



City of Annapolis

FY 2025 Enterprise Fund Rate Studies

April 24, 2024

Agenda

1 Water and Sewer Fund

2 Stormwater Fund

3 Refuse Fund



Financial Plan Development

1) Revenue Requirements

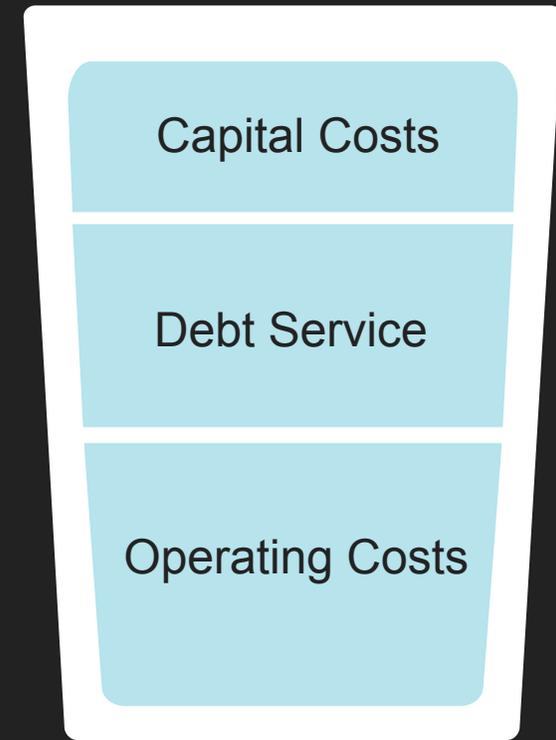
- Expenses based on FY25 proposed budget escalated at line-item level using cost indices and staff input
- Existing debt and capital improvement plan (CIP)

2) Revenue Forecast

- Forecast of system demands and customer counts
- Development of revenue forecast with existing rates and fees

3) Evaluate Key Metrics

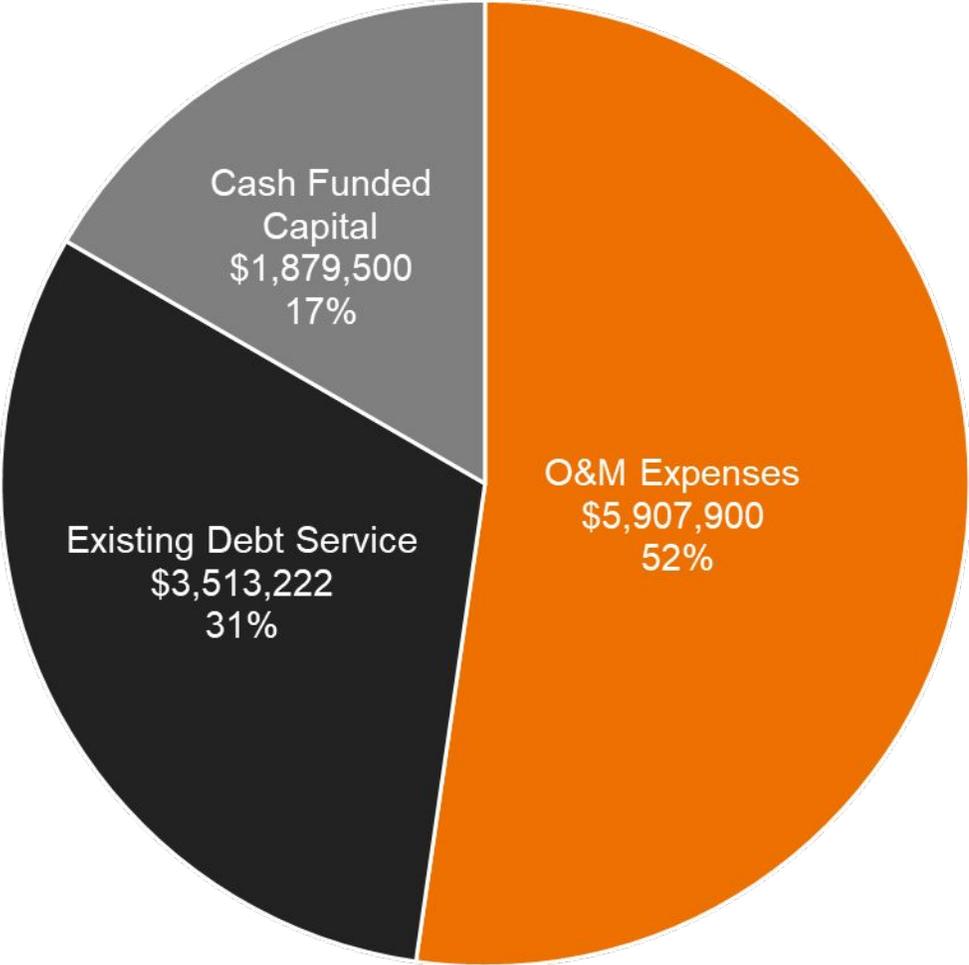
- Establish/maintain minimum reserve balances



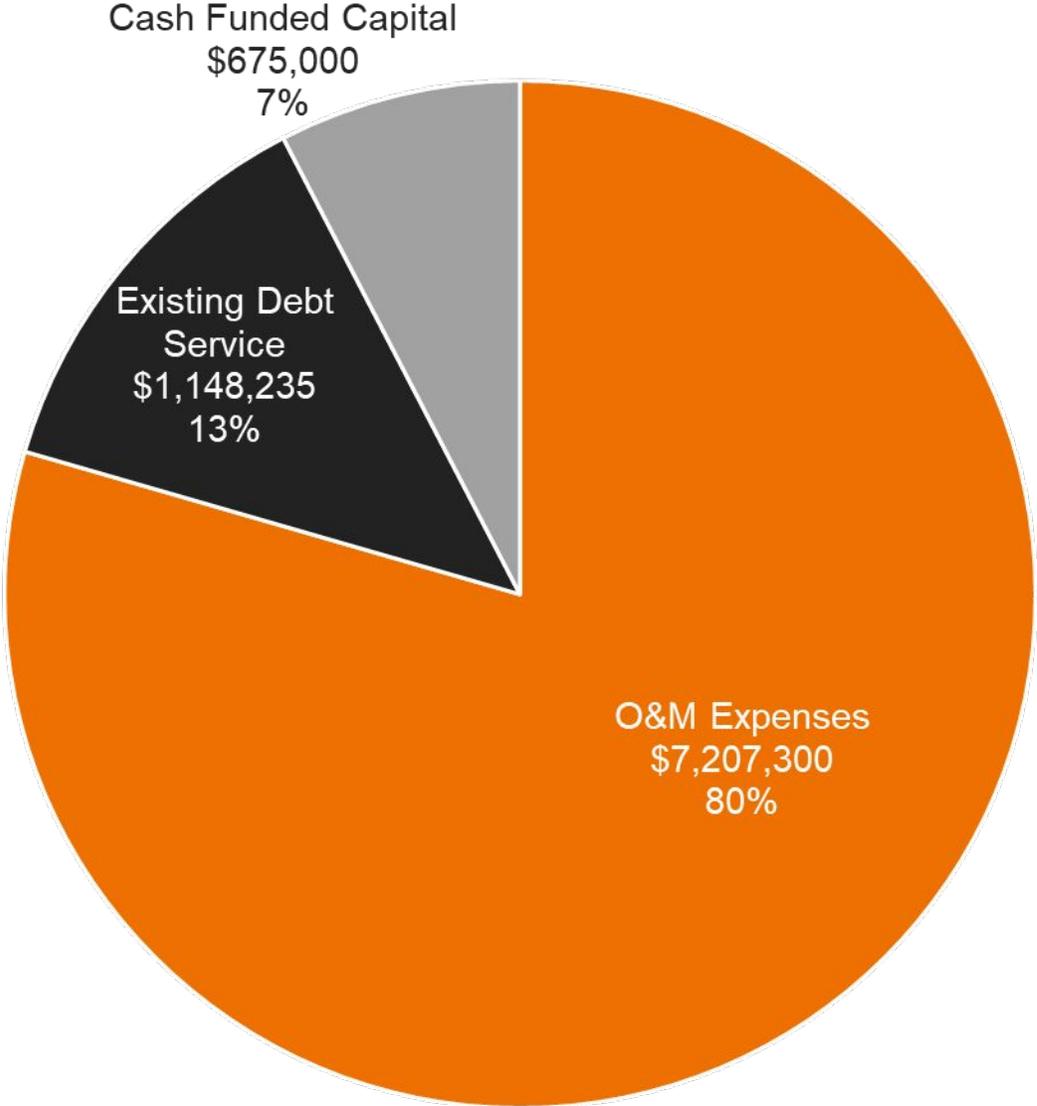
1 Water and Sewer Enterprise Fund



FY25 Water Revenue Requirements



FY25 Sewer Revenue Requirements



Water Revenue Sufficiency

<i>(\$ millions)</i>	FY 25	FY 26	FY 27	FY 28	FY 29	FY 30	FY 31	FY 32	FY 33	FY 34
Total Operating Expenses	\$5.91	\$6.04	\$6.24	\$6.44	\$6.65	\$6.87	\$7.09	\$7.32	\$7.56	\$7.80
Capital Expenses										
Cash Funded Capital	\$1.88	\$1.47	\$1.49	\$1.47	\$1.47	\$1.47	\$1.47	\$1.47	\$1.47	\$1.47
Existing Debt Service	\$3.51	\$3.50	\$3.50	\$3.50	\$3.50	\$3.47	\$3.46	\$3.55	\$3.55	\$3.51
Projected Debt Service	\$0.56	\$0.81	\$1.04	\$1.27	\$1.50	\$1.72	\$1.95	\$2.18	\$2.41	\$2.63
Total Capital Expenses	\$5.95	\$5.77	\$6.03	\$6.24	\$6.47	\$6.66	\$6.88	\$7.20	\$7.42	\$7.61
Total Water Expenses	\$11.86	\$11.82	\$12.27	\$12.68	\$13.12	\$13.53	\$13.97	\$14.52	\$14.98	\$15.41
Current Water Revenues*	\$8.87	\$8.90	\$8.92	\$8.94	\$8.78	\$8.78	\$8.78	\$8.78	\$8.78	\$8.78

