

STATE OF ALABAMA)(
:
COUNTY OF BALDWIN)(

The City Council met in a Work Session
at 4:30 p.m., Fairhope Municipal Complex Council Chamber,
161 North Section Street, Fairhope, Alabama 36532,
on Monday, 28 October 2024.

Present were Council President Corey Martin, Councilmembers: Jack Burrell, Jimmy Conyers, Jay Robinson, and Kevin Boone, Mayor Sherry Sullivan, City Attorney Marcus E. McDowell, Attorney Christopher S. Williams, and City Clerk Lisa A. Hanks.

Council President Martin called the meeting to order at 4:30 p.m.

The following topics were discussed:

- The first item on the Agenda was the Cost of Services Study Presentation and Discussion by Jackson Thornton. Mayor Sullivan addressed the City Council and introduced Jim Marshall with Jackson Thornton. Mr. Thornton presented the Power Point Presentation titled, "City of Fairhope Electric, Water, Wastewater & Gas Cost of Service Studies: 12 Months Ending September 2022." (See attached Presentation) Councilmember Burrell questioned organic growth to 100 percent. Mr. Marshall explained we just want to break even; and will work gradually to 100 percent. Mayor Sullivan said we should do this study every two to three years.
- The next item on the Agenda was the Executive Session. At the request of the City Attorney, Marcus E. McDowell, the City Council will rise from the meeting to go into Executive Session based on Alabama Code § 36-25A-7(a)(3) to discuss pending and the legal ramifications of and legal options for potential litigation. The approximate time to be in Executive Session is 45 minutes. Councilmember Burrell moved to go into Executive Session. Seconded by Councilmember Robinson, motion passed unanimously by voice vote.

Exited the dais at 5:00 p.m. Returned at 5:52 p.m.

- Water and Wastewater Superintendent Daryl Morefield addressed the City Council regarding Agenda Items No. 17 through No. 22; and answered any questions if needed. He told the City Council that the Publix Liftstation on Highway 104 was up and running.
- Gas Superintendent Wes Boyett addressed the City Council and gave an update on the Alabama Public Service Commission recent inspection; and said they found no violations and had no recommendations. He gave a shout out to two of his employees who handled this inspection: Lewis Jones and Ty Northrop.

Councilmember Burrell commented last meeting about complaints from citizens of their lines being cut; and said the next day two Gas employees came to his home to let him know a line had been cut. He said they were very professional.

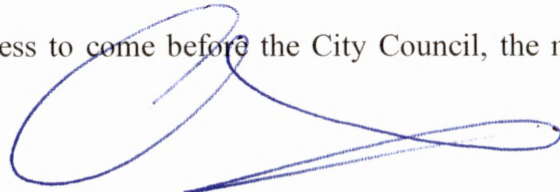
- IT Director Jeff Montgomery addressed the City Council regarding Agenda Item No. 24; and answered any questions if needed.

Monday, 28 October 2024

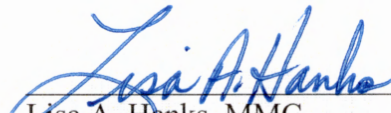
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- Chief Stephanie Hollinghead addressed the City Council regarding Agenda Item No.23; and answered any questions if needed.
- City Engineer Richard Johnson addressed the City Council regarding Agenda Items No. 9, No. 10, No. 11, and No. 12; and answered any questions if needed.

There being no further business to come before the City Council, the meeting was duly adjourned at 6:02 p.m.

A handwritten signature in blue ink, appearing to read 'Corey Martin', with a large loop and a long horizontal stroke.

Corey Martin, Council President

A handwritten signature in blue ink, appearing to read 'Lisa A. Hanks', with a large loop and a long horizontal stroke.

