

2023 Rate Study

The 2023 Rate Study was completed to evaluate the effectiveness of Clifton Water District's rate structure and tiers. The District's philosophy that operating revenues (water sales) should be sufficient to fund not only operating expenses but also replacement costs for existing, aging infrastructure using depreciation expense as a guide. There were four main areas that were researched during the 2023 rate study that include:

- Equity – designing a rate structure that facilitates the collection of revenue without undue hardship on the customer or the District.
- Sustainability – assure the District's financial viability and framework for the Board of Director's financial decision-making process while assessing the effectiveness of cost of service-based rates that provide adequate revenue to meet the District's financial, operating, and regulatory requirements. Compliance with Bond Covenants, which require water rates to be sufficient for net revenue to be at least 1.1 times the annual debt service amount.
- Economy – evaluating our District with other utilities in the area and other economic factors that have impacted both the customer and the District.
- Water conservation – ensure that the District and its consumers have incentives to conserve water.

It has been 7 years since Clifton Water District has raised water rates. During that time, we have experienced a significant increase in our operating expenses, especially over the past three years. As costs throughout the industry continue to increase, Clifton Water District's Board of Directors are committed to managing those costs and staying efficient while upholding the District's commitment to producing clean and safe drinking water.

The basic premise of the 2023 Rate Study is to compare Operating Revenues with Operating Expenses using a Revenue Requirement guide. Typically rate analysis use projected or historical financial data. The following data was used:

1. 2021 historical consumption data
2. 2022 – 2024 projected consumption data
3. 2014 – 2021 historical financial data
4. 2022 – 2035 projected financial data

Projected consumption data includes a 1.7% growth increase which is based on the average growth rate for the previous 5 years. Projected financial data is broken down into three categories: Operating expense, bond repayment, and depreciation. Projected operating expenses includes a 4.5% growth increase, and projected depreciation expense includes a 3.6% growth increase – both are based on average growth rates for the previous 5 years. Projected Bond repayment is based on current debt obligation schedules and does not consider any future debt the District may accrue.

