CITY OF EAST MOLINE

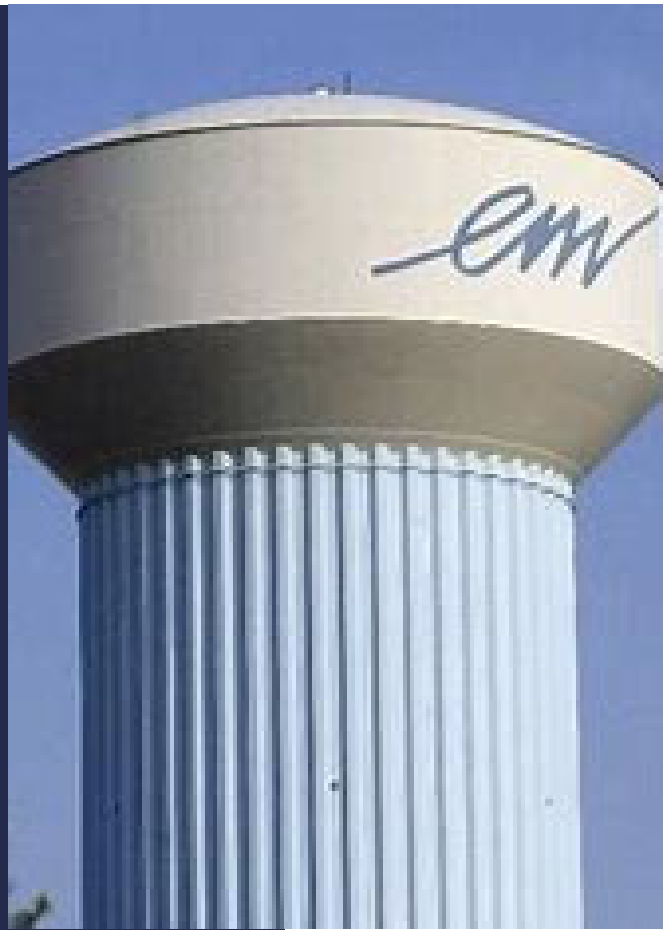
Water, Sewer, and Storm Rate Study

December 9, 2024

Purpose of the Presentation

- Receive Council feedback and input on the updated water, sewer, and storm rate study:
  - Capital funding approach
  - Proposed rate approach and level
  - Consideration of a low income program/rate

- Next Steps
  - Incorporate Council feedback and input
  - Present rate study results and ordinance adoption
    - 12/16/24 Council Meeting?



