

Town of Gilbert, AZ

Wastewater and Environmental Compliance Rate Study



Table of Contents

Section 1 - Introduction	1
1.1. Introduction	1
1.2. Goals and Objectives	1
1.3. Overview of the Rate Study Process	1
1.4. Organization of this Report	2
1.5. Reliance on Data	3
1.6. Acknowledgements	3
Section 2 - Overview of Utility Rate-Making Principles, Processes and Issues	4
2.1. Introduction	4
2.2. Discussion of General Rate-Making Principles	5
2.3. The Revenue Sufficiency Process	6
2.3.1 Determination of the Revenue Requirements	6
Considerations in Setting Revenue Requirements	6
Capital Budgeting and Financing	6
Utility Operations.....	7
Financial Planning	7
2.4. The Cost Allocation Process	7
2.5. The Rate Design Process	8
2.6. Financial Management Goals of the Town	8
Section 3 - Rate Study Development and Results	10
3.1. Revenue Sufficiency Analysis	10
3.2. Rate Design Analysis	17
3.3. Proposed Rates	18
3.4. Summary of the Rate Study	20
Section 4 - Conclusions and Recommendations	21
4.1. Conclusions	21
4.2. Recommendations	21

Section 1 - Introduction

1.1. Introduction

Willdan Financial Services and Pat Walker Consulting LLC (“Willdan Team”) were retained by the Town of Gilbert, Arizona (“Town”) to conduct a Wastewater and Environmental Compliance Rate Study (“Rate Study”) for the Town’s wastewater and environmental compliance utilities (“Utilites”). This report details the results of the Rate Study analysis for the forecast period, Fiscal Year (FY) 2022-23 through FY 2026-27.

The results of the Rate Study presented herein include financial plans and rate structures designed to provide revenues sufficient to fund the ongoing operating and Council approved capital costs necessary to operate the Town’s wastewater and environmental compliance utilities, while meeting the financial requirements and goals set forth by the Town for the wastewater and environmental compliance enterprise funds.

1.2. Goals and Objectives

The primary goal of the Rate Study was to develop cost- based rates that will allow the Town to meet its ongoing costs (operations & maintenance and capital), and to maintain industry standard financially prudent cash reserves for the utilities. More specifically the Rate Study was undertaken to:

- Conduct the analysis in accordance with industry standards consistent with Water Environment Federation (“WEF”);
- Develop financial plans and rates consistent with industry standards and best practices while recognizing the needs specific to the Town; and
- Recommend rates that will meet the Town’s revenue requirements based on Town specific wastewater; and environmental compliance utilities’ operating and capital costs and reserve requirements.

1.3. Overview of the Rate Study Process

The Rate Study process consisted of two primary study components. First, a determination of the adequacy of system revenues to meet system expenses during the study forecast period was made. The result of this analysis, known as the Revenue Sufficiency Analysis or financial plan, is an assessment of the ability of the existing wastewater and environmental compliance rate revenue streams to meet the

projected financial requirements of the systems during the forecast period. This analysis also identifies, to the extent required, the magnitude and timing of any required rate adjustments.

Second, specific rates and charges were developed which, when implemented, would provide sufficient revenue, as identified in the Revenue Sufficiency Analysis, to recover costs in a manner consistent with general rate-making practices. This step is known as the Rate Design Analysis.

1.4. Organization of this Report

This Rate Study presents an overview of the rate-making concepts utilized in the development of the analysis outlined in this report. The analysis is followed by a discussion of the data, assumptions and results associated with each component of the analysis. Finally, appendices with detailed schedules are presented for further investigation into the data, assumptions and calculations which drive the results presented in this Rate Study. The report is organized as follows:

- Section 1 - Introduction
- Section 2 – Overview of Utility Rate-Making Principles, Processes, and Issues
- Section 3 – Rate Study Development and Results
- Section 4 – Conclusions and Recommendations
- Appendix A – Wastewater Financial Plan – Recommended
- Appendix B – Environmental Compliance Financial Plan – Recommended
- Appendix C – Wastewater Rates – Recommended

1.5. Reliance on Data

During the course of this project the Town (and/or its representatives) provided the Willdan Team with a variety of technical information, including cost and revenue data. The Willdan Team did not independently assess or test for the accuracy of such data – historic or projected. The Willdan Team has relied on this data in the formulation of its findings and subsequent recommendations, as well as in the preparation of this report. As is often the case, there will be differences between actual and projected data, and these differences may be significant. Therefore, the Willdan Team does not take responsibility for the accuracy of data or projections provided by or prepared on behalf of the Town, nor does the Willdan Team have responsibility for updating this report for events occurring after the date of this report.

1.6. Acknowledgements

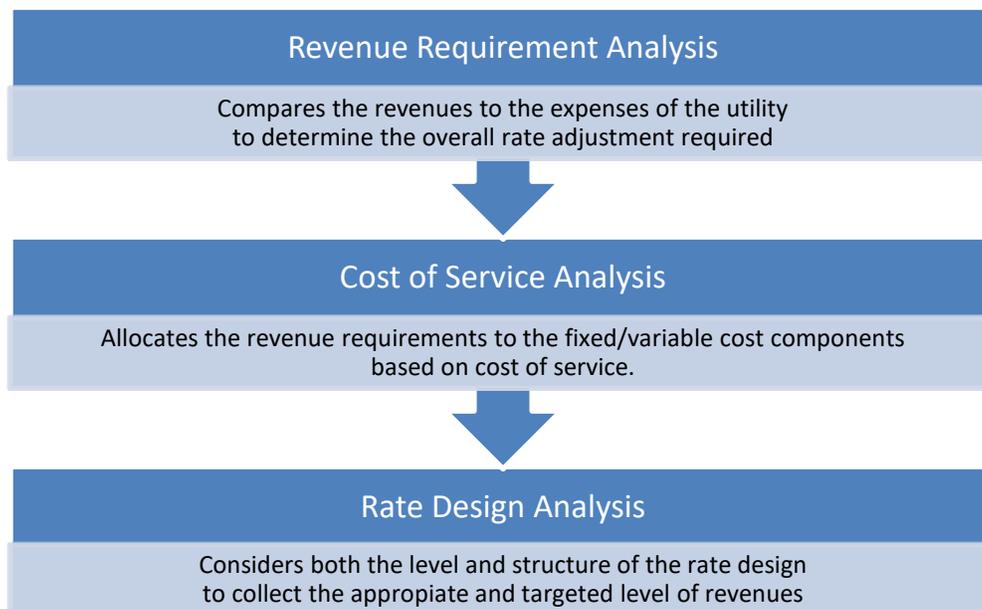
We wish to extend our appreciation to the Town and its staff for their cooperation during the progress of this study. In particular, we would like to thank Mr. Eric Braun, Assistant Public Works Director, for his guidance and assistance throughout this project.