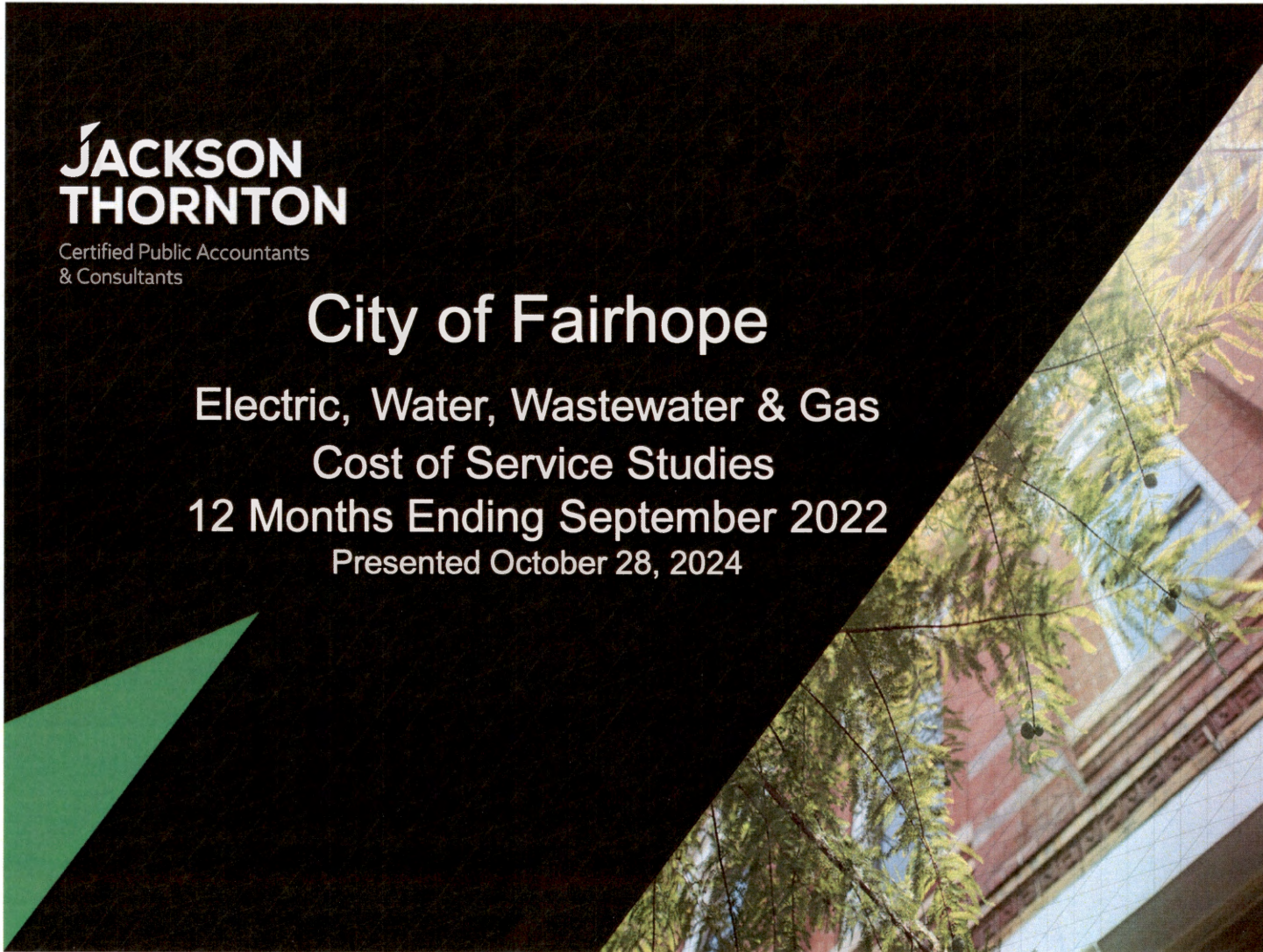
Lisa A. Hanks, MMC
City Clerk



Certified Public Accountants
& Consultants

City of Fairhope

Electric, Water, Wastewater & Gas
Cost of Service Studies
12 Months Ending September 2022
Presented October 28, 2024



Typical Objectives of Rate Study

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

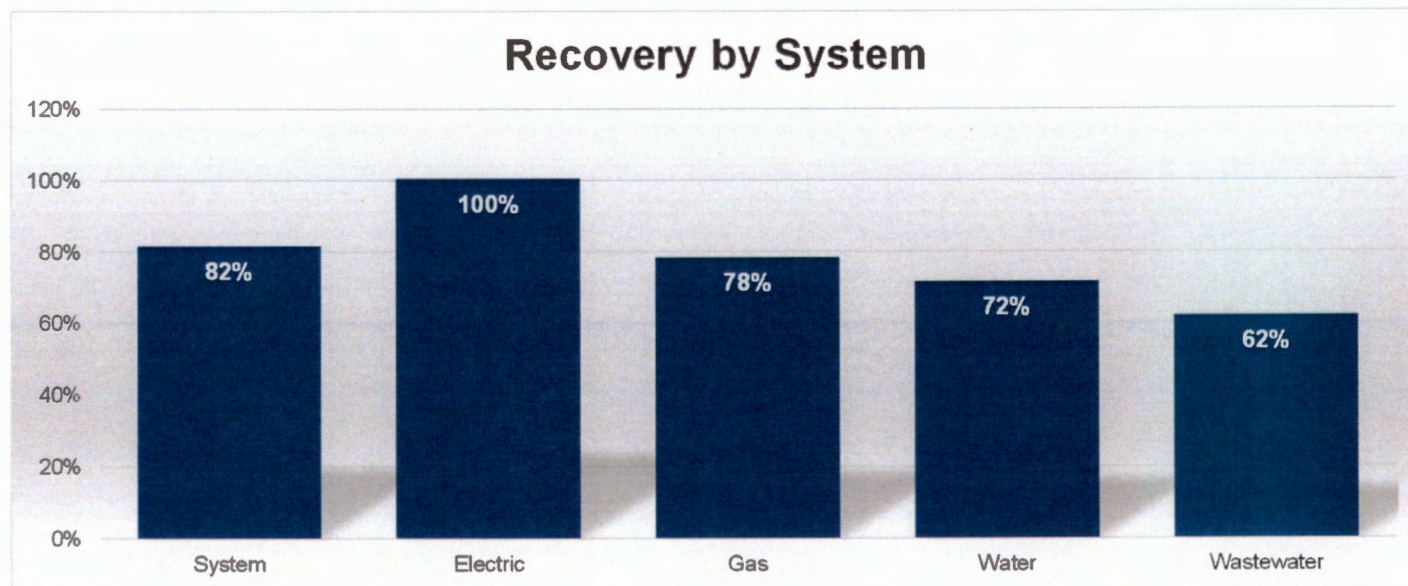
Overview of Process

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	Gas	Water	Wastewater
Operations & Maintenance	\$ 16,693,399	\$ 4,468,073	\$ 3,712,753	\$ 4,237,685	\$ 4,274,887
Plus: Power Cost/Purchased Gas	\$ 17,155,934	\$ 13,394,653	\$ 3,761,281		
Plus: Transfers	\$ 1,679,192	\$ 537,655	\$ 401,644	\$ 688,310	\$ 51,583
Plus: Debt Service	\$ 6,379,228	\$ 43,730	\$ 43,730	\$ 2,839,846	\$ 3,451,921
Plus: Rate Funded Capital Imp.	\$ 14,710,635	\$ 2,460,635	\$ 3,000,000	\$ 5,250,000	\$ 4,000,000
Total Revenue Requirement	\$ 56,618,388	\$ 20,904,747	\$ 10,919,408	\$ 13,015,842	\$ 11,778,391
Less: Other Revenue	\$ 1,986,492	\$ 1,070,830	\$ 316,692	\$ 510,120	\$ 88,850
Rate Requirement	\$ 54,631,897	\$ 19,833,916	\$ 10,602,716	\$ 12,505,722	\$ 11,689,542
	System	Electric	Gas	Water	Wastewater
Total Current Revenue	\$ 46,219,459	\$ 21,002,340	\$ 8,558,176	\$ 9,322,407	\$ 7,336,537
Current Recovery (\$)	\$ (10,398,929)	\$ 97,593	\$ (2,361,232)	\$ (3,693,435)	\$ (4,441,854)
Current Recovery (%)	82%	100%	78%	72%	62%