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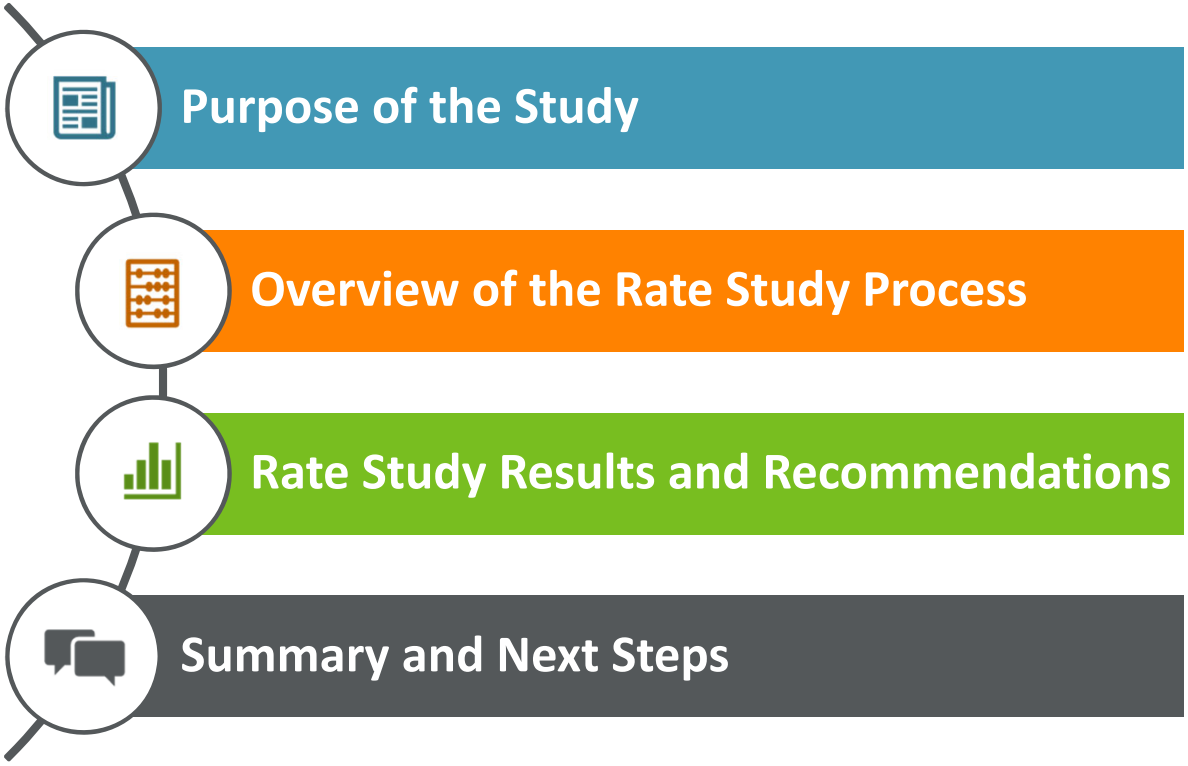
Overview of the Presentation



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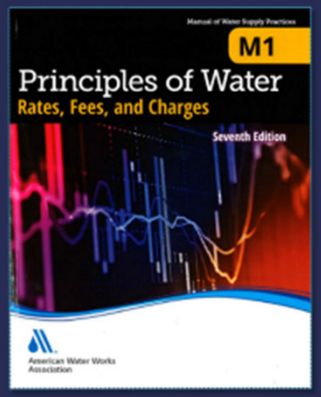

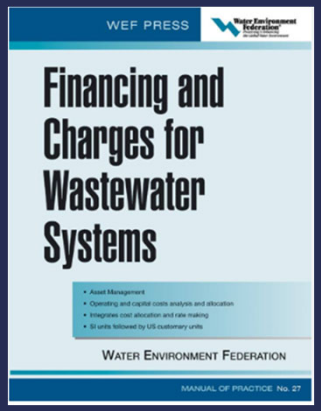

Purpose of the Rate Study

- Provide sufficient revenue to operate and maintain the City's water, sewer, and storm infrastructure
- Develop proportional and cost-based rates to reflect the City's customer and system characteristics
- Reflect prudent financial planning criteria
  - Funding capital improvement needs
  - Maintain target minimum reserve levels
  - Meet debt coverage requirements
- Develop the study using generally accepted methodologies tailored to the City's system and customer characteristics

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Developing Cost-Based Rates

Revenue Requirement

Compares the revenue of each utility to the expenses of each utility to evaluate the level of overall rates

Cost of Service

Proportionally distributes the revenue requirement between the customer classes of service of each utility

Rate Design

Design rates for each class of service to meet the revenue needs of each utility, along with identified rate design goals and objectives

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Key Rate Drivers

- Adequately fund the annual operating expenses for each utility
  - Maintain prudent reserve levels (e.g., emergency needs, cash flow requirements, capital improvements)
- Providing sufficient annual renewal and replacement funding
  - Water and wastewater pipeline replacement
  - Stormwater drainage and dredging
- System betterments and improvements funding
  - Regulatory projects (LSLR and WW Treatment)
  - System improvements (Clearwell, dredging)
- Cost-based and proportional rates
  - Reflect costs of operating and maintaining each utility system and infrastructure
  - Based on each customers' demands on the system
    - Avoid one class subsidizing another i.e., need to pay "fair share"
  - Costs driven by sizing of utility systems to serve customer demands

