



Monday, February 10, 2020

Page -2-

- Gas Superintendent Terry Holman addressed the City Council and thanked everyone who visited the Gas exhibit / table during the State of the City.
- Electric Superintendent Michael Allison addressed the City Council regarding Renewable Energy; being an agent for the AMEA; and the need to approve the AMEA rider to provide renewable energy.
- Planning and Zoning Manager Hunter Simmons addressed the City Council regarding building height questions; and nothing being in the Zoning Ordinance for specifics. He said we need to be clear on what we are doing. Councilmember Conyers said that his interpretation is nothing over 40' in the CBD; and mixed used is nothing over 35'. Councilmember Robinson said we need the least amount of interpretations for whomever enforces this; and it need to be simple and consistent.

Building Official Erik Cortinas commented that pitched roofs gain height. He said the City uses the 2-10 Rule regarding chimneys; roof top terraces require handrails and fire safety stairs. Council President Burrell asked Mr. Simmons to put it in writing his opinions of what these building heights mean. Mr. Cortinas commented another issue measuring from the natural grade and not the base flood elevation from FEMA.

- Public Works Director Richard Johnson addressed the City Council regarding the following items:
  - 1) Safety Coordinator Michael Johnson began today; will be the liaison to the Personnel Board; and will work to prepare Safety Policy.
  - 2) Mardi Gras begins this weekend in Fairhope
  - 3) Sanitation being looked holistically with Baldwin County, Daphne, Foley, and Fairhope with the County possibly building a County Recycling Facility. All of us pay ECUA; and if we are to pay someone, pay ourselves. County will look at an ADEM Grant to help facilitate this facility. He said a draft resolution will be sent to the City Clerk for the next agenda.
  - 4) Crosswalks are in and he explained the LED lighting; and these will only be seen by oncoming traffic. We can replicate this inhouse when needed.

There being no further business to come before the City Council, the meeting was duly adjourned at 5:39 p.m.

