



## **AGENDA**

### **10-15 FINANCE COMMITTEE**

### **October 15, 2020 at 10:00 AM**

Call to Order

Approval of Minutes

1. Approve Draft Minutes from 6-29

Old Business

2. Class and Comp. Study
3. Water / Sewer Rate Study Update

New Business

4. Year-End Reports
5. Impact of Pandemic on Fiscal Year 2020 - Revenues vs. Budget

City Manager Comments

Adjournment

City of Tybee  
Finance Committee  
Draft Minutes – 6-29-20

In attendance: Shawn Gillen, John Branigin, Jen Amerell, George Shaw, Janice Elliott, Melissa Freeman, Peter Gulbranson.

Meeting called to order at 10:00 AM.

George Shaw made a motion to approve the minutes. Peter Gulbranson seconded. Motion approved.

~Plan out CIP for Water and Sewer.

~Look at eliminating 0-3000 free.

~Charge tiers and increase cost to higher users.

~Peak season rate?

~Finance options for Water and Sewer and bring back to Council ASAP.

~Bring rate changes back to Finance in July.

~No CPI increase this year.

~Bring the late fee issue back to Council in July.

Meeting adjourned at 11:00.



# City of Tybee Island

## Memorandum

To: Finance Committee  
From: Jen Amerell, Finance Director *JRA*  
Date: June 25, 2020  
Re: Water / Sewer Utility Rate

---

### Background

The City of Tybee Water / Sewer Utility has budgeted the use of fund balance for multiple years. The use of fund balance to balance the budget means we are not generating enough revenue to cover our expenses. Multiple rate studies over the years have reviewed the rate structure and rates in place and have recommended various different changes to our rate structure and rate increases that have not been implemented. The last rate update was 2/1/19 for approximately 2%.

As of 6/25/20, the unaudited cash balance for the Water / Sewer Utility was \$1,707,945. The 2021 budget includes the use of \$1,026,058 in fund balance. The City's infrastructure is in need of major improvements to avoid failure. The current CIP plan includes approximately \$2,500,000 a year for Water / Sewer improvements, as well \$35,000,000 in costs to construct a new deep water well beginning in 2024.

### Overview

Typically, Water / Sewer utility rates include a fixed and a variable portion.

*Fixed rates* can vary based on the type of meter size a property has (3/4", 1", 2", etc.) and/or by class (residential single, residential multi-family, commercial, public authority and industrial). In theory, the purpose of the fixed rate is to cover the costs associated with access to the utility system. It is the intrinsic cost of connection to the utility water and sewer system, including the billing clerk wages and benefits, office and accounting costs. Fixed costs are incurred regardless of consumption; it is the cost simply allowing a property to have the ability to use and dispose of water.

*Variable rates* are based on usage, but the structure can vary by rate for universal usage, peak seasons, tiered usage, etc. The objective of the variable rate is to fund all the costs associated with using the system. These costs include the wages and benefits for the utility system personnel, repair, maintenance, replacement, and capital or debt service costs.

### Summary

All too often, public utilities overthink and design a water / sewer rate structure that is overly complex which results in extra work for staff, unreliable or incorrect data, errors and a lot of confusion and frustration for residents. The goal of utilities when developing a rate structure is to set rates to collect the revenue they need to operate the utility, invest in its infrastructure, protect public health, balance the importance of conservation, and implement a fund balance policy for future maintenance and growth.

This is done by simplifying the fixed rate structure to a few classes, implementing a tiered usage system for the variable rate to ensure that users with higher consumption pay a premium for the higher demand on the system. Due to the higher demand on the system during summer months, implementing a premium rate for the peak season will help capture more revenue to support the additional demand on the utility system. Premiums for higher usage and usage during peak seasons can also help to promote water conservation.