Cash Method – All Systems Revenue Requirement

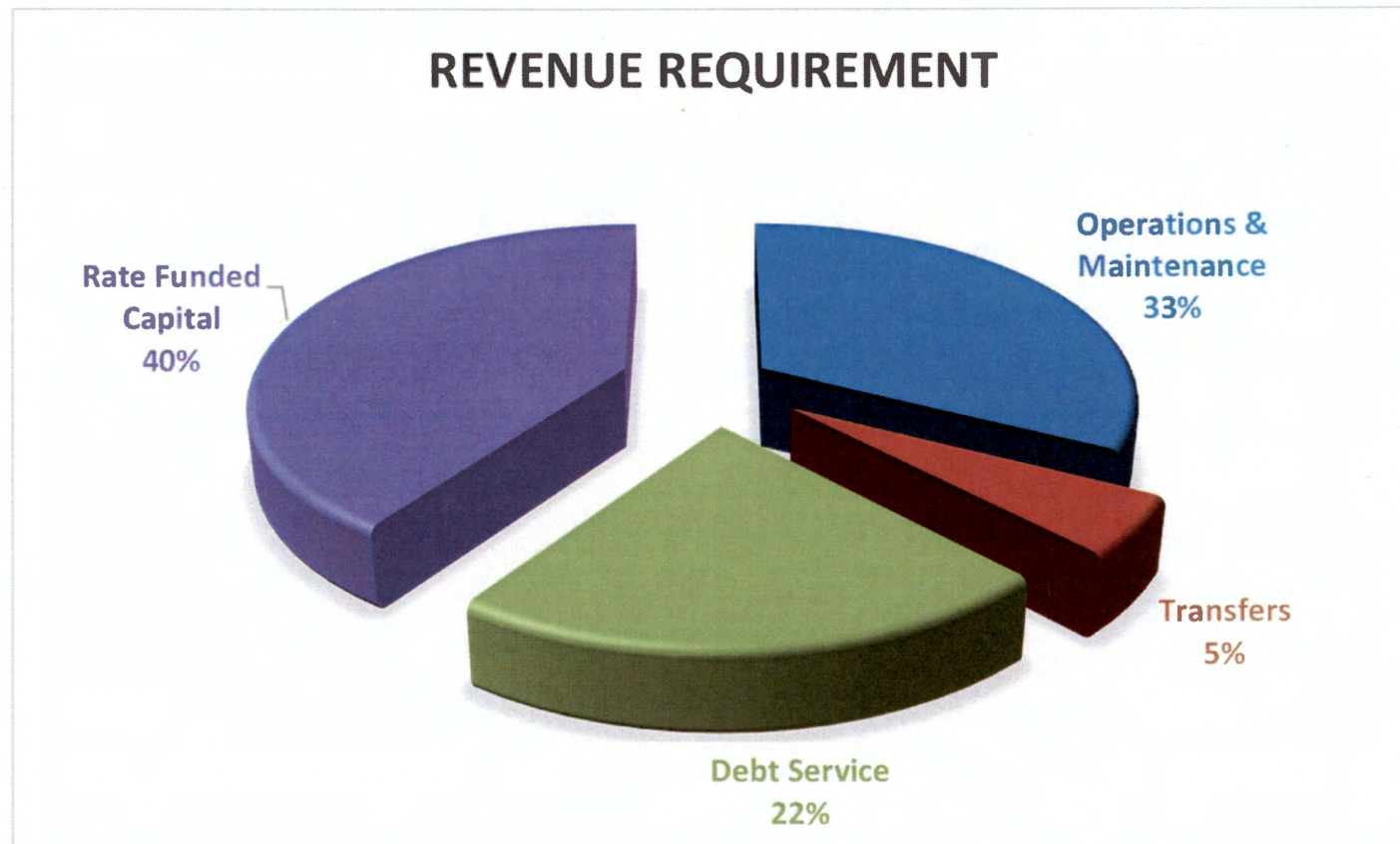


Water – Cash Method Revenue Requirement

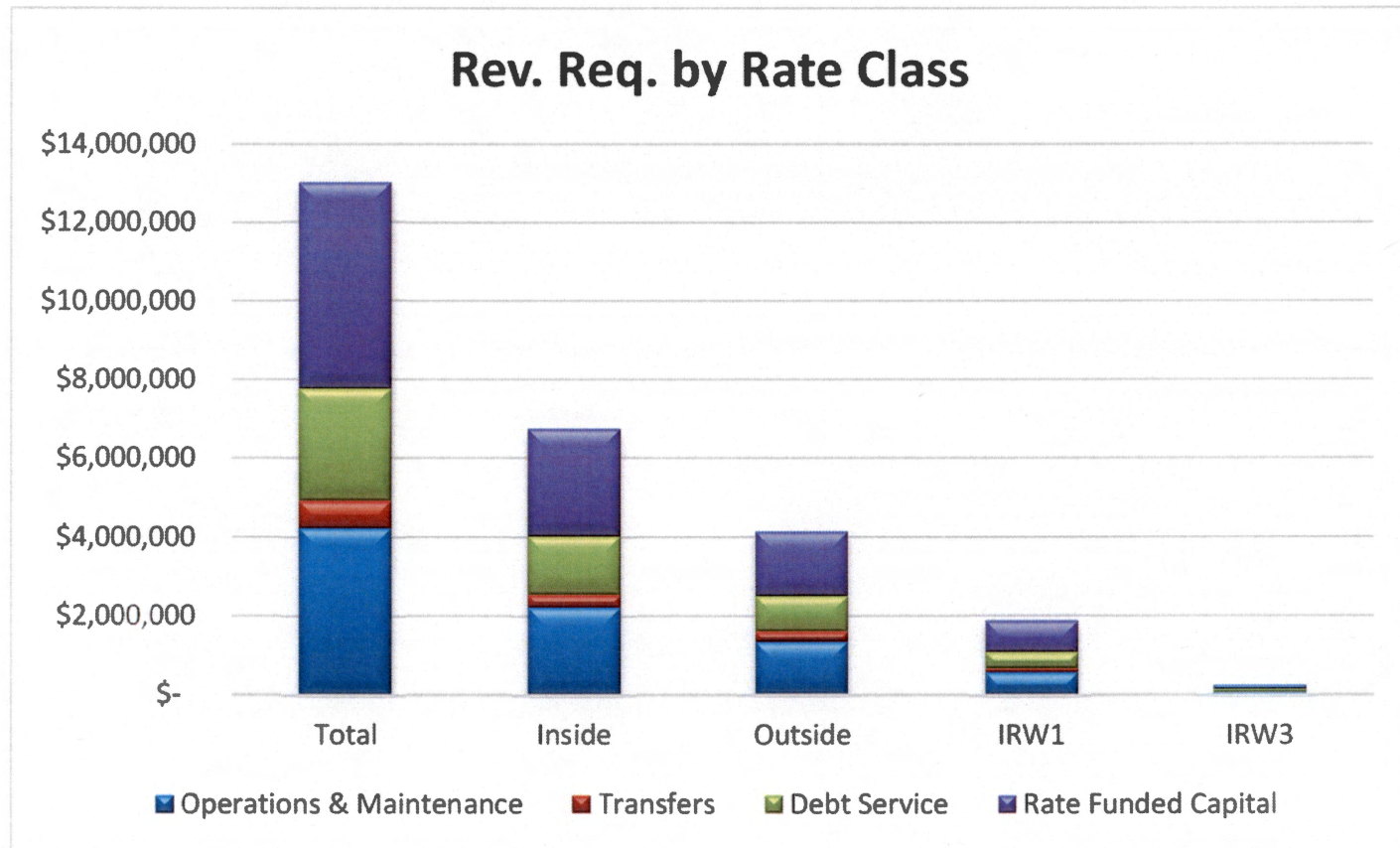
TOTAL REV. REQ.	
Operations & Maintenance	\$ 4,237,685
Plus: Transfers	\$ 688,310
Plus: Debt Service	\$ 2,839,846
Plus: Rate Funded Capital	\$ 5,250,000
Total Revenue Requirement	<u>\$ 13,015,842</u>
Less: Other Revenue	<u>\$ 510,120</u>
Rate Requirement	<u>\$ 12,505,722</u>