Section 2 - Overview of Utility Rate-Making Principles, Processes and Issues

2.1. Introduction

The scope of this study included the development of cost-based wastewater, and environmental compliance user charges (based on the most recent prior cost-of-service analysis). Utility rates must be set at a level where operating and capital expenses are met with the revenues received from customers. This is a significant point, as failure to achieve this level could lead to insufficient funds being available to adequately maintain the system. A comprehensive rate study typically consists of following three interrelated analyses:

- I. *Financial Planning/Revenue Requirement Analysis*: Create a five-year plan to support an orderly, efficient program of on-going maintenance and operating costs, capital improvement and replacement activities, debt financing, and retirement of any outstanding debt. In addition, the long-term plan should fund and maintain reserve balances to adequate levels based on industry standards and the Town of Gilbert’s fiscal policies.
- II. *Cost of Service Analysis*: Identifies and apportions annual revenue requirements to functional cost components based on the demand placed on the system.
- III. *Rate Design*: Develops an equitable and proportionate fixed and/or variable schedule of rates for the Town’s customer base. The policy objectives are harmonized with cost-of-service objectives to achieve the delicate balance between customer equity, financial stability and resource conservation goals.



The wastewater portion of the Rate Study utilized generally accepted rate-making principles established by the Water Environment Federation (WEF) in its “Financing & Charges for Wastewater Systems, Manual of Practice No. 27” manual. The principles used resulted in the development of rates and charges which are projected to: 1) generate sufficient revenue to meet the financial requirements of the wastewater utility, and 2) address the need to recover costs from users in a manner which is proportionate to the cost of providing service on a fair and equitable basis relative to the service provided, and which does not exceed the cost of providing the service. A discussion of some of the key principles of rate-making, and how the processes employed herein are guided by those principles, is presented below.

2.2. Discussion of General Rate-Making Principles

While individual rates for a utility vary based on a variety of factors, the development of rates should, for the most part, be consistent with general rate-making principles set forth in utility rate-making practice and literature. The principles by which rate practitioners are guided is that rates designed for any utility should strike a reasonable balance between several key factors. In general, rates designed should:

- Generate a stable rate revenue stream which, when combined with other sources of funds, is sufficient to meet the financial requirements and goals of the utility;
- Be fair and equitable – that is, they should generate revenue from customer classes which is reasonably in proportion to the cost to provide service to that customer class;
- Be easy to understand by customers; and
- Be easy to administer by the utility.

Striking the appropriate balance between the principles of rate-making is the result of a detailed process of evaluation of revenue requirements and cost of service, and how those translate into the rate design alternatives which meet legal requirements and the specific objectives of the utility under the circumstances in which the utility operates.

2.3. The Revenue Sufficiency Process

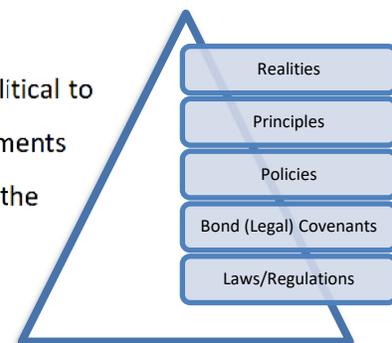
In order to develop rates and charges which will generate sufficient revenue to meet the fiscal requirements of the wastewater and environmental compliance utilities, a determination of the annual rate revenue required must be completed. The first step in the process is the Revenue Sufficiency Analysis. The Revenue Sufficiency Analysis compares the forecasted revenues of the utility under its existing rates to its forecasted operations and maintenance, capital, and reserve costs to determine the adequacy of the existing rates to recover the utility’s costs.

The process employed in the Revenue Sufficiency Analysis involves a review of operating, maintenance and capital budgets for the utility, and results in the identification of revenue requirements of the system, such as operating expenses, capital expenses (minor and major), transfers in and out, and the maintenance of both restricted and unrestricted reserves at appropriate levels. These revenue requirements are then compared to the total sources of funds available during each year of the forecast period to determine the adequacy of projected revenues to meet projected revenue requirements. To the extent that the existing revenue stream is projected to be insufficient to meet the annual revenue requirements of the system during the projection period, a series of rate revenue increases are calculated which would be required to provide revenue sufficient to meet those needs.

2.3.1 Determination of the Revenue Requirements

Considerations in Setting Revenue Requirements

There are a multitude of considerations, ranging from financial to political to legal that must be analyzed or discussed during the revenue requirements process of a rate analysis. This section provides an overview of the considerations that are reviewed during this process.



Capital Budgeting and Financing

Included capital projects are defined by the Town’s identified capital improvement needs. As part of its budget and planning process, the Town identifies capital improvements that are necessary for the continued collection and disposal of wastewater and adherence to local, state and federal environmental regulations.

Utility Operations

The Town's financial plans have been developed on a "cash basis". Under the "cash basis" approach, revenues and expenses are recognized at the time physical cash is received or paid out. Revenue requirements are determined for a specified period of time (in the case of the Town an annual fiscal year), by summing the total anticipated expenses to be paid out during the fiscal year. Where cash flows and balances are insufficient, the revenue requirements analysis recommends the needed additional cash flows to meet all funding goals. The two primary categories of expenses are as follows:

- Operations and Maintenance (O&M) expenses, such as salaries and benefits of utility personnel, transfers out and reserves; and
- Capital expenses, such as the annual capital improvement program.

Financial Planning

In the development of the revenue requirements, certain parameters are utilized to project future expenditures, growth in customers and consumption, and necessary revenue adjustments. The Town provided the Willdan Team with a five-year financial plan which identified anticipated expenditures and the corresponding revenue needed to meet the annual expenses and maintenance of adequate reserves.

2.4. The Cost Allocation Process

In order to provide guidance to the Town as to how to appropriately recover the rate revenue requirements identified in the Revenue Sufficiency Analysis, a Cost-of-Service Analysis is undertaken. A new cost-of-service analysis was not undertaken for the current study, rather the allocation of costs by customer class relied on the prior comprehensive rate study which included a cost-of-service analysis.

The process employed in the cost-of-service analysis results in the identification of the cost to provide service to customers. Cost allocations are then used as the basis for the assignment of revenue requirements to customer classes, upon which the development of rates and charges is based.

The general approach to the development of cost-of-service allocations is to: 1) identify the costs by functional cost category, 2) allocate the functionalized costs further to cost categories and then 3) allocate rate revenue requirements to customer classes based on the distribution of costs and customer characteristics.

The resulting allocations provide guidance to the rate practitioner which, combined with the other goals and objectives of the utility, provides the necessary information required to proceed to the development of utility rates and charges.

2.5. The Rate Design Process

With the rate revenue requirement determined in the Revenue Sufficiency Analysis, the development of specific rates and charges can be undertaken. Once the rate revenue requirement has been identified, the manner in which those requirements should be recovered, and the billing units to be used to recover the required revenue determined, specific rates and charges can then be developed.

Utilities consider a variety of factors in establishing rates, including cost allocation, customer impact and ease of administration. The rate design process seeks to find the balance between the need to recover sufficient revenue in a fair and equitable manner and the need to do so within the constraints of other objectives which are unique to each utility. By understanding the types of customers served by the utility, and the general usage characteristics of those customers, a system of rates and charges can be developed that balances those many objectives while also generating sufficient revenue.