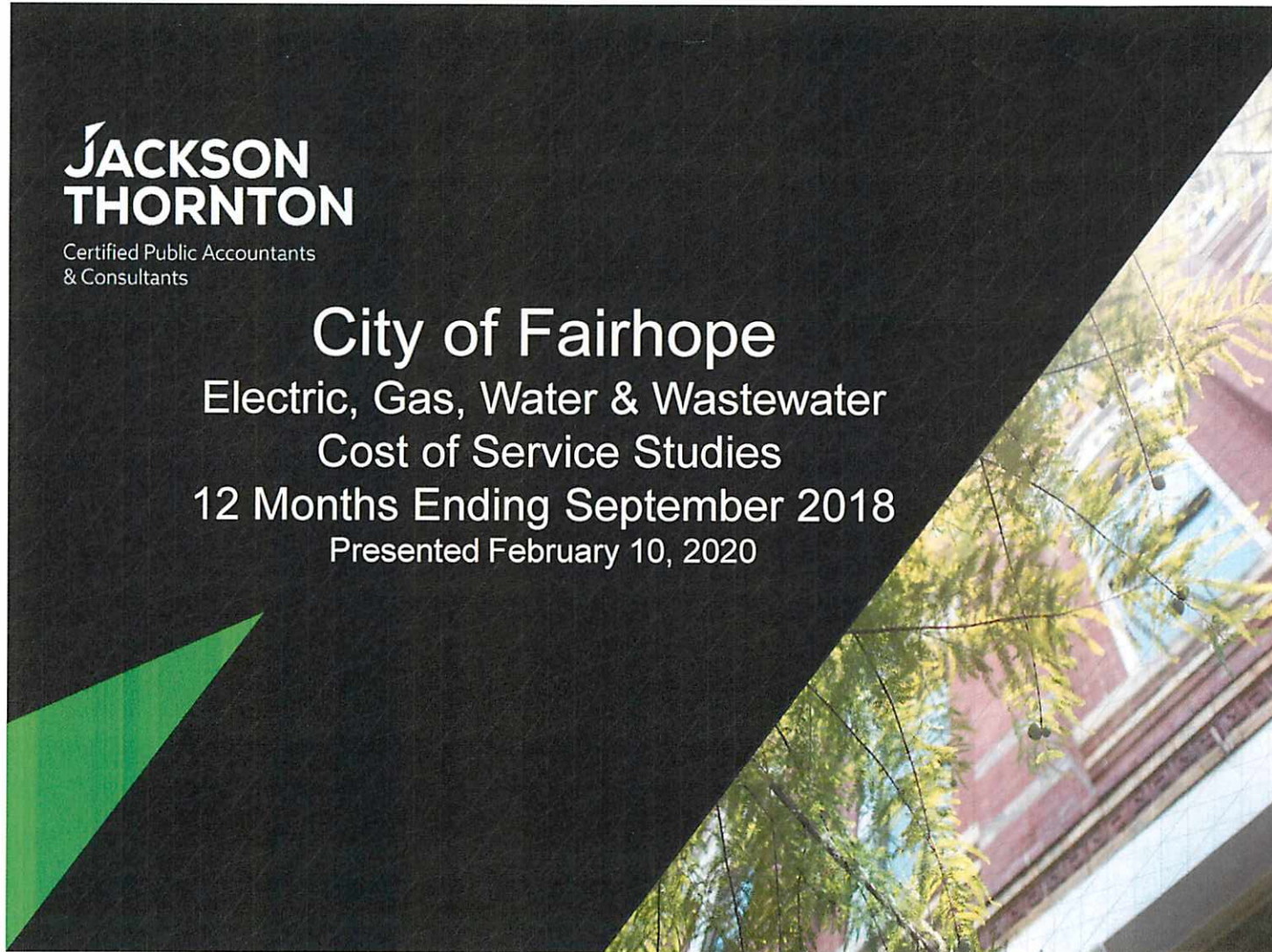
  
\_\_\_\_\_  
Jack Burrell, Council President

  
\_\_\_\_\_  
Lisa A. Hanks, MMC  
City Clerk

**JACKSON  
THORNTON**

Certified Public Accountants  
& Consultants

**City of Fairhope**  
Electric, Gas, Water & Wastewater  
Cost of Service Studies  
12 Months Ending September 2018  
Presented February 10, 2020



## Typical Objectives of Rate Study

1. Revenue Stability and Sufficiency
2. Fairness and Equity
  - Fair is related to cross subsidies
  - Equity is related to Price=Cost
3. Ability to Pay
4. Simplicity (Admin & Cust Understanding)
5. Defensible



