

CITY OF UNALASKA  
UNALASKA, ALASKA

RESOLUTION 2021-35

A RESOLUTION OF THE UNALASKA CITY COUNCIL AUTHORIZING THE CITY MANAGER TO IMPLEMENT A WASTEWATER PROPRIETARY FUND RATE INCREASE OF 40%, PHASED IN OVER A FOUR-YEAR PERIOD

WHEREAS, the City of Unalaska has determined, through a detailed Rate Study for each Utility, that specific Utility rate increases to achieve a Debt Service Coverage Ratio beyond 1.25 for each Utility Proprietary Fund are necessary to continue operations at the current level of service; and

WHEREAS, rate increases necessary to maintain the required Debt Service Coverage Ratio above 1.25 in the Wastewater Proprietary Fund, over the next four fiscal years (FY22-FY25), is 40%; and

WHEREAS, the distribution of the rate increases to the Wastewater Residential Customers is 26.6% over a four year period (FY2022-FY2025); and

WHEREAS, the distribution of the rate increases to the Wastewater Commercial Customers is 26.6% over a four year period (FY2022-FY2025); and

WHEREAS, the distribution of the rate increases to the Wastewater Industrial Customers is 400% over a four year period (FY2022-FY2025).

NOW THEREFORE BE IT RESOLVED that the Unalaska City Council authorizes the City Manager to implement a Wastewater Proprietary Fund rate increase to the Residential Customers of 26.6%, phased in over a four-year period, Commercial Customers of 26.6%, phased in over a four-year period, and Industrial Customers of 400% phased in over a four-year period.

PASSED AND ADOPTED by a duly constituted quorum of the Unalaska City Council on May 25, 2021

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Vincent M. Tutiakoff, Sr.  
Mayor

ATTEST:

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Marjie Veeder, CMC  
City Clerk

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## MEMORANDUM TO COUNCIL

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To: Mayor and City Council Members  
From: Dan Winters, Director of Public Utilities  
Through: Erin Reinders, City Manager  
Date: May 25, 2021  
Re: Resolution 2021-35: Authorizing the City Manager to implement a Wastewater Proprietary Fund rate increase of 40%, phased in over a four-year period

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**SUMMARY:** Through Resolution 2021-35, Staff is requesting rate increases for the Wastewater Proprietary Fund that would go into effect in July 2021. The rate increase will be phased in over four years and will result in a 26.6% rate increase to the Wastewater Residential and Commercial customers, and a 400% increase to the Wastewater Industrial Customers. These rate increases will raise the Wastewater Proprietary Fund Debt Services Coverage (DSC) ratio from -.55 to 1.34, which will achieve our established goal of a DSC ratio of 1.25.

If approved, Staff will incorporate these rate adjustments formally into the upcoming Schedule of Fees and Services, which ordinance is scheduled for first reading at the June 8, 2021 Council meeting.

**PREVIOUS COUNCIL ACTION:** At the February 23, 2021 Council Work Session, James Keen and Amber Miller of Aldrich LLP presented the FY2021 Rate Study to Council.

At the March 9, 2021 Council Work Session, conversations focused on the cost of service and rates for Electric and Water. Council's consensus was for a one-time 6.1% increase in Electrical rates to all customer classes, and a one-time 3.6% increase in Water rates to all customer classifications. Council had general consensus to proceed with an increase to the sales tax by 1%, which will create a Utility Infrastructure Fund, supplementing the Utility Proprietary Funds.

At the April 12, 2021 Council Meeting, Staff presented the FY2022 Departmental Operating Budgets. During the budget presentation, Staff reported an overall budget reduction of \$2.8 million for the Department of Public Utilities (DPU). When only Personnel and Operating expenses are considered, the FY2022 DPU budget is \$2.6 million less than FY2021, a decrease of 14.1%.