*Debt Service Includes \$2,491,000 of annual payments that do not yet exist

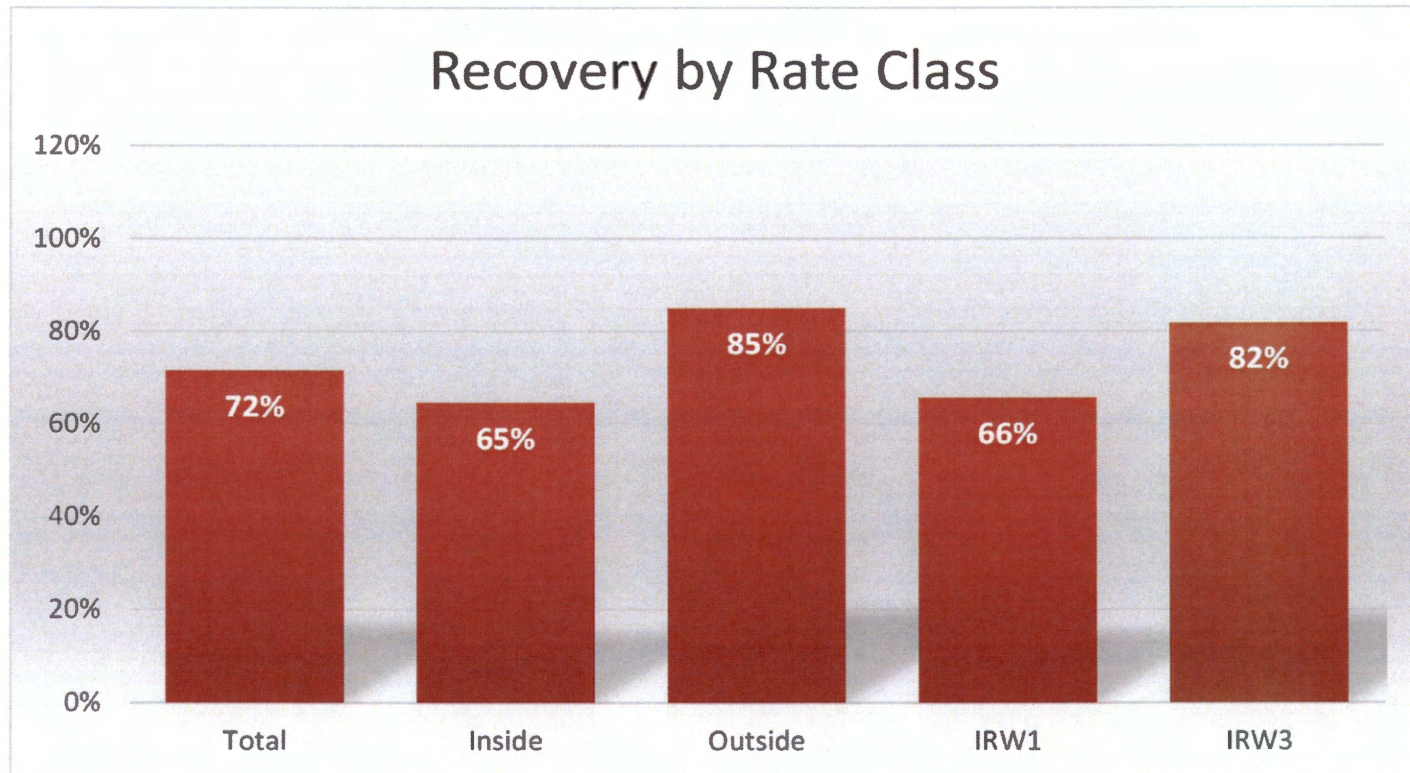
Water – Components of Revenue Requirement



Water – Revenue Requirement by Rate Class



Water – Recovery by Class



	Total		Inside		Outside		IRW1		IRW3	
Total Revenue	\$	9,322,407	\$	4,354,931	\$	3,523,866	\$	1,236,561	\$	207,049
Over/(Under) Recovery	\$	(3,693,435)	\$	(2,384,227)	\$	(619,094)	\$	(644,180)	\$	(45,935)

Water – Results & Recommendations, 1 of 3

- The water system is anticipated to under-recover by approximately \$3,700,000 on a total need of \$13,000,000.
- During our most recent work session held with staff on September 16, 2024, it was decided to try and target a 90% recovery in two steps.
 - This equals approximately \$1,221,00 in additional revenue each of the next two steps.