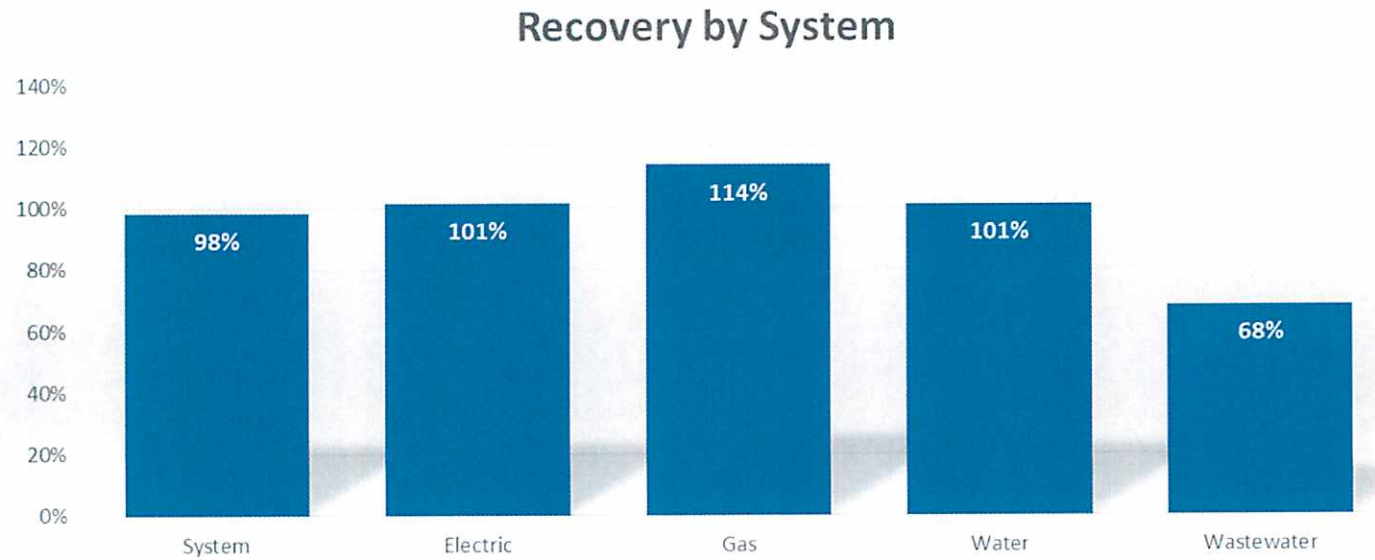
## Overview of Process

1. Determine Revenue Requirements
  - How much does the system need to operate?
2. Develop Revenue Requirements by Rate Class
  - How much does the system need to recover by rate class?
3. Develop COS Rates and Design Acceptable Rates
  - How does the system best recover the needed revenues?
4. Implement Rate Changes

## Cash Method – All Systems Revenue Requirement

TOTAL REV. REQ.	System	Electric PF	Gas	Water	Wastewater
Operations & Maintenance	\$ 12,632,438	\$ 3,698,786	\$ 2,725,640	\$ 2,899,088	\$ 3,308,924
Plus: Power Cost/Purchased Gas	\$ 14,552,972	\$ 12,631,562	\$ 1,921,410		
Plus: Transfers	\$ 3,181,000	\$ 979,000	\$ 702,000	\$ 1,500,000	
Plus: Debt Service	\$ 1,280,800	\$ 92,458	\$ 47,448	\$ 228,179	\$ 912,715
Plus: Rate Funded Capital Imp.	\$ 7,567,000	\$ 2,608,406	\$ 1,344,455	\$ 1,656,226	\$ 1,957,912
<b>Total Revenue Requirement</b>	<b>\$ 39,214,210</b>	<b>\$ 20,010,212</b>	<b>\$ 6,740,953</b>	<b>\$ 6,283,493</b>	<b>\$ 6,179,551</b>
Less: Other Revenue	\$ 652,948	\$ 345,643	\$ 31,833	\$ 257,898	\$ 17,574
<b>Rate Requirement</b>	<b>\$ 38,561,262</b>	<b>\$ 19,664,569</b>	<b>\$ 6,709,120</b>	<b>\$ 6,025,595</b>	<b>\$ 6,161,978</b>
	System	Electric PF	Gas	Water	Wastewater
Total Current Revenue	\$ 38,565,245	\$ 20,309,183	\$ 7,687,466	\$ 6,358,263	\$ 4,210,334
Current Recover (\$)	\$ (648,965)	\$ 298,970	\$ 946,513	\$ 74,769	\$ (1,969,217)
Current Recovery (%)	98%	101%	114%	101%	68%