At the April 13, 2021 Council Work Session, Council discussed the cost of services and rates for the Wastewater and Solid Waste Proprietary Funds. Council's general consensus for the Wastewater utility rate increase was a 40% across the board, phased in over four years. Although there was some discussion of options to phase in the increase based on the cost of service instead. Council's general consensus for the Solid Waste utility was to increase the solid waste utility rates by 33%, phased in over four years. Again there was some discussion in support of focusing on cost of service rather than across the board increases. Just as with the Electric and Water discussion, Council had general consensus to proceed with an increase to the sales tax by 1%, which will create a Utility Infrastructure Fund, supplementing the Utility Proprietary Funds.

At the April 27, 2021 Council Meeting, Staff brought forward Resolution 2021-25, authorizing the City Manager to implement a one-time rate increase to the Electrical Proprietary Fund of 6.1%; a one-time rate increase to the Water Proprietary Fund of 3.6%; a Wastewater Proprietary Fund

rate increase of 40%, phased in over a four-year period; and a Solid Waste Proprietary Fund rate increase of 33%, phased in over a four year period. Council failed to adopt Resolution 2021-25.

At the May 10, 2021 Council Meeting, Staff brought forward Resolution 2021-26, authorizing the City Manager to implement a one-time rate increase to the Electrical Proprietary Fund of 6.1%; a one-time rate increase to the Water Proprietary Fund of 3.6%; and a Solid Waste Proprietary Fund rate increase of 33%, phased in over a four year period. Council adopted Resolution 2021-26.

At the May 10, 2021 Council meeting, Staff also brought forward Resolution 2021-27, authorizing the City Manager to implement a Wastewater Proprietary Fund rate increase of 40%, phased in over a four-year period. Council failed to adopt Resolution 2021-27.

**BACKGROUND:** Department of Public Utilities Staff performs a rate study on each of the Utility Proprietary Funds approximately every three years. This is a long-standing City Council goal for the budgeting process. The studies assist in the long-term fiscal sustainability of the utility as they help ensure that rates address the cost of providing the utility service and maintaining its infrastructure.

In 2012, Staff contracted with Mike Hubbard of the Financial Engineering Company to perform a High-Level Rate Study, which indicated a rate increase of 29% for the Water Fund, 68% for the Wastewater Fund, and 75% for the Solid Waste Fund was needed by 2016. Rates increased consecutively for three years starting in FY2013. The sum of these rate increases was 21.3% for Water, 42.3% for Wastewater, and 32.1% for Solid Waste. These rate increases brought the difference between expenses and revenues closer to the budget before the new Water and Wastewater Plants became operational. However, the rate increases did little to make up for the budget shortfall after the new regulatory-mandated plants were online.

Staff performed the last rate study in 2016. A rate increase of 15% for the Wastewater Proprietary Fund over four years, and a rate increase of 13.5% for the Solid Waste Proprietary Fund over three years was initiated on July 1, 2017. During Staff's discussion with Council, there was a clear consensus that another monetary source was necessary to reduce impacts of necessary rate increases. Council decided that using a portion of the 1% Sales Tax Special Revenue Fund was the most logical approach. Council approved using an amount not to exceed \$1,300,000 to supplement the Water, Wastewater, and Solid Waste Proprietary Funds. This supplement from the 1% Special Revenue Fund helped slow the timing of the inevitable rate increases. However, the lack of a rate increase to the full revenue requirements, with increased costs of chemicals, personnel, and inflation, we are again looking at extreme rate increases for the Utility Proprietary Funds.

In July 2020, Staff contracted through Aldrich CPAs + Advisors LLP to conduct the FY2021 Utility Rate Study. This is now the seventh meeting with City Council focused on this study and how utility rates might be impacted.

**DISCUSSION:** Council and Staff have discussed utility rate increases since February of this year. During these rate discussions, it was Council's consensus that it is vital to maintain a Debt Service Coverage (DSC) ratio above 1.25. Doing so will qualify the City to sell bonds and receive low-interest loans for future projects.

On May 10, 2021, Council seemed to have concerns with the 40% rate increase for the residential and commercial wastewater customers. Council also had issues with increasing the industrial

wastewater rates by 80% and the other customer classes by 38.5%. There seemed to be interest in increasing the industrial rates more, in order to reduce the impact to residential and commercial customers. In short, something similar to a cost causer/cost payer based rate.