### Analysis Performed

To mitigate the fluctuation of other financial influences, the following assumptions and goals were made in the rate analysis:

1. 2021 budget used as base budget for revenue and expense projections
2. Non-user utility revenue remains unchanged from 2021 base budget
3. Operating costs increase 2% annually from 2021 base budget
4. Capital expenses obtained from 2020-2025 CIP Plan
5. Capital project borrowing of \$2.25 million annually at 2% for 20 years
6. \$250,000 annual fund balance replenishment or 1% ROR

Based on the anticipated expenses over the next five years, if no changes were made to the current utility rate structure or to the current rates, the utility would see a \$3,000,000 deficit of revenues over expenses. If only changes to the utility rates were made, a 51% increase would be required just in the first year.

After review of the multiple past rate studies, analysis of the current budget and future anticipated costs, and to avoid the annual peaks and valleys of unplanned utility rates, management is recommending the City revise both the fixed and variable water/sewer cost structure, as well as establish a fund balance policy.

## Proposed Rate Structure

The following revisions to the water/sewer rate structure are proposed:

1. Reduce and simplify the number of fixed rate classes
2. Eliminate zero charge for usage
3. Establish a uniform 5,000 gallon usage tier
4. Establish a peak season from June 1 to August 31
5. Introduce a 20% premium for usage over 10,000 during peak season
6. Annual increase to fixed and variable rates beginning with fiscal year 2023 based on 5 year CIP plan and annual budget requirements

To achieve a balanced budget and fund balance replenishment as stated in the goals above, the following fixed and variable rate structure is required:

Fixed:	CURRENT			PROPOSED - Off Season			PROPOSED - Peak Season		
	Water	Sewer	Total	Water	Sewer	Total	Water	Sewer	Total
Commercial - Multi	\$ 12.67	\$ 29.00	\$ 41.67	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Apartment Unit Base	\$ 8.17	\$ 8.02	\$ 16.19	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Commercial - Single Base	\$ 12.67	\$ 29.00	\$ 41.67	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Bed & Breakfast Base	\$ 12.67	\$ 29.00	\$ 41.67	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Municipal Base	\$ 12.67	\$ 29.00	\$ 41.67	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Residential - Single	\$ 11.15	\$ 25.53	\$ 36.68	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Residential - Multi	\$ 11.15	\$ 25.53	\$ 36.68	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Senior Base	\$ 5.37	\$ 12.94	\$ 18.31	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Residential	\$ -	\$ -	\$ -	\$ 15.00	\$ 15.00	\$ 30.00	\$ 15.00	\$ 15.00	\$ 30.00
Commercial	\$ -	\$ -	\$ -	\$ 15.00	\$ 15.00	\$ 30.00	\$ 15.00	\$ 15.00	\$ 30.00
Public Authority	\$ -	\$ -	\$ -	\$ 15.00	\$ 15.00	\$ 30.00	\$ 15.00	\$ 15.00	\$ 30.00

Consumption:	CURRENT			PROPOSED - Off Season			PROPOSED - Peak Season		
	Water	Sewer	Total	Water	Sewer	Total	Water	Sewer	Total
0 - 3,000 Gallons	\$ -	\$ -	\$ -	NA	NA	NA	NA	NA	NA
0 - 5,000 Gallons	NA	NA	NA	\$ 3.20	\$ 3.20	\$ 6.40	\$ 3.20	\$ 3.20	\$ 6.40
3,000 - 5,000 Gallons	\$ 3.51	\$ 3.51	\$ 7.02	NA	NA	NA	NA	NA	NA
5,001 - 10,000 Gallons	\$ 3.80	\$ 3.80	\$ 7.60	\$ 3.50	\$ 3.50	\$ 7.00	\$ 3.50	\$ 3.50	\$ 7.00
10,000 - 20,000 Gallons	\$ 4.09	\$ 4.09	\$ 8.18	NA	NA	NA	NA	NA	NA
10,001 - 15,000 Gallons	NA	NA	NA	\$ 4.00	\$ 4.00	\$ 8.00	\$ 4.80	\$ 4.80	\$ 9.60
15,001 - 20,000 Gallons	NA	NA	NA	\$ 4.50	\$ 4.50	\$ 9.00	\$ 5.40	\$ 5.40	\$ 10.80
20,001 Gallons +	\$ 4.38	\$ 4.38	\$ 8.76	\$ 5.15	\$ 5.15	\$ 10.30	\$ 6.18	\$ 6.18	\$ 12.36