## Cash Method – All Systems Revenue Requirement



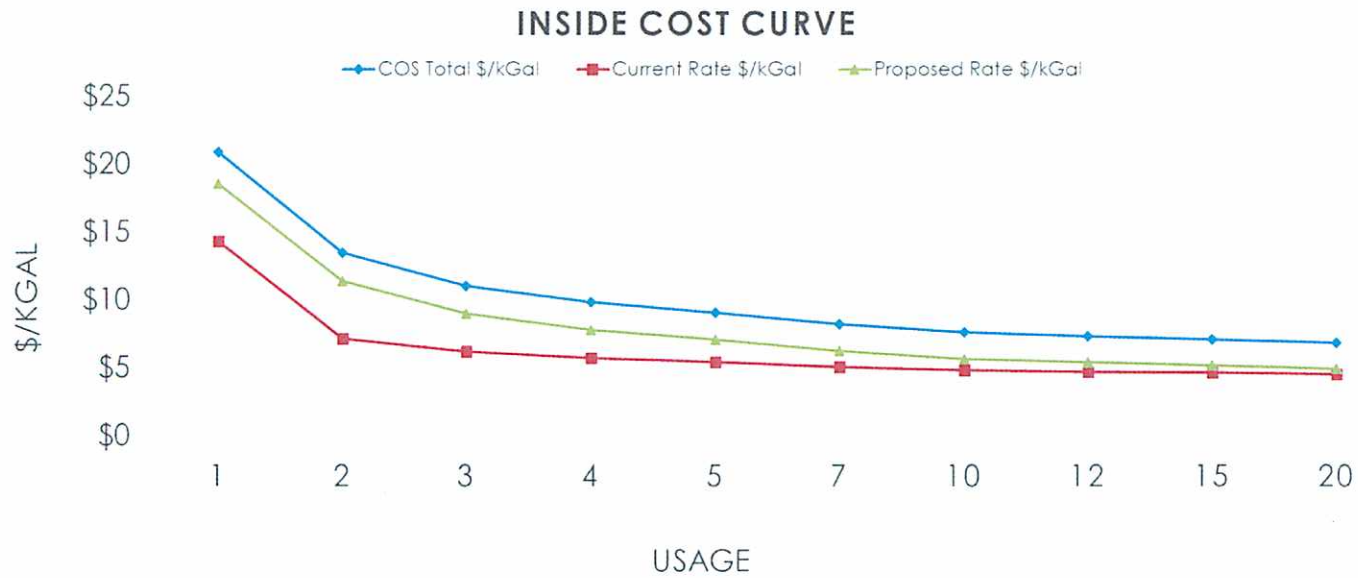
## Sewer Recommendations

- The Sewer System has a \$2,000,000 shortfall.
- Due to the potential for economic dislocation, we do not suggest that the gap be closed in the immediate future.
- We suggest that the City consider eliminating the usage included in the customer charge over a two year period.
  - Year 1 – Reduce usage included from 2,000 gallons to 1,000 gallons.
  - Year 2 – Reduce usage included from 1,000 gallons to zero.
  - Based on 2018 Billing Statistics, this would generate approximately \$820,000 in additional annual revenue.



## Sewer – Inside City Rate Curve – Full Implementation

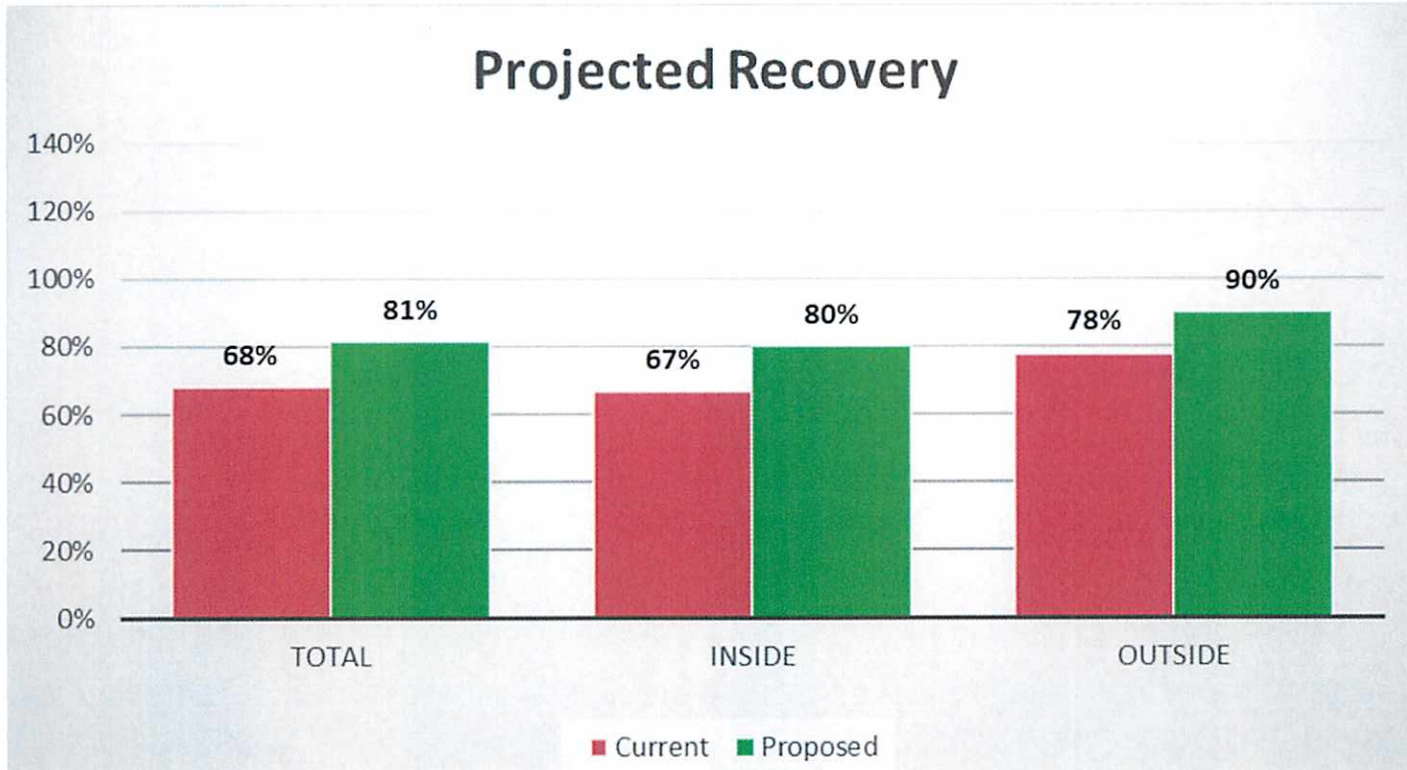
	Cost of Service	Current Rate	Proposed Rate	Difference	
Customer Charge (includes 2,000 Gals)	\$ 14.76	\$ 14.32	\$ 14.32	\$ -	No Usage Included
Usage >2,000 Gallons	\$ 6.13	\$ 4.24	\$ 4.24	\$ -	