Water – Results & Recommendations, 2 of 3

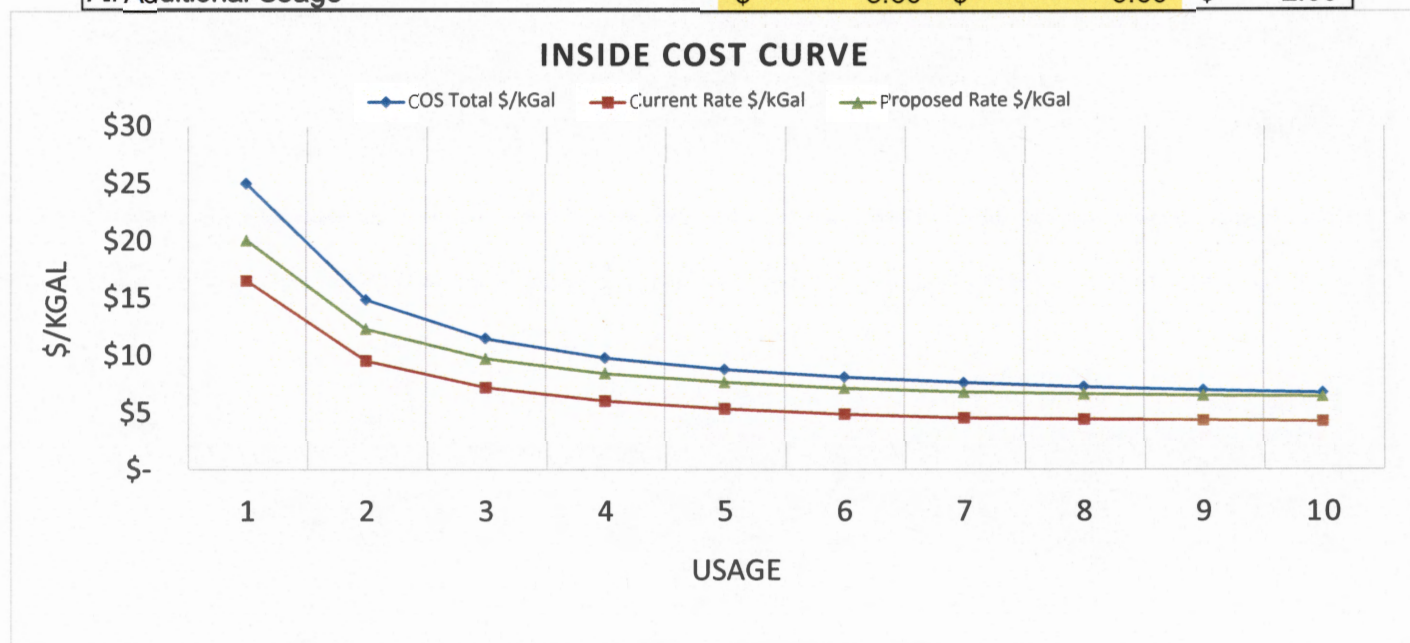
	Inside	Outside	IRW1	IRW3	Total
Additional Revenue Needed for 90% Recovery	\$ 1,737,895	\$ 221,768	\$ 461,843	\$ 21,357	\$ 2,442,863
Additional Revenue Needed Each Year	\$ 868,948	\$ 110,884	\$ 230,921	\$ 10,678	\$ 1,221,432
Bills sent in FY 2022	136,237	83,817	28,336	3,557	251,947
Average Impact per Bill per Step	\$ 6.38	\$ 1.32	\$ 8.15	\$ 3.00	\$ 4.85

Water – Results & Recommendations, 3 of 3

- For all Inside City Limit customers, including irrigation, consider the following rate action:
 - Increase the monthly customer charge \$0.75 each of the next two steps. Total increase of \$1.50.
 - Increase volumetric rate on all volumes by \$1.00 each of the next two steps. Total increase of \$2.00 per kGal.
- For all Outside City Limit customers, including irrigation, consider the following rate action:
 - Increase volumetric rate on all volumes by \$0.50 each of the next two steps. Total increase of \$1.00 per kGal.

Water – Inside City Rate Curve – Full Implementation

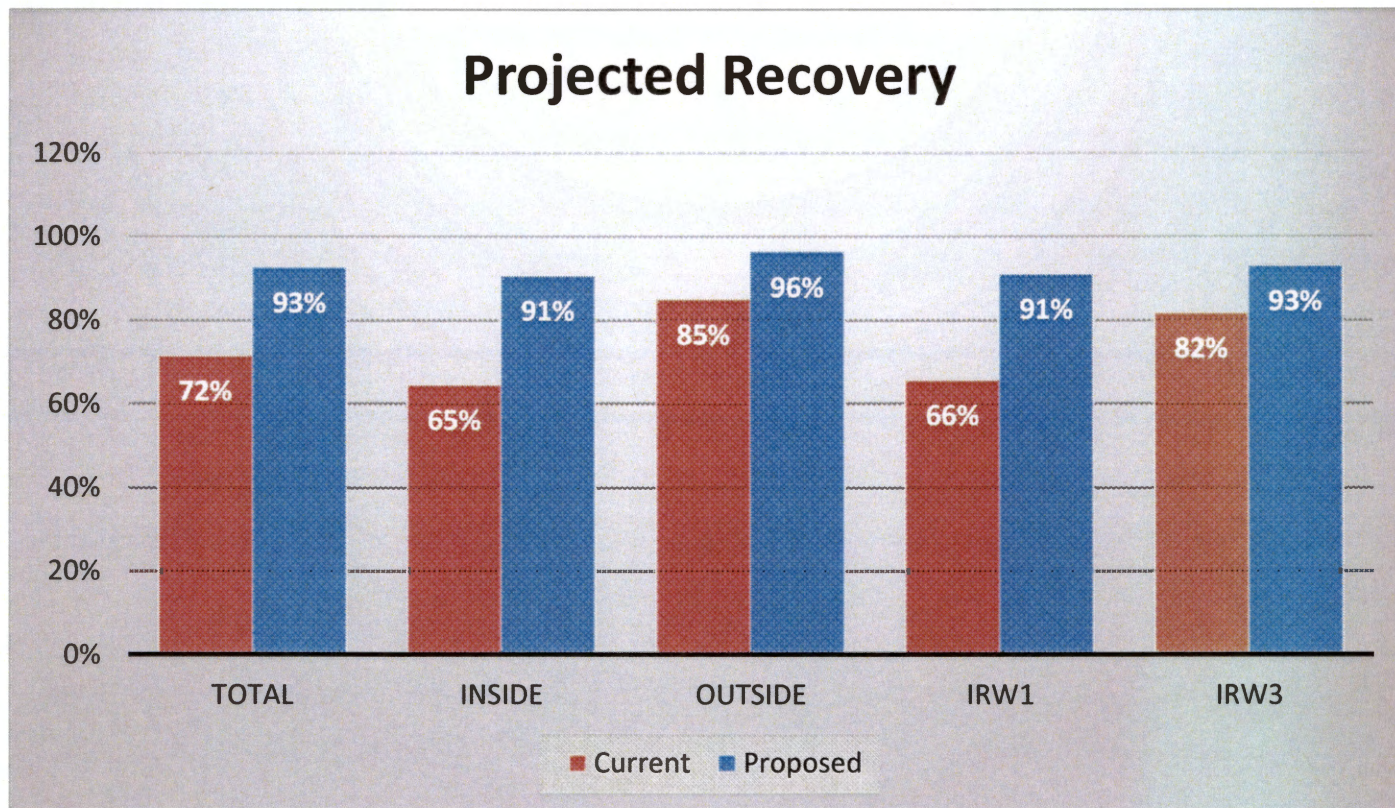
	Cost of Service	Current Rate	Proposed Rate	Difference
Customer Charge	\$ 20.30	\$ 14.00	\$ 15.50	\$ 1.50
1,000-7,000 gal	\$ 4.76	\$ 2.60	\$ 4.60	\$ 2.00
All Additional Usage		\$ 3.60	\$ 5.60	\$ 2.00



