

City of Madison
2022 Drinking Water Improvement Project
April 2022 Overview

Prelude: The City of Madison provides full utility services to the community such as water, wastewater, solid waste disposal, recycling, composting, and stormwater control. The water infrastructure is quite comprehensive with seven production wells, three treatment facilities, six storage tanks, five booster pump stations, and several miles of water mains. Some of our infrastructure dates to the mid-19th century and most is 75 years old. The City of Madison provides clean drinking water to over 60% of Jefferson County, 20,000 residents. Among those approximately 12,500 water users live in the city and approximately 4,200 households in the county. We pump, treat, store, and distribute approximately eight hundred million gallons of water a year to city customers and to three county water reseller utilities: Ryker's Ridge, Dupont, and Canaan.

When was the last time a major investment was made in the city water infrastructure? The last major investment was approximately 20 years ago.

When was the last time rates changed for the water? The city is currently operating under a rate ordinance passed in 2008, approximately 14 years ago. Based on information provided, it has been many years since each rural water company adjusted its rates as well.

Why are water rates so important? Indiana statutes which govern municipal utilities require that the utility be self-sufficient and funded only from user rates and fees. There are no property taxes supporting the utility. Without proper rates and fees, revenues have been insufficient to absorb the impact of inflation or make necessary capital improvements. In fact, the statute requires that rates should be sufficient to maintain the utility property in a sound physical and financial condition in order to render adequate and efficient service. Rates and charges too low to meet these requirements are unlawful.

Why is this investment being proposed now? The city completed a comprehensive review of its waterwork infrastructure in 2019/2020 which culminated in an asset management plan and list of critical investment needs. It has been undergoing the process of rate analysis, searching for grants and other sources, and arranging financing the past year or more.

What are the critical investment needs? The fundamental purpose of the investment is to provide a safe and reliable water supply which large gaps in investing jeopardize this goal. After an extensive review including IDEM inspections of the storage tanks, on March 8th, 2022, the city's engineers presented the findings to City Council as part of the application for a state revolving loan to finance the project. Critical needs include complete rehab of all six storage tanks,

upgrades to the water treatment plant, pumps, hydrants, and replacement of undersized water mains.

Who prepared the city's rate study and when was the rate study finished? The city's rate consultant is Sherman, Barber, and Mullikan. SBM is an experienced professional accounting firm that is familiar with these types of studies and represents multiple units of government. The rate study has been underway for over a year with significant information compiled about the city's utility operation to assist in recommendations. Although a schedule of rates was circulated to many interested parties, including city council and county commissioners, the final version was published on March 29, 2022. This document has been shared with the community on the city's website and with all three county water resellers.

Why was 2019 used as the base year? The rate study actually began in 2020 with year end 2019 financials. However, due to COVID and the impact it had on creating anomalies in operations, the 2019 base year was normalized for and projected for a typical operational year through 2023. Operational information for 2021 was reviewed and verified the approach would produce consistent results.

What were the results of the rate study? The rate study concluded that rates for all four user tiers would need to increase between 79.32% and 94.56%. While percentages can be deceiving, the practical application of the rate increase is \$5-\$6 per user household per month.

Why isn't the increase equal across all user groups? The city worked hard to make sure that user rates across all tiers are fair and evaluated data to compile a base cost of service as the primary tool to establish minimum rates.

How much did the City of Madison household rate increase? Rates are set per 1,000 gallons. City of Madison rates increased by \$1.88 per 1,000 gallons.

How much did the county water reseller rate increase? The county water reseller rate that applies to Dupont, Rykers Ridge, and Canaan increased \$1.39 per 1,000 gallons.

Why is the county water reseller rate lower than the City of Madison household rate? The county water reseller rate is approximately 31% lower than that of a typical city household. This is because the cost to produce 1,000 gallons of water for the county water resellers (and other high volume users) is lower than it costs to produce the same amount of water for the city. Another major reason is that minimum water rates are established to make sure funding of the water works system is sustainable by the city for the city. While all water customers rely on pumps, treatment facilities, storage tanks and distribution network, approximately 80% of the city's water mains service customers inside the city limits. Adjustments were made for these distinctions in the base cost analysis.

