



## Statement of Vision

*Lafayette's panoramic view of the Rocky Mountains inspires our view into the future. We value our heritage, our unique neighborhoods, a vibrant economy, and active lifestyles. We envision a future that mixes small-town livability with balanced growth and superior city services.*

### NOTICE OF CITY COUNCIL WORKSHOP

This meeting will be conducted in person and by electronic and telephonic means in order to protect the public health and safety according to a Declaration of Local Disaster Emergency issued by the Mayor of the City of Lafayette on March 17, 2020 and City of Lafayette Resolution No. 2020-23, extending the Mayor's declaration until terminated by Council.

### SEE BELOW THE AGENDA FOR ACCESS OPTIONS

**April 24, 2023**

## **A G E N D A**

### **5:30PM CITY COUNCIL WORKSHOP**

- I. Utility Rate Study Update
- II. Adjourn

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### OPTIONS FOR ACCESSING THE MEETING

- Attend the meeting in person. City Hall Council Chambers, 1290 S. Public Road.
- Tune to Comcast Channel 8 or HD Channel 881.
- View the meeting on your computer at <https://www.lafayetteco.gov/627/Streaming-Video>
- Listen to the meeting by calling 877-853-5257 (toll free). Once connected, you will be asked for the meeting number. The meeting number is 869 1163 2580. Press # after entering the number.



## CITY COUNCIL WORKSHOP MEMO

**MEETING DATE:** April 24, 2023  
**AGENDA TITLE:** Utility Rate Study  
**PREPARED BY:** Kady Doelling, Acting City Administrator  
Jeff Arthur, Public Works Director  
Devin Billingsley, Chief Financial Officer  
Jenny Conlon, Public Works Administrative & Financial Manager

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### **Executive Summary**

The City provides water, water reclamation, and stormwater related services to the community through utility enterprises. Each utility enterprise is funded by separate rates and fees assessed to customers. Utility enterprises are not funded by tax revenues or the general fund. It is a best practice to periodically commission a professional study of enterprise revenues and expenditures, including an evaluation of rates and fees.

Raftelis Financial Consultants, Inc. was retained by the City in 2022 to conduct a utility rate and fee study. A workshop on March 27, 2023 focused on projected utility expenses and overall financial management strategies. This workshop will focus on rate and fee adjustments needed to generate sufficient revenue to address anticipated expenses.

### **City Council Strategic Outcome (most applicable): Fiscally Responsible**

#### **Background Information**

In late 2019, the City initiated efforts to better quantify current and projected revenues and expenditures across the water, water reclamation, and stormwater utility enterprises. Particularly in the water utility enterprise, there were apparent significant gaps between projected revenues, accumulated fund balance, and the projected expenditures associated with major projects like the Goose Haven Reservoir Complex Expansion, Northern Integrated Supply Project (NISP), Windy Gap Firming Project, Gross Reservoir expansion, construction of a reuse pipeline from the Water Reclamation Facility to Goose Haven, and water treatment capacity expansion. Annual debt service for NISP alone is projected to be approximately \$5M/year compared to current total billed revenue in the water fund of about \$10M/year. Initial steps were taken to update monthly utility rates and to better align the City's cash-in-lieu of water dedication requirements with the actual cost of securing new water rights.

In 2021, Raftelis Financial Consultants, Inc. was retained to support updates to the rate structure in the water utility enterprise to begin to address the gap between revenues and

expenditures while considering Council strategic priorities of fiscal responsibility; excellent City services and infrastructure; affordable attainable and just, environmental stewardship, and economic prosperity. One key resulting change was modifications of the City's tiered rate structure to protect affordability of essential indoor water use while more equitably recovering higher costs associated outdoor irrigation during peak summer months. A revised water rate structure and updated rates and fees were implemented for 2022.

In 2022, Raftellis was again retained to provide a comprehensive assessment of all three utility enterprises. In addition to further refinement of a multiyear plan to close the revenue gap in the water fund, the scope includes a more detailed analysis of the water reclamation and stormwater funds. A key concern in the water reclamation fund is ensuring that annual rate and fee adjustments remain sufficient to avoid future "rate shock" as the City's purchasing power for the goods and services needed to operate and maintain the system erodes over time. The stormwater fund has a rate and fee structure that differs from typical best practices and the current analysis may result in recommendations for rate structure changes. A long-term capital plan for the stormwater utility is still under development and limits the financial analysis that can be completed at this time.

The March 27, 2023 workshop presented overall financial plans for the water and wastewater utilities. This workshop will focus on monthly rates and fees charged to utility customers and on fees assessed to new customers. Additional information will also be presented to respond to questions raised at the first workshop.

The primary source of revenue for the utility enterprises are the monthly rates and fees charged to customers. Customers pay a combination of a fixed charge based on water meter size and a variable charge based on metered water use. Many of the costs associated with operating a utility do not vary with annual demand (debt service, infrastructure, personnel, utility billing, routine maintenance, etc.). A fixed charge helps reduce revenue variability due to fluctuations in demand such as lower revenue from outdoor irrigation in wet years. Utilities generally do not seek to recover all fixed costs through the fixed fee since this can reduce the cost per 1,000 gallons of metered use to a point that it becomes difficult to incentivize efficient use.

The City bills metered use based on a tiered block rate structure to more equitably allocate costs across customers. Customers with lower use pay a lower rate per 1,000 gallons based on their smaller impact on infrastructure and operating costs. Outdoor use generally results in billing in higher rate tiers which helps offset the significant infrastructure that must be maintained year-round even though it is only fully utilized during peak summer months. Current rates for metered use range from about 1/3 of a penny per gallon in the lowest rate tier (Tier 1) up to a maximum of about 1.2 cents per gallon in the highest tier (Tier 5).

Like most utilities, the City charges fees to new customers that help offset their impact on infrastructure. New customers benefit from treatment facilities, pipelines, storage tanks, and other infrastructure paid for by existing customers. Requiring new customers to "buy-in" to that existing infrastructure (analogous to buying shares of stock) helps distribute capital costs more equitably between existing and new customers. Where new development requires infrastructure or water rights beyond the existing system, fees and dedication

requirements similarly support a more equitable distribution of costs. Utilities are not legally required to recover the full costs of development impacts from new customers, but also cannot use development fees to cover operating costs. If a utility elects not to fully recover development costs through rates and fees, those costs are borne by existing customers through monthly rates and fees. As noted during the financial planning workshop, development fee revenue can significantly vary year to year. Sound financial planning uses conservative short term fee revenue projections and makes adjustments if actual average revenues differ from those projections.

The workshop will provide an opportunity for Council to discuss the allocation of costs across customer classes through monthly rates and fees as well as the extent to which the City desires to fully recover development related infrastructure impacts through development fees. Staff will use Council feedback to develop recommendations to be considered at a future business meeting.

**Next Steps**

Utility rates and fees are established and modified through ordinances and resolutions. Staff will develop recommended changes based on Council feedback for consideration at a future business meeting.

**Attachment(s)**

None.