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Certified Public Accountants
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City of Fairhope

Electric, Water, Wastewater & Gas

Cost of Service Studies

12 Months Ending September 2022

Presented October 28, 2024



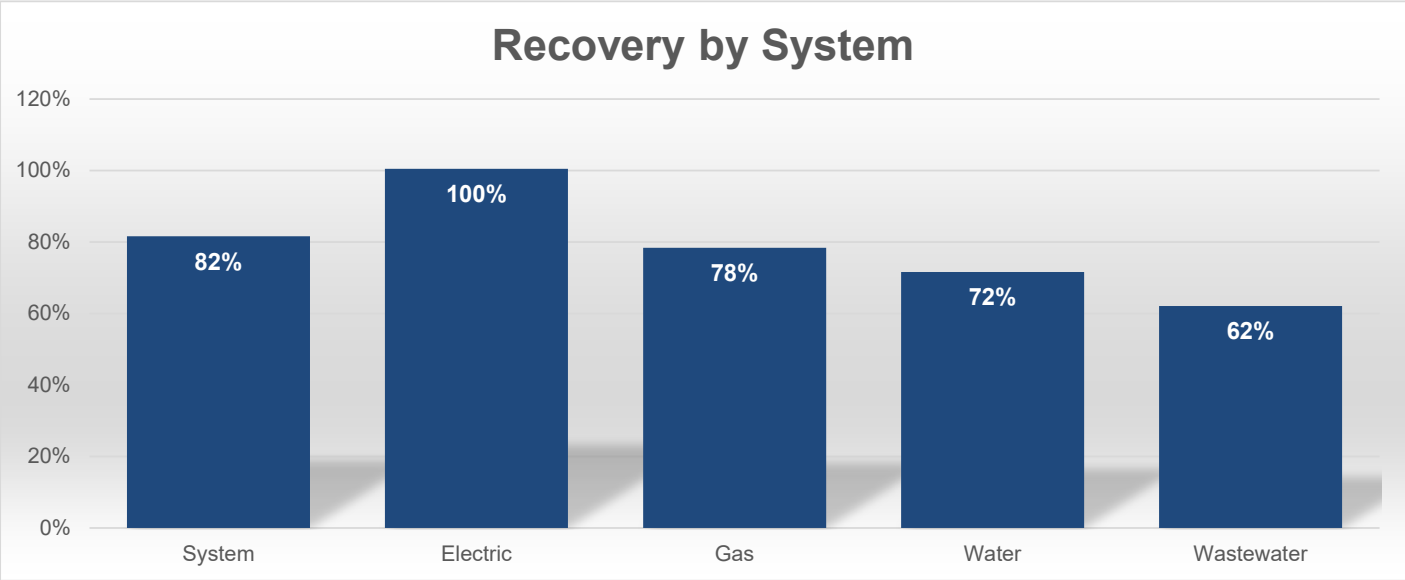
Typical Objectives of Rate Study

1. Revenue Stability and Sufficiency
2. Fairness and Equity
 - Fair is related to cross subsidies
 - Equity is related to $\text{Price}=\text{Cost}$
3. Ability to Pay
4. Simplicity (Admin & Cust Understanding)
5. Defensible

Overview of Process

1. Determine Revenue Requirements
 - How much does the system need to operate?
2. Develop Revenue Requirements by Rate Class
 - How much does the system need to recover by rate class?
3. Develop COS Rates and Design Acceptable Rates
 - How does the system best recover the needed revenues?
4. Implement Rate Changes

