

- While the earnings have been positive over the past few years, the water fund has met the recommended bond coverage ratio of 1.50 in only one of the past five years.
- Cash flow in the fund has been negative the past three years, primarily due to unusually wet summers and large debt service payments. The utility is dependent upon hot, dry summers to generate adequate cash flow.
- One of the City's major users of water has reduced annual consumption by 2.125 million cubic feet over the past couple of years resulting in a negative impact to earnings of \$40,000. Other consumers also continue to implement water-saving measures.
- Additional revenues of approximately \$100,000 will be required in the upcoming years in order to cover the suggested tank maintenance program. This program is in lieu of large periodic payments to maintain the City's water tanks.
- Cash is reserved only in the hot and dry summers toward water infrastructure replacement that will be necessary within upcoming years. The rate consultant suggested that a \$1.2 million bond issue for main replacements would result in approximately an average increase of \$1.69 per month in order to meet bond payments.

All of these indicators point to a failure of the utility to capture in its base rate the necessary revenue to be able to adequately fund operations in the future.

Sewer. Sewer rates have only increased by the annual automatic 1% since implemented in 2012. Prior to that time a 5% increase was approved in October 2007. Over the past twenty years, the sewer rates have increased an average of .45% per year. An increase is being proposed this year for the following reasons:

- While cash flow for the sewer fund was positive in four of the past five years, the annual earnings were negative in all five years due to the levels of depreciation which continues to erode the net equity in the fund.
- Cash reserves remain very healthy with over 2 ½ years of reserves; however, the planned upgrades to the lift stations will most likely deplete those reserves.
- Since sewer revenues are linked to water usage, the decrease in water consumption continues to adversely affect sewer revenues. For instance, the instance cited in the water narrative above decrease sewer revenues by approximately \$20,000.

Combining Funds. Council directed staff to investigate the possibility of combining the water and sewer enterprise funds given the current opposite financial needs of the two funds in regard to net income and cash flow. Various sources provided insight concerning the idea including bond counsel, bond underwriters, the City's accounting firm and the utilities "expert" at the League. Following is a synopsis of the principle points for Council's consideration:

- While some villages have combined water and sewer enterprise funds, none of the sources interviewed could identify any first-class cities with combined funds.
- From an accounting perspective, a clean separation of the funds is desired to ensure more accurate cost accounting and establishment of rates. It was suggested by several of the sources that heavy consideration be given to the recommendation of the City's audit firm and that was to maintain the separate funds.
- With a combined bond issue, there is an allowance for transfer of funds between the funds included within the issues which would assist in balancing the funds financial needs.
- There is a 1925 Nebraska State Statute 16-694 that requires first-class cities to maintain sewer charges in a separate fund used exclusively for the maintenance and repair of the city's sewers.
- Council has the ability to vary the percentage of transfer of fees from the various enterprise funds. By reducing the water transfer rate and increasing other transfer fund rates, the general fund transfer could be maintained and the cash flow improved for the water fund (or other enterprise funds, as appropriate).

Based on the professional recommendations, staff would suggest that the enterprise funds be retained as separate funds and rates be set independently and cash flow be adjusted through the change of transfer rates, if necessary.

Rate Recommendations. It was the consensus of the consultant and staff that the revised *water rates* include standard blocks (or tiers) for all customers. Presently, the first block of water rates for residential and commercial customers is based on the average water usage for the months of December, January and February (as billed in January, February and March). The current average residential usage is 603 which is consistent with national averages for households. Setting the first block at 600 will vastly simplify the verification of water charges as well as the explanation of those charges to customers. The set amount will allow easier modeling of rates into the future. The goal of the water rate changes is to increase revenues approximately \$150,000 to cover the additional tank maintenance expenses as well as recover lost revenues from the large reduction of consumption by one of the top five water consumers.