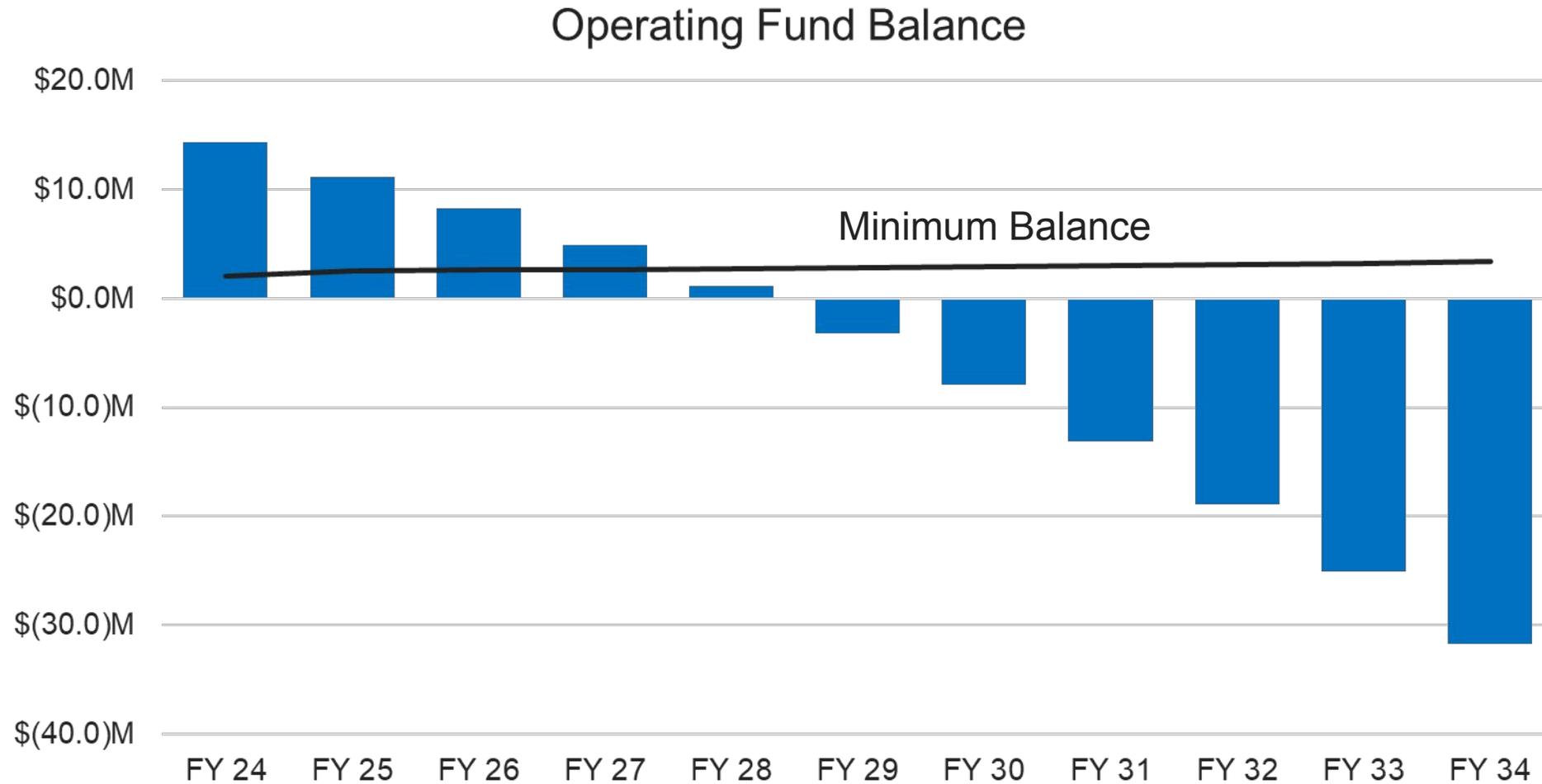
**Revenues at current rates with no increases*

Sewer Revenue Sufficiency

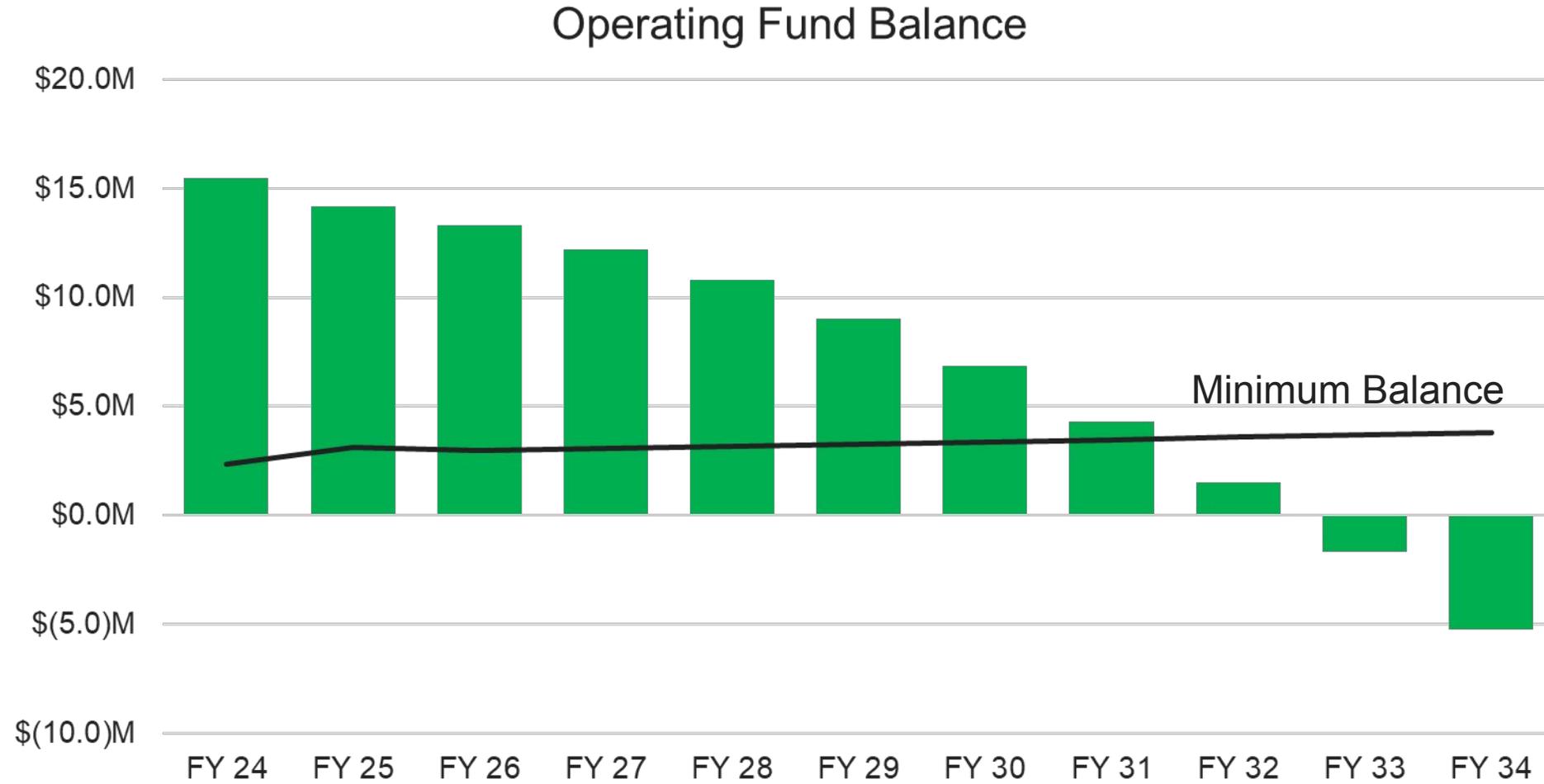
<i>(\$ millions)</i>	FY 25	FY 26	FY 27	FY 28	FY 29	FY 30	FY 31	FY 32	FY 33	FY 34
Total Operating Expenses	\$7.21	\$6.94	\$7.16	\$7.38	\$7.61	\$7.84	\$8.09	\$8.34	\$8.60	\$8.87
Capital Expenses										
Cash Funded Capital	\$0.68	\$0.68	\$0.68	\$0.68	\$0.68	\$0.68	\$0.68	\$0.68	\$0.68	\$0.68
Existing Debt Service	\$1.15	\$1.15	\$1.14	\$1.08	\$1.08	\$1.12	\$1.11	\$1.05	\$1.05	\$1.07
Projected Debt Service	\$0.16	\$0.27	\$0.37	\$0.48	\$0.58	\$0.69	\$0.79	\$0.89	\$1.00	\$1.10
Total Capital Expenses	\$1.99	\$2.09	\$2.18	\$2.23	\$2.34	\$2.48	\$2.57	\$2.62	\$2.73	\$2.85
Total Sewer Expenses	\$9.19	\$9.04	\$9.34	\$9.61	\$9.95	\$10.32	\$10.66	\$10.96	\$11.32	\$11.72
Current Sewer Revenues*	\$8.16	\$8.19	\$8.21	\$8.23	\$8.14	\$8.14	\$8.14	\$8.14	\$8.14	\$8.14