Cash Method – All Systems Revenue Requirement



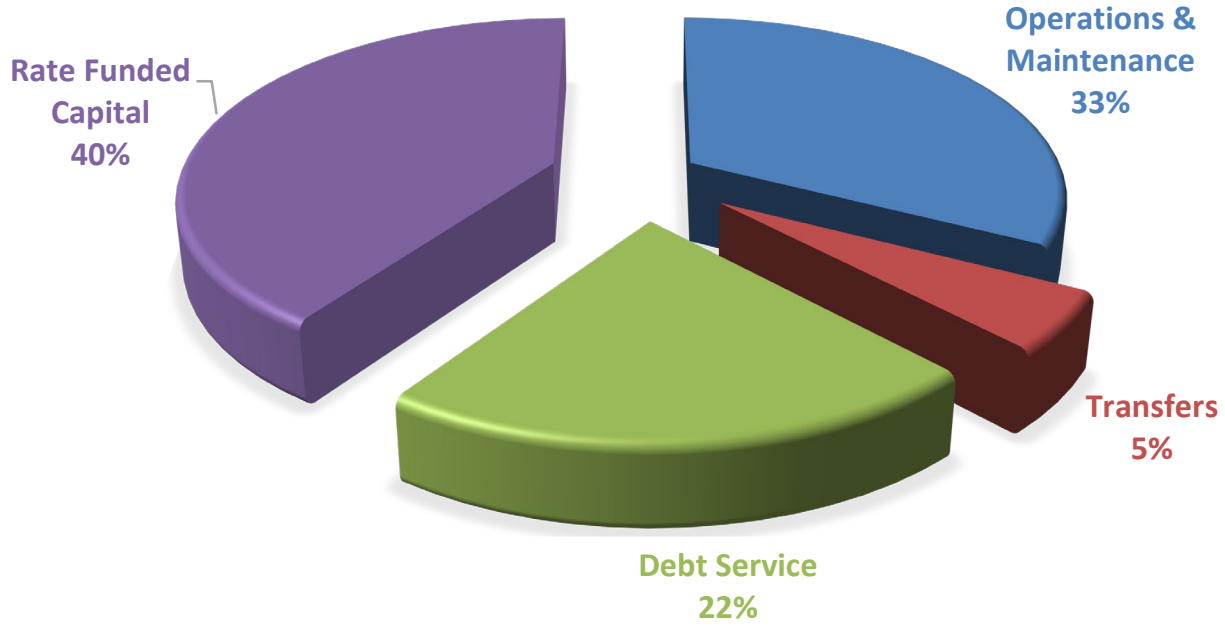
Water – Cash Method Revenue Requirement

TOTAL REV. REQ.	
Operations & Maintenance	\$ 4,237,685
Plus: Transfers	\$ 688,310
Plus: Debt Service	\$ 2,839,846
Plus: Rate Funded Capital	\$ 5,250,000
Total Revenue Requirement	<u>\$ 13,015,842</u>
Less: Other Revenue	<u>\$ 510,120</u>
Rate Requirement	<u>\$ 12,505,722</u>

*Debt Service Includes \$2,491,000 of annual payments that do not yet exist

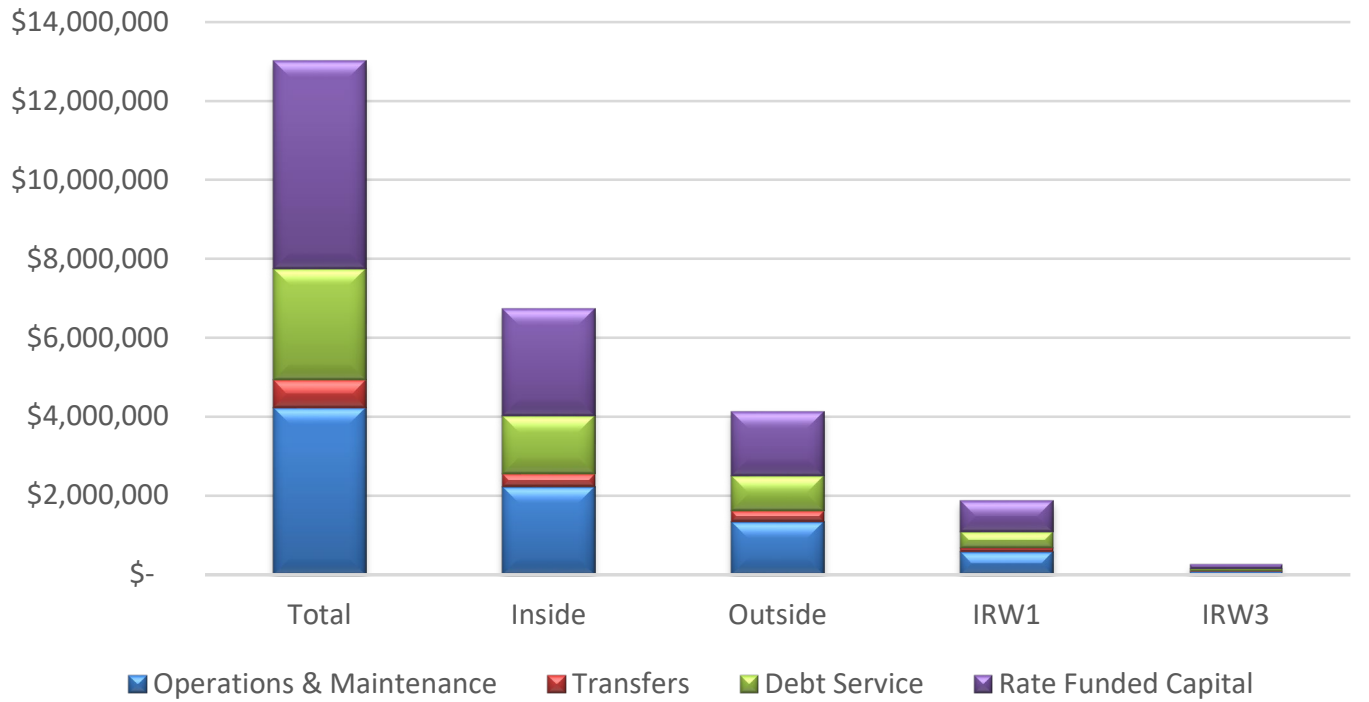
Water – Components of Revenue Requirement

