



2024 Water Rate Study

presented by: Dan Blankenship, Utilities Director

Background Info: Electric, Water & WW Utility Enterprise

- April 23, 2002, COF City Council passes Ordinance No. 1167 establishing the City of Fountain Electric, Water and Wastewater Utility Enterprise.
- An Enterprise is defined by Colorado Constitution as a government owned business.
- The City continued to provide electric utility and water utility services with no noticeable change.
- Although the Utilities Department is an operational department of the City, the utilities revenues and expenses are segregated from the City's general revenues and expenses.

Background Info (cont.): City's Funds

- The City of Fountain has 3 primary accounting Funds:
 - General Fund – Primarily funded by sales and property taxes & pays for general government services like Police, Fire, Roads, Parks, etc.;
 - Electric Fund – Primarily funded by rates & pays for the operation and maintenance of the electric utility; and
 - Water Fund – Primarily funded by rates & pays for the operation and maintenance of the water utility.
- The revenues and expenses for each of these Funds are accounted for and reported **separately**.

Background Info (cont.): Water Fund Revenues

- The primary source of revenue for the Water Fund is metered sales. The Water Fund Revenues for 2023 were:

• Metered Sales (Rates)	\$9.79M
• Connection Charges (New taps)	\$1.63M
• Miscellaneous*	\$1.21M
• Grants (incl. ARPA)	\$0.68M

*Included USAF reimbursement, GID#2, fees and investment interest.

- Connection Charges, Miscellaneous revenues and Grants are projected to be less in coming years.

Background Info (cont.): Water Fund Expenditures

- Water Fund expenditures fall within 7 primary categories (2023 expenditures):

• Debt	30.6%
• Source of Supply	22.6%
• Operations and Maintenance	21.2%
• Administration/Support Services	14.9%
• Billing and Collections	5.4%
• Capital	5.3%
• PILOT to General Fund	0.0%*

- *PILOT = 5% of Metered Sales: waived as part of WF Stabilization Plan

Background Info (cont.): Water Fund Stabilization Plan

- Periodically over a many years, the Water Fund has relied on loans from the Electric Fund to balance the books. At the end of 2023, that “Interfund Loan” balance was just slightly over \$4M (ACFR).
- March 12, 2024, COF City Council passed Resolution 24-006 establishing the Water Fund Stabilization Plan that will eliminate the Water Fund’s interfund loan from the Electric Fund and establish an Operating and Maintenance reserve.
- The Water Fund Stabilization Plan put into motion several actions.

Background Info (cont.): Financial Score Card/Credit Rating (S&P)

- October 2021, Combined Utility rating was downgraded from “A” to “A-” due to a weak cash position (liquidity) or lack of reserves, and a low net revenue-to-debt ratio (debt service coverage ratio/DSCR).
- May 2024, Combined Utility rating remained at “A-”. Liquidity increased from 27 days to 67 days of O&M reserves. Increased liquidity attributable to:
 - Significant cost control/management measures resulting in significant reductions in O&M expenses.
 - Reduced capital project expenses.
 - Implementation of cost allocation study resulting in reduced expenses.

Background Info (cont.): Credit Rating Outlook (S&P)

- Stable Outlook: S&P anticipates that the utility will manage operations to allow it to meet current projections of DSCR and liquidity, and management will implement sufficient rate increases and appropriate cost control measures to improve the utility's reserves and liquidity position and meet any pay-as-you-go capital requirements (no new debt).
- S&P noted that they could raise the utility's rating if the cash position/reserves improve considerably (requires rate increases). Otherwise, if no changes are made, S&P could lower the rating.

Background Info (cont.): Cost Control/Management

- O&M expenses in 2020 = \$2.68M
- Inflation from 2020 through 2023 = 20% (regional CPI)
- 2023 inflation adjusted O&M expenses = \$3.22M
- 2023 actual O&M expenses = \$2.33M
- Annual O&M savings (inflation adjusted) = \$885k
- 2023 support services allocation savings =\$573k
- **2023 TOTAL EXPENSE REDUCTION = \$1.46M**

Background Info (cont.): How much is a gallon of drinking water?

- The COF average water customer currently pays about 1.2 cents to purchase a gallon of drinking water.
- If the rate structure proposed in the rate study is ultimately implemented, the average customer will pay about 1.8 cents to purchase a gallon of drinking water at the end of the 5-year study period.

Water Cost of Service and Rate Design Study (Rate Study)

- Water Fund Stabilization Plan includes a cost of service and rate design study to evaluate the cost of providing water service for the next 3-to-5-year period.
- In response to a request for proposals to perform the Rate Study, staff received 7 proposals.
- The firm of Utilities Accounting and Rates Specialists submitted the most cost-effective proposal that met or exceeded all the qualification requirements.
- The Rate Study was completed in November and presented to the Council in December.

Primary Objectives of the Rate Study

The following objectives were established to guide the Rate Study:

- Water Fund shall be self-supporting = no interfund loans.
- Rates shall be designed to encourage efficient water use and charge consumers in an equitable manner for their water use.
- Rates shall be designed to build and maintain a minimum reserve of no less than 3 months of O&M expenses.
- Rates shall not include any costs associated with system capacity enhancements or system extensions that may be needed to accommodate new/future development (“Growth pays its own way”).

