



April 24, 2019

To: Pataskala City Council
 Re: Rate Structure Increase Background Information

Pataskala City Council Members:

As discussed, this document provides an explanation of the process behind the selection of three proposals for a utility service rate increase that will be presented to Council in May. Beginning in 2018 council (or more specifically the Utility Committee) began to address the projections that both the sewer and the water operating funds fund were showing less and less carryover each year. The rate increase discussion was magnified with the 2019 budget process which emphasized that the Utility Department’s operating funds (both water and sewer) are forecasted to decline to an unsustainable level by the year 2023. Simply put, the cost of the necessary consumables (electricity, salt, chlorine and other chemicals, fuel, etc.), as well as personnel costs and other operating expenses continue to increase every year. The last time Pataskala implemented a utility service user fee increase was in 2016. Since then the cost of operating the department has become more expensive annually. After multiple discussions by the 2018 and 2019 Utility Committees it was determined that the most fiscally responsible way to continue to provide acceptable service to our customers was to increase the revenue coming into the department through a rate increase. The current Utilities Committee spent a significant amount of time comparing eight (8) different increase scenarios. Working with the City Administrator and the Finance director we evaluated a 1-time large increase vs. a phased in approach. We also set a goal of recommending an increase that would project a healthy balance over time. Council members should also note that we spent time evaluating possible “fiscal surprises” and what they might mean to a fund in decline or with very little carryover. Eventually, the Committee and Administration determined the three options presented herein begin to address the funding needs of the department. It is important to note that the increase will only be to the consumption portion of the bill. The CIP fee will remain at the current rate of \$3.00 per 1,000 gallons used for both water and sewer.

Our current utility rates are as follows:

WATER				SEWER			
Year	In-Town	Out-Of-Town	CIP	Year	In-Town	Out-Of-Town	CIP
2016	\$4.48	\$6.72	\$3.00	2016	\$7.65	\$11.48	\$3.00

When compared to 10 other similar surrounding utility departments, Pataskala is currently the fourth most expensive for our “In-Town” rates, and the most expensive for our “Out-Of-Town” rates. The proposed rate increases would move us to the third most expensive for our “In-Town” rates and most expensive for our Out-Of-Town rates. Pataskala is the only department of similar size that operates two water plants.

The rate structure discussion has spanned across the term of two different Utility Committees and was a very thorough and deliberate process. The main goal of everyone involved was to find a way to

adequately fund the Utility Department operations while minimizing the impact on the customer. The eight (8) different scenarios discussed by the Utilities Committee were:

	2020	2021	2022	2023	2024
Option 1	5%	0%	0%	0%	0%
Option 2	10%	0%	0%	0%	0%
Option 3	15%	0%	0%	0%	0%
Option 4	5%	5%	5%	0%	0%
Option 5	5% W-3% S	0%	5% W-3% S	0%	5% W-3% S
Option 6	5%	0%	5%	0%	5%
Option 7	5% W-8% S	0%	5% W-8% S	0%	5% W-8% S
Option 8	5%	0% W-5% S	5%	0% W-5% S	5%

It was determined that options 6, 7, and 8 offered the most adequate funding level to the Utility Funds.. Additionally, these three options minimize the impact to the customers by providing an off year between increases. The Utility Committee recommended that these three options be presented to Council for consideration.

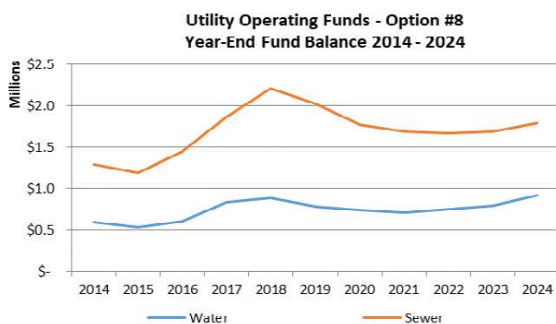
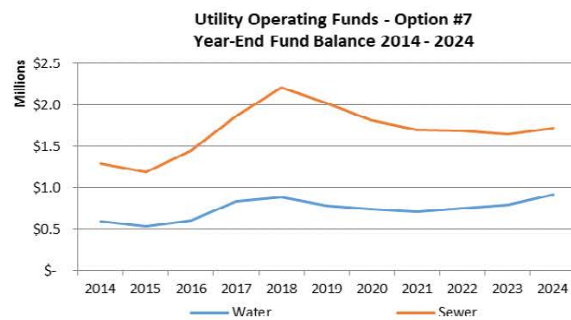
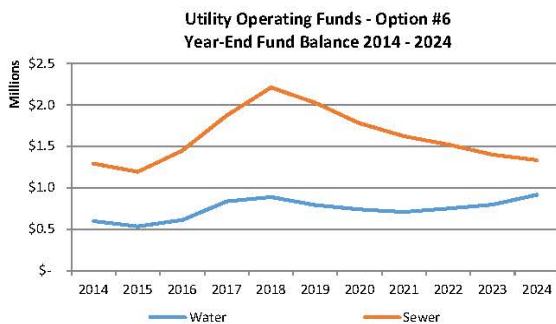
The following are line graphs that show the water and sewer operational funds and the impact that each of the three options has on those funds.