REVENUE REQUIREMENT

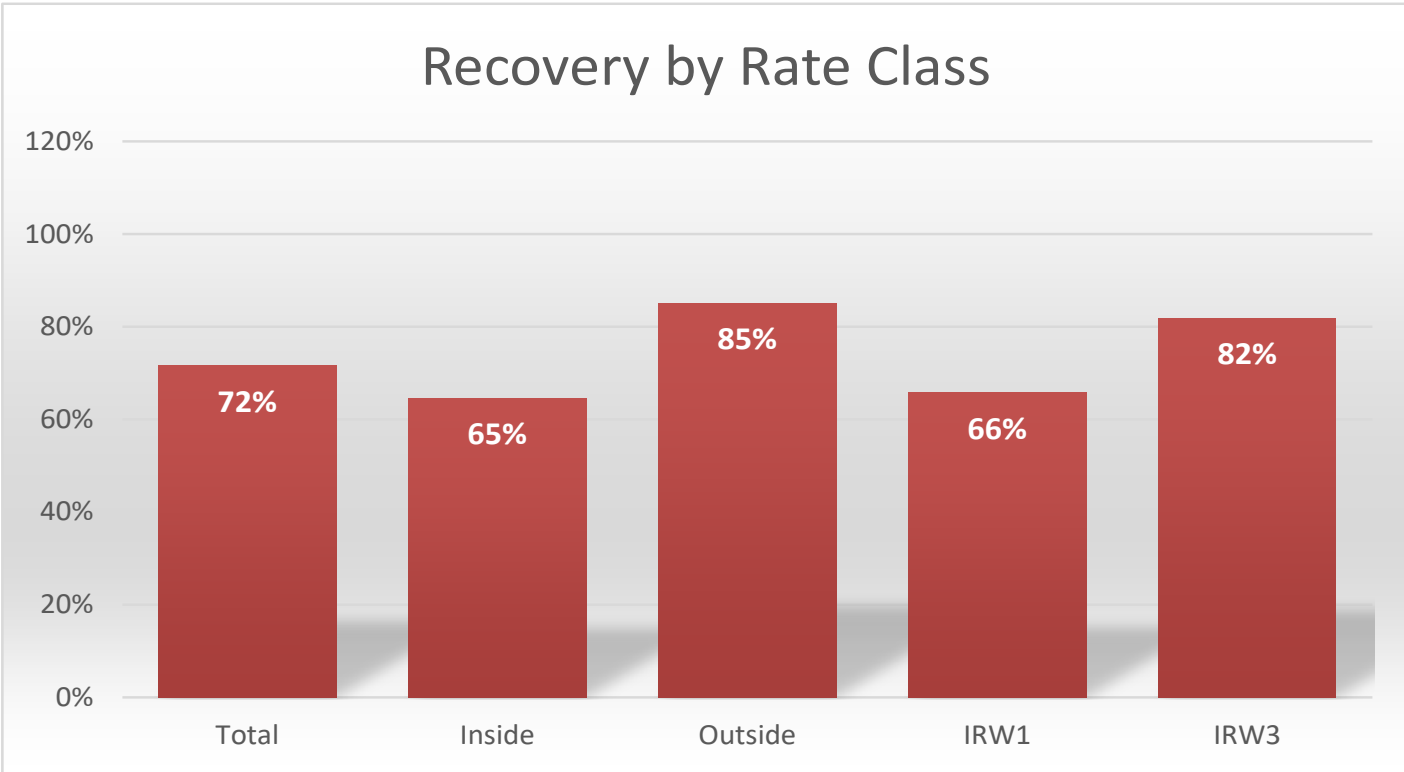


Water – Revenue Requirement by Rate Class

Rev. Req. by Rate Class



Water – Recovery by Class



	Total	Inside	Outside	IRW1	IRW3
Total Revenue	\$ 9,322,407	\$ 4,354,931	\$ 3,523,866	\$ 1,236,561	\$ 207,049
Over/(Under) Recovery	\$ (3,693,435)	\$ (2,384,227)	\$ (619,094)	\$ (644,180)	\$ (45,935)

Water – Results & Recommendations, 1 of 3

- The water system is anticipated to under-recover by approximately \$3,700,000 on a total need of \$13,000,000.
- During our most recent work session held with staff on September 16, 2024, it was decided to try and target a 90% recovery in two steps.
 - This equals approximately \$1,221,00 in additional revenue each of the next two steps.

