

Memo

To: North Canton City Council
North Canton Director of Finance

From: Chuck Osborne

CC: Director of Administration

Date: 2/11/02

Re: Proposed Water Rate Increase (\$0.50 inside and \$1.25 outside) Is Not Financially Sound and Will Alienate Outside Water users.

Included here is additional information that builds on the previous submitted analysis concerning the City of North Canton's urgent need to structure financially sound water rates. In doing this, it is important that any changes be financially sound and workable for water customers served by the city, whether they live inside or outside the City of North Canton.

In the earlier report to council, I analyzed, in table and chart format, North Canton's water rates and compared those of surrounding water facilities. The other water facilities included Alliance, Canton City, Consumers Ohio and Stark MSD. As everyone knows, Consumers Ohio is a direct competitor. It is also possible that Canton City or Stark MSD could service our water customers. In analyzing increases in the water rate structure, it is very important that it keep in mind that outside water customers have alternative choice for water.

By raising North Canton's outside water rates an additional \$1.25 per 1000 gallons, the city will become the most expensive provider of water outside the city (see water rate comparison data in table and line charts for outside users). The proposed increase in outside water rates by \$1.25 could result in the loss of 25% of our water accounts and the loss of as much as 58% of our water revenue (see revenue and cost percentages). This would be disastrous for North Canton's water system and therefore an increase of this magnitude in outside rates should be rejected.

There is another reason why the water committee's recommended rate increases are not workable and this fact becomes clear when looking at the summary of water revenues and costs. When calculating total revenues minus total costs, the account is left with \$275,178. Starting in 2003 the city will begin paying down two notes (\$400,000 and \$900,000) and as a result the water fund will be left with a balance of only \$36,178. Consider the following questions:

- Where is the city going to get the funds for replacing or adding water lines? It appears that there will be no excess water funds for water lines.
- Where is the city going to get the funds for water exploration? It appears that there will be no excess water funds for water exploration.

- Where is the city going to get the funds to run new water lines to newly found water reserves when and if they are found?

And now that the city is about to embark on a highly needed \$10 million upgrade/improvement to the water plant, consider the following question:

- Where is the city going to get the funds to make the bond payments on the \$10 million loan to upgrade and improve the water plant?

Clearly, the recommended rate increase by the water committee will not provide the needed funds to repay the bond (see water fund balance based on proposed rate increase), nor will it provide the needed funds to add or replace water lines or find new water sources, which the city also desperately needs.

Financially, the water committee recommendations are inadequate.

North Canton is at a fork in the road regarding the future of its' water plant. Raising water rates is not something that is done without a good purpose. It has fallen to this council to make up for the past lack of oversight. This council should act in a fiscally responsible manner regarding the financial management of the city's water plant and its water rate structure. Sixteen years without any adjustments in water rates has left the water fund financially under-funded.

If North Canton is to retain its water plant it must put the water fund on the road to financial recovery. The job of council is to represent the city's residents in the management of city business and if done responsibly everyone affected will certainly understand the necessity of a prudent rate increase.

I would like to propose that a water-engineering firm devise a new water rate structure that is fair, workable and above all, financially sound. By approaching the water rate issue in this manner city council can implement the changes desperately needed and avoid needless controversy.

Sincerely,

Chuck Osborne
Council at-Large
City of North Canton

Water Rate Cost Comparison

Consumption vs. Costs

Residential Inside						
Consumption Range	Alliance	Canton City	Consumers Ohio	Stark MSD	NC Present	50 Cent Increase
						NC Proposed
0 - 3000	\$14.38	\$5.75	\$19.84	\$12.00	\$6.00	\$7.50
3001 - 15000	\$62.36	\$26.09	\$67.20	\$58.00	\$30.00	\$37.50
15001 - 20000	\$82.48	\$35.22	\$86.93	\$76.00	\$41.00	\$51.00
20001 - 25000	\$100.65	\$43.04	\$106.67	\$94.00	\$53.00	\$65.50
25001 - 30000	\$118.70	\$52.17	\$126.40	\$112.00	\$66.00	\$81.00
30001 - 35000	\$136.76	\$60.78	\$146.13	\$130.00	\$80.00	\$97.50
35001 - 40000	\$153.45	\$67.04	\$163.70	\$148.00	\$95.00	\$115.00
40001 - 999999	\$2,152.74	\$957.98	\$1,913.14	\$3,283.43	\$3,163.80	\$3,666.63