Because consumption tiers are changing, there is not a uniform rate increase proposed. On the attached Table 1, five hypothetical utility bills under the current rates and proposed rates are provided. As you can see, some properties can expect to see a large increase in their monthly utility bill and others a minimal increase. The largest factor being usage. The more water a property uses, the higher the utility bill will be. The most influential factor contributing to the potential increase in a monthly utility bill is the elimination of the 3,000 gallons of free water each month.

The average person uses approximately 3,000 gallons of water per month. Assuming the average household on Tybee is two, the average household would use approximately 6,000 gallons of water per month. Based on example bill #2 on the attached Table, the average residential house on Tybee could expect a \$10.68 increase in their monthly utility bill, or roughly 18%.

As in any situation, there are always exceptions to the rule. Management has decided to problem solve those exceptions on a case-by-case basis prior to any implementation of changes to the utility system. It is recommended any change in structure and rate be effective beginning of the 2022 fiscal year in order to properly address any potential conflicts, as well as communicate effectively to all residents all proposed changes.

Today, management is asking Council to approve the proposed structure and the proposed rates outlined above. Any other significant impacts will be brought back for further discussion.

#### Recommended Action

1. Approve proposed fixed rate structure effective fiscal year 2022
2. Approve proposed variable rate structure effective fiscal year 2022
3. Approve proposed fixed rates effective fiscal year 2022
4. Approve proposed variable rates effective fiscal year 2022

#### Next Steps

1. Communicate to public proposed
2. Problem solve potential conflicts
3. Clean-up and set-up new utility structure
4. Complete fund balance policy

**TABLE 1**

Sample Bill Current Rate Structure & Proposed Rate Structure Example	CURRENT			PROPOSED			PROPOSED - PEAK		
	Water	Sewer	Total	Water	Sewer	Total	Water	Sewer	Total
Example Bill #1 - Commercial Usage of 45,000 gallons	189.09	205.42	\$ 394.51	219.75	219.75	\$ 439.50	254.00	254.00	\$ 508.00
Total \$ Increase from Current Bill to Proposed			-			\$ 44.99			\$ 113.49
Total % Increase from Current Bill to Proposed			-			11.4%			28.8%
Example Bill #2 - Residential Usage of 6,000 gallons	21.97	36.35	\$ 58.32	34.50	34.50	\$ 69.00	34.50	34.50	\$ 69.00
Total \$ Increase from Current Bill to Proposed			-			\$ 10.68			\$ 10.68
Total % Increase from Current Bill to Proposed			-			18.3%			18.3%
Example Bill #3 - DPW Water Plant Usage of 2,133,000 gallons, Water Only	9,785.65	-	\$ 9,785.65	10,972.95	-	\$ 10,972.95	13,157.84	-	\$ 13,157.84
Total \$ Increase from Current Bill to Proposed			-			\$ 1,187.30			\$ 3,372.19
Total % Increase from Current Bill to Proposed			-			12.1%			34.5%
Example Bill #4 - Residential Usage of 12,000 gallons	45.93	60.31	\$ 106.24	56.50	56.50	\$ 113.00	58.10	58.10	\$ 116.20
Total \$ Increase from Current Bill to Proposed			-			\$ 6.76			\$ 9.96
Total % Increase from Current Bill to Proposed			-			6.4%			9.4%
Example Bill #5 - Residential Usage of 24,000 gallons, 4 separate meters	95.59	109.97	\$ 205.56	156.60	156.60	\$ 313.20	169.22	169.22	\$ 338.44
Total \$ Increase from Current Bill to Proposed			-			\$ 107.64			\$ 132.88
Total % Increase from Current Bill to Proposed			-			52.4%			64.6%