Things to Know

- The last water rate increase occurred 5 years ago, March 2020.
- Cost management measures taken by utilities from 2020 through 2023 have resulted in significant reduction in annual expenses. Strict cost management measures remain in place and will continue to ensure services are provided in a cost-effective manner.
- Annual debt payments are \$3.5M and will continue at that level through 2037. Debt and supply costs are more than 50% of annual expenses.
- For the average residential customer, the proposed first year increase will be less than \$6.50 a month (about the same as a medium sized coffee drink).

Forecasted Revenue Requirements

The estimated cost to operate and maintain the water system:

2025	\$12,159,311
2026	\$12,311,616
2027	\$13,773,204 (includes \$1M for tank rehab)
2028	\$13,261,846
2029	\$13,257,744

Less than 10% increase in costs over the 5-year period.

Rate Alternatives

- A. Consider rate adjustments 1 year at a time using the rate study as a basis.
- B. Consider a two-year rate adjustment to coincide with the 2-year budget using the rate study as a basis.
- C. Consider the full 5-year rate plan using the rate study as a basis.
- D. Consider an alternative rate plan that does not necessarily use the rate study as a basis.
- E. Take no action and continue with existing rates.

Annual Rate Review

- Each alternative includes an annual review by Council and possible rate adjustment recommendation, if warranted.
- Annual review will be performed by utilities staff upon receipt of audited financials for the previous year.
- Annual review will consist of staff updating the water rate model with the audited numbers from the past year and recalculating the rates for the remainder of the rate plan.
- First review would take place in 3rd quarter of 2026 using 2025 audited financials.

Consequences for Underfunding – Not meeting the Revenue Requirements

- Insufficient maintenance resulting in diminishing reliability, which would lead to more frequent and larger failures in the system.
- Non-compliance with financial policies and loan/bond obligations. Adverse impact to Bond/Credit Rating.
- Annual interfund loans from the Electric Fund will need to continue, adversely impacting the Electric Fund and the electric consumers.
 - Currently the COF has approximately 8,850 combined water/electric customers and approximately 10,500 electric only customers.

Rates Needed to meet Revenue Requirements

City of Fountain				
2024 Rate Study				
Proposed Rates				
96% of all water customers (8875 total) are residential				
2/3 of the residential customers use on average 6,000 gallons or less per month				
Average customer uses 5,100 gallons per month				
Based on average monthly use of 6,000 gallons:				
Current Rate			Increase from Previous Year	Cummulative Increase
Monthly Bill =		\$ 71.77		
Annual Bill =		\$ 861.24		
2025 Proposed Rate				
Monthly Bill =		\$ 78.21	\$ 6.44	\$ 6.44
Annual Bill =		\$ 938.52	\$ 77.28	\$ 77.28
2026 Proposed Rate				
Monthly Bill =		\$ 85.28	\$ 7.07	\$ 13.51
Annual Bill =		\$ 1,023.36	\$ 84.84	\$ 162.12
2027 Proposed Rate				
Monthly Bill =		\$ 93.00	\$ 7.72	\$ 21.23
Annual Bill =		\$ 1,116.00	\$ 92.64	\$ 254.76
2028 Proposed Rate				
Monthly Bill =		\$ 101.39	\$ 8.39	\$ 29.62
Annual Bill =		\$ 1,216.68	\$ 100.68	\$ 355.44
2029 Proposed Rate				
Monthly Bill =		\$ 107.44	\$ 6.05	\$ 35.67
Annual Bill =		\$ 1,289.28	\$ 72.60	\$ 428.04

Question or Comments?

COF Water Utility Rate History

City of Fountain Water Rate Adjustment History				
	<u>2010</u>	<u>2020</u>	<u>Adjusted Min</u>	<u>Difference 2010 to 2020 (X)</u>
3/4" Res*				
Min	24.64	41.26	51.19	2.08
1st Block	3.26	6.62		2.03
Top Block	5.36	11.67		2.18
3/4" Com				
Min	24.64	51.23		2.08
1st Block	3.26	6.86		2.10
Top Block	5.36	11.67		2.18
1"				
Min	49.28	106.70		2.17
1st Block	3.78	8.19		2.17
Top Block	6.24	13.52		2.17
2"				
Min	197.76	428.17		2.17
1st Block	3.78	8.19		2.17
Top Block	4.51	13.52		3.00
<u>Notes:</u>				
* 3/4" split into 2 categories on 7/1/13 (Ord#1602)				
2010 rates were effective 1/1/2009 (Ord#1443).				
Current rates were effective 3/1/20 (Ord#1729).				
<u>Rate Action History (since 2005)</u>				
Ordinance No.	Rate Increase		Effective Date	
1729			3/1/2020	
			6/10/2019	
1692			4/1/2018	
			5/1/2017	
1651			5/1/2016	
			5/1/2015	
1602			7/1/2013	
1525			5/11/2011	
1443			1/1/2009	
1357			1/1/2007	
1258			4/1/2005	