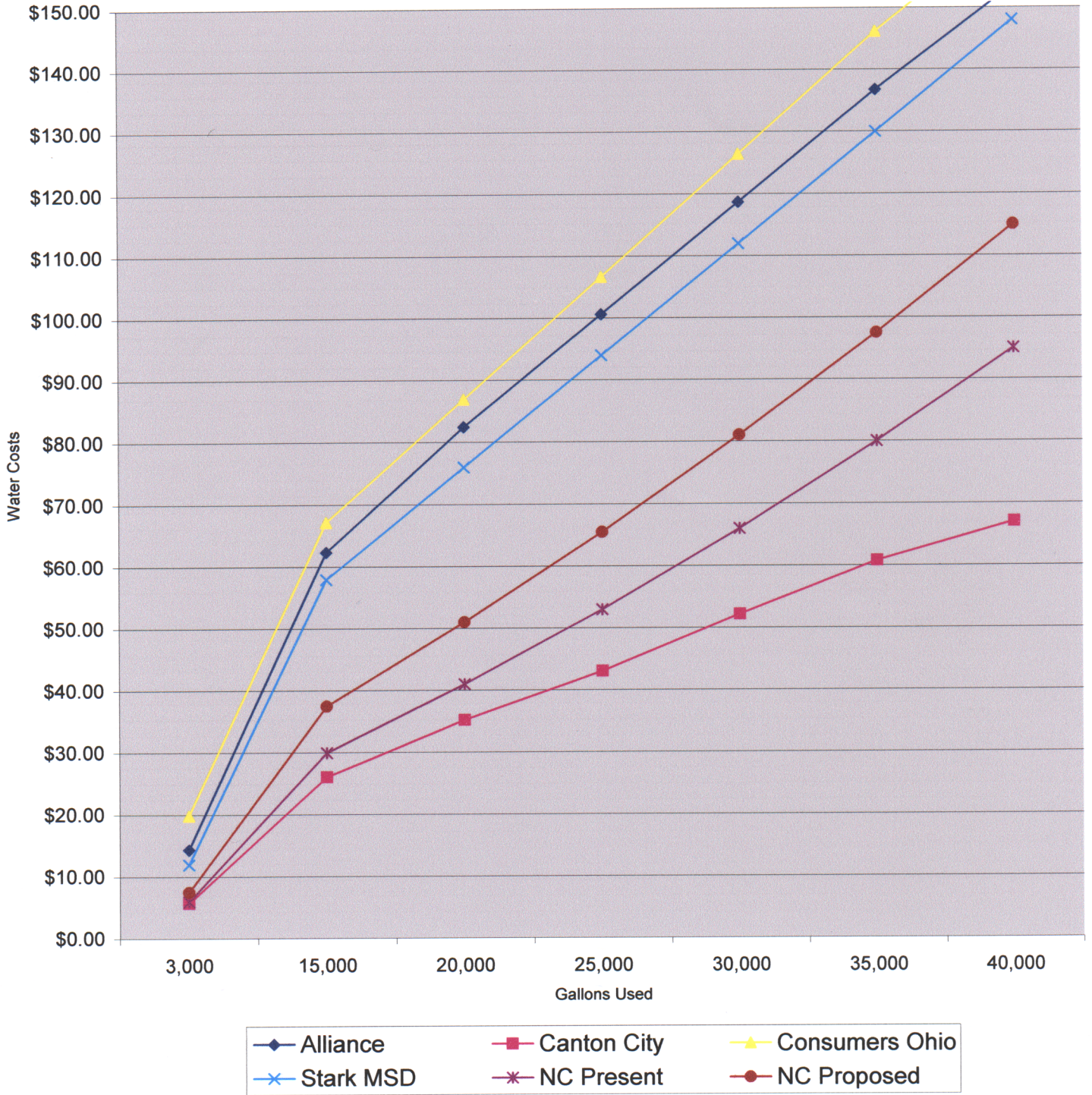
Residential Outside						
Consumption Range	Alliance	Canton City	Consumers Ohio	Stark MSD	NC Present	\$1.25 Increase
						NC Proposed
0 - 3000	21.11	14.38	19.84	12.00	15.00	\$18.75
3001 - 15000	93.93	65.22	67.20	58.00	75.00	\$93.75
15001 - 20000	124.28	88.04	86.93	76.00	101.00	\$125.00
20001 - 25000	151.62	107.61	106.67	94.00	128.00	\$156.25
25001 - 30000	178.80	130.43	126.40	112.00	156.00	\$187.50
30001 - 35000	205.99	151.95	146.13	130.00	185.00	\$218.75
35001 - 40000	231.18	167.11	163.70	148.00	215.00	\$250.00
40001 - 999999	3,270.86	2,394.96	1,913.14	3,283.43	6,161.00	\$6,249.38