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Revenue Requirements

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Revenue Requirements Overview

Compares utility revenues to expenses	• Determines the level of rate revenue adjustment necessary
Uses prudent financial planning criteria	• Adequate funding of renewal and replacements • Maintaining sufficient ending reserve balances
Reviews a specific time period	• Typically five-to-ten-year period • Rate Setting is often 2 – 5 years
Each utility analyzed on a "stand-alone basis"	• No transfer of funds from other City funds • Rates need to support operations and capital
Utilizes the "cash basis" methodology	• Generally accepted method for municipal utilities

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Revenue Requirement Revisions Since 11/18

- Water
  - Moved administrative building to final two years of study period
  - Revised debt assumptions to reflect program terms (extended length of loans)
  - Updated average bill
  - Long term borrowing of $39.1M over 5-year rate period; $66.5M over 10-year rate period
- Sewer
  - Revised debt assumptions to reflect loan program (extended length of loans, added interest on borrowed amounts)
  - Long term borrowing of $62.6M over 5-year rate period; $92.1M over 10-year rate period
- Storm
  - Removed 18th street project from CIP
  - Long term borrowing of $1.3M over 5-year rate period

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Summary of the Revenue Requirements

- Annual rate adjustments are necessary to fund water, sewer, and storm utilities
  - Increase of funding for annual renewal, replacement and needed improvements and annual debt service
  - Maintain adequate reserves to support cash flow, emergencies, and credit ratings
  - Maintain adequate financial metrics needed to issue long-term debt

	2024	2025	2026	2027	2028	2029
Water [1]						
Avg Customer Bill [2]	$42.14	$47.64	$53.28	$59.77	$67.35	$72.35
Annual Monthly Change	--	$5.50	$5.64	$6.49	$7.58	$5.00
Sewer						
Avg Customer Bill [2]	$27.98	$32.88	$38.63	$44.62	$51.31	$57.72
Annual Monthly Change	--	$4.90	$5.75	$5.99	$6.69	$6.41
Storm						
Avg Customer Bill [2]	$2.61	$4.31	$4.50	$4.70	$4.91	$5.14
Annual Monthly Change	--	$1.70	$0.19	$0.20	$0.21	$0.23

- Prior to cost of service and rate design
- 1 – Annual monthly change has been reduced over the 5-year study period
- 2 - Billing Charge + 4 CCF water and sewer, 1 ERU stormwater

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Cost of Service

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Cost of Service Overview

What is cost of service?

- Analysis to proportionally distribute the revenue requirement to the customer classes of service of each utility

Why cost of service

- Generally accepted as “fair and equitable”
- Avoids subsidies
- Revenues reflect costs

Objectives of Cost of Service

- Determine if subsidies exist
- Develop average unit costs

Cost of Service Adjustments

- Water
  - Continuation of adjustments as outlined in the prior study to increase tier pricing to reflect cost of providing service
  - Industrial class currently pays **~$1.76** per CCF and the cost to treat a CCF is **~$1.56**
- Sewer
  - Minimal cost differences, across the board adjustment to all customers
- Storm
  - Simplified cost of service on an ERU basis
  - Impacts all customers equally based on number of billed ERUs

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Rate Design

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Rate Design Approach

- Water
  - Recommend cost of service adjustments, increased lower cost tiers (higher use tiers) greater than other tiers
    - Larger impact to industrial customers and lower to residential to reflect cost of service analysis results
  - Maintained current rate structure (fixed and consumption charges)
- Sewer
  - No cost of service adjustments
  - Maintained current rate structure (fixed and volume charges)
- Storm
  - No cost of service adjustments
  - Maintained current rate structure (per ERU basis)

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Rate Design Water Present Rates

