To: Columbia City Council
From: David Switzer, Water and Light Advisory Board Chair
Date: 9/14/2022

Subject: Amendments to Water Rates

I am writing on behalf of the Water and Light Advisory Board to address the Council's proposed amendments to the water rates for FY23:

1. These WLAB's comments are made without access to updated projections from Finance for the proposed amendment. The financial projections we have reviewed include a $2 residential base rate increase with equivalent adjustment to commercial base rates, with a $0.24 increase per CCF for the full fiscal year. We understand the actual proposed amendment does not implement the $2 base rate increase until the bonds are sold, anticipated for by the end this calendar year. WLAB discussed this proposed amendment on our September 7th meeting with the best information available. Our conclusion is that the proposed amended meets the financial needs of the water utility. We, however, have concerns that delaying the base rate change until bond sales may negatively impact the utility's financial position in FY23 compared to a full year of base rate increases for the upcoming fiscal year. Overall, we believe the proposed amendment will help the utility meet its financial obligations, depending on the timing of the sale of bonds yet to be analyzed.

   Below is the most recent projection we have been provided. Again, this is based on the base rate increase occurring for the full fiscal year:

Cash Reserve Estimates							
	FY 21	**FY 22**	**FY 23**	**FY 24**	**FY 25**	**FY 26**	**FY 27**
Beginning Unassigned Cash Reserve		7,987,451	6,180,913	4,712,150	3,615,799	4,520,170	4,631,881
Estimated Financial Sources	27,606,961	28,264,897	31,310,685	32,467,419	33,358,413	34,313,435	35,268,456
Estimated Financial Uses	26,654,223	27,571,435	30,579,449	31,239,770	31,404,042	31,951,723	32,519,977
Next Year CIP	3,675,000	2,500,000	2,200,000	2,324,000	1,050,000	2,250,000	550,000
Ending Cash Reserve less CIP	*7,987,451*	*6,180,913*	*4,712,150*	*3,615,799*	*4,520,170*	*4,631,881*	*6,830,361*
Current Year Operating Uses	26,137,326	27,571,435	30,579,449	31,239,770	31,404,042	31,951,723	32,519,977
Cash Target (20% of total expenses)	5,227,465	5,514,287	6,115,890	6,247,954	6,280,808	6,390,345	6,503,995
Cash above (below) Target	*2,759,986*	*666,626*	*(1,403,740)*	*(2,632,156)*	*(1,760,639)*	*(1,758,463)*	*326,366*
Debt Ratio with PILOT	1.24	1.20	1.17	1.29	1.41	1.47	1.54
Debt Ratio without PILOT	1.70	1.66	1.55	1.74	1.86	1.93	2.00

   Below are the projections we were provided under the previous plan in June. Fortunately, FY22 revenues are projected to be higher than forecasted in June. This already puts the utility in a better position moving forward:

Cash Reserve Estimates							
	FY 21	FY 22	FY 23	FY 24	FY 25	FY 26	FY 27
Beginning Unassigned Cash Reserve		7,987,451	5,502,222	2,158,203	1,165,524	3,151,530	5,404,678
Estimated Financial Sources		27,537,733	30,051,493	32,578,495	34,517,300	36,607,814	38,698,328
Estimated Financial Uses		27,522,962	30,495,511	31,247,174	31,481,293	32,104,666	32,769,297
Next Year CIP	3,675,000	2,500,000	2,900,000	2,324,000	1,050,000	2,250,000	550,000
Ending Cash Reserve less CIP	*7,987,451*	*5,502,222*	*2,158,203*	*1,165,524*	*3,151,530*	*5,404,678*	*10,783,710*
Current Year Operating Uses	26,137,326	27,522,962	30,495,511	31,247,174	31,481,293	32,104,666	32,769,297
Cash Target (20% of total expenses)	5,227,465	5,504,592	6,099,102	6,249,435	6,296,259	6,420,933	6,553,859
Cash above (below) Target	*2,759,986*	*(2,371)*	*(3,940,899)*	*(5,083,911)*	*(3,144,728)*	*(1,016,255)*	*4,229,850*
Debt Ratio with PILOT	1.24	1.09	1.01	1.30	1.58	1.82	2.10
Debt Ratio without PILOT	1.70	1.55	1.39	1.76	2.03	2.27	2.56

2. The financial projections under the proposed plan are favorable compared to the previous proposed revenue increase. This accounts for a full year of rate changes in FY23, although they would be expected to be less favorable with the actual amendment, which includes a partial year adjustment in FY23. This is because they get much closer to raising the necessary revenues to cover the FY23 expenses and the FY24 CIP than the previous plan. In acting sooner to meet the financial obligations in FY23, smaller projected revenue increases are necessary in future fiscal years. According to the projections above, the increase in revenues from the plan with the immediate base rate increases is $3,045,788. Under the previous plan it was $2,513,760. In moving to more expediently meet the financial needs of the utility, this lessens the financial burdens of the utility, allowing for more gradual increases in later years. The WLAB would like to emphasize that moving in a direction of meeting financial obligations earlier is in line with our utility financial training. We conclude this is a smart move for the financial health of the utility.