The consultant and staff also recommend adding a set customer charge and abandoning the current minimum charge for the sewer rates. Using the base rate plus usage rate makes the sewer calculations consistent with the electric and water fund charges, thus simplifying the calculation for customers and staff. The monthly sewer charge will continue to be fixed for a twelve-month period with the usage portion continuing to be based on the actual average water usage for the months of December, January and February (as billed in January, February and March). The goal of the sewer rate changes is to increase revenues approximately

\$100,000 to cover the net income shortfall and recover the lost revenues from the consumption reduction of the top water consumer.

Following are three water rate scenarios each generating approximately \$150,000 in additional revenue. Scenario 1 includes a 20% increase in all monthly service charges and a 4% increase in the consumption rate. Scenario 2 generates approximately the same increase in monthly service charges as Scenario 1; however has somewhat smaller percentage changes on the larger meters (varying from 21% down to 16%). Finally, Scenario 3 garners more monthly service charges with a 25% increase and only the 1% annual approved rate increase in the consumption rates. Staff is recommending Scenario 3 as it provides the most revenue stability during years of varying of water consumption and least amount of customer impact during times of high usage.

	Users	Current Rate	Scenario 1			Scenario 2			Scenario 3		
			Proposed Rate	Rate Change	% Inc	Proposed Rate	Rate Change	% Inc	Proposed Rate	Rate Change	% Inc
Services											
5/8 to 1"	3,373	11.36	13.65	2.29	20%	13.75	2.39	21%	14.20	2.84	25%
1 1/2 "	96	24.49	29.40	4.91	20%	28.75	4.26	17%	30.61	6.12	25%
2"	61	48.99	58.80	9.81	20%	57.00	8.01	16%	61.24	12.25	25%
3"	23	81.31	97.60	16.29	20%	94.50	13.19	16%	101.64	20.33	25%
4"	8	104.54	125.45	20.91	20%	121.25	16.71	16%	130.68	26.14	25%
6"	3	154.53	185.45	30.92	20%	179.00	24.47	16%	193.16	38.63	25%
8"	1	220.69	264.85	44.16	20%	255.00	34.31	16%	275.86	55.17	25%
Municipal	60	-	-			-					
Usage Blocks											
<i>Residential/Commercial</i>											
600		1.317	1.370	0.053	4%	1.410	0.093	7%	1.33	0.013	1%
3,500		1.488	1.548	0.060	4%	1.593	0.105	7%	1.50	0.015	1%
2,500		1.832	1.905	0.073	4%	1.961	0.129	7%	1.85	0.018	1%
Over		2.289	2.381	0.092	4%	2.451	0.162	7%	2.31	0.023	1%
<i>Manufacturing</i>		1.281	1.332	0.051	4%	1.372	0.091	7%	1.294	0.013	1%
<i>Industrial</i>		1.431	1.488	0.057	4%	1.532	0.101	7%	1.445	0.014	1%
<i>Municipal</i>		1.072	1.115	0.043	4%	1.147	0.075	7%	1.083	0.011	1%
Examples											
600	R&C	19.26	21.87	2.61	14%	22.21	2.95	15%	22.18	2.92	15%
4,100	R&C	71.34	76.05	4.71	7%	77.97	6.63	9%	74.79	3.45	5%
6,600	R&C	117.14	123.68	6.54	6%	127.00	9.86	8%	121.04	3.90	3%
95,000	Man. 4"	1,321.49	1,390.85	69.36	5%	1,424.65	103.16	8%	1,359.98	38.49	3%
7,000	Municipal	75.04	78.05	3.01	4%	80.29	5.25	7%	75.81	0.77	1%

Following are two sewer rate scenarios each generating approximately \$90,000. The first sets a new base rate of \$2.75 per month with no increase in the usage rate while the second sets a lower base rate of \$2.50 and an increased usage rate of .98 per hundred cubic feet. Staff is recommending the second scenario as it more equally spreads the increases to all rate classes. Volume fluctuations are not as impactful to the sewer fund as the rates are set annually for most consumers based on the winter usage which tends to be quite stable.