	Present Rates	Proposed Rates				
		FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Billing Charge	*$ / Mo*					
	$5.82	$7.00	$8.00	$9.25	$10.50	$11.50
Consumption Charge - Water	*$ / CCF*					
0 - 80	$9.08	$10.16	$11.32	$12.63	$14.21	$15.21
80 - 200	$6.03	$6.74	$7.50	$8.38	$9.43	$10.11
200 - 700	$5.88	$6.57	$7.32	$8.19	$9.19	$9.86
700 - 1,337	$4.22	$4.72	$5.71	$6.74	$7.62	$8.21
1,337 - 8,022	$1.52	$1.85	$2.30	$2.71	$3.30	$3.80
8,022 - 33,423	$1.15	$1.52	$1.95	$2.50	$3.08	$3.69
33,423 - 66,845	$1.06	$1.41	$1.84	$2.38	$2.96	$3.57
66,845 +	$0.84	$1.29	$1.84	$2.38	$2.96	$3.57

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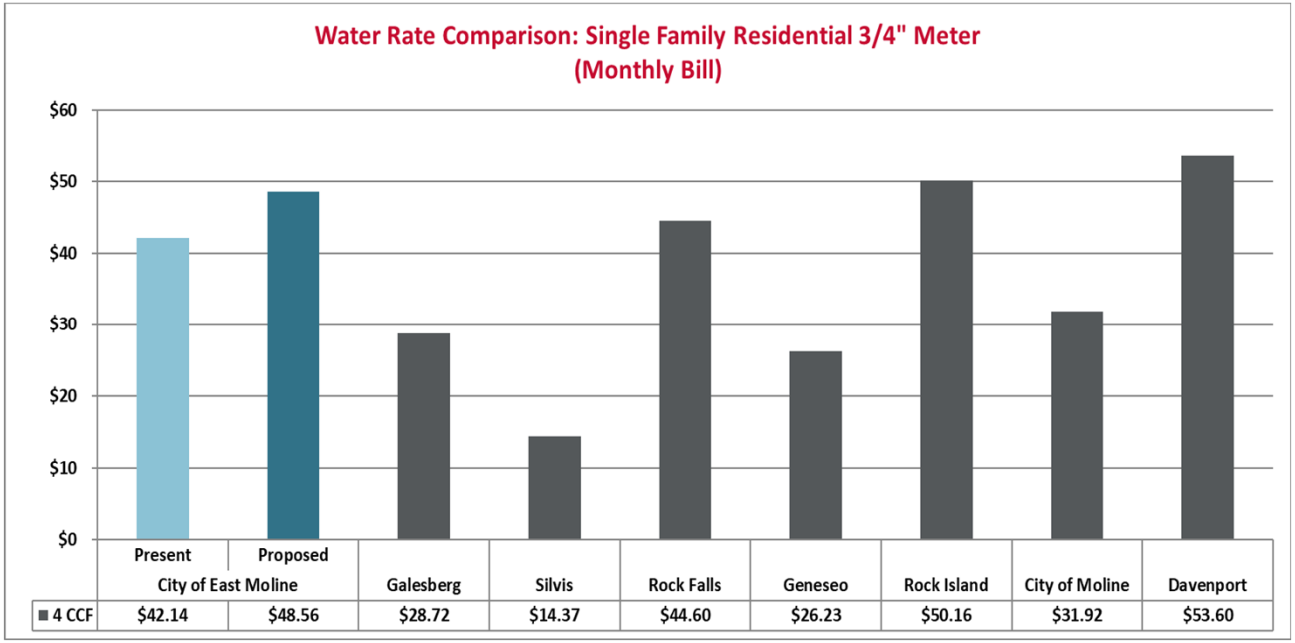
Revenue Requirement Water

	2024	2025	2026	2027	2028	2029
Water						
Avg Customer Bill [1]	$42.14	$47.64	$53.28	$59.77	$67.35	$72.35
Annual Monthly Change	--	$5.50	$5.64	$6.49	$7.58	$5.00



