



Municipality of Skagway

MEMO

TO:	Brad Ryan, Borough Manager
FROM:	Tyson Ames, Public Works Director; Emily Deach, Deputy Borough Manager
DATE:	April 24, 2024
SUBJECT:	Utility Rate Resolutions

Resolutions 24-07R, 24-08R, and 24-09R (utility rate resolutions) were referred by the Assembly on April 18 to the Finance Committee for review. There are two issues for consideration with the utility rate resolutions: 1) addition of appropriate billing categories to the rate schedules; and 2) maintenance of annual rate increases.

Enclosed with this memo are several documents that the committee can utilize in its review:

- 2015 Water, Wastewater, Solid Waste, and Harbor Rate Study
- Resolutions: 17-27R, 18-08R, 21-41R, 23-19R, 23-20R
- FY23 Budget Variance Reports – Solid Waste Fund, Water-Sewer Fund

1. Addition of Appropriate Billing Categories to the Rate Schedules.

Several billing categories have been flagged by the Finance Department as necessary in order to accurately bill customers for these services. Regardless of what the Assembly decides regarding the policy of increasing rates annually, **staff strongly recommends that billing categories be added to the rate schedules as proposed**, including but not limited to:

- 1-Cubic-Yard Dumpsters (new units no longer offered)
- Per-Pound Disposal Rates at Transfer Station
- Commercial Fryer Oil Disposal
- Alcoholic Beverage Manufacturing
- Public Vehicle Washing Facilities
- Self-Haul from Public Water Source
- Private Septic Dumping

2. Maintenance of Annual Rate Increases.

In 2015, the Municipality completed a Water, Wastewater, Solid Waste, and Harbor Rate Study, which proposed several scenarios to financially stabilize its utility services and promote a fair and equitable allocation of system costs to its customers. The study recommended implementation of one of the scenarios in 2016; however, the implementation was delayed.

Solid Waste

- Resolution No. 17-27R directs implementation of “Scenario 2,” a policy of 9.5% annual increases, taking effect on January 1, 2018.
- Rates stayed at 2018 levels until April 1, 2022 (4.5 years), with the adoption of Resolution No. 21-41R, which reaffirmed the policy of 9.5% annual increases (covering 2022 – 2026).
- Resolution No. 24-07R seeks to extend the 9.5% annual increase policy for another year through 2027.
- Due to the delayed implementation of Scenario 2 from the rate study and operational costs that increased faster than the study estimated, the Municipality continues to fall short of financial stability for its solid waste services.
- According to the study (p. 11, Scenario 2), the Solid Waste utility operating expenses were estimated to be \$939,972 for 2023. According to the budget variance report for the Solid Waste Fund for 2023, operating expenses (not including capital project expense) were \$1,280,704.
- According to the study (p. 11, Scenario 2), the Municipality was estimated to subsidize the Solid Waste Fund by \$126,110 in 2023. According to the budget variance report for 2023, the Municipality subsidized the fund with \$548,451 of excise tax funding in 2023.
- This gap will continue to increase, even with the maintenance of the 9.5% annual increase policy.

Water and Wastewater

- Resolution No. 18-08R directs implementation of a policy of 5% annual increases for the water utility and 7% annual increases for wastewater utility, taking effect on April 15, 2018. This resolution approved rate increases through FY22. Note that the study’s Scenario 2 recommendation for combined annual increases equals 12.5%.
- Resolution No. 23-19R and Resolution No. 23-20R established rates for the water and wastewater utilities for FY23 through FY26, with increases at 5% and 7%, respectively.
- Resolution No. 24-08R and Resolution No. 24-09R seek to extend the established annual increase policy for water and wastewater for another year through 2027.
- Due to the delayed implementation of rate increases and operational costs that increased faster than the study estimated, the Municipality continues to fall short of financial stability for its water and wastewater services.
- According to the study (pp. 4 and 8, Scenario 2), the combined water and wastewater utility operating expenses were estimated to be \$992,761 for 2023. According to the budget variance report for the Water-Sewer Fund for 2023, operating expenses (not including capital project expense) were \$1,042,805.
- According to the study (pp. 4 and 8, Scenario 2), the Municipality was estimated to subsidize the Water-Sewer Fund by \$323,719 in 2023. According to the budget variance report for 2023, the Municipality subsidized the fund with \$421,291 of excise tax funding in 2023.
- This gap will continue to increase, even with the maintenance of the annual increase policy.

Recommendation

The Municipality needs to maintain the established percentage increases to the utility rates. The Municipality is so far behind recovering actual O&M costs that it will need to heavily subsidize using other municipal funds for years to come.

The FY24 budget has a total of \$1,126,760 transferred from excise tax to balance the budget for water, sewer, and garbage (\$550,380 for water and sewer and \$576,380 for garbage). As the cost of services increases, the revenue from excise tax (based on passenger numbers) remains flat and will become less and less able to provide an adequate subsidy over time.

The need to subsidize utility operations and maintenance costs is due to improper rates that do not fully cover the actual costs of providing water, sewer, and garbage. Subsidizing utility rates for businesses and residential properties can have several negative impacts on the Municipality.

The Municipality sets rates that are lower than the actual cost of providing the utilities. This could be due to various reasons such as political pressure to keep rates low, economic considerations, or simply a lack of understanding of the true costs involved. Following are some of the impacts from maintaining rates that do not cover the costs of operations and maintenance:

1. **Subsidization**: Because the rates are too low, the revenue generated is insufficient to cover the operational and maintenance costs of the utilities. This results in a gap between revenue and expenses.
2. **Covering the Gap**: To cover this gap, the Municipality may use taxpayer funds or revenue generated from other sources such as CPV to subsidize the operations and maintenance costs of providing water, sewer, and garbage. While we anticipate sales tax revenue will increase as the prices of products sold increase, CPV revenue is based on passenger numbers and will remain flat for some time; we will need to rely more and more on sales tax revenue to subsidize these services in the future.
3. **Impact on Businesses**: On the surface, businesses benefit from lower utility rates, which can reduce their operational expenses and make them more profitable. However, in the long run, this approach can have negative consequences:
 - a. **Dependency**: Businesses become dependent on artificially low rates.
 - b. **Inequity**: Other ratepayers, such as residential customers, end up subsidizing businesses, which can lead to inequity in the distribution of costs.
 - c. **Infrastructure Strain**: Insufficient revenue can lead to underinvestment in infrastructure maintenance and upgrades, potentially resulting in service disruptions or lower quality services in the future.
 - d. **Revenue Loss**: When a Municipality subsidizes these services, it essentially reduces the amount of revenue it collects from those who use them. This loss in revenue can strain the Municipality's budget, leading to difficulties in funding essential services and infrastructure projects.
 - e. **Budget Constraints**: Subsidizing these rates can lead to budget constraints for the

Municipality. With less revenue coming in from water, sewer, and garbage services, the Municipality may struggle to allocate funds for other important services such as education, healthcare, public safety, and transportation.

- f. Unsustainable Subsidies: Subsidizing these rates may not be sustainable in the long run. As the population grows and demands for services increase, the Municipality may find it challenging to continue providing subsidies without imposing higher taxes or fees on residents and businesses.
- g. Dependency: Businesses and residents become dependent on subsidized rates, making it difficult for the Municipality to withdraw the subsidies in the future without facing backlash.

Overall, while subsidies for water, sewer, and garbage rates may provide short-term relief for businesses and residents, they can have significant long-term negative impacts on the financial health, sustainability, and equity of the Municipality.