Water – Results & Recommendations, 2 of 3

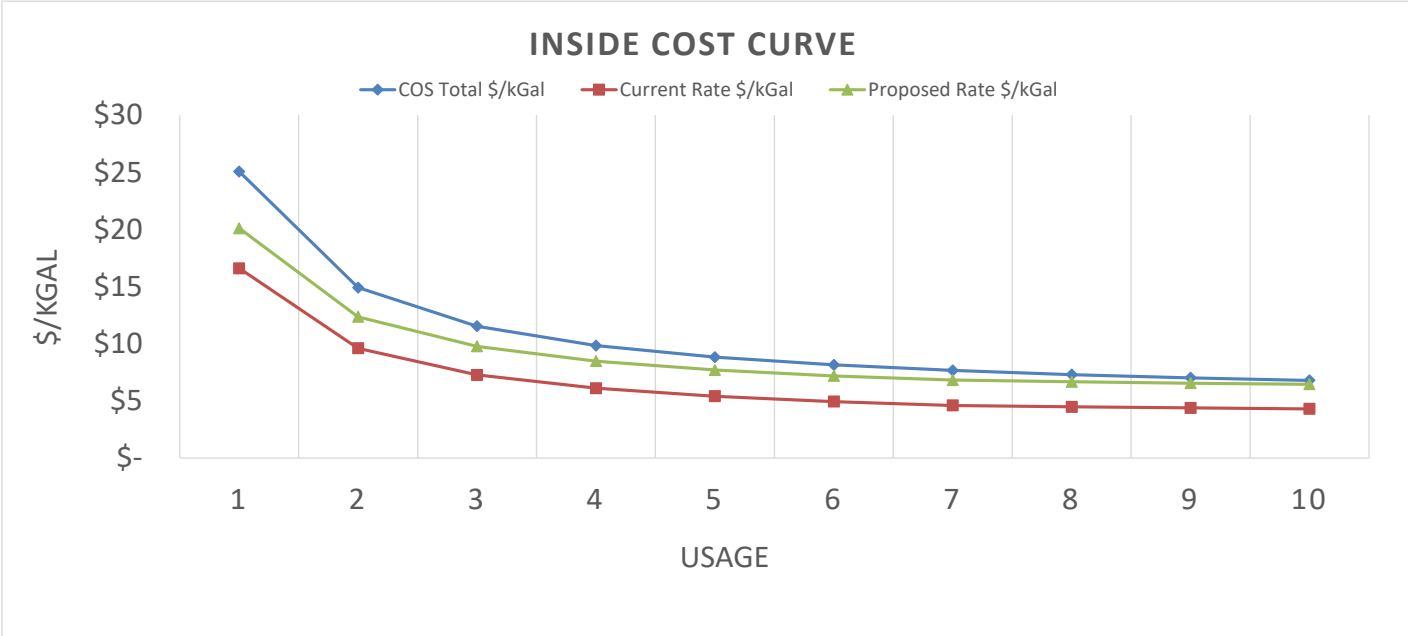
	Inside	Outside	IRW1	IRW3	Total
Additional Revenue Needed for 90% Recovery	\$ 1,737,895	\$ 221,768	\$ 461,843	\$ 21,357	\$ 2,442,863
Additional Revenue Needed Each Year	\$ 868,948	\$ 110,884	\$ 230,921	\$ 10,678	\$ 1,221,432
Bills sent in FY 2022	136,237	83,817	28,336	3,557	251,947
Average Impact per Bill per Step	\$ 6.38	\$ 1.32	\$ 8.15	\$ 3.00	\$ 4.85

Water – Results & Recommendations, 3 of 3

- For all Inside City Limit customers, including irrigation, consider the following rate action:
 - Increase the monthly customer charge \$0.75 each of the next two steps. Total increase of \$1.50.
 - Increase volumetric rate on all volumes by \$1.00 each of the next two steps. Total increase of \$2.00 per kGal.
- For all Outside City Limit customers, including irrigation, consider the following rate action:
 - Increase volumetric rate on all volumes by \$0.50 each of the next two steps. Total increase of \$1.00 per kGal.

Water – Inside City Rate Curve – Full Implementation

	Cost of Service	Current Rate	Proposed Rate	Difference
Customer Charge	\$ 20.30	\$ 14.00	\$ 15.50	\$ 1.50
1,000-7,000 gal	\$ 4.76	\$ 2.60	\$ 4.60	\$ 2.00
All Additional Usage		\$ 3.60	\$ 5.60	\$ 2.00