First, the rate design goals of the utility are reviewed to identify areas the utility wishes to address over the course of the Rate Study. Next, an assessment of the existing rate design is undertaken to identify what has worked well for the utility with regard to their specific goals and objectives, and the general goals and objectives of utility rate-making. This assessment typically also identifies areas for improvement which can provide guidance to the rate practitioner with respect to the design of future rates and charges.

After a review of the existing rates and charges, a dialog of how to build on the positive aspects of the existing structure and how to address deficiencies in the existing structure occurs with utility management and staff.

With an evaluation of the strengths and weaknesses of the existing rate structure and the goals of the utility going forward, the development of a new rate structure can begin.

2.6. Financial Management Goals of the Town

The establishment of specific financial management goals of a utility is a key step in developing financial plans which will ensure the financial health of the utility remains strong. The financial management goals of the Town are described below.

2.6.1 Minimum Unrestricted Working Capital Balance

In order to maintain a certain level of liquidity, the Town has developed a goal of maintaining unrestricted working capital reserves as summarized in Table 2-1 below.

Table 2-1 Target Cash Reserves Fiscal Year Ending June 30 (\$ thousands)					
Description	2022-23	2023-24	2024-25	2025-26	2026-27
Wastewater	\$8,330	\$8,550	\$8,700	\$8,760	\$8,860
Environmental Compliance	500	560	580	590	600

Section 3 - Rate Study Development and Results

3.1. Revenue Sufficiency Analysis

3.1.1 General Methodology

The general methodology utilized in the Revenue Sufficiency Analysis was discussed previously in Section 2.3. In summary, however, the level of revenues generated by rates must be sufficient to recover the fiscal requirements, or projected expenditures of the utility. To the extent that the projected revenue stream based upon current wastewater and environmental compliance rates are not sufficient to meet the annual revenue requirements of the systems, a series of revenue increases were calculated to provide the revenue necessary to meet those expenditure needs, while satisfying the financial goals and objectives of the utilities. From a financial perspective, the Town's utilities must "stand on their own" by meeting its respective financial obligations without assistance from other Town funds. The financial plan was developed by the Town for the five-year period fiscal year (FY) 2022-23 through FY 2026-27. The Town maintains its own financial models which projects customer growth, revenues, expenses and target fund balances for the 5-year study period. The Willdan Team relied on the Town's projections for determining net revenues needed.

3.1.2 Data Items

Key data items reviewed, discussed and incorporated into the Revenue Sufficiency Analysis were:

- Financial management goals of the Town;
- FY 2022-23 beginning fund balance;
- FY 2022-23 through FY 2026-27 budgets; and
- Capital improvement program expenses by year FY 2022-23 through FY 2026-27.

General assumptions utilized in the analysis include the following:

- Customer growth; and
- Cost escalation factors.

A discussion of the use of each of the above data items and general assumptions is presented below.

3.1.3 FY 2022-23 Beginning Fund Balance

The Willdan Team relied upon the Town’s financial models to estimate the beginning of year cash balance for the start of the study period (FY 2022-23). A summary of the fund balances for the wastewater and environmental compliance utilities, for the beginning of FY 2022-23, as adjusted and subsequently used in this analysis, is presented in Table 3-2 below.

Table 3-2 Estimated Beginning Fund Balance Fiscal Year Beginning July 1, 2022		
Description	Wastewater	Environmental Compliance
Cash Balance (less committed)	\$26,690,000	\$1,583,000

3.1.4 FY 2022-23 through FY 2026-27 Budgets

Staff provided the Willdan Team with the FY 2021-22 through FY 2026-27 budgets as the basis for the projection of financial needs throughout the study period.

A summary of the FY 2022-23 operating budgets for wastewater and environmental compliance, as well as subsequent projected budgetary expenses through FY 2026-27 is presented in Table 3-3.

A more detailed presentation of the budgeted revenues and expenses are presented Appendices A through D.

Table 3-3 Operating Budget Fiscal Years Ending June 30 (\$ thousands)					
Description	2022-23	2023-24	2024-25	2025-26	2026-27
Wastewater					
O&M	\$23,082	\$19,727	\$20,017	\$20,242	\$21,243
Environmental Compliance					
O&M	\$2,448	\$2,744	\$2,314	\$2,354	\$2,394
Note: Values are rounded to the nearest \$1,000					

3.1.5 Capital Improvements Plan (CIP)

The Town provided the Willdan Team with a forecast of capital requirements for the five-year study period. The capital expenditures identified by the Town are required to maintain service to customers by making investments in the utility systems to repair or replace aging system components as they wear out over time.

Wastewater

The repair and replacement component of the capital program at the current level of \$14.4 million a year.

Environmental Compliance

The recommended capital program maintains the repair and replacement component of the capital program at the current level of \$2.5 million a year.

A summary table of the CIP for the FY 2022-23 through FY 2026-27 study period is presented below in Table 3-4. The CIP is presented in Schedules A-3 and B-3 of the Appendices.

Table 3-4						
Capital Improvement Plan						
Fiscal Years Ending June 30 (\$ thousands)						
	2022-23	2023-24	2024-25	2025-26	2026-27	Total
Capital Costs – WW	\$29,968	\$26,451	\$21,663	\$29,260	\$19,827	\$127,169
Capital Costs – EC	3,436	3,352	2,806	3,555	2,790	15,939
Note: Values are rounded to the nearest \$1,000						

3.1.6 General Assumptions

In order to develop the financial and rate projections, certain assumptions were made with regard to elements of the revenue sufficiency analysis. A summary of those assumptions is presented below.

3.1.6.1. System Growth

The Town anticipates growth in wastewater accounts of 1.70% per year for the FY 2022-23 through FY 2026-27 period. Environmental compliance growth was anticipated at 1.30% per year for FY 2022-23 through FY 2026-27.

3.1.6.2. O&M Escalation Factors

Town staff projected wastewater ongoing O&M expenses to increase at an average rate of 2.7% between FY 2022-23 and FY 2026-27. During the study period, there are one-time expenditures ranging from a high of \$4,558,000 in FY 2022-23 and a low of \$22,000 in FY 2025-26.

Ongoing environmental compliance O&M expenses will increase approximately 5.0% per year, with a one-time 13.3% increase in O&M costs between FY 2022-23 and FY 2023-24. One-time operational costs during the study period range from a low of \$0 in FY 2024-25 through FY 2026-27 to a high of \$500,000 in FY 2023-24.

The average annual increase in wastewater and environmental compliance expenditures are projected to be greater than additional revenue derived through system growth alone (1.7% annually for wastewater and 1.3% annually for environmental compliance).

3.1.6.3. Results of the Revenue Sufficiency Analysis

The Town utilized their aforementioned assumptions in developing their projected operating expenditures for comparison to revenues that would be generated under the existing rates and system growth. Table 3-5 provides a summary of the annual projected operating expenditures for both the wastewater and environmental compliance compared to revenues under the current or status quo scenario.