**Revenues at current rates with no increases*

Water Fund Forecast - No Rate Increases



Sewer Fund Forecast - No Rate Increases



Financial Plan Recommendation

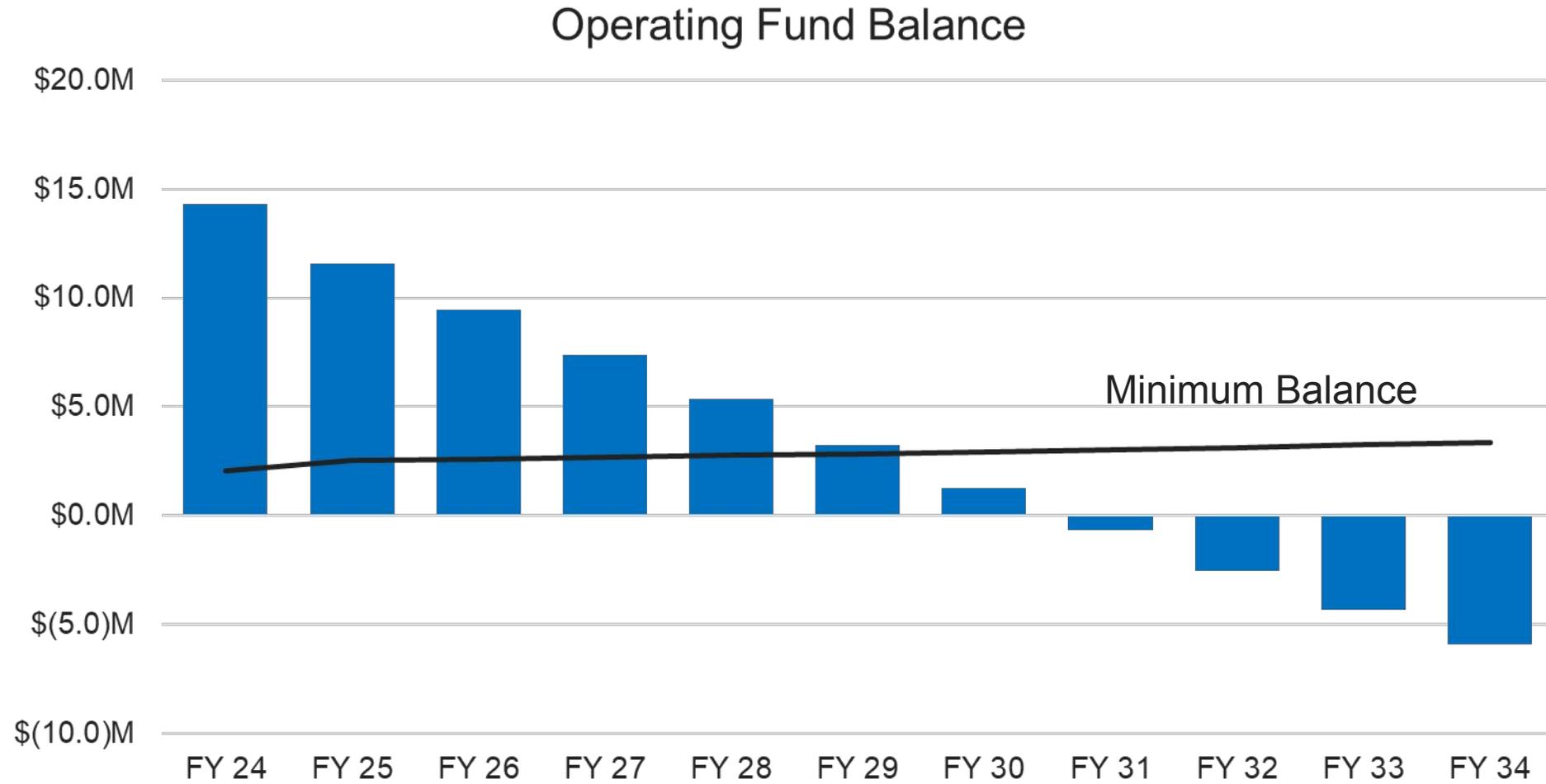
Rate Adjustments	FY 25	FY 26	FY 27	FY 28
Water	4.75%	4.75%	4.75%	4.75%
Sewer	3.00%	3.00%	3.00%	3.00%

Financial plan will allow for:

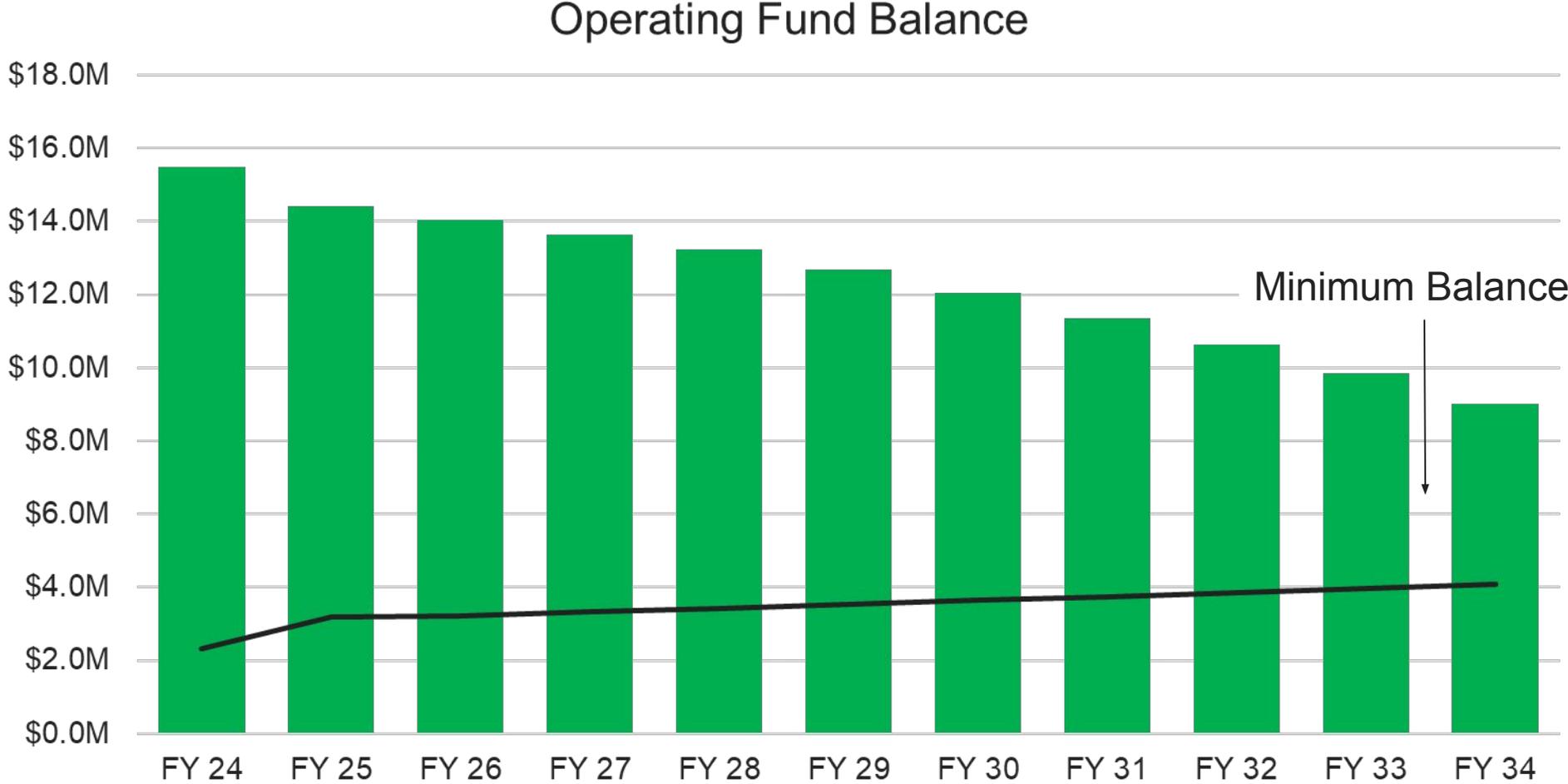
- Funding of water and sewer system operating expenses, existing debt requirements, and future capital investments