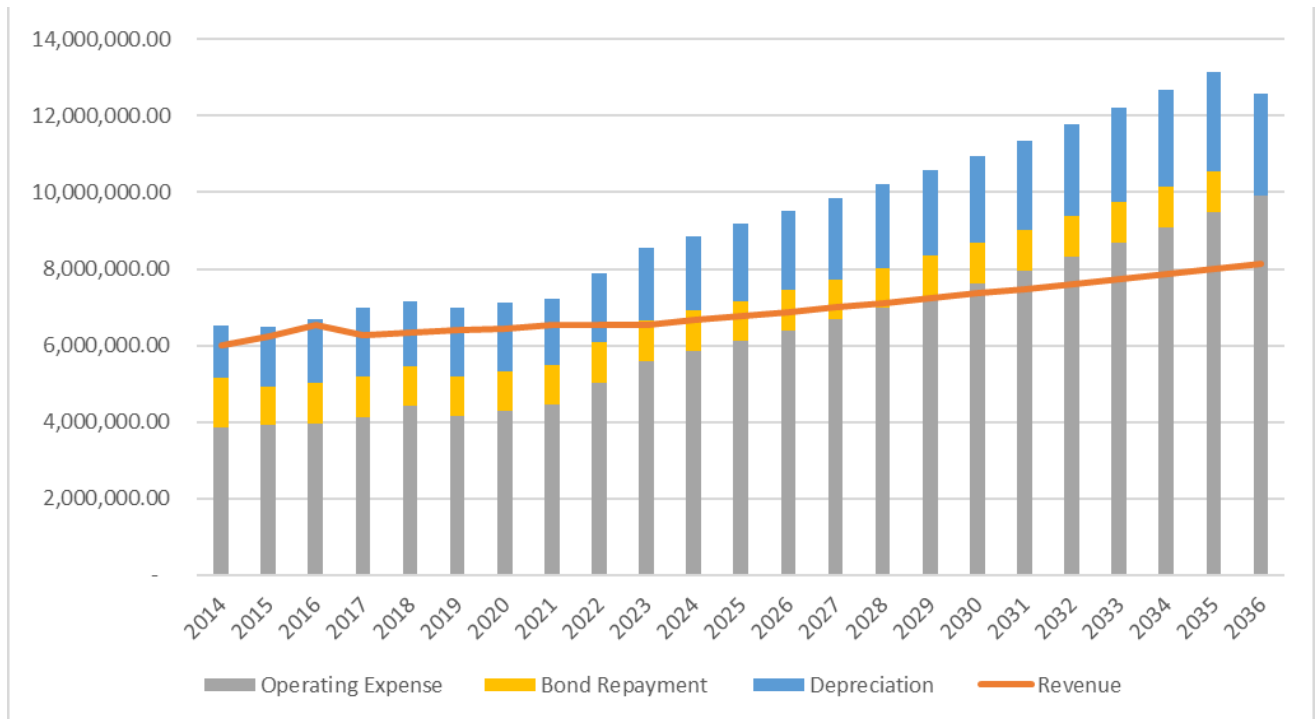
Data

Table 1 – Change in expenses since last rate increase:

Item	2015	2019	2022	Percent Increase
8" Hymax fitting	207.00	257.00	335.00	62%
6" megalug	25.00	27.00	41.00	64%
10" DR14 Pipe \$/Ft	13.40	13.25	50.00	273%
5/8x3/4 Meter Yoke	205.00	212.00	305.00	49%
6" MJ Gate Valve	538.00	562.00	995.00	85%
Aluminum Sulfate	4,500.00	4,925.00	5,977.00	33%
Chlorine per ton	910.00	1,323.00	2,300.00	153%
pickup tires	170.00	204.00	245.00	44%
Total	6,568.40	7,523.25	10,248.00	56%

Inflation and the current economy have impacted the District's costs. Above are a few examples of price increases we have seen since our last rate increase.

Table 2 – Revenue Requirement with Current Rates:



The following data was used for revenue:

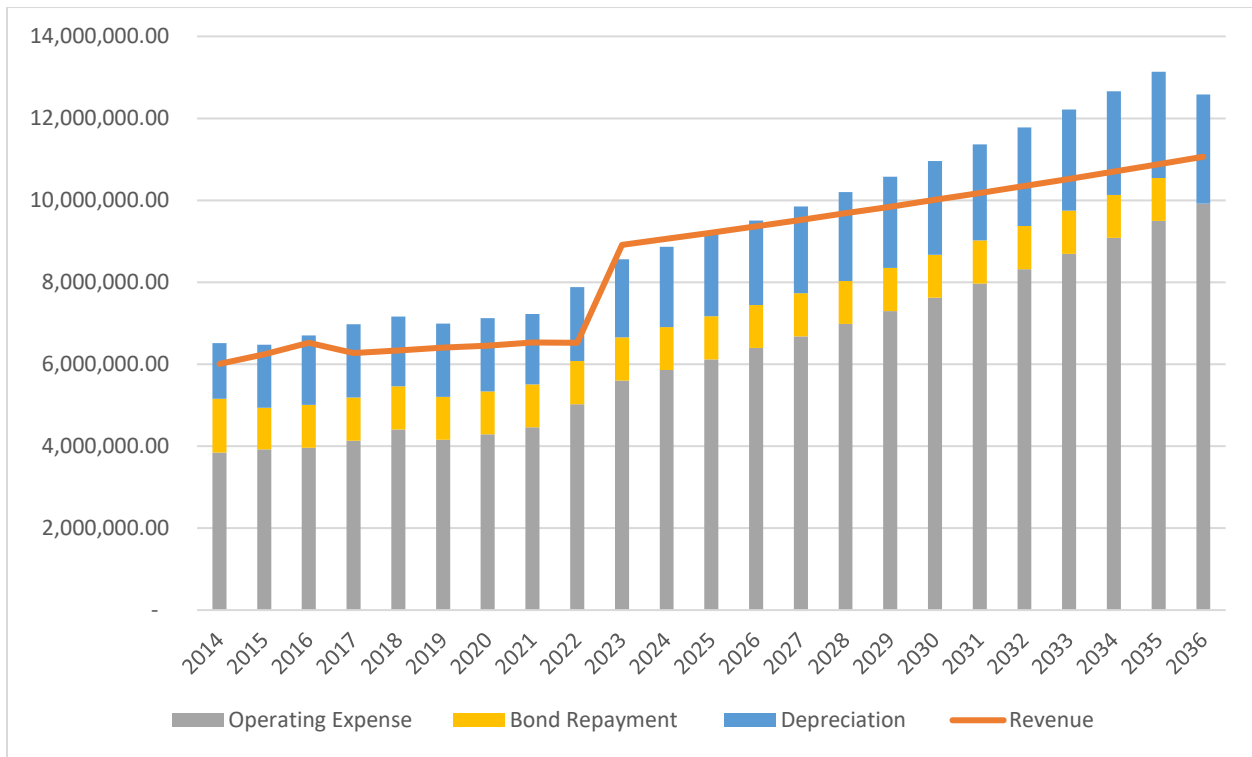
1. 2014 – 2022 Budgeted revenue
2. 2023 – 2036 Projected revenue based on current rate structure and a 1.7% growth rate in revenue.