Table 3-5					
Projected Operating Expenditures vs. Revenue Under Existing Rates					
Fiscal Years Ending June 30 (\$ thousands)					
	2022-23	2023-24	2024-25	2025-26	2026-27
Wastewater – Recommended					
Revenue Under Existing Rates	\$31,265	\$31,777	\$32,298	\$32,829	\$33,374
Projected Operating Expenditures	<u>53,050</u>	<u>46,178</u>	<u>41,680</u>	<u>49,502</u>	<u>41,070</u>
Difference	(21,785)	(14,401)	(9,382)	(16,673)	(7,695)
Environmental Compliance – Recommended					
Revenue Under Existing Rates	\$4,840	\$4,348	\$4,404	\$4,461	\$4,519
Projected Operating Expenditures	<u>5,884</u>	<u>6,096</u>	<u>5,120</u>	<u>5,909</u>	<u>5,184</u>
Difference	(1,044)	(1,748)	(716)	(1,448)	(665)
Note: Values are rounded to the nearest \$1,000					

The resulting financial plans presented herein is the embodiment of the data, assumptions and review process undertaken by Town staff.

3.1.6.4. Rate Revenue Increases Required

As discussed in section 3.1.6.2, operations and maintenance expenses are growing at a faster rate than the Town’s increase in service units (section 3.1.6.1). Our financial analysis of the utilities indicates that the increase in operating costs is projected to outpace revenue increases through growth in service units alone. Revenue increase needs (as identified by Town Staff) in addition to growth in service units are therefore required in order to maintain the financial integrity of the wastewater and environmental compliance utilities.

The budgeted increases by utility are presented in Table 3-6, with a more detailed presentation of the pro forma, including a fund balance reconciliation is presented in Schedules A-1 and B-1 of the appendices.

Table 3-6			
Projected Revenue Increases			
Fiscal Year	Wastewater Recommended		
	Rate Increase	System Growth	Total Increase
2022-23	3.7%	1.7%	5.4%
2023-24	29.4%	1.7%	31.1%
2024-25	0.0%	1.7%	1.7%
2025-26	0.0%	1.7%	1.7%
2026-27	0.0%	1.7%	1.7%
Fiscal Year	Environmental Recommended		
	Rate Increase	System Growth	Total Increase
2022-23	0.0%	1.3%	1.3%
2023-24	58.7%	1.3%	60.0%
2024-25	0.0%	1.3%	1.3%
2025-26	0.0%	1.3%	1.3%
2026-27	0.0%	1.3%	1.3%

3.1.6.5. Summary of Revenue Sufficiency Analysis

The budgeted financial plans are presented in Tables 3-7 and 3-8, which provide for funding of projected revenue requirements based on the current knowledge of expected expenditure forecasts during the forecast period, as provided by the Town.

Table 3-7					
Projected Wastewater Net Operating Fund Results					
Fiscal Years 2022-23 to 2026-27					
(\$ thousands)					
Description	22-23	23-24	24-25	25-26	26-27
Wastewater Recommended					
Beginning Fund Balance	\$26,690	\$8,331	\$7,275	\$11,461	\$8,853
Revenues	34,691	45,122	45,866	46,624	47,398
Operating Expenses	<u>23,082</u>	<u>19,727</u>	<u>20,017</u>	<u>20,242</u>	<u>21,243</u>
Net Revenue	11,609	25,395	25,849	26,382	26,155
Less:					
CIP	<u>29,968</u>	<u>26,451</u>	<u>21,663</u>	<u>29,260</u>	<u>19,827</u>
Net Cash Flow	(18,359)	(1,057)	4,186	(2,878)	6,328
Ending Fund Balance	\$8,331	\$7,275	\$11,461	\$8,853	\$14,910
Target Fund Balance	\$8,330	\$8,550	\$8,700	\$8,760	\$8,860
Note: Variances due to rounding					

Table 3-8					
Projected Environmental Compliance Net Operating Fund Results					
Fiscal Years 2022-23 to 2026-27					
(\$ thousands)					
Description	22-23	23-24	24-25	25-26	26-27
Environmental Compliance Recommended					
Beginning Fund Balance	\$1,583	\$539	\$1,309	\$3,141	\$4,271
Revenues	4,840	6,866	6,952	7,039	7,127
Operating Expenses	<u>2,448</u>	<u>2,744</u>	<u>2,314</u>	<u>2,354</u>	<u>2,394</u>
Net Revenue	2,392	4,122	4,638	4,685	4,733
Less:					
CIP	<u>3,436</u>	<u>3,352</u>	<u>2,806</u>	<u>3,555</u>	<u>2,790</u>
Net Cash Flow	(1,044)	770	1,832	1,130	1,943
Ending Fund Balance	\$539	\$1,309	\$3,141	\$4,271	\$6,214
Target Fund Balance	\$500	\$560	\$580	\$590	\$600
Note: Variances due to rounding					

3.1.6.6. Revenue Sufficiency Analysis Conclusions

Based on the revenue requirements identified in our analysis, it is our opinion that:

- Revenue projections based on existing rates are insufficient to meet the revenue requirements for FY 2022-23 through FY 2026-27; and
- Additional revenue (as identified in Section 3.1.6.4) is needed in order to keep pace with increasing O&M and capital costs.

3.2. Rate Design Analysis

3.2.1 General Methodology

With the rate revenue requirement determined in the Revenue Sufficiency Analysis, the development of specific rates and charges was completed as described below.

First, the rate design goals of the Town were reviewed to identify areas the Town wanted to address over the forecast period included in this Rate Study. Next, an assessment of the existing rate design was completed to identify areas which have worked well for the Town with regard to their specific goals and objectives, and the general goals and objectives of utility rate-making. In addition to the Town's goals, rate design should seek to achieve the following industry standard objectives:

- Generate a stable rate revenue stream which, when combined with other sources of funds, is sufficient to meet the financial requirements and goals of the utility;
- Be fair and equitable – that is, they should generate revenue from customer classes which is reasonably in proportion to the cost to provide service to that customer class;
- Be easy to understand by customers; and
- Be easy to administer by the utility.

3.2.2 Review of Existing Rate Structure

The Town's current wastewater rates are comprised of a fixed monthly charge per unit for residential customers (single family and multifamily). Commercial customers are assessed a fixed monthly base rate and a flow rate per thousand gallons of contributed flow. Reuse/recharge customers are assessed a monthly base charge and a uniform flow rate.

Environmental compliance rates are assessed on a monthly base charge basis regardless of customer type.

3.2.3 Cost-of-Service Analysis

In order to provide guidance to the Town as to how to adequately recover the utilities’ rate revenue requirements identified in the Revenue Sufficiency Analysis, in a manner consistent with generally accepted rate-making principles, a cost-of-service analysis is conducted. This update relied on the cost-of-service analysis from the original 2018 comprehensive rate study.