Future increases will likely be necessary beyond FY 28

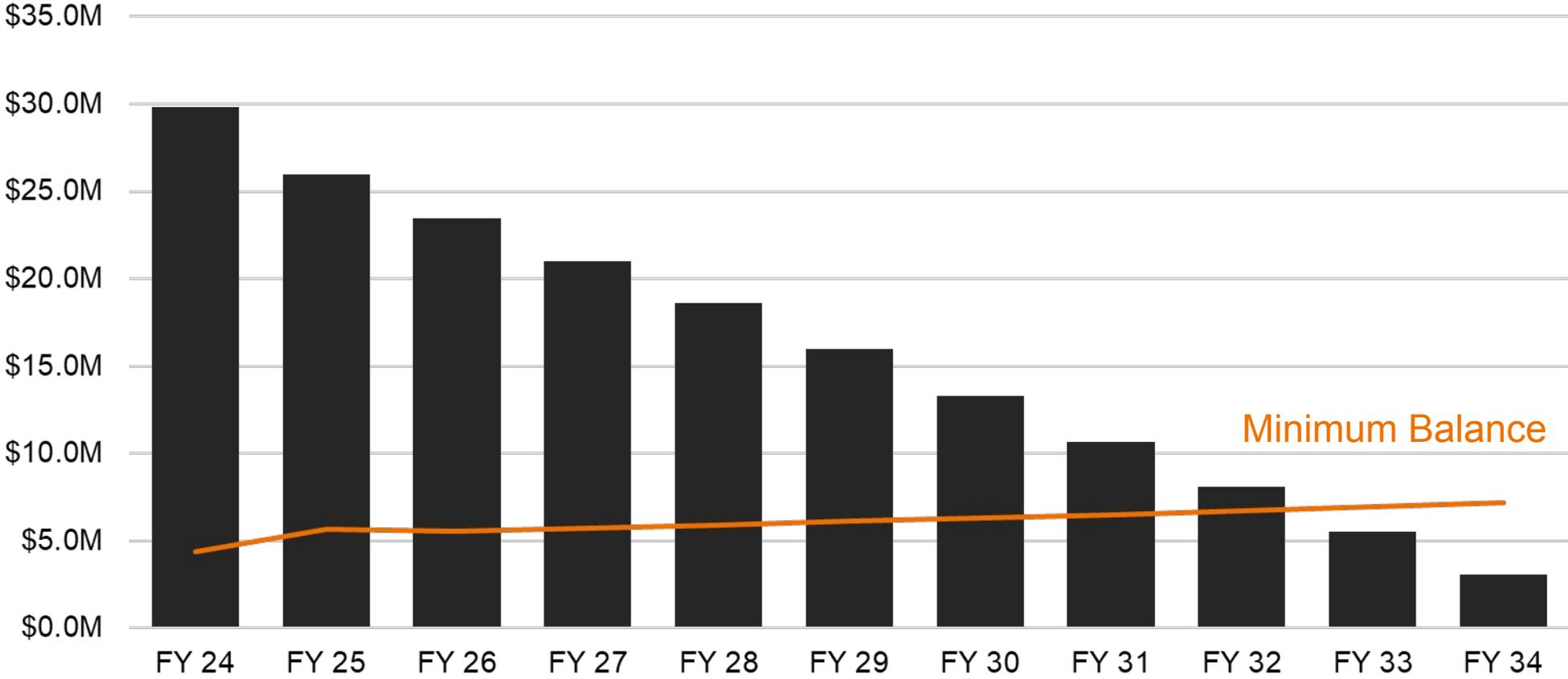
Water Fund Forecast - With Rate Increases



Sewer Fund Forecast - With Rate Increases



Combined Fund Forecast - With Rate Increases

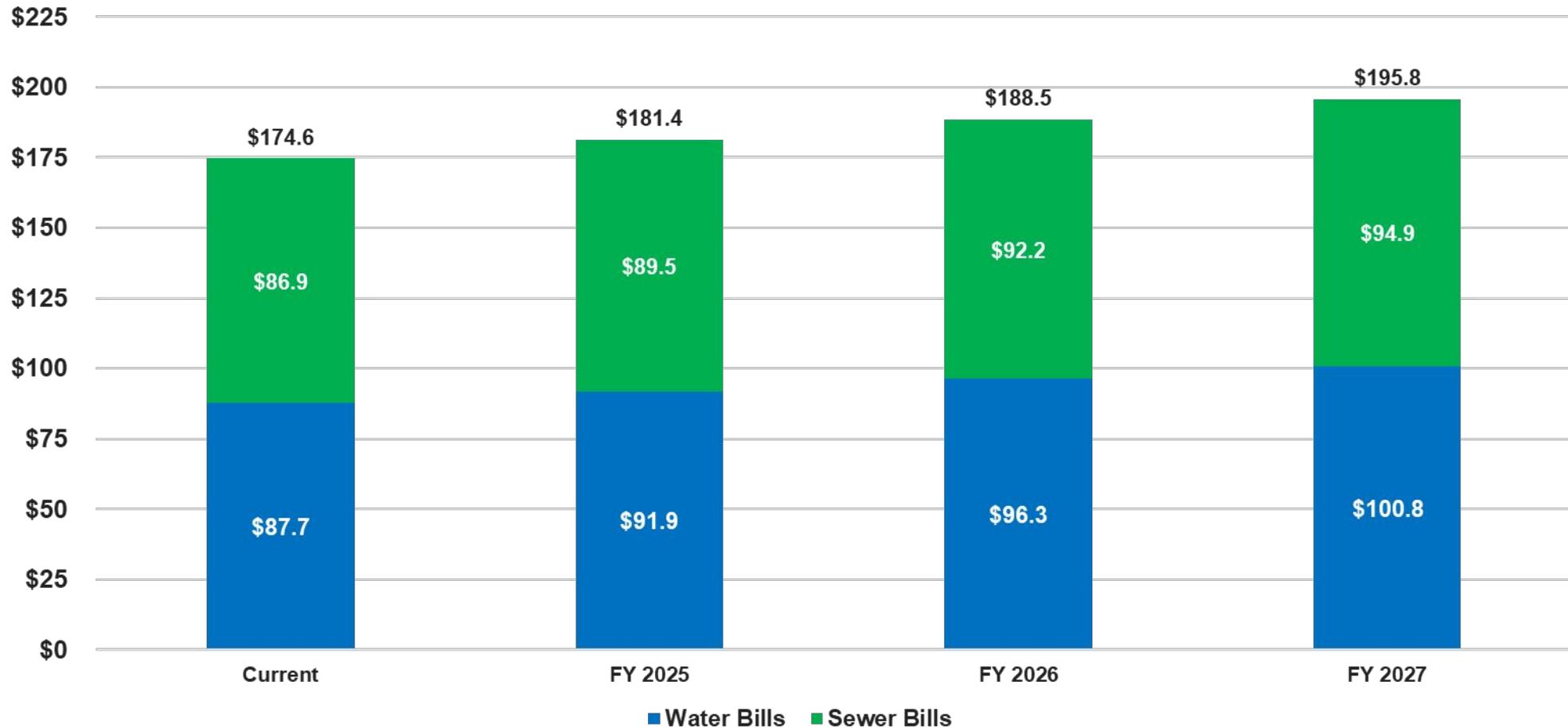


Recommended FY25 Water and Sewer Rates

Meter Size	Water Fixed Charge	Sewer Fixed Charge
1" or Less	\$14.43	\$14.26
1 ½"	\$72.17	\$71.30
2"	\$115.47	\$114.07
3"	\$230.94	\$228.13
4"	\$360.84	\$356.46
6"	\$721.69	\$712.92

Type	Usage Charge (per 1,000 gallons)
Residential	
Tier 1: 0 - 7,000 gallons	\$4.55
Tier 2: 7,000 - 20,000 gallons	\$9.12
Tier 3: Over 20,000 gallons	\$13.66
Non-Residential Water	\$6.78
Sewer Usage Rates	\$6.27

Average Residential Customer (12 Kgal) Quarterly Bill Projection



\$6.80 per quarter increase in average customer bill in FY25

Water and Sewer Bill Comparison

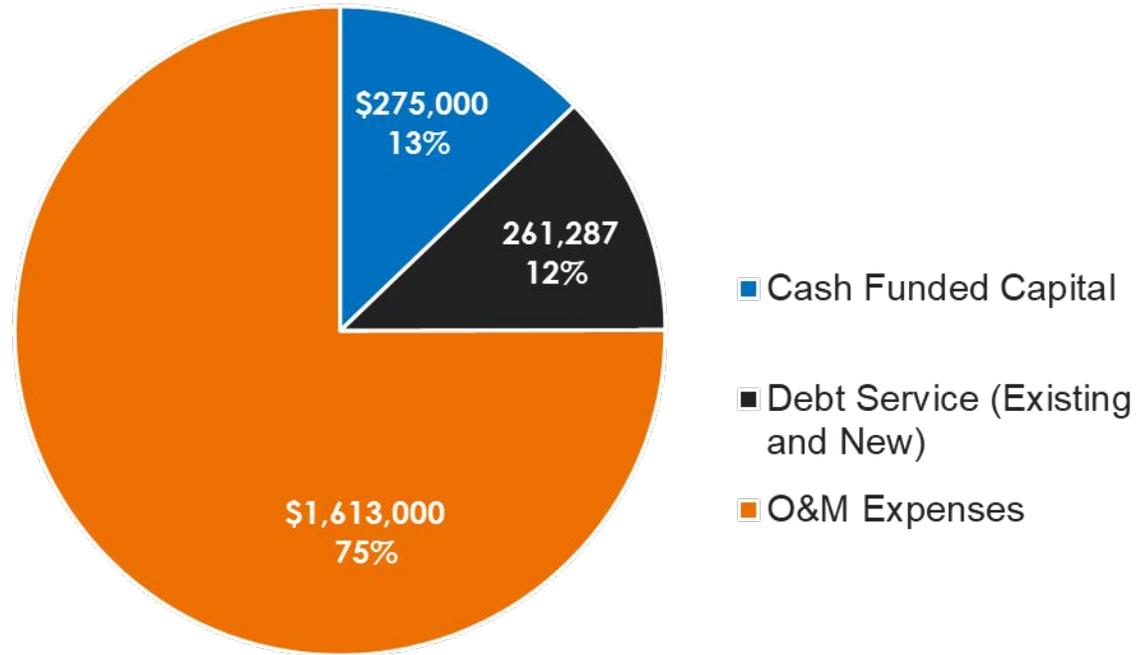
Single Family Residential Quarterly Bill (12,000 gallons)