* East Moline rate projections include LSLR

Davenport requested rate increase effective April 2025 of ~38%

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Rate Design Sewer Present Rates

	Present Rates	Proposed Rates				
		FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Residential	**Rate**					
Billing Fee	$3.82	$4.49	$5.28	$6.10	$7.02	$7.90
Sewer Usage	6.04	7.10	8.34	9.63	11.07	12.46
Commercial						
Billing Fee	$3.82	$4.49	$5.28	$6.10	$7.02	$7.90
Sewer Usage	6.04	7.10	8.34	9.63	11.07	12.46
Industrial						
Billing Fee	$3.82	$4.49	$5.28	$6.10	$7.02	$7.90
Sewer Usage	6.04	7.10	8.34	9.63	11.07	12.46
Municipal						
Billing Fee	$3.82	$4.49	$5.28	$6.10	$7.02	$7.90
Sewer Usage	3.59	4.22	4.96	5.73	6.59	7.41

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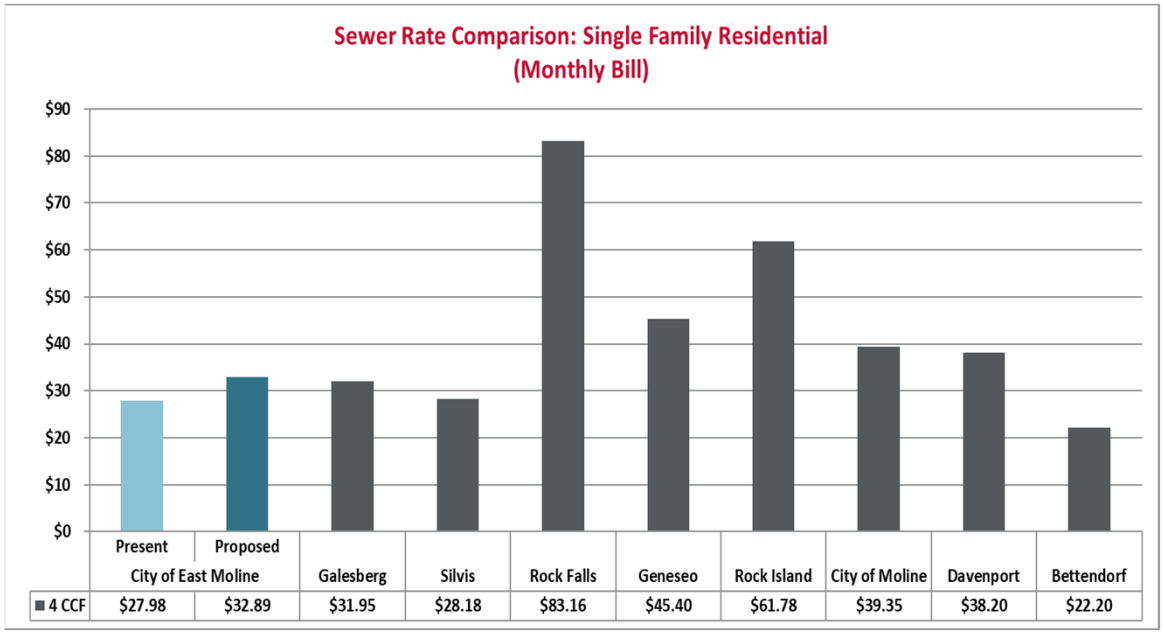
Revenue Requirement Sewer

	2024	2025	2026	2027	2028	2029
Sewer						
Avg Customer Bill [1]	$27.98	$32.88	$38.63	$44.62	$51.31	$57.72
Annual Monthly Change	--	$4.90	$5.75	$5.99	$6.69	$6.41



- Prior to cost of service and rate design

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Rate Design Storm Present Rates

	Present Rates	*Proposed Rates*				
		FY 2025	**FY 2026**	**FY 2027**	**FY 2028**	**FY 2029**
	Rate					
Rate Per Equivalent Unit	$2.61	$4.31	$4.50	$4.70	$4.91	$5.13