Why have rates not increased for 14 years? Neither the city nor each of the rural water company's have prepared for adequate revenue streams to support regular and recurring investment in its aging infrastructure. While expenses increase every year, revenue in the form of user rates and fees can only be done by ordinance for a municipal utility. The City of Madison spent about a decade dealing with its major sewer issues which unfortunately caused other utility investments to be deferred.

How does the City of Madison water rates compare with surrounding cities of comparable size or the state? The city's proposed monthly rates are very affordable compared to other cities and across the state. For example, after the rate increase a typical Madison household monthly minimum water charge will be \$12.75 as compared to Greensburg at \$27.63, Sellersburg at \$18.40, Scottsburg at \$36.48 and the state average from 2019 of \$17.03. The rate comparisons are attached as an exhibit.

What efforts have been taken to reduce rates? Significant efforts have been undertaken over the past year to find other sources of funding to offset the costs of the investment. The City was turned down for a \$5 million SWIF grant last summer due to our rates being too low as compared to other communities with a much higher financial burden. In addition, multiple requests and appeals were made to the Jefferson County Commissioners to assist financially with this project. The city requested a \$2.5 million co-investment from the commissioners who offered just \$100,000. Multiple requests were made, however, the commissioners refused to make an early commitment of any material size that could have reduced rates for everyone.

What about the Madison Courier article about County Funding? A recent courier article indicated that the county is now considering an \$875,000 contribution to the project. However, nothing firm has been received from the county nor has their ARPA local plan been approved by the county council. If and when something does materialize, we can measure the impact on rates after all factors are known. It would be our desire to pass along lower rates, if possible, from a higher financial commitment by the county.

What would be the impact of a \$2.5 million co-investment by Jefferson County? On December 16, 2021, the city's rate consultant prepared an analysis revealing that a \$2.5 million co-investment from the county would reduce the overall rate increase by approximately 10% and save ratepayers approximately \$3.7 million over the term of the loan. This information was provided to the commissioners at a joint meeting of the commissioners and county council regarding the county's local plan for ARPA funding, a copy of which is attached.

What is the SRF loan? The city has applied for a \$13 million loan from the state revolving fund to cover the cost of the project. City council and Board of Public Works and Safety has already approved this application. Timing is critical for this part of the process in order to preserve the 2% interest rate. If the process is interrupted, a higher cost of debt service would directly correlate to even higher rates, which nobody wants.

Are the county water resellers responsible for any of the debt service on the SRF loan? None of the annual debt service is included in the operating cost projections for which the base rate was calculated for the higher volume water users. However, future capital investments are included and must be shared by all utility users to maintain our system.

Is there a guarantee that rates will never increase again? No. The cumulative impact from inflation over the last 14 years has eroded rates by approximately 35%. With current inflation trends, that same impact will occur in just four years. It is prudent for all utility companies to regularly review its rate and cost structure. The proposed ordinance that is before Madison's common council includes a provision to review rates not longer than every five years. This will ensure rate increases are incremental, not monumental.

What is the city doing with its ARPA funding? The city actually has two major water projects underway. One is the clean drinking water project and the second is the Crooked Creek Watershed flood mitigation project. ARPA funding is based on population, so the city's funding was approximately one-third that of the county. The city is earmarking the majority of its ARPA funding to offset costs to deal with flash flooding of the Crooked Creek watershed.

What is the timing of the rate increase? This process has been underway for a very long time and many community conversations have occurred at various times. The new rate ordinance was introduced at council on April 19th, 2022, and will be on its second reading on May 4th, 2022, and final reading May 17th. Upon final passage, rates will go into effect beginning the month of June and reflected on the July billing. This is required in order to qualify for the low-interest rate loan from the state.