2 Stormwater Enterprise Fund



FY25 Stormwater Revenue Requirements



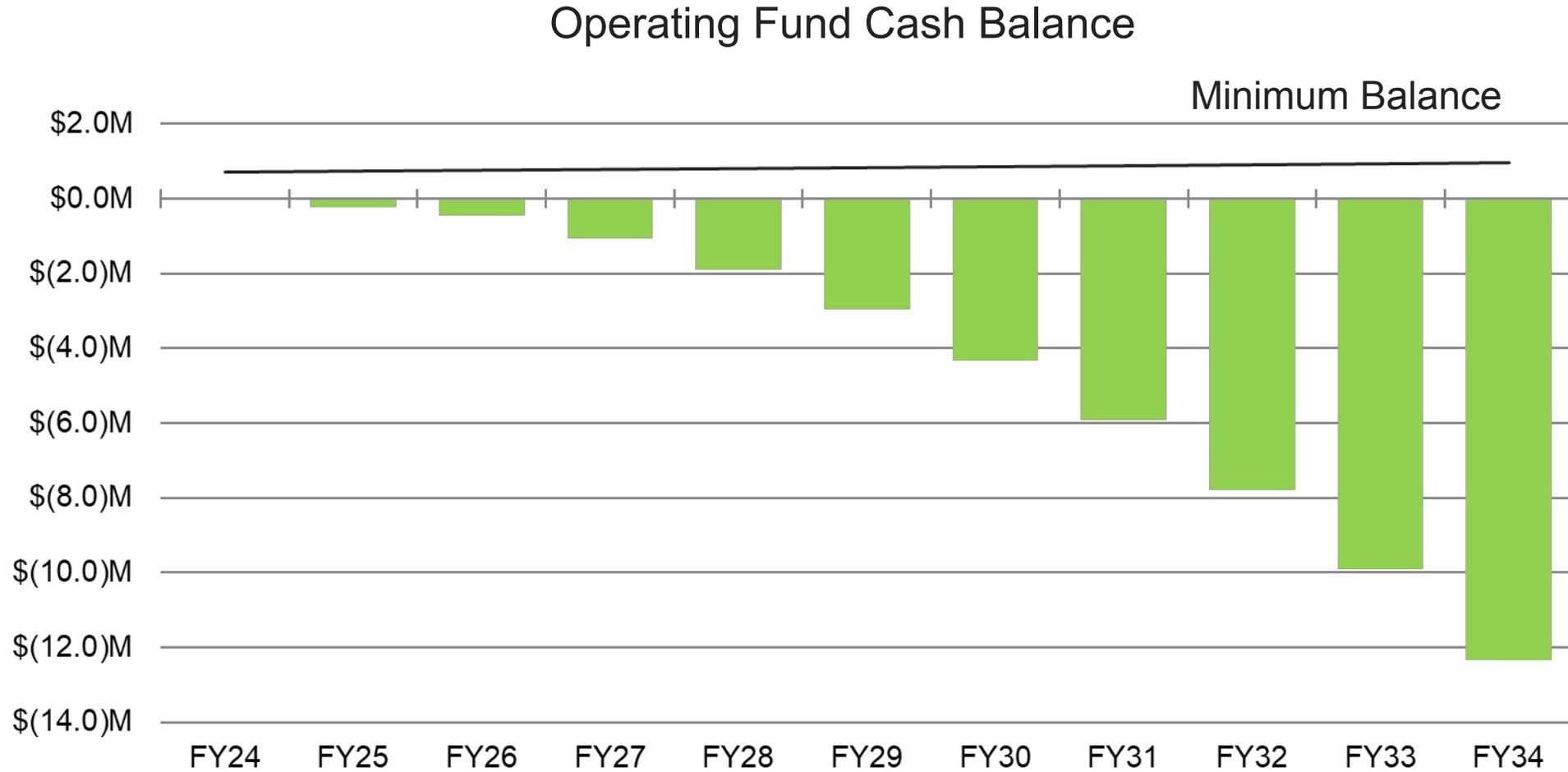
- CIP spending has increased over the past couple years utilizing existing reserves
- Future CIP will be funded primarily with borrowing
- O&M Expenses increased 4% over FY24 Budget

Stormwater Revenue Sufficiency

(\$ Million)	FY 25	FY 26	FY 27	FY 28	FY 29	FY 30	FY 31	FY 32	FY 33	FY 34
Total Operating Expenses	\$1.61	\$1.66	\$1.71	\$1.77	\$1.82	\$1.88	\$1.94	\$2.00	\$2.06	\$2.13
Cash Funded Capital	\$0.28	\$0.17	\$0.35	\$0.38	\$0.41	\$0.45	\$0.46	\$0.47	\$0.49	\$0.50
Existing and Future Debt Service	\$0.26	\$0.37	\$0.50	\$0.66	\$0.83	\$0.99	\$1.18	\$1.38	\$1.57	\$1.78
Total Capital Expenses	\$0.54	\$0.54	\$0.86	\$1.04	\$1.24	\$1.44	\$1.64	\$1.85	\$2.06	\$2.28
Total Stormwater Expenses	\$2.15	\$2.20	\$2.57	\$2.81	\$3.06	\$3.32	\$3.58	\$3.85	\$4.13	\$4.41
Revenues from Existing Stormwater Fees*	\$1.96	\$1.96	\$1.97	\$1.97	\$1.98	\$1.98	\$1.98	\$1.99	\$1.99	\$2.00

**Assumes no increases in stormwater fees*

Stormwater Fund Forecast - No Increases



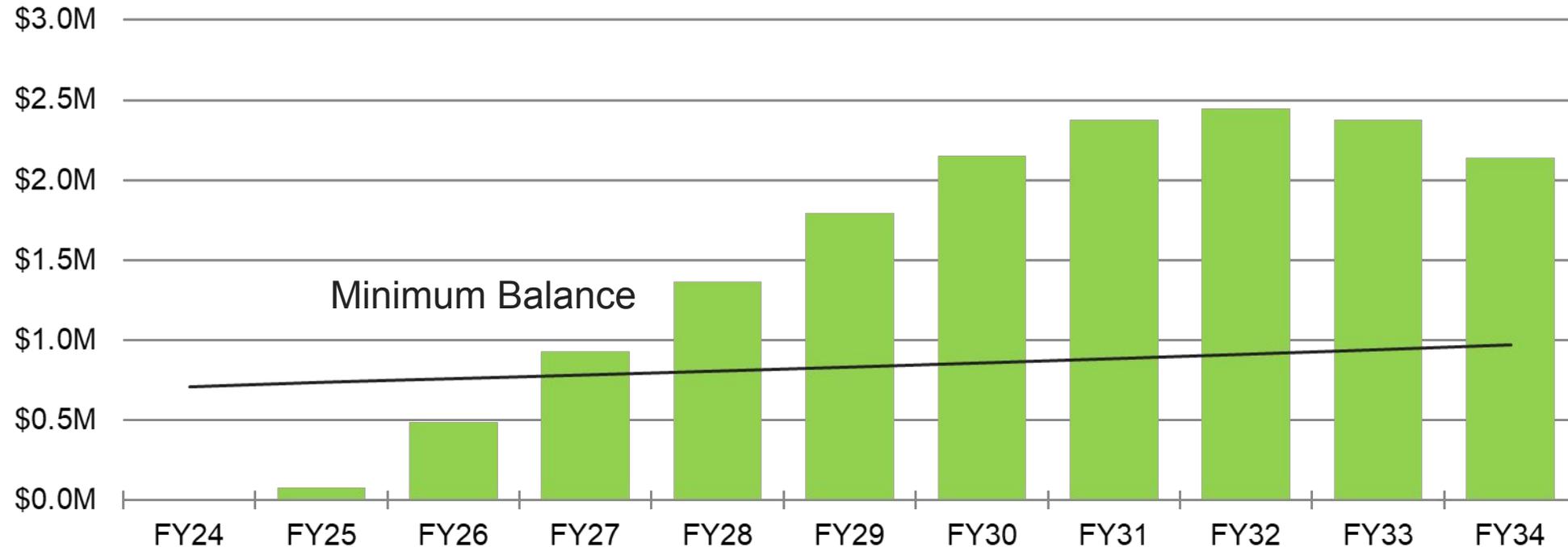
Financial Plan Considerations

- The City will need to continue to escalate stormwater fees to meet capital needs and restore cash balance.
- Magnitude of adjustments
 - 1) Capital funding plan(cash and bond)
 - 2) Capital execution schedule
- 15% increases in stormwater fees are necessary to meet funding needs of stormwater system and restore balances

	FY 25	FY 26	FY 27	FY 28
Stormwater Fee Increase	15.0%	15.0%	15.0%	7.0%

Stormwater Fund Forecast - with Increases

Operating Fund Cash Balance



**Assumes annual increases in stormwater fees, 15% FY 25 – FY 27, 7% in FY 28, 7% in FY 29, followed by 3% through FY 34*