3.3. Proposed Rates

3.3.1 Proposed Rate Structure Changes

3.3.1.1. Wastewater Rates

In working with Town staff, the existing rate structure and distribution of revenues from the 2018 Rate Study (fixed versus volume as well as between classes) were deemed reasonable and therefore maintained. Table 3-9 illustrates the current and proposed wastewater rates resulting from the additional revenue requirements identified in the financial plan.

Table 3-9						
Current Versus Proposed Wastewater Rates - Recommended						
Customer	Current	FY 2022-23 ⁽¹⁾	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27
	Rates					
Single Family	\$24.73	\$32.75	\$32.75	\$32.75	\$32.75	\$32.75
Multifamily	24.73	32.75	32.75	32.75	32.75	32.75
Commercial - Base	16.64	21.90	21.90	21.90	21.90	21.90
Commercial - Flow	1.65	2.17	2.17	2.17	2.17	2.17
Commercial - Base	16.64	21.90	21.90	21.90	21.90	21.90
Commercial - Flow	1.65	2.17	2.17	2.17	2.17	2.17
Reuse/Recharge - Base	15.00	19.74	19.74	19.74	19.74	19.74
Gilbert Owned Recovery Well (Reclaimed)	1.34	1.79	1.79	1.79	1.79	1.79
Customer Owned Recovery Well Reclaimed Water (Direct Reuse)	0.80	1.07	1.07	1.07	1.07	1.07
	0.40	0.54	0.54	0.54	0.54	0.54

(1) Effective April 1, 2023

3.3.1.2. Environmental Compliance

Environmental compliance rates have been updated to reflect the new revenue requirement targets identified in the recommended financial plan (Appendix B-1). With a uniform rate assessed regardless of

customer class all rates have been increased by the rate increase identified in Table 3-6. The existing and proposed rates are shown in Table 3-11.

Table 3-11						
Current Versus Proposed Environmental Compliance Rates						
<u>Customer</u>	<u>Current Rates</u>	<u>FY 2022-23</u> ⁽¹⁾	<u>FY 2023-24</u>	<u>FY 2024-25</u>	<u>FY 2025-26</u>	<u>FY 2026-27</u>
All Customers	\$4.28	\$6.79	\$6.79	\$6.79	\$6.79	\$6.79

(1) Effective April 1, 2023

3.3.2 Comparisons

A comparison of a single family monthly wastewater bill assuming 6,000 gallons of wastewater discharge under the Town’s current and proposed FY 2023 rates as compared to neighboring communities is illustrated in Figure 3-1.

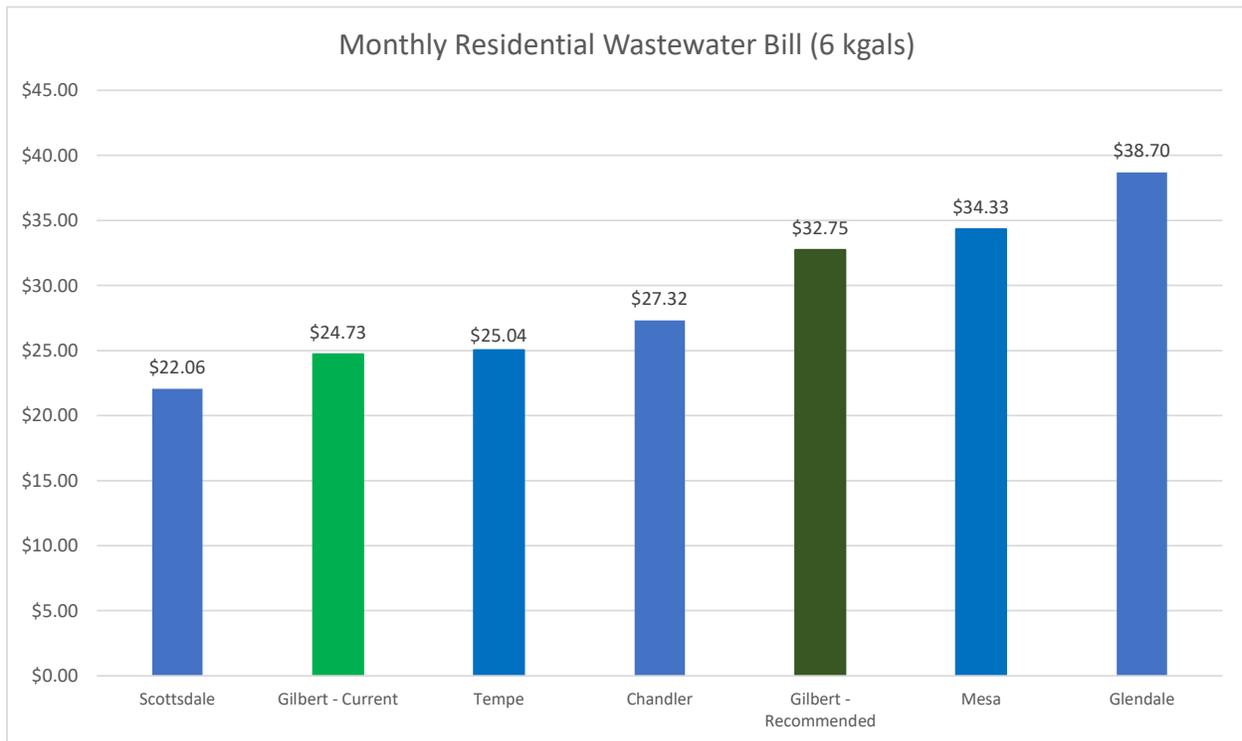


Figure 3-1: Average Monthly Wastewater Bill Comparison

3.3.3 Data Review

In order to develop the rates and charges presented herein, a detailed review of pertinent data was conducted. A description of the data reviewed, and the review process employed, is presented below.

3.4. Summary of the Rate Study

The Rate Study presented herein utilized generally accepted rate-making principles which resulted in the development of rates and charges which are projected to: 1) generate sufficient revenue to meet the financial requirements of the utility, 2) address the need to recover costs from users in a manner which is fair and equitable relative to service provided, and 3) meet the financial and rate design goals of the Town.

Section 4 - Conclusions and Recommendations

4.1. Conclusions

- Projected operating revenues and operating expenses for the forecast period were developed by, and/or in consultation with, Town staff and are based upon reasonable projections.
- The projected capital project expenses have been developed by Town staff to address wastewater and environmental compliance needs, including renewal and replacement of infrastructure and equipment.
- Based on the above two prior conclusions, the Willdan Team is of the opinion that the financial projections presented herein demonstrate the utilities' ability to meet its obligations with regard to:
 - Operating expenses,
 - Non-operating expenses,
 - Capital project expenses, and
 - Key financial policies, including maintenance of reasonable operating reserve balances.
- The proposed rates presented herein are in conformance with industry standard rate-making practice, and the Town's rate policies with respect to:
 - The fair and equitable recovery of costs through wastewater and environmental compliance rates; and
 - Generation of sufficient revenue to fully recover system revenue requirements and reserve requirements.