Staff went back to the drawing board. We looked at the impact on the residential rates if we increased the industrial wastewater rate by 100% increments. We did not see a significant decrease in the rate increases for residential and commercial rates until we raised the industrial rate by 400%. Raising the industrial wastewater rate to 400% reduced the residential and commercial customer rate increases to 26.6%. These rate increases will meet our established goal of increasing the Wastewater Proprietary Fund's DSC ratio above 1.25 and have less impact on the residential and commercial customers.

The table below is the “Modified Cost Causer/Cost Payer-Based Rates” and shows the revenue collected per customer class at the end of four years. This scenario applies a 400% increase to the Industrial class and then keeps the Residential and Commercial class increases at the same level (26.6%).

**1.34 DSC: Modified Cost Causer/Cost Payer-Based Rates**

	Total	Residential	Commercial	Industrial
Current:	\$ 2,468,212	\$ 470,187	\$ 1,909,490	\$ 88,536
Proposed:	\$ 3,455,497	\$ 595,286	\$ 2,417,532	\$ 442,678
Surplus/Deficit:	\$ (987,284)	\$ (125,099)	\$ (508,043)	\$ (354,143)
% Increase/(Decrease):	40.0%	26.6%	26.6%	400.0%
DSC:	1.34			

**As a comparison**, the table below applies the actual results of the cost of service study, which was originally Option 1A, to the 1.34 DSC revenue requirements. In this table, we see what the rate increases should be to each customer class, based on the Aldrich study. Both scenarios have an overall 40% increase in revenue stream and the DSC ratio to 1.34.

**1.34 DSC: Cost-Based Rates**

	Total	Residential	Commercial	Industrial
Current:	\$ 2,468,212	\$ 470,187	\$ 1,909,490	\$ 88,536
Proposed:	\$ 3,455,497	\$ 661,723	\$ 2,093,640	\$ 700,134
Surplus/Deficit:	\$ (987,285)	\$ (191,536)	\$ (184,150)	\$ (611,598)
% Increase/(Decrease):	40.0%	40.7%	9.6%	690.8%
DSC:	1.34			

The table below depicts the Modified Cost Causer/Cost Payer-Based Rate Increases for the Industrial Wastewater rates by 400%. The Residential and Commercial Wastewater rate by 26.6% phased in over four years.

**1.34 DSC: Modified Cost Causer/Cost Payer-Based Rates**

Class	Charge	Unit	Current	FY2022	FY2023	FY2024	FY2025
<b>Residential:</b>	Customer	\$/month	\$ 114.04	\$ 121.63	\$ 129.21	\$ 136.80	\$ 144.38
	Volume	\$/000 Gal	\$ -	\$ -	\$ -	\$ -	\$ -
Annual Rate Increase:			0.0%	6.7%	6.2%	5.9%	5.5%
Rate Increase From FY2021			0.0%	6.7%	13.3%	20.0%	26.6%
<b>Commercial:</b>	Customer	\$/month	\$ 20.87	\$ 22.26	\$ 23.65	\$ 25.03	\$ 26.42
	Volume	\$/000 Gal	\$ 17.79	\$ 18.97	\$ 20.16	\$ 21.34	\$ 22.52
Annual Rate Increase:			0.0%	6.7%	6.2%	5.9%	5.5%
Rate Increase From FY2021			0.0%	6.7%	13.3%	20.0%	26.6%
<b>Industrial:</b>	Customer	\$/month	\$ 20.87	\$ 41.74	\$ 62.61	\$ 83.48	\$ 104.35
	Volume	\$/000 Gal	\$ 1.13	\$ 2.26	\$ 3.39	\$ 4.52	\$ 5.65
Annual Rate Increase:			0.0%	100.0%	50.0%	33.3%	25.0%
Rate Increase From FY2021			0.0%	100.0%	200.0%	300.0%	400.0%

The average residential monthly wastewater bill will rise by \$30.34; the commercial customer bill will increase by \$164.57; and the monthly industrial bill will increase by \$5,902.38, as the table below illustrates.