Average Usage	Users	Current Charge	Scenario 1 - \$2.75 Base/.961 per 100 cf				Scenario 2 - \$2.50 Base/.980 per 100 cf			
			Projected Charge	Dollar Change	Percent Change	Annual Change	Projected Charge	Dollar Change	Percent Change	Annual Change
100	434	3.37	3.71	0.34	10.1%	1,775.93	3.48	0.11	3.3%	572.88
350	786	3.37	6.11	2.74	81.4%	25,876.69	5.93	2.56	76.0%	24,145.92
600	991	5.77	8.52	2.75	47.7%	32,703.00	8.38	2.61	45.3%	31,085.69
1,000	779	9.61	12.36	2.75	28.6%	25,707.00	12.30	2.69	28.0%	25,146.12
2,500	328	24.03	26.78	2.75	11.4%	10,824.00	27.00	2.98	12.4%	11,709.60
5,000	63	48.05	50.80	2.75	5.7%	2,079.00	51.50	3.45	7.2%	2,608.20
10,000	33	96.10	98.85	2.75	2.9%	1,089.00	100.50	4.40	4.6%	1,742.40
25,000	13	240.25	243.00	2.75	1.1%	429.00	247.50	7.25	3.0%	1,131.00
50,000	4	480.50	483.25	2.75	0.6%	132.00	492.50	12.00	2.5%	576.00
100,000	1	961.00	963.75	2.75	0.3%	33.00	982.50	21.50	2.2%	258.00
150,000	1	1,441.50	1,444.25	2.75	0.2%	33.00	1,472.50	31.00	2.2%	372.00
	3,433		Est. Avg.	2.44			Est. Avg.	2.41		
Annual Revenue		\$ 357,136				\$ 449,460				\$ 445,615

The two recommended rate increases combined would equate to an increase of about \$5.50 per month for the majority of residential customers. As an additional consideration, Council could consider spreading the rate increase over a two-year period. Staff's recommendation in this instance would be to include around two-thirds of the increase in the upcoming year and one-third in the following year. All rates changes would be effective November 1, 2016 to allow three readings of the ordinance.]

Ray Hielscher, 302 Willamette Circle, was in attendance and suggested that increasing water rates forces users to reduce their consumption of water which results in a reduction in revenues. He thought by not increasing water rates, customer would use more water which would increase our revenue. He asked Council to consider not increasing water rates.

Following the review of scenarios and discussion, Council provided input to staff to generally move forward with Scenario 3 for Water Rates and Scenario 2 for Sewer Rates. Councilman Korber-Gonzalez stated she had some additional questions that she would like to discuss with staff prior to legislative documents being prepared for Council's consideration.

- The next item on the agenda was a Board appointment and vacancy announcements.

A motion was made by Councilman Korber-Gonzalez, seconded by Councilman Jones to appoint Ray Schleyer to the Library Board with a term expiring June 30, 2020.

Roll call vote with the following results:

Voting Aye: Korber-Gonzalez, Yeager, Seiler, Jones, Feldges.

Voting Nay: None.

Motion carried.

The City has the following openings at this time: two vacancies on the Board of Adjustment; one vacancy on the A-2 Downtown Improvement Board; one vacancy on the Alliance Housing Authority, one regular members of the Library Board, two youth ex-officio positions on the Library Board, one vacancy on the Alliance Planning Commission for an alternate member and a Youth Representative on the Police Advisory Board.

Anyone interested in serving on these Boards should contact the City Clerk's Office. Information on all of the City Boards is also available on our web site, www.cityofalliance.net.

- Mayor Yeager stated, "there being no further business to come before the Alliance City Council, the meeting is adjourned at 8:25 p.m."

(SEAL)



Ralph Yeager, Mayor



Linda S. Jines, City Clerk

