next year) is necessary as it demonstrates to lenders that the Water Fund is capable of generating the revenue necessary to pay the fund's debt service. Our fiscal models help ensure that key metrics, such as the debt to equity ratio and debt service as a percentage cash flow from operations stay at healthy levels.



As always, our fiscal models evolve every year as new and changing information comes to light. New federal and state legislation or regulations or changes to market forces (such as increased costs to borrow) will impact the models, which use a "middle-of-the road" approach. In the water fund, the fiscal model shows a future in which levels of debt peak in the near future but stay higher than currently levels as we pay down the debt for the secondary water supply.

Category	Service Type	Monthly increase	Notes
Residential	Residential/Dwelling unit	\$8.92	monthly
Commercial	Commercial (General)	\$8.92	monthly
Commercial	Restaurant , bar, lounge, snack bar	\$17.84	20 seats
Commercial	Bed and Breakfast	\$14.27	4 rooms
Commercial	Barber/beauty shop	\$24.98	3 stations
Commercial	Bowling alley	\$44.60	4 lane
Commercial	Church	\$17.84	100 seats
Commercial	Office space-over 10 employees	\$10.70	
Commercial	Hospital	\$115.96	15-bed hospital
Commercial	Meat market	\$35.68	
Commercial	Supermarket/grocery store	\$80.28	
Commercial	Rest home	\$44.60	20 beds
Commercial	Hotel/Motel	\$303.28	100 rooms
Commercial	Dorm/Boarding house	\$62.44	20 rooms
Commercial	RV park	\$62.44	20 spaces
Commercial	Commercial Laundry	\$11.60	guest access to two rooms with sewer connection
Commercial	Launderette (Laundromat)	\$187.32	20 wet machines
Commercial	Schools, college, day care	\$26.76	50 students enrolled
Commercial	Theater	\$26.76	100 seats
Commercial	Car Wash	\$26.76	1 stall
Metered	15,000 allowance	\$12.71	
Metered	General metered over allowance	\$0.28	per 1000 metered gallons
Connection Fee	Water connection fee	\$20.00	increase per connection