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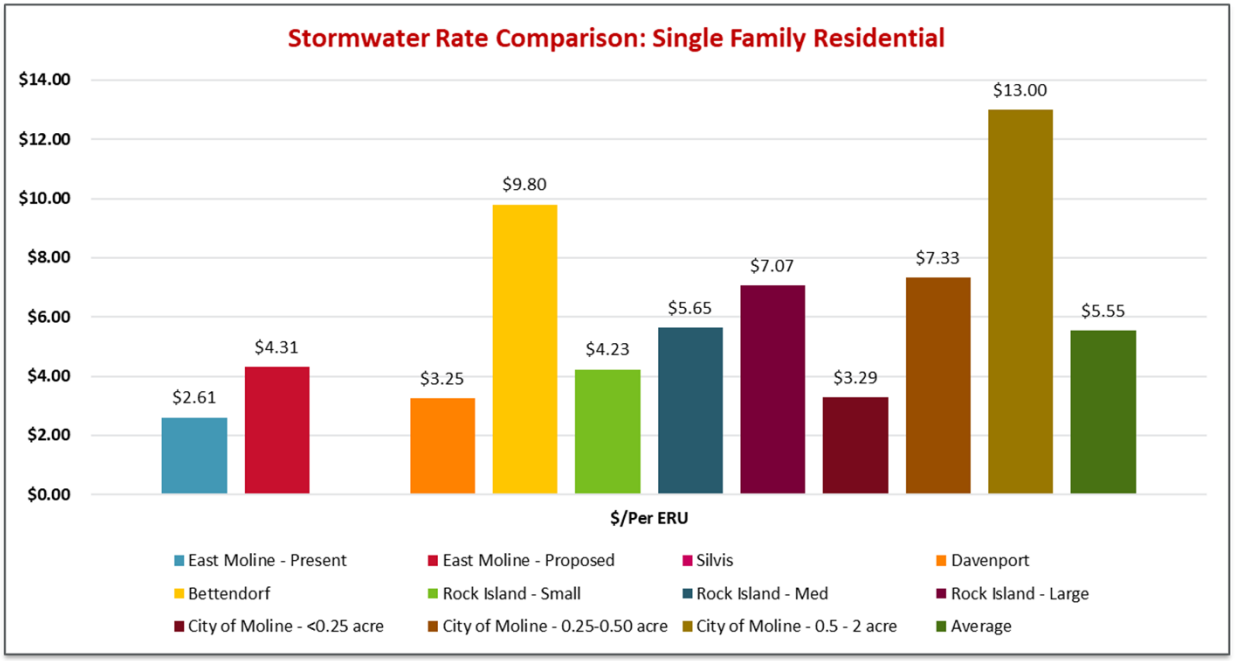
Revenue Requirement Storm

	2024	2025	2026	2027	2028	2029
Storm						
Avg Customer Bill [1]	$2.61	$4.31	$4.50	$4.70	$4.91	$5.14
Annual Monthly Change	--	$1.70	$0.19	$0.20	$0.21	$0.23



- Prior to cost of service and rate design
- 1 - ERU Charge

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Combined Average Bill

	2024	2025	2026	2027	2028	2029
Water, Sewer, and Storm						
Avg Customer Bill [1]	$72.73	$84.83	$96.41	$109.09	$123.57	$135.21
Annual Monthly Change	--	$12.10	$11.58	$12.68	$14.48	$11.64
11/18 Annual Monthly Change		$16.39	$18.26	$18.52	$18.74	$19.54

- 1 - Billing Charge + 4 CCF water and sewer, 1 ERU stormwater

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Next Steps

- Council feedback and input is necessary to move forward with rate adoption process
- 12/16/24 present rate ordinance for adoption

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Council Discussion

- Capital funding approach
- Proposed rate approach and level
- Consideration of a low income program/rate

Thank you for your input!