Water – Inside City Rate Impact – Full Implementation

Usage		COS Rates	Current Rates	Proposed Rates	Monthly Change	Daily Change	Current \$/kGal	Proposed \$/kGal
1	\$	25.06	\$ 16.60	\$ 20.10	\$ 3.50	\$ 0.12	\$ 16.60	\$ 20.10
2	\$	29.82	\$ 19.20	\$ 24.70	\$ 5.50	\$ 0.18	\$ 9.60	\$ 12.35
3	\$	34.58	\$ 21.80	\$ 29.30	\$ 7.50	\$ 0.25	\$ 7.27	\$ 9.77
4	\$	39.34	\$ 24.40	\$ 33.90	\$ 9.50	\$ 0.32	\$ 6.10	\$ 8.48
5	\$	44.10	\$ 27.00	\$ 38.50	\$ 11.50	\$ 0.38	\$ 5.40	\$ 7.70
6	\$	48.86	\$ 29.60	\$ 43.10	\$ 13.50	\$ 0.45	\$ 4.93	\$ 7.18
7	\$	53.62	\$ 32.20	\$ 47.70	\$ 15.50	\$ 0.52	\$ 4.60	\$ 6.81
8	\$	58.38	\$ 35.80	\$ 53.30	\$ 17.50	\$ 0.58	\$ 4.48	\$ 6.66
9	\$	63.14	\$ 39.40	\$ 58.90	\$ 19.50	\$ 0.65	\$ 4.38	\$ 6.54
10	\$	67.90	\$ 43.00	\$ 64.50	\$ 21.50	\$ 0.72	\$ 4.30	\$ 6.45
Average Usage			5,700					

