

COMMUNITIESUnlimited

City of Elkins, Arkansas Water & Sewer Rate Analysis and Recommendations

The State of Arkansas requires public water systems to maintain user rates adequate to 1) meet current debt service obligations; 2) provide an adequate capital repair and replacement reserve; and 3) provide for the efficient operation and maintenance of the system.

In 2021, Arkansas passed Act 605 which requires water providers to have a rate study every five years and requires board members to receive board training using a curriculum approved by the Arkansas Department of Agriculture, Natural Resources Division.

The City of Elkins requested the assistance of Communities Unlimited, Inc. with an analysis of current revenues and expenses and in addressing the adequacy of customer water rates. The study was funded through a technical assistance grant through the US Department of Health and Human Services and provided at no cost to the city.

The rate analysis examined system financial, billing and usage records from 2019-2021, and budgeted revenue and expense for 2022. The analysis was based on the ability of the water system to meet anticipated expenses related to:

1. Operations and maintenance
2. Debt service
3. Required reserves
4. Depreciation'
5. Future capital expenses
6. Other expenses as necessary

Recommendations:

1. Debt service: The water and sewer department maintain a debt coverage ratio of 1.10 or greater.
2. Operating Reserve: The water and sewer system should maintain operating reserves of at least \$166,300 (1/8th of annual operating expense).
3. Asset Management Plan: The water and sewer department review its asset management plan and long-range capital improvement plan and bring both in compliance with state guidelines.
4. Depreciation reserve: Fund the depreciation reserve at 5% of gross revenues per year as required by law (Act 605).
5. Operating Ratio: The system maintain user rates sufficient to operate at a 1.05 operating ratio.
6. Budget and Rate Reviews: The System review water rates each year as part of the budget process.

Water Rates: Current water rates are not sufficient to meet 2022-2026 projected expenses. Recommendation: Increase water rates (minimum and usage) by 1% annually for the next five years. Incremental increases may be required beyond 2026 depending on projected system revenues, operating expenditures, and water purchase contracts with the City of Fayetteville

The following chart illustrate current and recommended water rates:

<u>Water Rates</u>			
<u>Water Service</u>		<u>Current</u>	<u>Recommended</u>
0-2,000 (min.)	\$	14.60	\$ 14.75
2,001-5,000 gal.	\$	7.30	\$ 7.37
5,001-10,000 gal.	\$	5.50	\$ 5.56
Over 10,000 gal.	\$	5.00	\$ 5.05
Cost for 4,000 gallons:	\$	29.20	\$ 29.49

The minimum water charge for residential customers would increase by \$0.15 per month. The water charge for an average residential customer using 4,000 gallons would increase by \$0.29 per month.

Sewer Rates: Current sewer rates are not sufficient to meet 2022-2026 projected expenses. Recommended: Recommended: Increase sewer rates (minimum and usage by 8.4% annually for the next five years. Incremental increase may be required beyond 2027 depending on projected system revenues, operating expenditures, and the wastewater treatment contract with the City of Fayetteville

The following chart illustrate current and recommended sewer rates:

<u>Sewer Rates</u>			
<u>Sewer Service</u>		<u>Current</u>	<u>Recommended</u>
0-2,000 (min.)	\$	15.00	\$ 16.26
2,001-5,000 gal.	\$	7.50	\$ 8.55
Over 5,000 gal.	\$	7.00	\$ 7.98
Cost for 4,000 gallons:	\$	30.00	\$ 33.37

The minimum sewer charge for residential customers would increase by \$1.26 per month. The sewer charge for the average residential customer using 4,000 gallons would increase by \$3.37 per month.