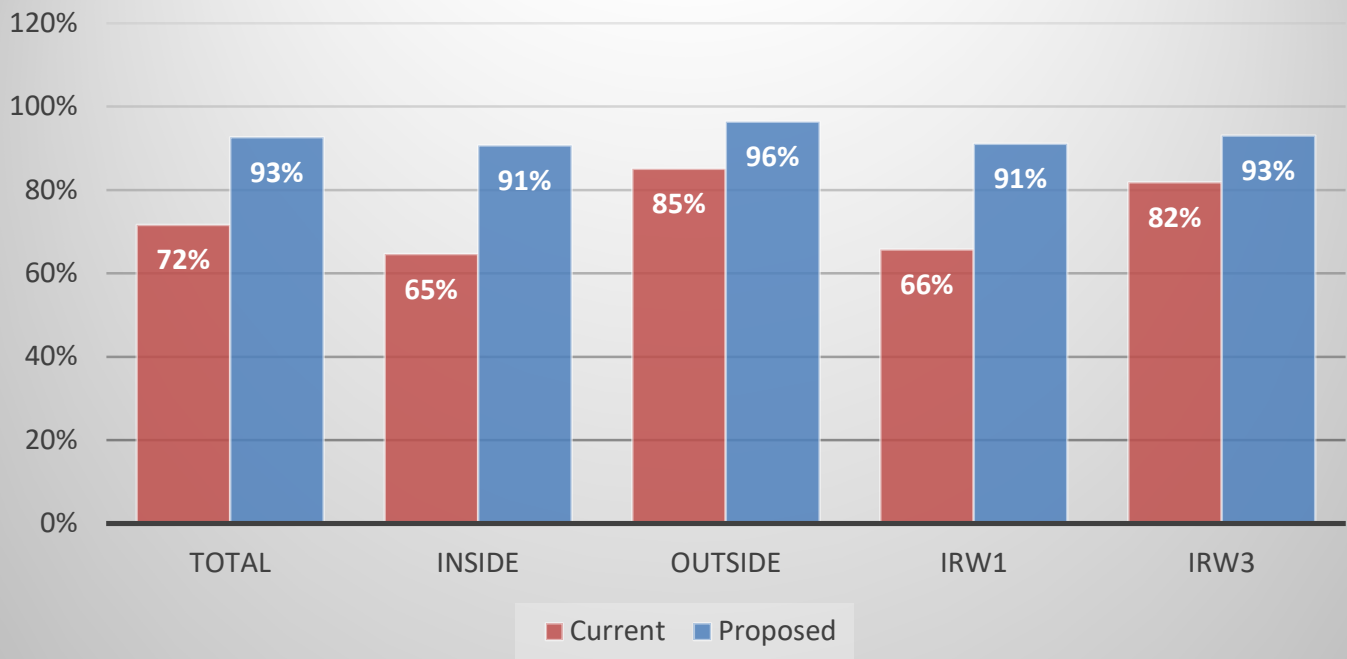


Water – Inside City Rate Impact – Full Implementation

Usage		COS Rates	Current Rates	Proposed Rates	Monthly Change	Daily Change	Current \$/kGal	Proposed \$/kGal
1	\$	25.06	\$ 16.60	\$ 20.10	\$ 3.50	\$ 0.12	\$ 16.60	\$ 20.10
2	\$	29.82	\$ 19.20	\$ 24.70	\$ 5.50	\$ 0.18	\$ 9.60	\$ 12.35
3	\$	34.58	\$ 21.80	\$ 29.30	\$ 7.50	\$ 0.25	\$ 7.27	\$ 9.77
4	\$	39.34	\$ 24.40	\$ 33.90	\$ 9.50	\$ 0.32	\$ 6.10	\$ 8.48
5	\$	44.10	\$ 27.00	\$ 38.50	\$ 11.50	\$ 0.38	\$ 5.40	\$ 7.70
6	\$	48.86	\$ 29.60	\$ 43.10	\$ 13.50	\$ 0.45	\$ 4.93	\$ 7.18
7	\$	53.62	\$ 32.20	\$ 47.70	\$ 15.50	\$ 0.52	\$ 4.60	\$ 6.81
8	\$	58.38	\$ 35.80	\$ 53.30	\$ 17.50	\$ 0.58	\$ 4.48	\$ 6.66
9	\$	63.14	\$ 39.40	\$ 58.90	\$ 19.50	\$ 0.65	\$ 4.38	\$ 6.54
10	\$	67.90	\$ 43.00	\$ 64.50	\$ 21.50	\$ 0.72	\$ 4.30	\$ 6.45
Average Usage			5,700					