Water – Projected Recovery – Full Implementation

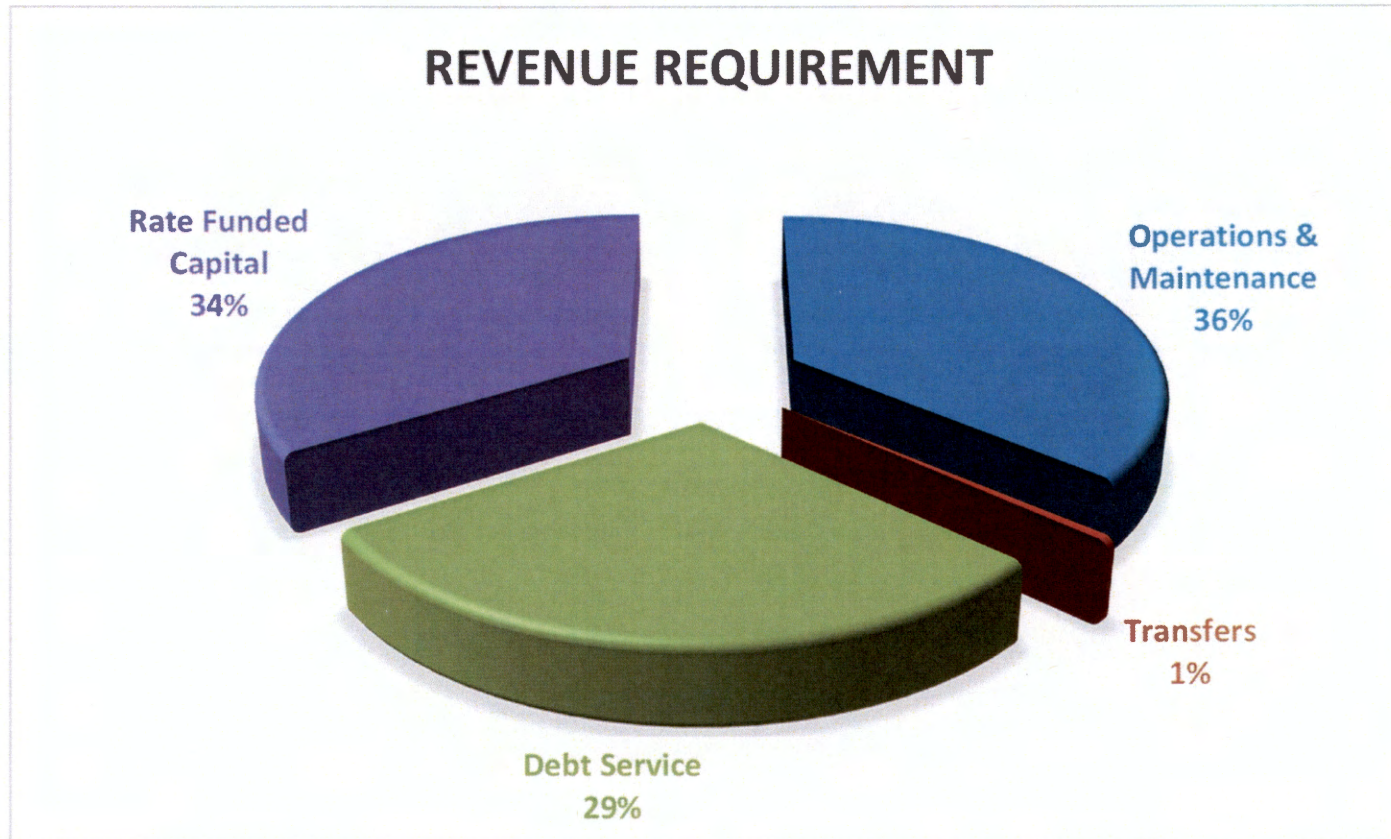


Sewer – Cash Method Revenue Requirement

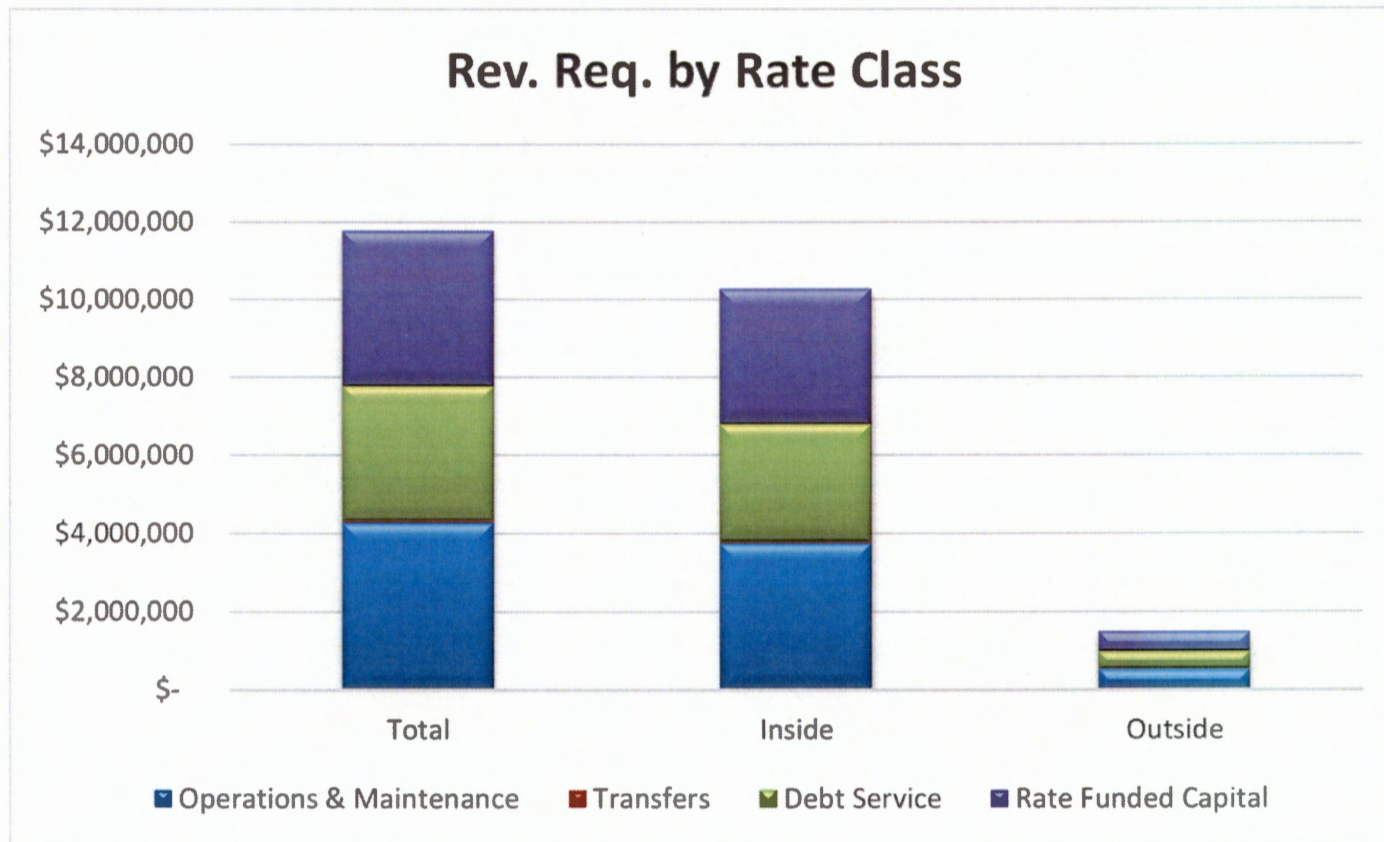
TOTAL REV. REQ.	
Operations & Maintenance	\$ 4,274,887
Plus: Transfers	\$ 51,583
Plus: Debt Service	\$ 3,451,921
Plus: Rate Funded Capital	\$ 4,000,000
Total Revenue Requirement	<u>\$ 11,778,391</u>
Less: Other Revenue	<u>\$ 88,850</u>
Rate Requirement	<u>\$ 11,689,542</u>

*Debt Service Includes \$2,058,000 of annual payments that do not yet exist

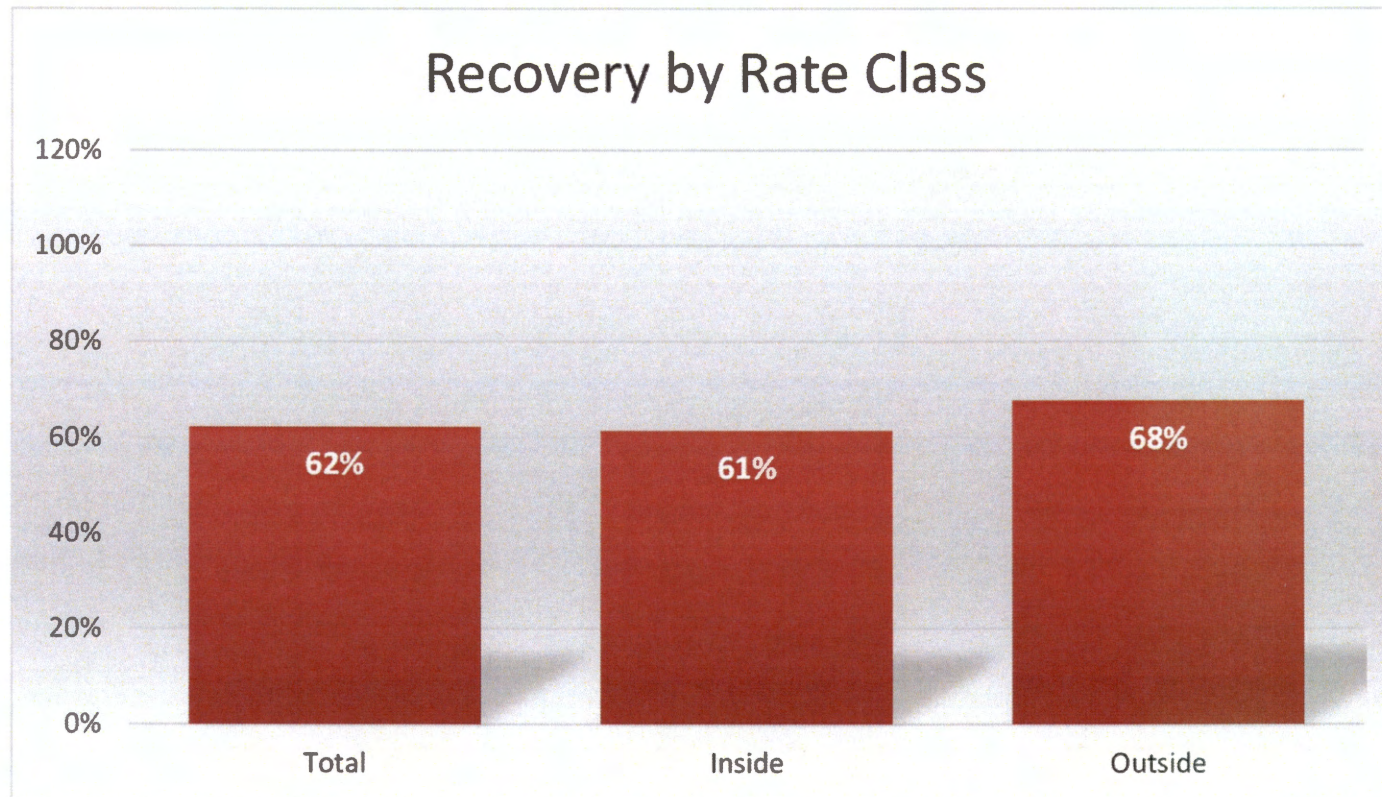
Sewer – Components of Revenue Requirement