Other Information: The ordinance and full rate study is on the city's website for public viewing and anyone with questions is invited to attend either city council meeting to discuss. Written questions will be responded to immediately if addressed to Mayor Bob Courtney and Superintendent Brian Jackson at mayor@madison-in.gov and utilitymanager@madison-in.gov.

Attachments: SBM letter dated December 16, 2021 and Rate Comparison Table



SHERMAN, BARBER & MULLIKIN

A PROFESSIONAL CORPORATION

CERTIFIED PUBLIC ACCOUNTANTS

December 16, 2021

Principals
Kevin W. Mullikin, CPA
Ben M. Foley, CPA
Christine D. Dattilo, CPA

Tracy L. Wyne, CPA
Shaun A. King, CPA

To the Honorable Mayor Bob Courtney
City of Madison
101 W. Main Street
Madison, Indiana 47250

Dear Mayor Courtney:

I'm writing as a follow-up to our meeting yesterday regarding the rate study we are performing for the City's municipal water utility. While we are not yet able to issue a final report on the study, we have determined the expected annual revenue requirements and resultant increase in user rates that will be necessary to fund those requirements. At this point the only variable from a forecasting standpoint is whether the County will increase their contribution to the capital improvements project. As we discussed yesterday, we have calculated the annual debt service requirements under two alternative scenarios. The first is a borrowing of \$13 million. The second is a borrowing of \$10.5 million, which assumes a contribution from the County of \$2.5 million.

Our calculations indicate that a \$2.5 million contribution from the County would reduce the required increase in user rates from 77.9% to 67.9%. That is the result of a reduction in annual debt service requirements of \$182,734. As you noted during our meeting, that means that customers of the utility would collectively save \$182,734 in water charges each year over the twenty-year term of the loan. Cumulatively, that would indicate a total savings to the ratepayers of nearly \$3.7 million.

Our debt service calculations were based on current terms offered by the Indiana Finance Authority through the State Revolving Fund. As you know, the funding process is often a lengthy one, so the sooner we can move forward with the study the better. The next steps in the process will require us to determine the amount to be financed, so that the borrowing can be authorized, through adoption of a bond ordinance, and the rate increase can be approved, through adoption of a rate ordinance, by the City Council.

Please notify me if you have any questions about this information or if you wish to discuss this matter further.