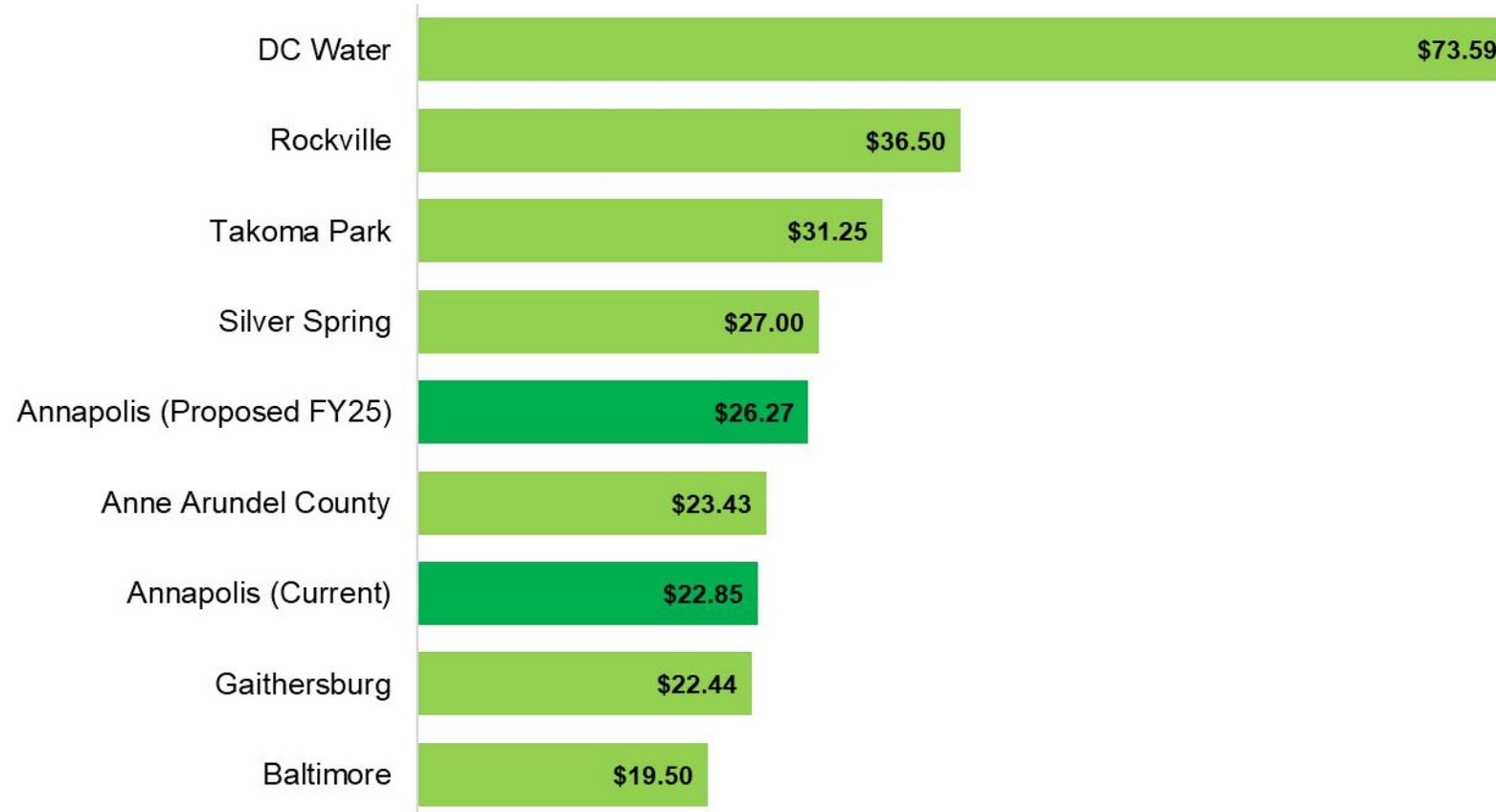
FY 24 Stormwater Fee Recommendation

Quarterly Stormwater Fees

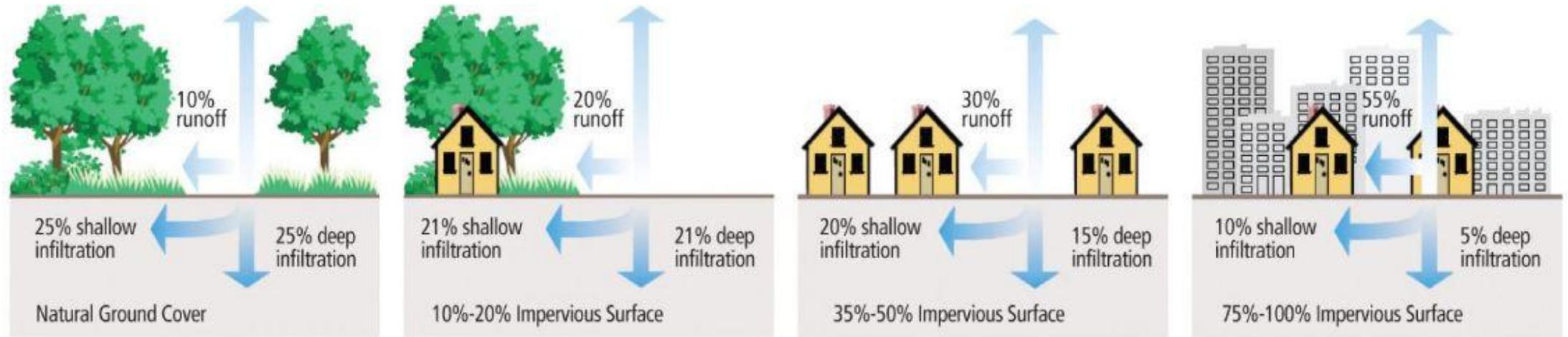
Residential	Current	FY 25
Single Family	\$22.85	\$26.27
Multi-Family (per unit)	\$11.42	\$13.13
Non-Residential (Impervious Area)	Current	FY 25
Tier 1: 0 - 5,000 sq. ft.	\$22.85	\$26.27
Tier 2: 5,001 - 10,000 sq. ft.	\$113.00	\$129.95
Tier 3: 10,001 - 80,000 sq. ft.	\$477.25	\$548.84
Over 80,000 sq. ft	\$1,476.24	\$1,697.68

Stormwater Fee Comparison

Quarterly Stormwater Bill Comparison - Single Family Residential



Design of Stormwater Fees



Source: Lowimpactdevelopment.org

Increasing Impervious Surface = Increasing Runoff Generated

Stormwater fees typically based on impervious area as it reflects potential use of and contribution to the system

Current Stormwater Fee Structure

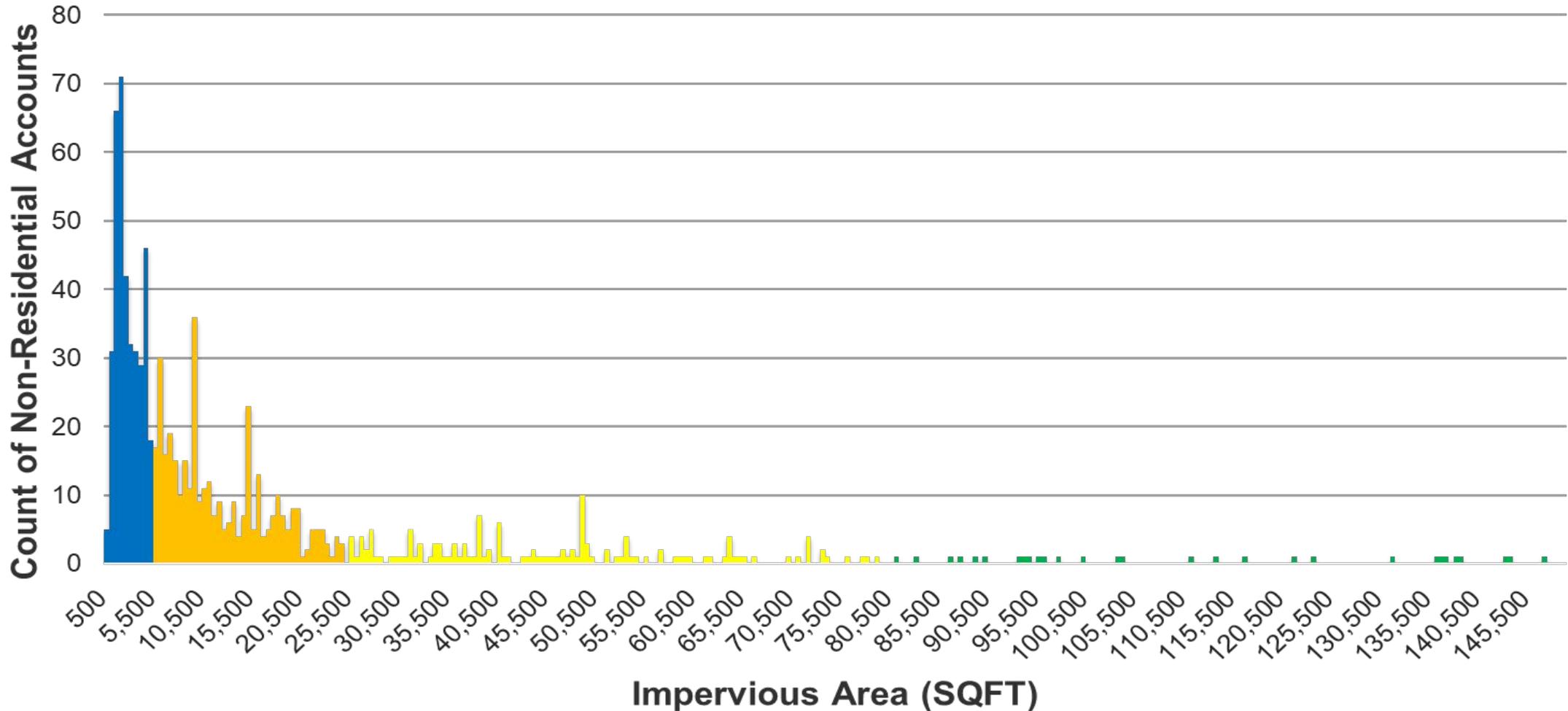
Residential	Median Impervious Area (sq. ft)	ERUs
Single Family	2,100	1.0
Multi-Family	1,050	0.5

City's approach to charging for residential is common, limited variations in impervious and provides administrative simplicity

Non-Residential (Impervious Area)	Median Impervious Area (sq. ft)	ERUs
Tier 1: 0 - 5,000 sq. ft.	2,100	1.0
Tier 2: 5,001 - 25,000 sq. ft.	10,500	5.0
Tier 3: 25,001 - 80,000 sq. ft.	44,100	21.0
Over 80,000 sq. ft	136,500	65.0

City's approach to charging for non-residential is less common. There are significant variations with non-residential impervious area.