Water – Projected Recovery – Full Implementation

Projected Recovery



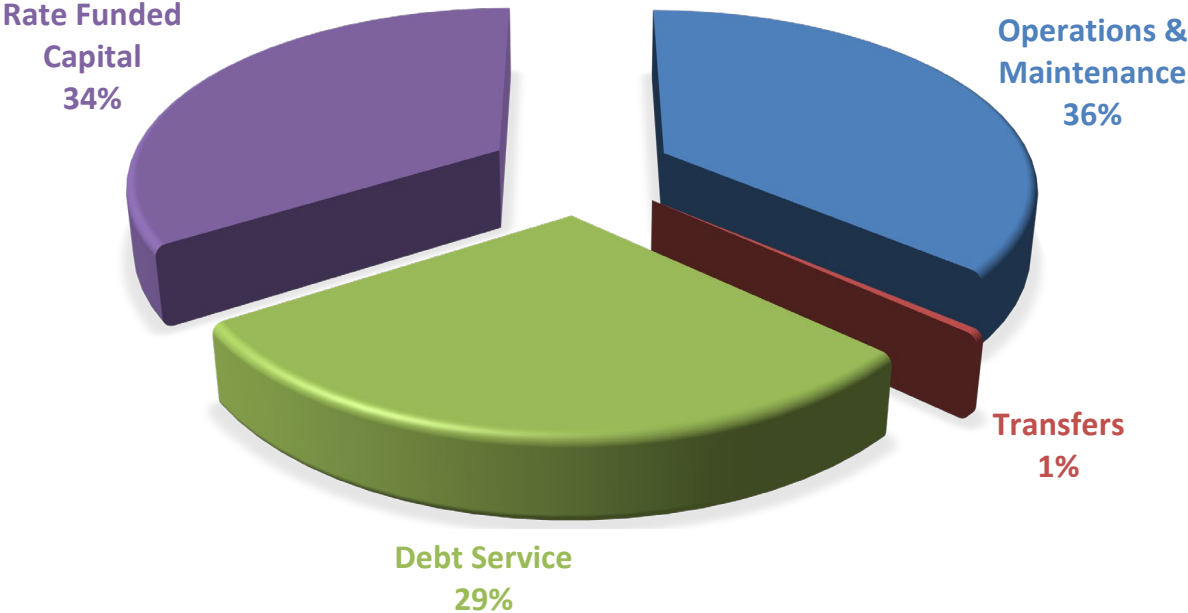
Sewer – Cash Method Revenue Requirement

TOTAL REV. REQ.	
Operations & Maintenance	\$ 4,274,887
Plus: Transfers	\$ 51,583
Plus: Debt Service	\$ 3,451,921
Plus: Rate Funded Capital	\$ 4,000,000
Total Revenue Requirement	<u>\$ 11,778,391</u>
Less: Other Revenue	<u>\$ 88,850</u>
Rate Requirement	<u>\$ 11,689,542</u>

*Debt Service Includes \$2,058,000 of annual payments that do not yet exist

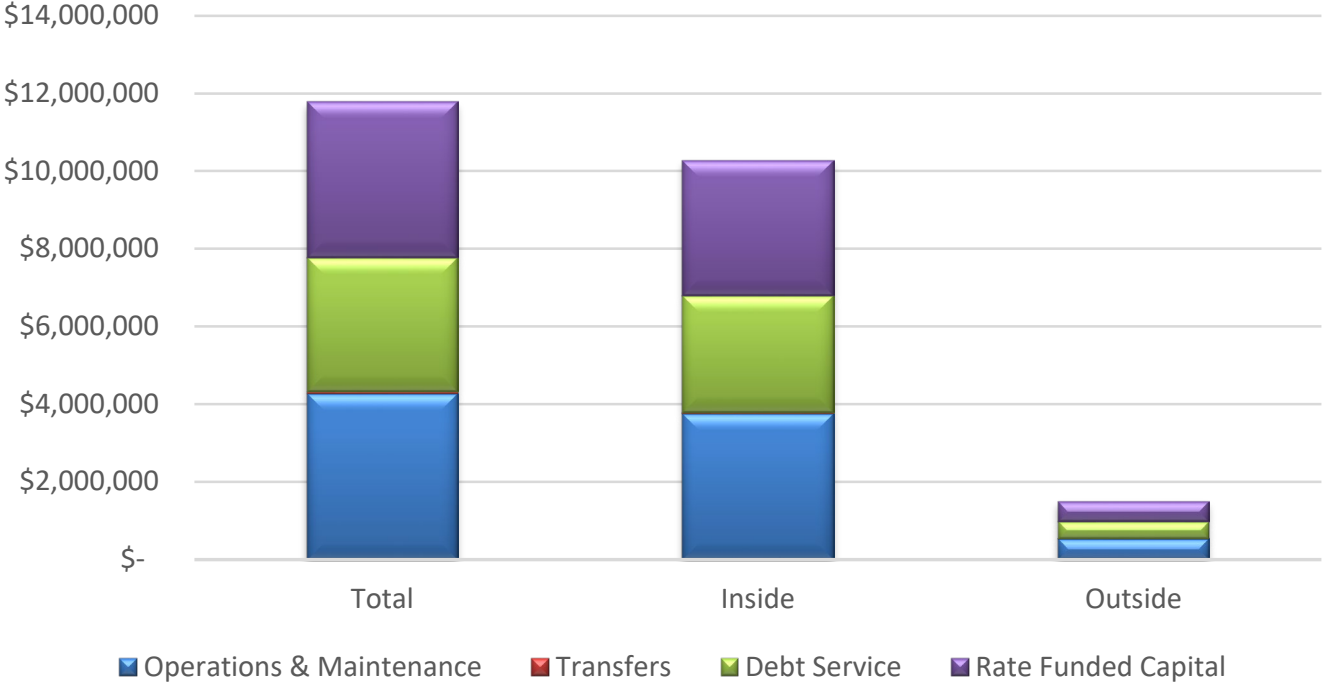
Sewer – Components of Revenue Requirement