Yours Truly,

Kevin Mullikin
Certified Public Accountant

| 2019 bakertilly comparative water rate study (Indiana) | | | | | | | Other City Research | | | | | | |
|--|-----------------|----------------|----------------|-----------------|------------------|------------------|---------------------|------------------|---------------------|---------------------|---------------------|--------------------|--------------------------------|
| | POPULATION | | | | | | CITY | | | | | | |
| | Less than 1,000 | 1,000 to 3,000 | 3,001 to 6,000 | 6,001 to 10,000 | 10,001 to 15,000 | 15,001 to 25,000 | Over 25,000 | Madison (11,890) | Greensburg (11,712) | Sellersburg (9,013) | Washington (12,069) | Scottsburg (6,696) | Madison Proposed Rate Increase |
| Municipalities in study group | 107 | 124 | 36 | 29 | 17 | 19 | 36 | | | | | | |
| First Bracket price (per 1,000 gallons) [For 1st 5000] | \$8.80 | \$7.38 | \$5.97 | \$6.19 | \$5.13 | \$4.36 | \$4.03 | \$2.37 | \$6.89 | \$6.32 | \$8.45 | \$12.16 | \$4.25 |
| Last Bracket price (per 1,000 gallons) | \$4.00 | \$3.46 | \$2.78 | \$2.65 | \$2.30 | \$2.21 | \$2.39 | \$1.47 | \$2.97 | \$1.96 | \$7.45 | \$2.77 | \$2.86 |
| Gallons given for minimum price | 2486 | 2446 | 2649 | 2403 | 2871 | 2943 | 2603 | 3000 | 2244 | 2033 | 3740 | 1500 | 3000 |
| Minimum charge for 5/8" meter | \$21.88 | \$18.20 | \$16.63 | \$15.28 | \$16.30 | \$11.43 | \$10.82 | \$7.11 | \$20.67 | \$12.85 | \$31.70 | \$18.24 | \$12.75 |
| Charge for 5/8" meter with 3000 Gallons Usage | \$26.40 | \$22.14 | \$17.91 | \$18.57 | \$17.03 | \$13.08 | \$12.09 | \$7.11 | \$27.63 | \$18.40 | \$25.43 | \$36.48 | \$12.75 |
| Minimum charge for 6" meter | \$662.53 | \$640.26 | \$514.49 | \$760.44 | \$748.03 | \$496.46 | \$465.05 | \$427.32 | \$1,267.01 | \$919.20 | \$1,988.19 | \$2,917.82 | \$816.86 |
| Annual charge for 6" Sprinkler | \$679.39 | \$714.69 | \$616.00 | \$675.11 | \$871.38 | \$601.66 | \$639.50 | \$640.80 | \$889.55 | \$860.17 | \$3,567.36 | \$1,102.82 | \$1,148.52 |
| Annual charge for 12" Sprinkler | \$2,358.13 | \$2,768.38 | \$2,580.74 | \$2,500.39 | \$4,203.04 | \$3,051.19 | \$3,326.36 | \$2,877.12 | N/A | N/A | N/A | N/A | \$5,156.76 |
| Annual private hydrant charge | \$515.66 | \$516.86 | \$560.26 | \$649.89 | \$756.48 | \$504.89 | \$554.05 | \$382.14 | \$1,187.00 | \$860.17 | \$1,347.73 | \$1,101.65 | \$684.92 |
| Public Safety Hydrant surcharge for 5/8" Meter (In City Limits) | \$3.80 | \$4.45 | \$3.39 | \$4.53 | \$4.57 | \$3.31 | \$3.75 | \$1.44 | \$4.78 | \$4.38 | \$3.19 | \$13.26 | \$2.58 |
| Public Safety Hydrant surcharge for 5/8" Meter (Outside City Limits) | | | | | | | | \$2.03 | | | | | \$3.64 |
| Monthly bill based on 3,000 gallons usage (w/ Hydrant chrg) | \$30.20 | \$26.59 | \$21.30 | \$23.10 | \$21.60 | \$18.46 | \$20.95 | \$8.55 | \$32.41 | \$25.38 | \$28.62 | \$49.74 | \$15.33 |
| Monthly bill based on 4,000 gallons usage (w/ Hydrant chrg) | \$33.98 | \$29.19 | \$25.44 | \$25.01 | \$24.71 | \$22.19 | \$24.82 | \$10.92 | \$41.46 | \$29.68 | \$37.09 | \$57.57 | \$19.58 |
| Monthly bill based on 5,000 gallons usage (w/ Hydrant chrg) | \$40.57 | \$35.42 | \$30.74 | \$30.61 | \$29.59 | \$26.07 | \$28.67 | \$13.29 | \$50.04 | \$33.98 | \$45.57 | \$68.00 | \$23.83 |
| Monthly bill based on 10,000 gallons usage (w/ Hydrant chrg) | \$71.24 | \$63.87 | \$55.22 | \$57.90 | \$53.30 | \$46.47 | \$47.66 | \$24.98 | \$92.75 | \$51.23 | \$82.23 | \$120.15 | \$42.18 |
| Connection or Tap-On Fee | | | | | | | | \$350.00 | 750-1000 | 1300-4500 | 1200+ | \$1,000.00 | |
| Disconnect/Reconnect Fee | | | | | | | | \$25.00 | \$40.00 | \$30.00 | \$15.00 | \$50.00 | \$25.00 |