Distribution of Non-Residential Impervious Area



Alternative Stormwater Fee Structure

- Consider transition from tiers for non-residential properties to actual measured impervious area as multiples of ERUs

Example Property (Impervious 21,000 sq. ft.)	Number of ERUs	Stormwater Charge
Current Approach	Tier 2 (5 ERUs)	\$113.00
Alternative Approach	$21,000 / 2,100 = 10$ ERUs	\$228.40

- Approach would address wide range of impervious area within non-residential category
- As result of change in approach some non-residential properties would experience decreases and some would experience increases

Billing Units

Property Classification	Current Billable Units	Alternative Structure ERUs
Residential	10,068	10,068
Multi-Family Residential	3,206	3,206
Non-Residential	7,340	8,438
Total	20,614	21,712

- Non-residential structure change results in an increase in the number of billable units within the non-residential class
- Structure would generate approximately \$100k more revenue with current stormwater fees

Recommendations for FY 2026

- Recommend the City implement the alternative stormwater charge structure for FY 2026.
- The alternative stormwater structure will have a wide range of impacts on non-residential properties.
- It would be prudent for the City to conduct public outreach prior to implementation for those properties with largest impacts.
- The City will need to update the customer billing file to allow for implementation.

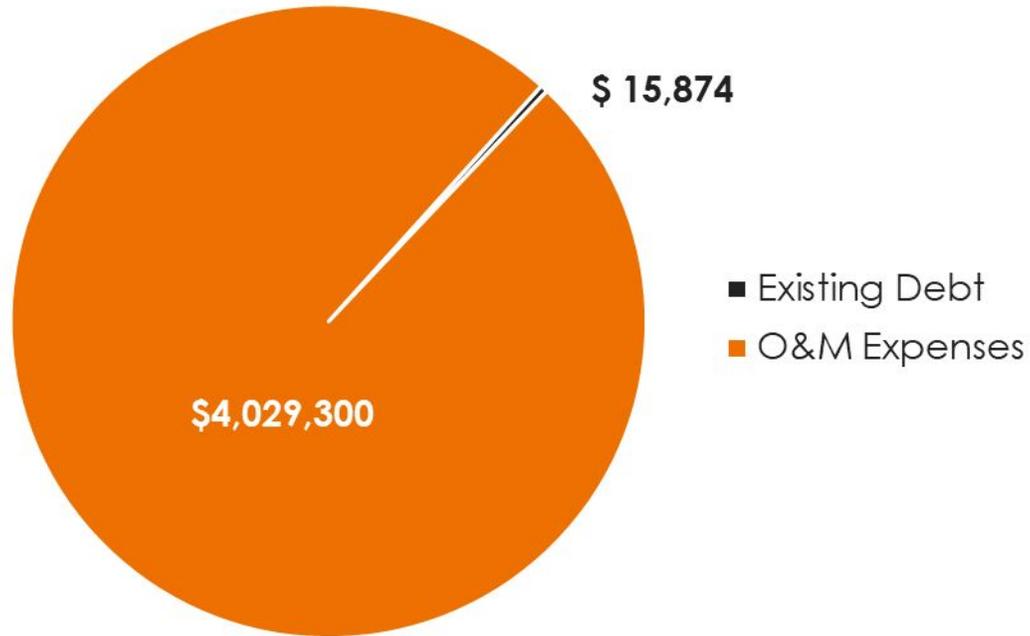


3 Refuse
Enterprise
Fund

Refuse Background

- City contracts out majority of the services provided within the refuse program
- As result majority of Refuse Fund expenditures are outside the control of the City
- Contracts have escalators based on fuel and with recent inflation contract costs have increased substantially

FY24 Refuse Revenue Requirements



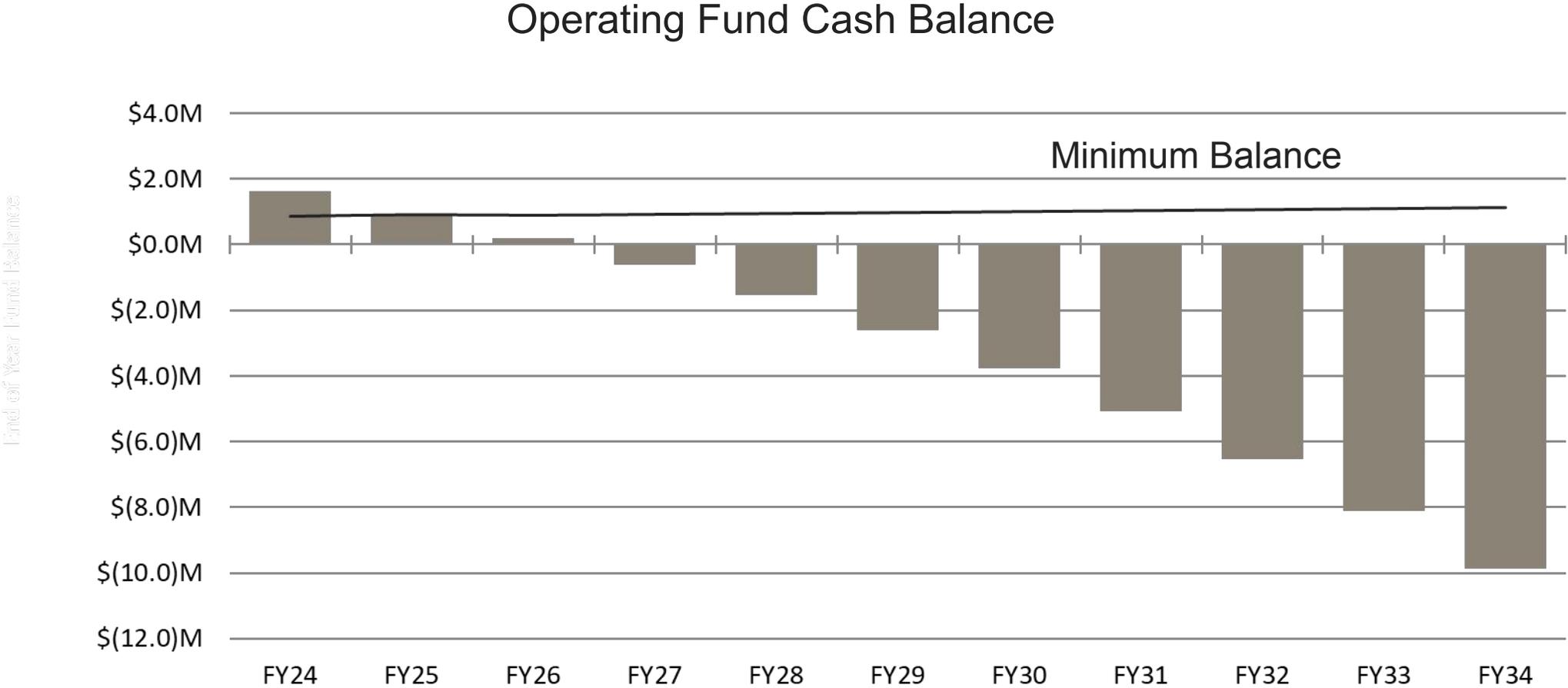
- 81% of O&M Expense are related to contracted services
- O&M Expenses have increased 20% over the past 3 years (FY22 Actual – FY25 Budget)

Refuse Revenue Sufficiency

(\$ Million)	FY 25	FY 26	FY 27	FY 28	FY 29	FY 30	FY 31	FY 32	FY 33	FY 34
Operating Expenses	\$4.03	\$3.97	\$4.09	\$4.22	\$4.35	\$4.48	\$4.62	\$4.76	\$4.91	\$5.06
Existing Debt Service	\$0.02	\$0.02	\$0.02	\$0.02	\$0.02	-	-	-	-	-
Total Refuse Expenses	\$4.05	\$3.99	\$4.11	\$4.24	\$4.37	\$4.48	\$4.62	\$4.76	\$4.91	\$5.06
Revenues from Existing Refuse Fees	\$3.29	\$3.30	\$3.31							