REVENUE REQUIREMENT



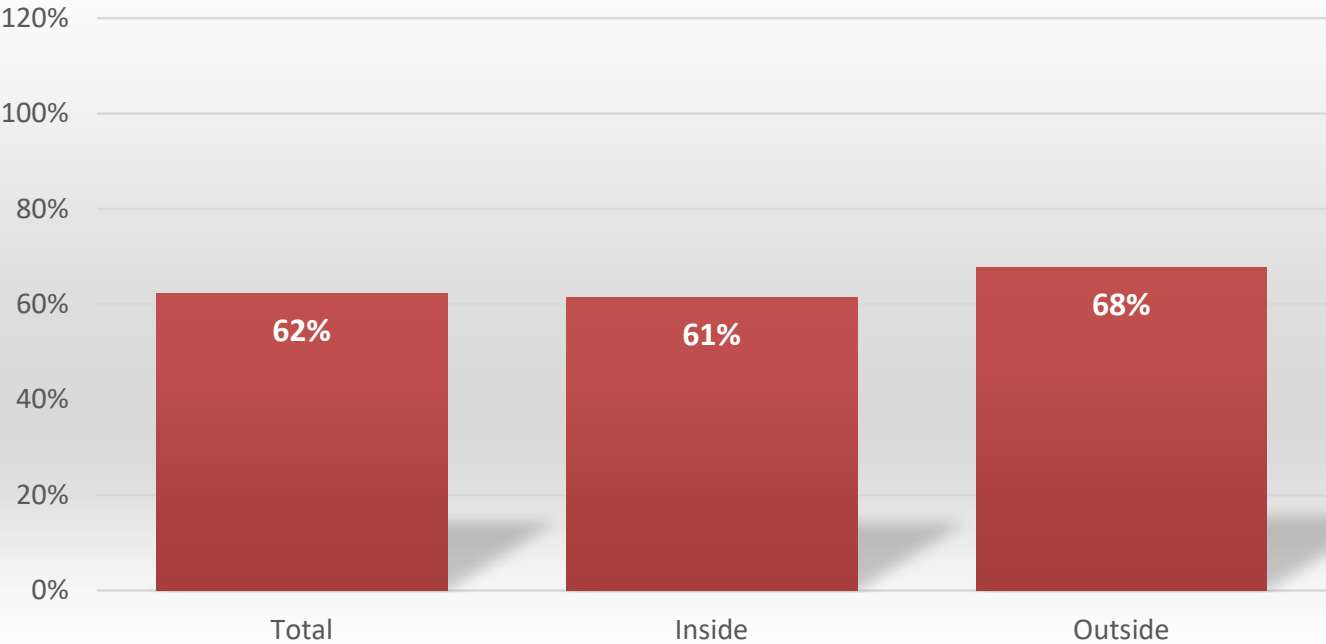
Sewer – Revenue Requirement by Rate Class

Rev. Req. by Rate Class



Sewer – Recovery by Class

Recovery by Rate Class



	Total	Inside	Outside
Total Revenue	\$ 7,336,537	\$ 6,322,181	\$ 1,014,356
Over/(Under) Recovery	\$ (4,441,854)	\$ (3,958,677)	\$ (483,177)

Sewer – Results & Recommendations, 1 of 3

- The sewer system is anticipated to under-recover by approximately \$4,442,000 on a total need of \$11,778,000.
- During our most recent work session held with staff on September 16, 2024, it was decided to try and target a 90% recovery in two steps.
 - This equals approximately \$1,636,00 in additional revenue each of the next two steps.