Business Inside						
Consumption Range	Alliance	Canton City	Consumers Ohio	Stark MSD	NC Present	50 Cent Increase
						NC Proposed
0 - 3000	\$109.83	\$57.39	\$35.04	\$94.00	\$6.00	\$7.50
3001 - 40000	\$153.45	\$67.39	\$178.90	\$184.00	\$80.00	\$100.00
40001 - 100000	\$323.19	\$150.85	\$340.49	\$358.75	\$188.00	\$238.00
100001 - 750000	\$1,771.64	\$755.80	\$1,475.24	\$2,471.25	\$1,228.00	\$1,603.00
750001 - 999999	\$2,152.74	\$958.13	\$1,905.14	\$3,283.43	\$1,577.00	\$2,077.81

Business Outside						
Consumption Range	Alliance	Canton City	Consumers Ohio	Stark MSD	NC Present	\$1.25 Increase
						NC Proposed
0 - 3000	\$164.79	\$143.49	\$35.04	\$94.00	\$15.00	\$18.75
3001 - 40000	\$231.18	\$166.46	\$178.90	\$184.00	\$200.00	\$250.00
40001 - 100000	\$489.03	\$377.11	\$340.49	\$358.75	\$470.00	\$595.00
100001 - 750000	\$2,690.76	\$1,884.51	\$1,475.24	\$2,471.25	\$3,070.00	\$4,007.50
750001 - 999999	\$3,270.86	\$2,395.32	\$1,905.14	\$3,283.43	\$3,945.00	\$5,194.53

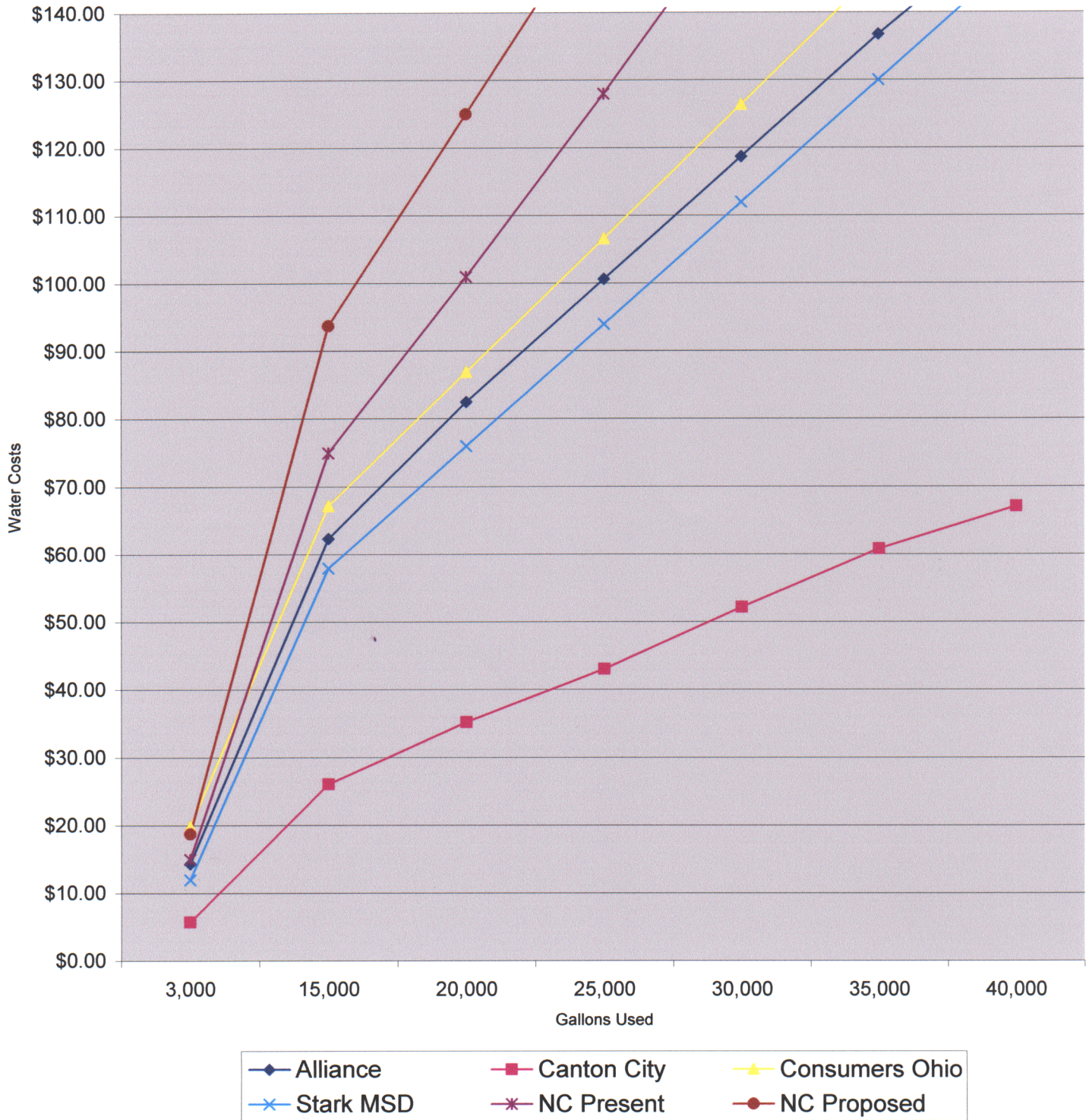
Water Rate Comparison Consumption vs Costs

