



City Council Staff Report

Subject: Fiscal Year 2025 Water Rates

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Department: Public Utilities

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Recommendation

Receive an update and discuss potential adjustments to FY25 water rates. In addition, consider a longer-term policy discussion about a water rate structure and strategy.

Executive Summary

Several staff reports, and the associated public hearings are linked below and contain detailed information on the process that resulted in significant changes to the water rate structure in FY2024, specifically to non-Single Family Residential customers:

- [April 7, 2022](#) (new business, p. 290)
- [July 28, 2022](#) (discussion items, p. 11)
- [February 16, 2023](#) (work session, p. 27)
- [April 4, 2023](#) (old business, p. 319)
- [May 11, 2023](#) (old business, p. 217)

After an in depth discussion about Park City's Water Enterprise Fund and the need for water rate increases to balance revenue and operating/capital expenditures in February ([work session](#), p. 3), the City Council requested an independent water rate study prior to considering any changes. Bowen Collins was selected (April 4, 2024, [Communications and Disclosures from Council and Staff](#), p. 17) and the study commenced in March.

Bowen Collins' primary scope of work includes a revenue needs analysis and a cost-of-service analysis. The revenue needs analysis generally determines how much revenue is needed to maintain the current level of water services in Park City. The cost-of-service analysis generally determines how much to charge each customer class based on the cost to deliver water, fund maintenance and capital projects, and other important City Council policies (e.g. water conservation) embedded within the water rate structure.

The water rate study is in progress, and Council policy direction is an important step prior to finalizing the analysis and recommendations. Based on their analysis to date and discussions with the Council Water Liaisons and staff, Bowen Collins has several recommendations and alternatives for Council to consider. Bowen Collins will provide a detailed presentation on their analysis and recommendations in the Council meeting.

Revenue Needs Analysis Outcome

As presented in detail in February (work session link above), Park City's water service is an Enterprise Fund, defined in Title 10, Chapter 6 of Utah law, the Uniform Fiscal Procedures Act for Utah Cities, which requires Enterprise Funds to essential pay for

themselves. Thus, Park City's Water Fund is funded entirely by water service fees/rates (ratepayers), surplus water leases with other entities, and water impact fees, which are collected to offset the costs of new development. To maintain adequate funding for ongoing operations, responsible levels of capital investments, and future challenges, we plan revenue and expense budgets using a multi-year financial model that projects:

- Revenue from water service fees, impact fees, surplus water leases, and other fees;
- Annual water rate increases to keep pace with the cost of service;
- Required Water Fund balances and debt coverage ratios;
- Budgets for operations and capital projects;
- Changing environmental and regulatory requirements;
- Potential reductions in revenue due to annual variations in water sales, long-term decreases in water demand due to water conservation programs; and
- Potential non-renewal of the 5-year surplus water lease to Weber Basin.

Risk of Inadequate Revenue

Effective risk management strategies for enterprise funds often include diversifying revenue sources, maintaining reserves, implementing cost-control measures, and ensuring rigorous financial planning and forecasting. In Park City, each year we balance these factors to strategically coordinate our capital and maintenance investments, responsibly run the water system, and minimize rate increases to the extent when possible.

The largest financial risk factors of the water fund are ending our Fiscal Year with a negative fund balance, inadequate debt coverage ratios, and not being able to keep up with maintenance and replacement of aging infrastructure. To help mitigate the risk of a negative cash balance, we proactively recommend rate increases to prevent this from occurring. If a negative cash balance is forecasted, cost-cutting measures, such as deferring capital projects and maintenance, would be required, or alternative sources of funding would be needed. The General Fund can subsidize an enterprise fund for major capital projects that benefit the broader community or for temporary shortfalls through an interfund transfer or loan, which can be considered a backstop to mitigate the risk. To date, the water fund has proudly never required a direct financial subsidy from other city funds.

Debt coverage ratios are a vital component of municipal financial health assessments and are integral to Municipal Securities Rulemaking Board (MSRB) reporting. Non-compliance with required debt coverage ratios must be disclosed in financial reports to the MSRB and can trigger rating agency downgrades and increased borrowing costs. Based on previous year's performance and debt coverage calculations, we believe a minimum of 5% will be sufficient to meet the coverage requirements in FY25.

To maintain the current level of water service in FY25 and protect future fund balance, Bowen Collins recommends increasing water service fee revenue by 10%, 10%, 3%, 3%, and 3% in Fiscal Years 2025 through 2029, respectively. However, after detailed

discussions with the Water liaisons and Council direction to explore rate increase alternatives, we developed several options to smooth out rate increase if desired by the Council. Each alternative presents some risk of not meeting some of the goals outlined above, and Council should discuss each option through the lens of balancing risk with impacts to water rate payers, and the future of the system and our service levels, and other revenue sources.

Pursuant to the Bown Collins study, consider the following alternatives for FY2025:

1. Raise rates 10% in FY2025 – this is Bowen Collins recommendation.
2. Raise rates 5.5% in FY2025 and direct staff to create a financial strategy to begin charging City facilities for their water consumptions, also creating new rate structures recommended by Bowen Collings over a 3-year period;
 - a. Funding this option would most likely require an increase in fees from the Golf and Recreation Departments. Council could also consider a property tax reallocation from retiring debt service;
3. Raise rates 4.5% in FY25, use City strategy for water noted above in #2, and assume we'll receive a grant for about \$4M from Federal Earmark or covering some of the Main Street water infrastructure costs from the Main St RDA; and
4. Open Alternative – given the dynamic nature of the water model and City Council's risk tolerance, Council has ultimate flexibility to work with the Water model to achieve an appropriate balance of water rates and water fund financial health.

If a Council directs staff to pursue option 1, additional revenue sources identified in options 2 and 3 could still offset future water rate increases.

Cost of Service Outcome

The cost of service portion of the study and recommendations are independent of the revenue needs analysis and the recommended water rate increase options. Bowen Collins' recommendation below is intended to create additional options for Single Family customers, similar to the changes for non Single Family that adopted last year which gave customers the option to self-select into a meter rate that best fits their water needs.

- Consider an alternative that adds meter rates to the Single-Family Residential (SFR) customer class vs the single-tiered rate to accommodate different water needs, mainly for high water users. SFR customers account for about 84% of all customers.
 - The existing Single Family Residential rate structure represents a policy adopted in 2017 to set a preferred irrigated lawn size for all Single Family Residential users and penalize use above that size or inefficient use. The alternative Bowen and Collins will present will allow for Single Family Residential users to self-select into a rate structure that can match the water demands of their yard size or irrigation efficiency.

- All other rate classes currently meet the cost of water delivery and other policies embedded in the water rate structure as a result of changes adopted for FY2024.

Bowen Collins will present their analysis in the Council meeting.