4.2. Recommendations

- It is recommended that the Town implement the proposed rates presented in this Report for FY 2022-23 through FY 2026-27.
- It is recommended that the Town update the Revenue Sufficiency Analysis portion of this study each year to ensure projected revenue is sufficient to fund projected expenses going forward as assumptions made during this analysis may change and have a material impact upon the analysis.

APPENDIX A

Wastewater Financial Plan - Recommended

Town of Gilbert

Projected Operating Results - Wastewater System Fiscal Years 2023 - 2027

Line No.	Description	Budget				
		2023	2024	2025	2026	2027
	Rate Revenue Increase ⁽¹⁾	5.4%	31.1%	1.7%	1.7%	1.7%
Sources of Funds						
1	Beginning-of-Year Cash	\$ 26,690,210	\$ 8,331,210	\$ 7,274,710	\$ 11,460,710	\$ 8,582,710
Operating Revenues						
2	Operating Revenue	\$ 33,570,000	\$ 44,000,500	\$ 44,745,000	\$ 45,503,000	\$ 46,276,551
	Total Operating Revenues	\$ 33,570,000	\$ 44,000,500	\$ 44,745,000	\$ 45,503,000	\$ 46,276,551
Non-Operating Revenue						
3	Non-Utility Income	1,121,000	1,121,000	1,121,000	1,121,000	1,121,000
4	Interest Income	-	-	-	-	-
	Total Non-Operating Revenue	\$ 1,121,000	\$ 1,121,000	\$ 1,121,000	\$ 1,121,000	\$ 1,121,000
	Total Revenues	\$ 34,691,000	\$ 45,121,500	\$ 45,866,000	\$ 46,624,000	\$ 47,397,551
Operating Expenses						
5	Ongoing	\$ 18,524,000	\$ 19,408,000	\$ 19,990,000	\$ 20,220,000	\$ 20,623,000
6	One-Time	4,558,000	319,000	27,000	22,000	620,000
7	Transfers (Capital)	29,968,000	26,451,000	21,663,000	29,260,000	19,827,000
	Total Operating Expenses	\$ 53,050,000	\$ 46,178,000	\$ 41,680,000	\$ 49,502,000	\$ 41,070,000
	Net Result of Operations	\$ (18,359,000)	\$ (1,056,500)	\$ 4,186,000	\$ (2,878,000)	\$ 6,327,551
Non-Operating Expenses						
8	Capital Improvements	\$ -	\$ -	\$ -	\$ -	\$ -
	Total Non-Operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
	Net Available After Non-Operating Expenses	\$ (18,359,000)	\$ (1,056,500)	\$ 4,186,000	\$ (2,878,000)	\$ 6,327,551
9	End-of-Year Cash	\$ 8,331,210	\$ 7,274,710	\$ 11,460,710	\$ 8,582,710	\$ 14,910,261
10	Target Cash	\$ 8,330,000	\$ 8,550,000	\$ 8,700,000	\$ 8,760,000	\$ 8,860,000
(1) Includes system growth						

Town of Gilbert

Revenues - Wastewater System Wastewater Financial Model

Line No.	Description	Budget 2023	Budget			
			2024	2025	2026	2027
Operating Revenues						
Wastewater						
1	Operating Revenue	\$ 33,570,000	\$ 44,000,500	\$ 44,745,000	\$ 45,503,000	\$ 46,276,551
2	Other Revenues	1,121,000	1,121,000	1,121,000	1,121,000	1,121,000
3	Total Operating Revenues	\$ 34,691,000	\$ 45,121,500	\$45,866,000	\$46,624,000	\$ 47,397,551
Non-Operating Revenue						
4	Non-Operating Revenue					
5	Non-Utility Income	\$ -	\$ -	\$ -	\$ -	\$ -
6	Interest Income	-	-	-	-	-
7	Total Non-Operating Revenue	\$ -	\$ -	\$ -	\$ -	\$ -
8	Total Revenues	\$ 34,691,000	\$ 45,121,500	\$45,866,000	\$46,624,000	\$ 47,397,551
OPERATING REVENUES						
Charges for Services						
Wastewater System						
10	Rate Revenue	\$ 33,570,000	\$ 44,000,500	\$ 44,745,000	\$ 45,503,000	\$ 46,276,551
12	Revenue Increase - Including Growth	5.4%	31.1%	1.7%	1.7%	1.7%
13	Percent of Year w/Rate Increase	100.0%	100.0%	100.0%	100.0%	100.0%
15	Revenues under new rates	33,570,000	44,000,500	44,745,000	45,503,000	46,276,551
16	Total Charges for Services - After Revenue Increase	\$ 33,570,000	\$ 44,000,500	\$ 44,745,000	\$ 45,503,000	\$ 46,276,551
17	Total Charges for Services - If Increase Effective for Full Year	\$ 33,570,000	\$ 44,000,500	\$ 44,745,000	\$ 45,503,000	\$ 46,276,551
Other Wastewater Cash Inflows						
18	Other Wastewater Cash Inflows					
19	Transfers In	1,035,000	1,035,000	1,035,000	1,035,000	1,035,000
20	Non-Rate Revenue (Licenses and Permits)	86,000	86,000	86,000	86,000	86,000
	Total Operating Revenues	\$ 34,691,000	\$ 45,121,500	\$45,866,000	\$46,624,000	\$ 47,397,551

Town of Gilbert
Estimated & Projected Uses of Funds - Wastewater System
Wastewater Financial Model

Line No.	Description	Budget				
		2023	2024	2025	2026	2027
<u>OPERATING EXPENSES - SUMMARY</u>						
1	Ongoing	\$ 18,524,000	\$ 19,408,000	\$ 19,990,000	\$ 20,220,000	\$ 20,623,000
2	One-Time	4,558,000	319,000	27,000	22,000	620,000
3	Transfers	29,968,000	26,451,000	21,663,000	29,260,000	19,827,000
Total OPERATING EXPENSES - SUMMARY		\$ 53,050,000	\$ 46,178,000	\$ 41,680,000	\$ 49,502,000	\$ 41,070,000
<u>Debt Service</u>						
4	Existing Debt	\$0	\$0	\$0	\$0	\$0
Total Debt Service		\$ -				
Total Operating Expenses - Summary		\$ 53,050,000	\$ 46,178,000	\$ 41,680,000	\$ 49,502,000	\$ 41,070,000
<u>Ongoing Expenditures</u>						
5	Base Expenditures	\$ 18,524,000	\$ 18,524,000	\$ 18,524,000	\$ 18,524,000	\$ 18,524,000
6	CIP Maintenance Costs	-	337,000	689,000	689,000	719,000
7	Five-Year Plan	-	547,000	777,000	1,007,000	1,380,000
<u>One-Time Expenditures</u>						
8	One-Time Expenditures	2,252,000	-	-	-	-
9	Five-Year Plan	-	319,000	27,000	22,000	620,000
10	Capital Outlay	306,000	-	-	-	-
11	Contingency	2,000,000	-	-	-	-
<u>Transfers Out</u>						
12	Capital	13,936,000	10,419,000	5,631,000	13,228,000	3,795,000
13	Other	16,032,000	16,032,000	16,032,000	16,032,000	16,032,000
TOTAL Ongoing Expenditures		\$ 53,050,000	\$ 46,178,000	\$ 41,680,000	\$ 49,502,000	\$ 41,070,000