(Residential Inside)
50 Cent Increase



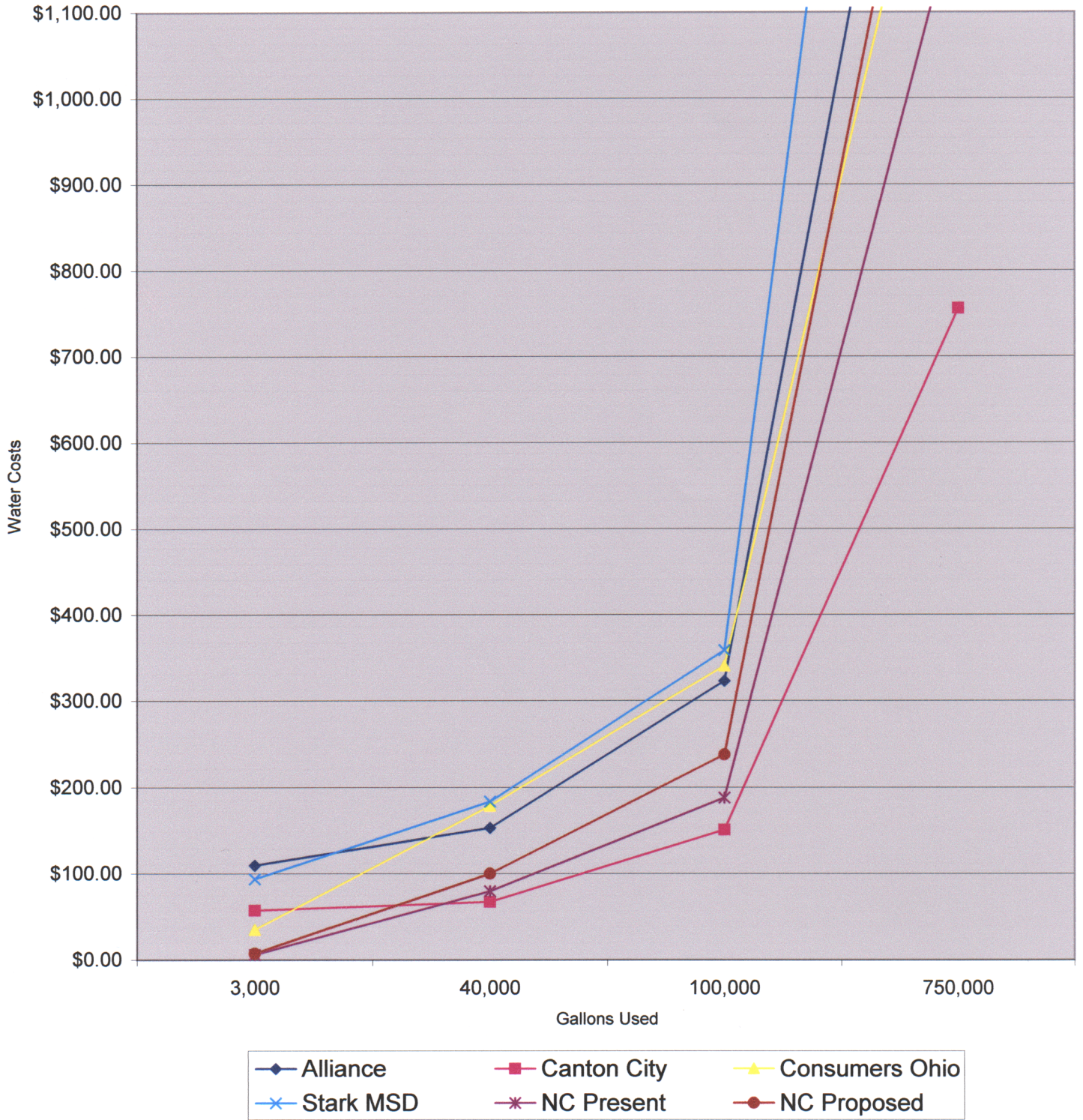
Water Rate Comparison Consumption vs Costs