**Assumes no increases in refuse fees*

Refuse Fund Balance - No Increases

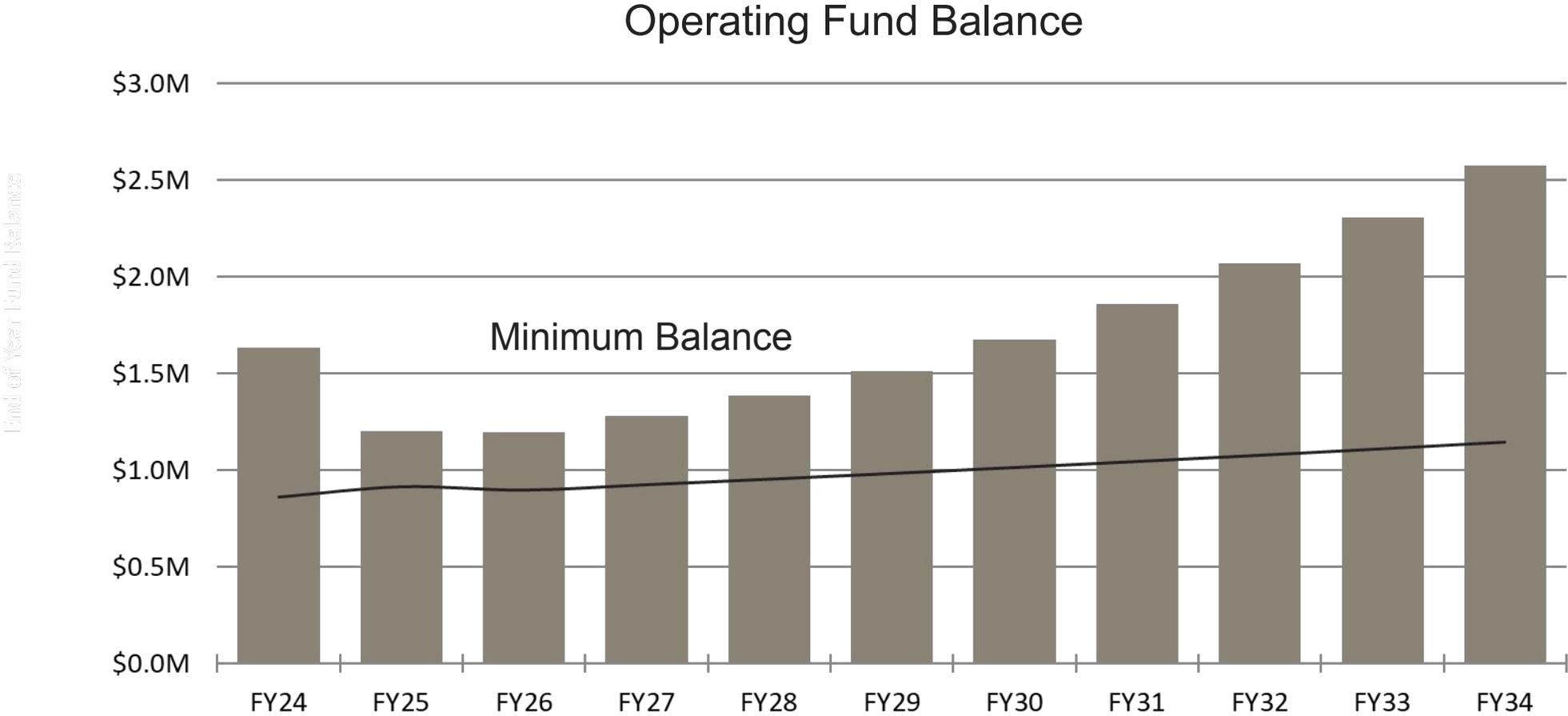


Financial Plan Considerations

- Refuse program expenditures currently exceed the program revenues
- Program expenditures are anticipated to continue to escalate
- To ensure sustainability within the refuse program annual fee adjustments will be necessary

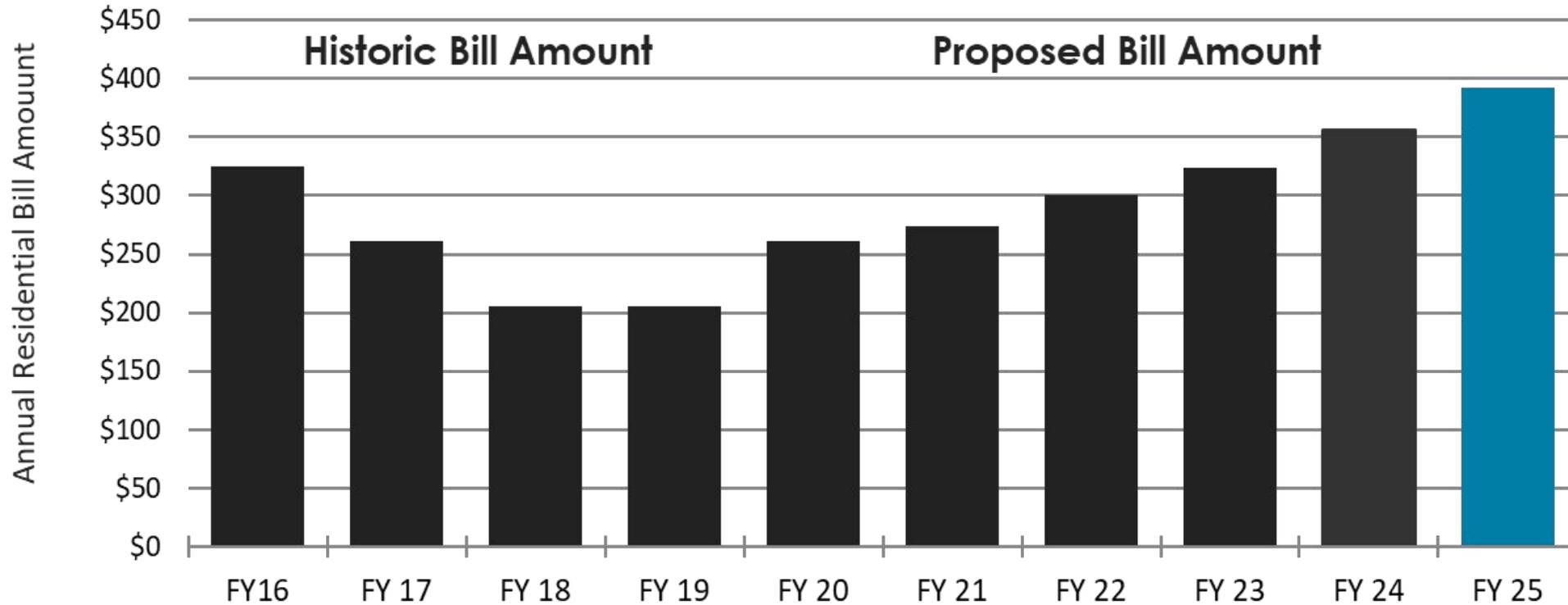
	FY 25	FY 26	FY 27	FY 28
Refuse Fee Increase	<i>10.0%</i>	10.0%	5.0%	3.5%

Refuse Fund Balance - with Increases



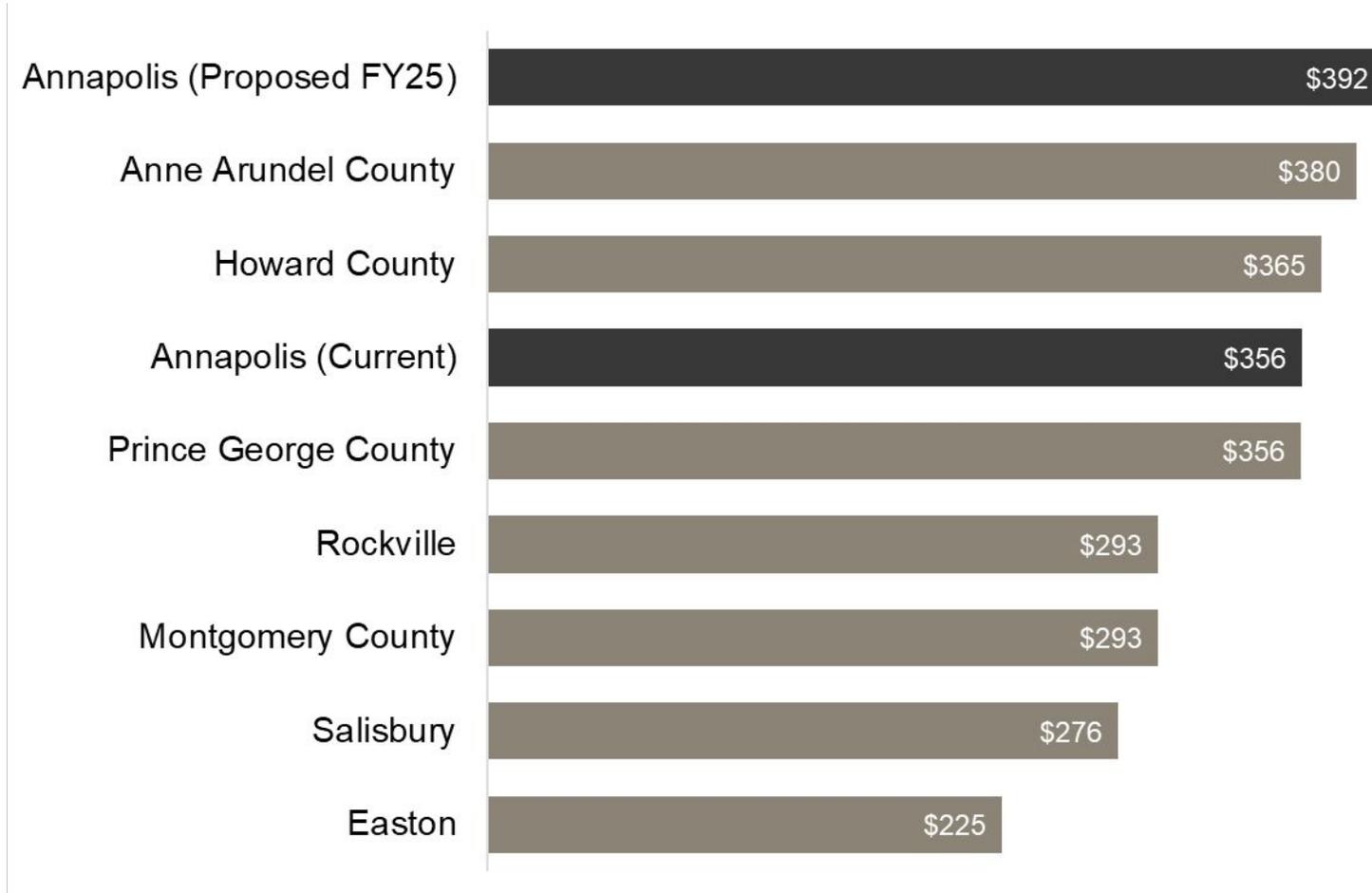
**Assumes annual increases in refuse fees of 3.50% annually after FY27*

Historical and Recommended FY 25 Refuse Fee



Refuse Fee Comparison

Annual Refuse Fee Comparison - Single Family Residential





Questions / Discussion