The following data was used for Revenue Requirements (expenses):

- Operating Expense
 1. 2014 – 2023 Budgeted Operating Expenses
 2. 2024 – 2036 Projected Operating Expenses based on a 4.5% growth rate
- Bond Repayment
 1. 2014 – 2036 Current bond repayment schedules
- Depreciation Expense
 1. 2014 – 2023 Budgeted Depreciation Expenses
 2. 2024 – 2036 Projected Depreciation Expense based on a 3.6% growth rate

It is the District's philosophy that operational revenues should be sufficient to fund not only operating expenses but also debt obligations and replacement costs for existing, aging infrastructure using depreciation expense as a guide. Table 2 displays that the current revenue does not meet our revenue requirements for current or future years.

Table 3 – Revenue Requirement with 2023 Rates:



The following data was used for revenue:

3. 2014 – 2022 Budgeted revenue
4. 2023 – 2036 Projected revenue based on the 2023 rate increases and a 1.7% growth rate.

The following data was used for Revenue Requirements (expenses):

- Operating Expense
 3. 2014 – 2023 Budgeted Operating Expenses
 4. 2024 – 2036 Projected Operating Expenses based on a 4.5% growth rate
- Bond Repayment
 2. 2014 – 2036 Current bond repayment schedules
- Depreciation Expense
 3. 2014 – 2023 Budgeted Depreciation Expenses
 4. 2024 – 2036 Projected Depreciation Expense based on a 3.6% growth rate

The new water rates will allow the District to meet their revenue requirements, assuming consumption rates are consistent with recent trends.

Results

The results of the Rate Study demonstrate the impact of debt service and depreciation expense on water rates. The information contained in this report was intended to provide an objective tool used in the decision-making process for 2023 water rates.

Important considerations:

- In 2020, the rate analysis resulted in a surplus of \$879,788 which fell short of the \$1,805,847 objective. In addition, the District projected \$874,788 surplus from System Investment fees which still fell short of the \$1,805,847 revenue requirement. The District did not raise Water Rates in FY 2021 due to the Pandemic and the hardship it would create for customers.
- This rate study includes analysis of the monthly base rate and the volumetric tiered rates for water service only. Additional fees were not analyzed at this time but will be reviewed in early 2023.

The Board of Directors adopted revised water rates on November 3, 2022, which include the following changes:

- The monthly base rate will increase from \$22.00 per month to \$27.00 per month for In-District customers.
- The monthly base rate will increase from \$33.00 per month to \$40.50 per month for Out-District customers.
- Volumetric tiered rates for water service will increase by 15% for all tiers.
- High usage tier (usage more than 25,000 gallons) for residential users has been added at twice the consumption rate of the fourth tier.

These rate increases help the District maintain financial stability while continuing to provide safe drinking water to our community. Full rate structures can be found on the next page and on our website.