(Residential Outside)
\$1.25 Increase



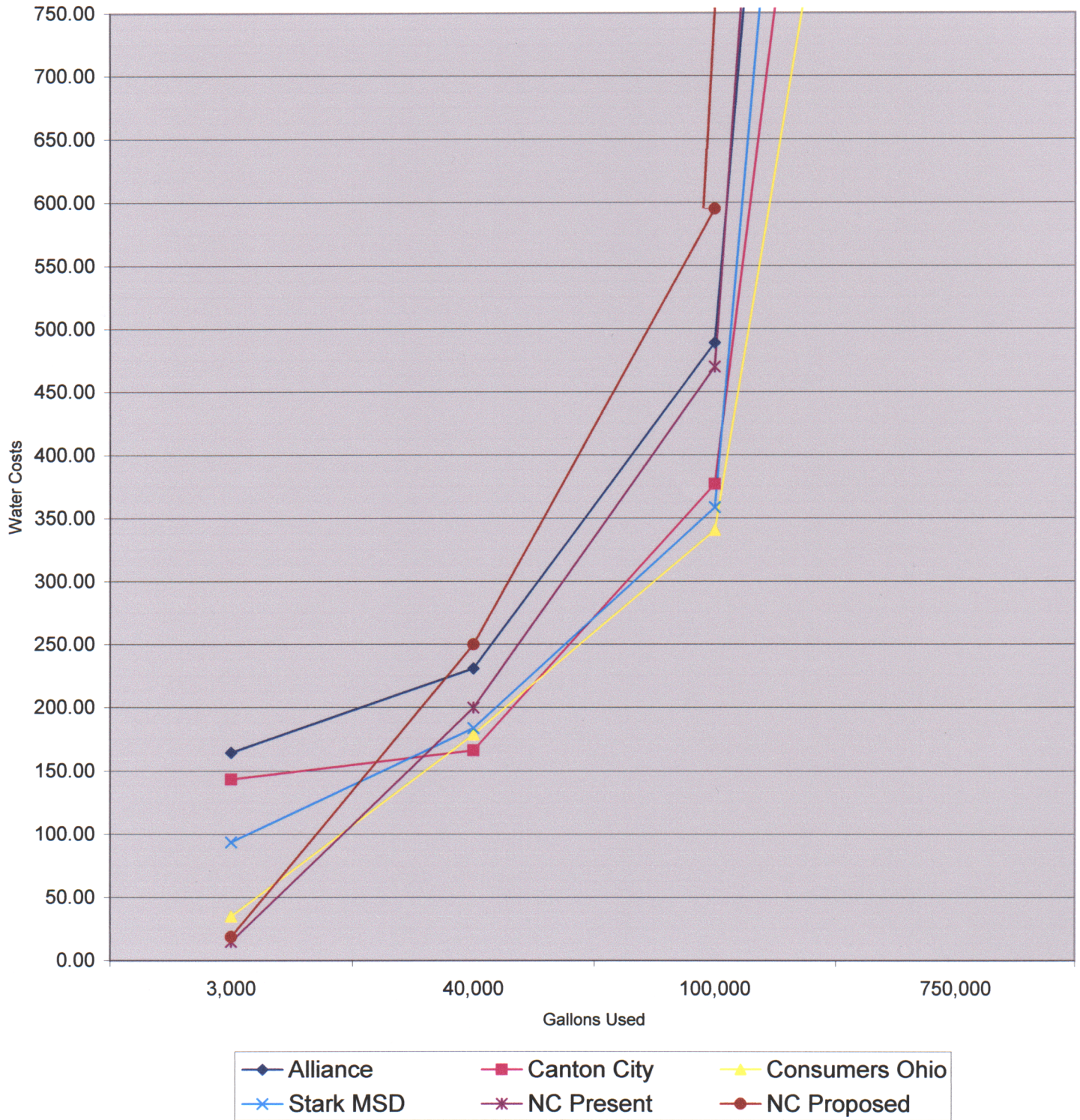
Water Rate Comparison Consumption vs Costs