**CITY OF PATASKALA, OHIO
UTILITY USER RATE/DEBT SERVICE INCREASE IMPACT ANALYSIS
2014 - 2024**

Annual Revenue Increase Year over Year

	2020	2021	2022	2023	2024
Option 6:	5%	0%	5%	0%	5%
Option 7:	5%/8% W/S	0%	5%/8% W/S	0%	5%/8% W/S
Option 8:	5%	0%/5% W/S	5%	0%/5% W/S	5%

** Does not include any additional debt service



Shown above, option 6 provides a positive trend for the water fund balance, but a slightly negative trend in the sewer fund. The sewer fund has a larger annual carryover percentage than the water fund. However, it is important to note that the EPA has stated that part of our next discharge permit for the WRF will require the development and implementation of a plan to address the infiltration and inflow (I&I) water entering our collection system. This will be an expensive, non-funded mandate that will require funding beyond what the current carry-over provides. Options 7 and 8 both provide an increase that results in the water and sewer funds trending in the balanced budget direction. Again, it is important to remember when reviewing these options that the costs for consumables, personnel and other operating costs will continue to increase each year.

The actual dollar amounts of the three proposed increases are shown in the table below. These amounts show what the final total will be in 2024, after all increase steps have been completed. The numbers are based on a utility bill of 5,000 gallons, which is the average for our customer base.

<i>Water-In Town</i>	Option 6	Option 7	Option 8
Current Rate	\$37.40	\$37.40	\$37.40
Increased Rate	\$40.95	\$40.95	\$40.95
Increase Amount	\$3.55	\$3.55	\$3.55
<i>Sewer-In Town</i>			
Current Rate	\$53.25	\$53.25	\$53.25
Increased Rate	\$59.25	\$63.20	\$63.80
Increase Amount	\$6.00	\$9.95	\$10.55
<i>Total- In Town</i>			
Current Rate	\$90.65	\$90.65	\$90.65
Increased Rate	\$100.20	\$104.15	\$104.75
Increase Amount	\$9.55	\$13.50	\$14.10
<i>Water- Out of Town</i>			
Current Rate	\$48.60	\$48.60	\$48.60
Increased Rate	\$53.90	\$53.90	\$53.90
Increase Amount	\$5.30	\$5.30	\$5.30
<i>Sewer- Out of Town</i>			
Current Rate	\$72.40	\$72.40	\$72.40
Increased Rate	\$81.45	\$87.30	\$88.25
Increase Amount	\$9.05	\$14.90	\$15.85
<i>Total- Out of Town</i>			
Current Rate	\$121.00	\$121.00	\$121.00
Increased Rate	\$135.35	\$141.20	\$142.15
Increase Amount	\$14.35	\$20.20	\$21.15

The Utility Department's forecasted expenses were also taken into consideration to identify any major projects that may have to be completed, which could cause these proposed increases to be insufficient. Although the department could identify a nearly endless list of improvements that could be completed, there are no unbudgeted items known at this time that are necessary for us to continue providing service. The one exception would be the priority of addressing the I&I water in our Collection System. I&I is water (other than waste water) that infiltrates our system. It is mostly made up of rain or ground water and is often attributed to aging infrastructure. It is anticipated that the EPA will require an action plan and improvements being funded to address the I&I issues with our new discharge permit.

Luckily, the sewer fund carryover balance is large enough that it should allow us to develop a plan outlining annual I&I corrective actions in a manner that is gradual enough to not be detrimental to the fund. It should be active enough to satisfy the progress that the EPA will require us to make.

This is a large amount of data to digest, but we wanted you to see this before we begin deliberations on this subject in May. If you have any questions, comments or concerns, please do not hesitate to ask. The intent is to ensure that all Council members feel comfortable with the amount of information provided in order to assist with the decision making process.

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