## Sewer – Inside City Rate Impact – Full Implementation

Usage	COS Rates	Current Rates	Proposed Rates	Monthly Change	Daily Change	Current \$/kGal	Proposed \$/kGal
1	\$ 20.89	\$ 14.32	\$ 18.56	\$ 4.24	\$ 0.14	\$ 14.32	\$ 18.56
2	\$ 27.02	\$ 14.32	\$ 22.80	\$ 8.48	\$ 0.28	\$ 7.16	\$ 11.40
3	\$ 33.15	\$ 18.56	\$ 27.04	\$ 8.48	\$ 0.28	\$ 6.19	\$ 9.01
4	\$ 39.28	\$ 22.80	\$ 31.28	\$ 8.48	\$ 0.28	\$ 5.70	\$ 7.82
<b>5</b>	<b>\$ 45.41</b>	<b>\$ 27.04</b>	<b>\$ 35.52</b>	<b>\$ 8.48</b>	<b>\$ 0.28</b>	<b>\$ 5.41</b>	<b>\$ 7.10</b>
7	\$ 57.67	\$ 35.52	\$ 44.00	\$ 8.48	\$ 0.28	\$ 5.07	\$ 6.29
10	\$ 76.06	\$ 48.24	\$ 56.72	\$ 8.48	\$ 0.28	\$ 4.82	\$ 5.67
12	\$ 88.32	\$ 56.72	\$ 65.20	\$ 8.48	\$ 0.28	\$ 4.73	\$ 5.43
15	\$ 106.71	\$ 69.44	\$ 77.92	\$ 8.48	\$ 0.28	\$ 4.63	\$ 5.19
20	\$ 137.36	\$ 90.64	\$ 99.12	\$ 8.48	\$ 0.28	\$ 4.53	\$ 4.96
<b>Average Usage</b>		<b>5,544</b>					

## Sewer – Projected Recovery – Full Implementation



## Water – Revenue Neutral Rate Adjustments

- The Water System is adequately meeting its revenue requirement, so additional revenue is not needed at this time.
- To maintain a similar rate methodology across all four utility systems, consider eliminating the usage included in the customer charge.
- In order for this adjustment to be revenue neutral, the volumetric rate would need to be reduced approximately \$0.35/kGal with each decrease in allowance.