(Business Inside)
50 Cent Increase



Water Rate Comparison Consumption vs Costs

(Business Outside)
50 Cent Increase



North Canton Water Revenue Analysis

Total Revenues and Costs Percentages

Residential Inside

Consumption Range	# of Accounts	Consumption x1000	Current Revenue	Water Production Costs \$1.62	Water Distribution Costs \$0.78	Administrative Water Cost \$0.16	Debt Service \$0.14	Total Water Costs \$2.70	Proposed Revenue
0-3000	24.22%	4.42%	2.97%					4.42%	2.93%
3001-15000	43.27%	27.36%	18.38%					27.36%	18.13%
15001- 20000	1.08%	1.85%	1.36%					1.85%	1.32%
20001-25000	0.50%	1.10%	0.89%					1.10%	0.85%
25000-30000	0.35%	0.94%	0.82%					0.94%	0.77%
30001-35000	0.28%	0.88%	0.83%					0.88%	0.77%
35001-40000	0.16%	0.62%	0.62%					0.62%	0.57%
40001-999999	0.73%	5.33%	5.73%					5.33%	5.23%
Totals	70.59%	42.50%	31.60%					42.50%	30.58%

Residential Outside

Consumption Range	# of Accounts	Consumption x1000	Current Revenue	Water Production Costs \$1.62	Water Distribution Costs \$0.78	Administrative Water Cost \$0.16	Debt Service \$0.14	Total Water Costs \$2.70	Proposed Revenue
0-3000	2.91%	0.55%	0.92%					0.55%	0.91%
3001-15000	6.23%	4.03%	6.77%					4.03%	6.68%
15001- 20000	0.23%	0.38%	0.66%					0.38%	0.65%
20001-25000	0.14%	0.29%	0.53%					0.29%	0.51%
25000-30000	0.10%	0.26%	0.48%					0.26%	0.47%
30001-35000	0.06%	0.20%	0.40%					0.20%	0.38%
35001-40000	0.05%	0.16%	0.33%					0.16%	0.31%
40001-999999	0.13%	1.07%	2.23%					1.07%	2.11%
Totals	9.85%	6.94%	12.32%					6.94%	12.02%

North Canton Water Revenue Analysis

Total Revenues and Costs Percentages

Business Inside

Consumption Range	# of Accounts	Consumption x1000	Current Revenue	Water Production Costs \$1.62	Water Distribution Costs \$0.78	Administrative Water Cost \$0.16	Debt Service \$0.14	Total Water Costs \$2.70	Proposed Revenue
0-3000	1.76%	0.25%	0.17%					0.25%	0.17%
3001-40000	1.82%	2.26%	1.52%					2.26%	1.50%
40001-100000	0.33%	2.06%	1.25%					2.06%	1.26%
100101-750000	0.21%	4.49%	2.41%					4.49%	2.50%
750001-999999	0.05%	9.20%	4.33%					9.20%	4.64%
Totals	4.17%	18.27%	9.67%					18.27%	10.06%