APPENDIX B

Environmental Compliance Financial Plan - Recommended

Town of Gilbert

Projected Operating Results - Environmental Compliance Fiscal Years 2023 - 2027

Line No.	Description	Budget 2023	2024	2025	2026	2027
	Rate Revenue Increase ⁽¹⁾	1.3%	60.0%	1.3%	1.3%	1.3%
Sources of Funds						
1	Beginning-of-Year Cash	\$ 1,583,000	\$ 539,000	\$ 1,309,000	\$ 3,141,000	\$ 4,271,000
Operating Revenues						
2	Operating Revenue	\$ 4,287,000	\$ 6,861,000	\$ 6,947,000	\$ 7,034,000	\$ 7,122,000
	Total Operating Revenues	\$ 4,287,000	\$ 6,861,000	\$ 6,947,000	\$ 7,034,000	\$ 7,122,000
Non-Operating Revenue						
3	Non-Utility Income	553,000	5,000	5,000	5,000	5,000
4	Interest Income	-	-	-	-	-
	Total Non-Operating Revenue	\$ 553,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000
	Total Revenues	\$ 4,840,000	\$ 6,866,000	\$ 6,952,000	\$ 7,039,000	\$ 7,127,000
Operating Expenses						
5	Ongoing	\$ 1,980,000	\$ 2,244,000	\$ 2,314,000	\$ 2,354,000	\$ 2,394,000
6	One-Time	468,000	500,000	-	-	-
7	Transfers (Capital)	3,436,000	3,352,000	2,806,000	3,555,000	2,790,000
	Total Operating Expenses	\$ 5,884,000	\$ 6,096,000	\$ 5,120,000	\$ 5,909,000	\$ 5,184,000
	Net Result of Operations	\$ (1,044,000)	\$ 770,000	\$ 1,832,000	\$ 1,130,000	\$ 1,943,000
Non-Operating Expenses						
8	Capital Improvements	\$ -	\$ -	\$ -	\$ -	\$ -
	Total Non-Operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
	Net Available After Non-Operating Expenses	\$ (1,044,000)	\$ 770,000	\$ 1,832,000	\$ 1,130,000	\$ 1,943,000
9	End-of-Year Cash	\$ 539,000	\$ 1,309,000	\$ 3,141,000	\$ 4,271,000	\$ 6,214,000
10	Target Cash	\$ 500,000	\$ 560,000	\$ 580,000	\$ 590,000	\$ 600,000
	(1) Includes system growth					

Town of Gilbert

Revenues - Environmental Compliance
Environmental Compliance Financial Model

Line No.	Description	Budget				
		2023	2024	2025	2026	2027
Operating Revenues						
Wastewater						
1	Operating Revenue	\$ 4,287,000	\$ 6,861,000	\$ 6,947,000	\$ 7,034,000	\$ 7,122,000
2	Other Revenues	553,000	5,000	5,000	5,000	5,000
3	Total Operating Revenues	\$ 4,840,000	\$ 6,866,000	\$ 6,952,000	\$ 7,039,000	\$ 7,127,000
Non-Operating Revenue						
4	Non-Operating Revenue					
5	Non-Utility Income	\$ -	\$ -	\$ -	\$ -	\$ -
6	Interest Income	-	-	-	-	-
7	Total Non-Operating Revenue	\$ -				
8	Total Revenues	\$ 4,840,000	\$ 6,866,000	\$ 6,952,000	\$ 7,039,000	\$ 7,127,000
OPERATING REVENUES						
Charges for Services						
Environmental Compliance						
10	Rate Revenue	\$ 4,287,000	\$ 6,861,000	\$ 6,947,000	\$ 7,034,000	\$ 7,122,000
12	Revenue Increase - Including Growth	0.0%	60.0%	1.3%	1.3%	1.3%
13	Percent of Year w/Rate Increase	100.0%	100.0%	100.0%	100.0%	100.0%
15	Revenues under new rates	4,287,000	6,861,000	6,947,000	7,034,000	7,122,000
16	Total Charges for Services - After Revenue Increase	\$ 4,287,000	\$ 6,861,000	\$ 6,947,000	\$ 7,034,000	\$ 7,122,000
17	Total Charges for Services - If Increase Effective for Full Year	\$ 4,287,000	\$ 6,861,000	\$ 6,947,000	\$ 7,034,000	\$ 7,122,000
Other Wastewater Cash Inflows						
18	Other Wastewater Cash Inflows					
19	Transfers In	-	-	-	-	-
20	Non-Rate Revenue (Miscellaneous and Grants)	553,000	5,000	5,000	5,000	5,000
	Total Operating Revenues	\$ 4,840,000	\$ 6,866,000	\$ 6,952,000	\$ 7,039,000	\$ 7,127,000

Town of Gilbert

**Estimated & Projected Uses of Funds - Environmental Compliance
Environmental Compliance Financial Model**

Line No.	Description	Budget				
		2023	2024	2025	2026	2027
<u>OPERATING EXPENSES - SUMMARY</u>						
1	Ongoing	\$ 1,980,000	\$ 2,244,000	\$ 2,314,000	\$ 2,354,000	\$ 2,394,000
2	One-Time	468,000	500,000	-	-	-
3	Transfers	3,436,000	3,352,000	2,806,000	3,555,000	2,790,000
Total OPERATING EXPENSES - SUMMARY		\$ 5,884,000	\$ 6,096,000	\$ 5,120,000	\$ 5,909,000	\$ 5,184,000
<u>Debt Service</u>						
4	Existing Debt	\$0	\$0	\$0	\$0	\$0
Total Debt Service		\$ -				
Total Operating Expenses - Summary		\$ 5,884,000	\$ 6,096,000	\$ 5,120,000	\$ 5,909,000	\$ 5,184,000
<u>Ongoing Expenditures</u>						
5	Base Expenditures	\$ 1,980,000	\$ 1,980,000	\$ 1,980,000	\$ 1,980,000	\$ 1,980,000
6	CIP Maintenance Costs	-	119,000	149,000	149,000	149,000
7	Five-Year Plan	-	145,000	185,000	225,000	265,000
<u>One-Time Expenditures</u>						
8	One-Time Expenditures	218,000	-	-	-	-
9	Five-Year Plan	-	500,000	-	-	-
10	Capital Outlay	-	-	-	-	-
11	Contingency	250,000	-	-	-	-
<u>Transfers Out</u>						
12	Capital	646,000	562,000	16,000	765,000	-
13	Other	2,790,000	2,790,000	2,790,000	2,790,000	2,790,000
TOTAL Ongoing Expenditures		\$ 5,884,000	\$ 6,096,000	\$ 5,120,000	\$ 5,909,000	\$ 5,184,000