3. We also want to emphasize moving to meet the financial needs of the utility sooner rather than later also allows the city to avoid overly burdensome revenue increases in the future. This is supported by applying a common affordability metric, *HM* (hours at minimum wage to pay for essential water use) to see the impact over time. *HM* uses the following simple calculation to measure affordability (Teodoro 2018):

   HM= cost of essential water services/minimum wage

   Cost of essential services is calculated as the cost of water services for a family of four only using water for essential uses (cooking, cleaning, bathing, etc.). Typical estimates put essential water use at 50 gallons per capita per day, about 6,000 gallons (or 8.02 CCF). Since summer bills are going to be the highest of the year in Columbia, the estimate follows use of the summer bill. Based on the projected increases in residential rates over the next five fiscal years, Figure 1 shows how *HM* changes under the original rate plan versus the proposed amendment:

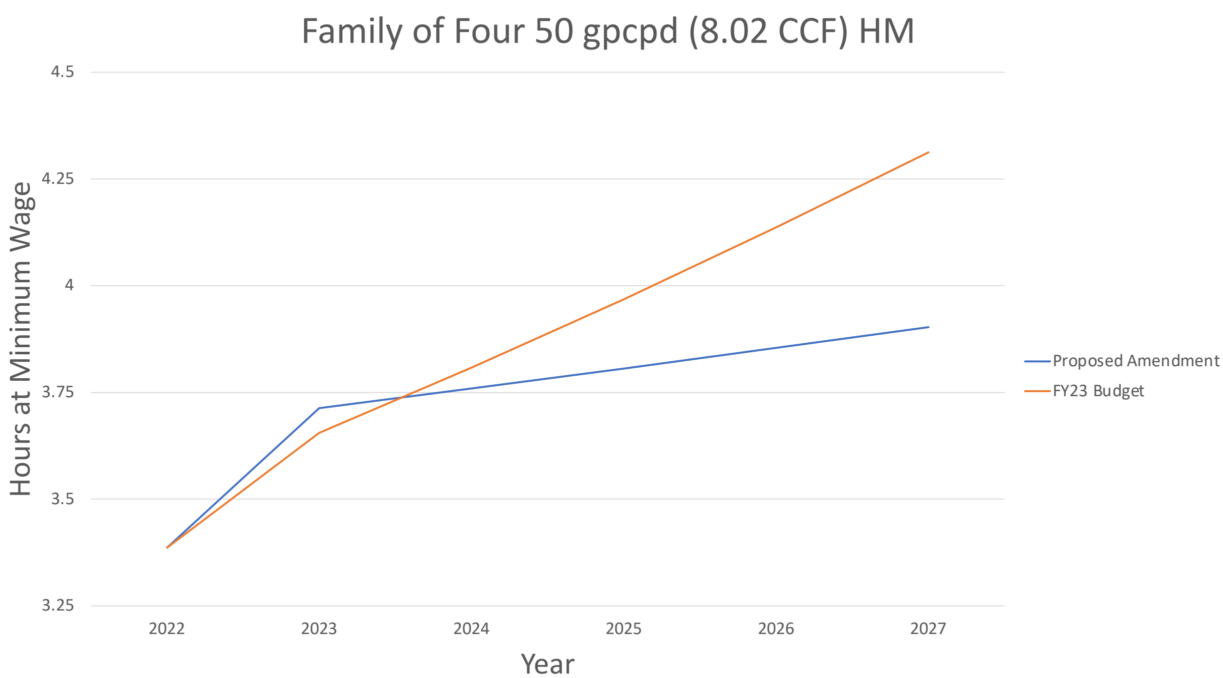

Figure 1

As can be seen, *HM* is higher in FY23 under the proposed amendment. A higher base rate and a higher CCF increase in tier 1 explains this difference. Since the proposed amendment (again not the actual proposed since we don't have access to those financials) gets closer to covering the financial needs of the utility in FY23, however, smaller increases are required in the following years to bring the utility back to its cash targets. **This means that by FY24 and into the future, HM is actually lower. By more proactively meeting financial obligations, the utility is able to avoid burdening low-income customers in future years.**

4. We believe that this analysis shows the benefit of using affordability metrics when evaluating utility rates and their impact on low-income customers. While *HM* is a relatively simple metric, there are other metrics that have been developed over recent years. The WLAB will be working over the next year to develop some of these metrics for use when evaluating utility rates for the City of Columbia.