Business Outside

Consumption Range	# of Accounts	Consumption x1000	Current Revenue	Water Production Costs \$1.62	Water Distribution Costs \$0.78	Administrative Water Cost \$0.16	Debt Service \$0.14	Total Water Costs \$2.70	Proposed Revenue
0-3000	5.54%	0.81%	1.36%					0.81%	1.34%
3001-40000	8.36%	8.15%	13.69%					8.15%	13.51%
40001-100000	0.78%	4.90%	7.40%					4.90%	7.46%
100101-750000	0.68%	13.73%	18.45%					13.73%	19.11%
750001-999999	0.04%	4.69%	5.51%					4.69%	5.91%
Totals	15.40%	32.28%	46.41%					32.28%	47.34%

Summary of Total Revenues and Costs Percentages

	<u>Current Revenue</u>	<u>Total Water Costs</u>	<u>Proposed Revenue</u>
Residential Inside Water Revenue	31.60%	42.50%	30.58%
Residential Outside Water Revenue	12.32%	6.94%	12.02%
Business Inside Water Revenue	9.67%	18.27%	10.06%
Business Outside Water Revenue	46.41%	32.28%	47.34%
Total Water Revenue/Costs	100.00%	100.00%	100.00%

North Canton Water Revenue Analysis

Total Water Revenues vs Costs

Residential Inside

Consumption Range	# of Accounts	Consumption x1000	Current Revenue	Water Production Costs \$1.62	Water Distribution Costs \$0.78	Administrative Water Cost \$0.16	Debt Service \$0.14	Total Water Costs \$2.70	Proposed Revenue	Gain/Loss From Current Revenue	Gain/Loss From Proposed Revenue
0-3000	1,928	43,766	\$87,532	\$70,901	\$34,137	\$7,003	\$6,127	\$118,168	\$109,415	-\$30,636	-\$8,753
3001-15000	3,445	270,908	\$541,816	\$438,871	\$211,308	\$43,345	\$37,927	\$731,452	\$677,270	-\$189,636	-\$54,182
15001-20000	86	18,281	\$40,218	\$29,615	\$14,259	\$2,925	\$2,559	\$49,359	\$49,359	-\$9,140	\$0
20001-25000	40	10,899	\$26,158	\$17,656	\$8,501	\$1,744	\$1,526	\$29,427	\$31,607	-\$3,270	\$2,180
25000-30000	28	9,302	\$24,185	\$15,069	\$7,256	\$1,488	\$1,302	\$25,115	\$28,836	-\$930	\$3,721
30001-35000	22	8,748	\$24,494	\$14,172	\$6,823	\$1,400	\$1,225	\$23,620	\$28,868	\$875	\$5,249
35001-40000	13	6,118	\$18,354	\$9,911	\$4,772	\$979	\$857	\$16,519	\$21,413	\$1,835	\$4,894
40001-999999	58	52,807	\$168,982	\$85,547	\$41,189	\$8,449	\$7,393	\$142,579	\$195,386	\$26,404	\$52,807
Totals	5,620	420,829	\$931,740	\$681,743	\$328,247	\$67,333	\$58,916	\$1,136,238	\$1,142,154	-\$204,499	\$5,916

Residential Outside

Consumption Range	# of Accounts	Consumption x1000	Current Revenue	Water Production Costs \$1.62	Water Distribution Costs \$0.78	Administrative Water Cost \$0.16	Debt Service \$0.14	Total Water Costs \$2.70	Proposed Revenue	Gain/Loss From Current Revenue	Gain/Loss From Proposed Revenue
0-3000	232	5,411	\$27,055	\$8,766	\$4,221	\$866	\$758	\$14,610	\$33,819	\$12,445	\$19,209
3001-15000	496	39,932	\$199,660	\$64,690	\$31,147	\$6,389	\$5,590	\$107,816	\$249,575	\$91,844	\$141,759
15001-20000	18	3,750	\$19,500	\$6,075	\$2,925	\$600	\$525	\$10,125	\$24,188	\$9,375	\$14,063
20001-25000	11	2,878	\$15,541	\$4,662	\$2,245	\$460	\$403	\$7,771	\$19,139	\$7,771	\$11,368
25000-30000	8	2,547	\$14,263	\$4,126	\$1,987	\$408	\$357	\$6,877	\$17,447	\$7,386	\$10,570
30001-35000	5	2,026	\$11,751	\$3,282	\$1,580	\$324	\$284	\$5,470	\$14,283	\$6,281	\$8,813
35001-40000	4	1,613	\$9,678	\$2,613	\$1,258	\$258	\$226	\$4,355	\$11,694	\$5,323	\$7,339
40001-999999	10	10,595	\$65,689	\$17,164	\$8,264	\$1,695	\$1,483	\$28,607	\$78,933	\$37,083	\$50,326
Totals	784	68,752	\$363,137	\$111,378	\$53,627	\$11,000	\$9,625	\$185,630	\$449,077	\$177,507	\$263,447