Sewer – Results & Recommendations, 2 of 3

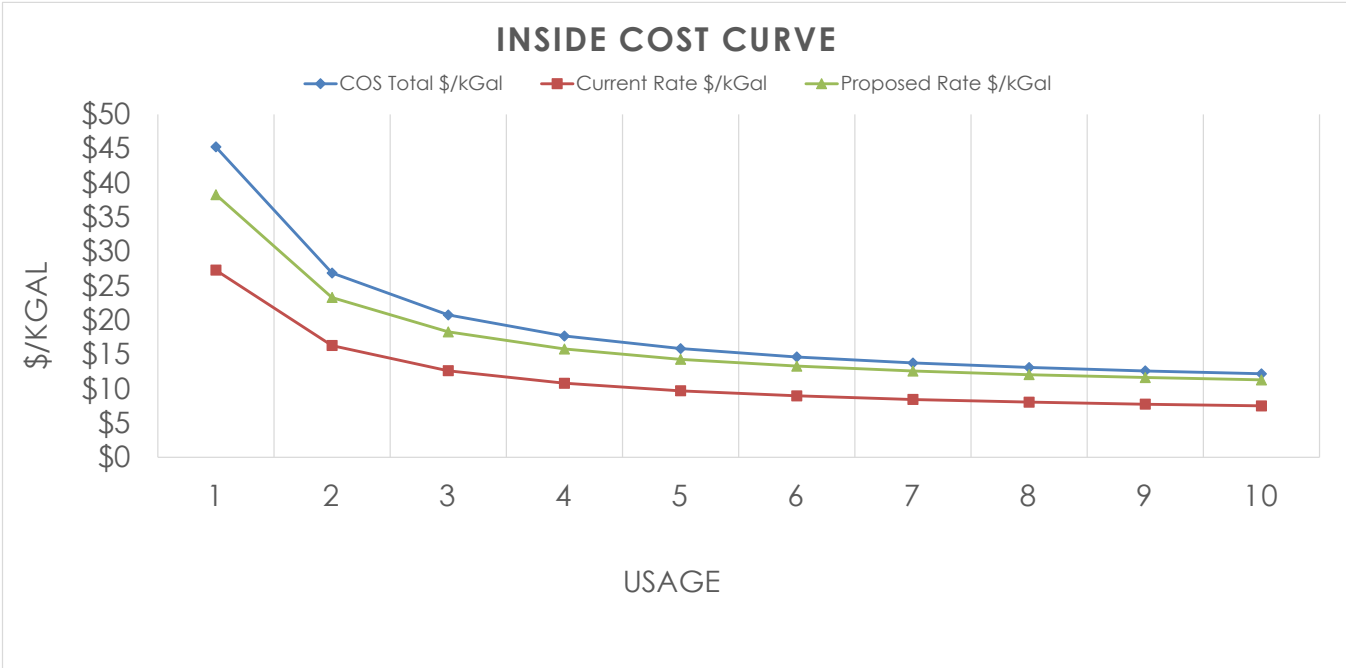
	Inside	Outside	Total
Additional Revenue Needed for 90% Recovery	\$ 2,938,527	\$ 334,373	\$ 3,272,900
Additional Revenue Needed Each Year	\$ 1,469,264	\$ 167,186	\$ 1,636,450
Bills sent in FY 2022	123,301	14,750	138,051
Average Impact per Bill per Step	\$ 11.92	\$ 11.33	\$ 11.85

Sewer – Results & Recommendations, 3 of 3

- For all customers consider the following rate action:
 - Increase the monthly customer charge \$4.00 each of the next two steps. Total increase of \$8.00.
 - Increase volumetric rate on all volumes by \$1.50 each of the next two steps. Total increase of \$3.00 per kGal.

Sewer – Inside City Rate Curve – Full Implementation

	Cost of Service	Current Rate	Proposed Rate	Difference
Customer Charge	\$ 36.74	\$ 22.00	\$ 30.00	\$ 8.00
All Usage	\$ 8.51	\$ 5.30	\$ 8.30	\$ 3.00



Sewer – Inside City Rate Impact – Full Implementation

Usage	COS Rates		Current Rates		Proposed Rates		Monthly Change	Daily Change	Current \$/kGal	Proposed \$/kGal		
1	\$	45.25	\$	27.30	\$	38.30	\$	11.00	\$	27.30	\$	38.30
2	\$	53.77	\$	32.60	\$	46.60	\$	14.00	\$	16.30	\$	23.30
3	\$	62.28	\$	37.90	\$	54.90	\$	17.00	\$	12.63	\$	18.30
4	\$	70.80	\$	43.20	\$	63.20	\$	20.00	\$	10.80	\$	15.80
5	\$	79.31	\$	48.50	\$	71.50	\$	23.00	\$	9.70	\$	14.30
6	\$	87.83	\$	53.80	\$	79.80	\$	26.00	\$	8.97	\$	13.30
7	\$	96.34	\$	59.10	\$	88.10	\$	29.00	\$	8.44	\$	12.59
8	\$	104.86	\$	64.40	\$	96.40	\$	32.00	\$	8.05	\$	12.05
9	\$	113.37	\$	69.70	\$	104.70	\$	35.00	\$	7.74	\$	11.63
10	\$	121.89	\$	75.00	\$	113.00	\$	38.00	\$	7.50	\$	11.30
Average Usage				5,402								

Sewer – Projected Recovery – Full Implementation

Projected Recovery