<b>Average Monthly Bill</b>			
	<u>Current Rates</u>	<u>Proposed Rates</u>	<u>Change</u>
Residential	\$ 114.04	\$ 144.38	\$ 30.34
% Change:	0.0%	26.6%	
Commercial	\$ 611.04	\$ 773.61	\$ 162.57
% Change:	0.0%	26.6%	
Industrial	\$ 1,475.59	\$ 7,377.97	\$ 5,902.38
% Change:	0.0%	400.0%	

**ALTERNATIVES:** Staff and Aldrich LLP have researched alternatives concerning the needed rate increases and believe the options brought forward to Council are the most logical approach. However, the staff is always willing to research other options that Council may consider are viable. Council could decide to:

- Approve the Resolution as written.
- Amend the Resolution to adjust the increase approach for the wastewater fund.

**FINANCIAL IMPLICATIONS:** The table below depicts the revenue gains and shortfall of the overall Utility Proprietary Funds, if Council adopts Resolution 2021-35. Even though there is a shortfall after the rate increases, a 1.34 DSC ratio will be realized for the Wastewater Proprietary Fund.

	Wastewater 40% Rate Inc.
Current Revenue Requirement	\$ 4,319,505
Current Revenue	\$ 2,468,212
Current Revenue Shortfall	\$ (1,851,293)
Revenue from Rate Inc.	\$ 987,284
Revenue Shortfall After Rate Inc.	\$ (864,009)

During the preparation of the FY2022 Budget, Staff reduced the utility division’s operating costs by \$2.6 million. Finding ways to save money and reduce the budget is an ongoing plight for the utility divisions. However, cutting the utilities operation’s budget is only one piece of the pie. Due to inflation, personnel cost increases, maintenance cost increases, depreciation and debt -- rates need to be increased to cover the revenue shortfalls. There will be a shortfall of revenue after these rate increases. Staff will conduct another rate study in four years. A rate increase will be needed to cover the next four years of inflationary costs and the leftover revenue shortfall from this rate study.

If Council does not approve this rate increase, payment for Operations, Equipment Maintenance, and Capital Projects would be supplemented from the Wastewater Fund’s Unrestricted Net Assets, services to the public may be reduced, and the City’s ability to sell bonds or receive low-interest loans will be limited.

**LEGAL:** None

**STAFF RECOMMENDATION:** Staff recommends Council approve Resolution 2021-35. This would approve a 40% rate increase to the Wastewater Proprietary Fund, and realize a 1.34 DSC ratio. If approved, Staff will incorporate these rate adjustments formally into the upcoming Schedule of Fees and Services, which ordinance is scheduled for first reading on June 8, 2021.

**PROPOSED MOTION:** I move to adopt Resolution 2021-35.

**CITY MANAGER COMMENTS:** Staff has worked closely with our consultant team to develop the approach before you tonight and I support staff's recommendation.

City Council budgetary goals have historically called for a rate study every three years to help insure that rates are addressing the cost of providing the utility service and maintaining its infrastructure. However, when Council implements rate increases over the course of four years, a new study is not conducted until the final year of implementation of the prior study.

This year's rate study supports what previous rate studies indicated -- that the City would need to increase rates even further in the future, especially when previous necessary rate increases were not approved. Staff's recommendation still does not meet the full revenue requirement, but does get us closer and allows for us to have a minimum of 1.25 Debt Service Coverage Ratio for each utility.

A special sales tax may help to address the difference. Rates themselves should cover this DSC ratio, not reserves or a potential special sales tax. Staff is open to Council Direction to begin work on materials for consideration of an increase to the sale tax by 1%. Doing so would create a Utility Infrastructure Tax fund that will supplement the Utility Proprietary Funds. An increase in the sales tax will require a vote of the residents of Unalaska and may be addressed at future Council Meetings.