Chuck Osborne

North Canton Water Revenue Analysis

Total Water Revenues vs Costs

Business Inside

Consumption Range	# of Accounts	Consumption x1000	Current Revenue	Water Production Costs	Water Distribution Costs	Administrative Water Cost	Debt Service	Total Water Costs	Proposed Revenue	Gain/Loss From Current Revenue	Gain/Loss From Proposed Revenue
0-3000	140	2,489	\$4,978	\$4,032	\$1,941	\$398	\$348	\$6,720	\$6,223	-\$1,742	-\$498
3001-40000	145	22,398	\$44,796	\$36,285	\$17,470	\$3,584	\$3,136	\$60,475	\$55,995	-\$15,679	-\$4,480
40001-100000	26	20,433	\$36,779	\$33,101	\$15,938	\$3,269	\$2,861	\$55,169	\$46,996	-\$18,390	-\$8,173
100101-750000	17	44,462	\$71,139	\$72,028	\$34,680	\$7,114	\$6,225	\$120,047	\$93,370	-\$48,908	-\$26,677
750001-999999	4	91,114	\$127,560	\$147,605	\$71,069	\$14,578	\$12,756	\$246,008	\$173,117	-\$118,448	-\$72,891
Totals	332	180,896	\$285,252	\$293,052	\$141,099	\$28,943	\$25,325	\$488,419	\$375,700	-\$203,167	-\$112,719

Business Outside

Consumption Range	# of Accounts	Consumption x1000	Current Revenue	Water Production Costs	Water Distribution Costs	Administrative Water Cost	Debt Service	Total Water Costs	Proposed Revenue	Gain/Loss From Current Revenue	Gain/Loss From Proposed Revenue
0-3000	441	8,036	\$40,180	\$13,018	\$6,268	\$1,286	\$1,125	\$21,697	\$50,225	\$18,483	\$28,528
3001-40000	666	80,735	\$403,675	\$130,791	\$62,973	\$12,918	\$11,303	\$217,985	\$504,594	\$185,691	\$286,609
40001-100000	62	48,471	\$218,120	\$78,523	\$37,807	\$7,755	\$6,786	\$130,872	\$278,708	\$87,248	\$147,837
100101-750000	54	135,968	\$543,872	\$220,268	\$106,055	\$21,755	\$19,036	\$367,114	\$713,832	\$176,758	\$346,718
750001-999999	3	46,446	\$162,561	\$75,243	\$36,228	\$7,431	\$6,502	\$125,404	\$220,619	\$37,157	\$95,214
Totals	1,226	319,656	\$1,368,408	\$517,843	\$249,332	\$51,145	\$44,752	\$863,071	\$1,767,978	\$505,336	\$904,906

North Canton Water Revenue Analysis

Summary of Water Revenues & Costs

	Current Revenue	Proposed Revenue
Residential Inside Water Revenue	\$931,740	\$1,142,154
Residential Outside Water Revenue	\$363,137	\$449,077
Business Inside Water Revenue	\$285,252	\$285,252
Business Outside Water Revenue	\$1,368,408	\$1,767,978
Total Water Revenue	\$2,948,537	\$3,644,461

	Water Costs	Water Costs
Residential Inside Water Costs	\$1,136,238	\$1,136,238
Residential Outside Water Costs	\$185,630	\$185,630
Business Inside Water Costs	\$488,419	\$488,419
Business Outside Water Costs	\$863,071	\$863,071
Total Water Costs	\$2,673,359	\$2,673,359

Net Gain/Loss From Water Sales	\$275,178	\$971,102
Bond Payments Starting 2003 (\$400k & \$900k)	\$239,000	\$239,000
	\$36,178	\$732,102
1st Year P & I - Water Plant Improvement	\$891,000	\$891,000
Water Fund Balance	-\$854,822	-\$158,898