APPENDIX C

Wastewater Rates - Recommended

FY 2022-23 July to March							
Class	Base Rate	Base Units	Base Rev	Flow Rate	Flow	Flow Rev	Total Revenue
Residential							
Residential - Units	\$24.73	81,414	\$18,120,292	\$0.00	8,233,975	\$0	\$18,120,292
Residential MF - Units	24.73	14,534	3,234,821	0.00	456,232	0	3,234,821
Total Residential		95,948	\$21,355,113		8,690,208	\$0	\$21,355,113
Commercial							
Commercial	16.64	3,990	597,496	1.65	1,103,846	1,821,345	2,418,842
		3,990	\$597,496		1,103,846	\$1,821,345	\$2,418,842
Total		99,938	\$21,952,609		9,794,053	\$1,821,345	\$23,773,954
Reuse/Recharge Water	15.00	68	\$767				
Gilbert Owned Recovery Well				1.34	41,213	55,225	
Customer Owned Recovery Well				0.80	298,770	239,016	
Reclaimed Water (Direct Reuse)				0.40	1,683,799	673,520	
						<u>\$2,023,781</u>	\$2,024,548

FY 2022-23 April to June							
Class	Base Rate	Base Units		Flow Rate	Flow		Total Revenue
Residential							
Residential - Units	\$32.75	81,414	\$7,999,233	\$0.00	2,744,658	\$0	\$7,999,233
Residential MF - Units	32.75	14,534	1,428,017	0.00	152,077	0	1,428,017
Total Residential		95,948	\$9,427,250		2,896,736	\$0	\$9,427,250
Commercial							
Commercial	21.90	3,990	262,144	2.17	367,949	799,092	1,061,236
		3,990	\$262,144		367,949	\$799,092	\$1,061,236
Total		99,938	\$9,689,394		3,264,684	\$799,092	\$10,488,486
Reuse/Recharge Water	19.74	68	\$336				
Gilbert Owned Recovery Well				1.79	13,738	24,641	
Customer Owned Recovery Well				1.07	99,590	106,648	
Reclaimed Water (Direct Reuse)				0.54	561,266	300,522	
						<u>\$674,594</u>	\$674,930
							Grand Total \$36,961,918

FY 2023-24							
Class	Base Rate	Base Units	Base Rev	Flow Rate	Flow	Flow Rev	Total Revenue
Residential							
Residential - Units	\$32.75	82,798	\$32,540,880	\$0.00	11,165,271	\$0	\$32,540,880
Residential MF - Units	32.75	14,181	5,573,364	0.00	618,651	0	5,573,364
Total Residential		96,979	\$38,114,244		11,783,921	\$0	\$38,114,244
Commercial							
Commercial	21.90	4,058	1,066,401	2.17	1,496,815	3,250,707	4,317,108
		4,058	\$1,066,401		1,496,815	\$3,250,707	\$4,317,108
Total		101,036	\$39,180,645		13,280,736	\$3,250,707	\$42,431,352
Reuse/Recharge Water	19.74	69	\$16,418				\$16,418
Gilbert Owned Recovery Well				1.79	55,884	100,240	
Customer Owned Recovery Well				1.07	405,132	433,844	
Reclaimed Water (Direct Reuse)				0.54	2,283,231	1,222,522	
						\$1,756,606	\$1,773,024
					Grand Total		\$44,220,794

FY 2024-25							
Class	Base Rate	Base Units	Base Rev	Flow Rate	Flow	Flow Rev	Total Revenue
Residential							
Residential - Units	\$32.75	84,206	\$33,094,075	\$0.00	11,355,080	\$0	\$33,094,075
Residential MF - Units	32.75	13,822	5,432,301	0.00	629,168	0	5,432,301
Total Residential		98,028	\$38,526,377		11,984,248	\$0	\$38,526,377
Commercial							
Commercial	21.90	4,126	1,084,530	2.17	1,522,261	3,305,969	4,390,499
		4,126	\$1,084,530		1,522,261	\$3,305,969	\$4,390,499
Total		102,154	\$39,610,906		13,506,509	\$3,305,969	\$42,916,875
Reuse/Recharge Water	19.74	70	\$16,697		0	\$0	\$16,697
Gilbert Owned Recovery Well				1.79	56,834	101,944	
Customer Owned Recovery Well				1.07	412,019	441,219	
Reclaimed Water (Direct Reuse)				0.54	2,322,046	1,243,305	
						\$1,786,468	\$1,803,165
					Grand Total		\$44,720,041

FY 2025-26							
Class	Base Rate	Base Units	Base Rev	Flow Rate	Flow	Flow Rev	Total Revenue
Residential							
Residential - Units	\$32.75	85,637	\$33,656,675	\$0.00	11,548,117	\$0	\$33,656,675
Residential MF - Units	32.75	13,457	5,288,841	0.00	639,864	0	5,288,841
Total Residential		99,094	\$38,945,516		12,187,980	\$0	\$38,945,516
Commercial							
Commercial	21.90	4,197	1,102,967	2.17	1,548,139	3,362,170	4,465,137
		4,197	\$1,102,967		1,548,139	\$3,362,170	\$4,465,137
Total		103,291	\$40,048,482		13,736,119	\$3,362,170	\$43,410,653
Reuse/Recharge Water	19.74	72	\$16,981		0	\$0	\$16,981
Gilbert Owned Recovery Well				1.79	57,800	103,677	
Customer Owned Recovery Well				1.07	419,024	448,720	
Reclaimed Water (Direct Reuse)				0.54	2,361,521	1,264,441	
						\$1,816,838	\$1,833,819
					Grand Total		\$45,244,472

FY 2026-27							
Class	Base Rate	Base Units	Base Rev	Flow Rate	Flow	Flow Rev	Total Revenue
Residential							
Residential - Units	\$32.75	87,093	\$34,228,838	\$0.00	11,744,435	\$0	\$34,228,838
Residential MF - Units	32.75	13,686	5,378,751	0.00	650,741	0	5,378,751
Total Residential		100,779	\$39,607,590		12,395,176	\$0	\$39,607,590
Commercial							
Commercial	21.90	4,268	1,121,717	2.17	1,574,457	3,419,327	4,541,044
		<u>4,268</u>	<u>\$1,121,717</u>		<u>1,574,457</u>	<u>\$3,419,327</u>	<u>\$4,541,044</u>
Total		105,047	\$40,729,307		13,969,633	\$3,419,327	\$44,148,634
Reuse/Recharge Water	19.74	73	\$17,270		0	\$0	\$17,270
Gilbert Owned Recovery Well				1.79	58,783	105,440	
Customer Owned Recovery Well				1.07	426,147	456,348	
Reclaimed Water (Direct Reuse)				0.54	2,401,667	1,285,937	
						<u>\$1,847,725</u>	<u>\$1,864,994</u>
					Grand Total		\$46,013,628



3190 S. Vaughn Way, Suite 550, Office 523
Aurora, Colorado 80012
800.755.6864 | Fax: 888.326.6864
www.willdan.com