Sewer – Revenue Requirement by Rate Class



Sewer – Recovery by Class



	Total		Inside		Outside	
Total Revenue	\$	7,336,537	\$	6,322,181	\$	1,014,356
Over/(Under) Recovery	\$	(4,441,854)	\$	(3,958,677)	\$	(483,177)

Sewer – Results & Recommendations, 1 of 3

- The sewer system is anticipated to under-recover by approximately \$4,442,000 on a total need of \$11,778,000.
- During our most recent work session held with staff on September 16, 2024, it was decided to try and target a 90% recovery in two steps.
 - This equals approximately \$1,636,00 in additional revenue each of the next two steps.

Sewer – Results & Recommendations, 2 of 3

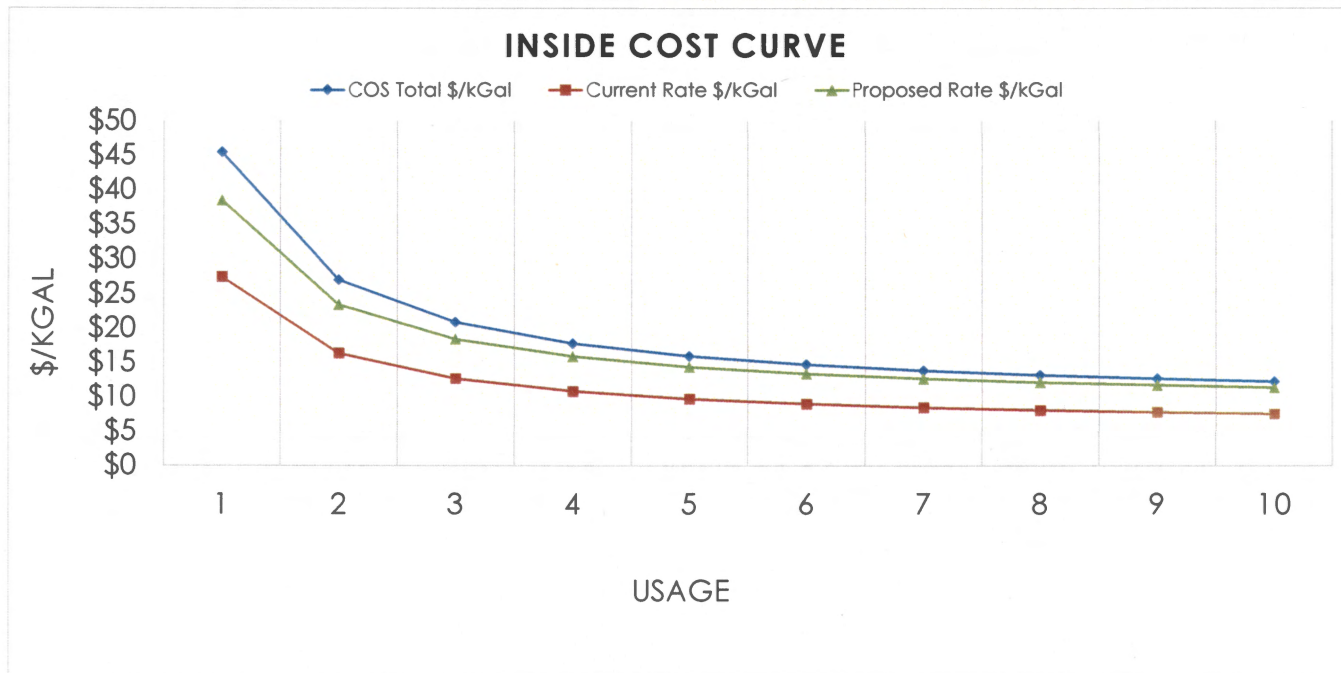
	Inside	Outside	Total
Additional Revenue Needed for 90% Recovery	\$ 2,938,527	\$ 334,373	\$ 3,272,900
Additional Revenue Needed Each Year	\$ 1,469,264	\$ 167,186	\$ 1,636,450
Bills sent in FY 2022	123,301	14,750	138,051
Average Impact per Bill per Step	\$ 11.92	\$ 11.33	\$ 11.85

Sewer – Results & Recommendations, 3 of 3

- For all customers consider the following rate action:
 - Increase the monthly customer charge \$4.00 each of the next two steps. Total increase of \$8.00.
 - Increase volumetric rate on all volumes by \$1.50 each of the next two steps. Total increase of \$3.00 per kGal.

Sewer – Inside City Rate Curve – Full Implementation

	Cost of Service	Current Rate	Proposed Rate	Difference
Customer Charge	\$ 36.74	\$ 22.00	\$ 30.00	\$ 8.00
All Usage	\$ 8.51	\$ 5.30	\$ 8.30	\$ 3.00



Sewer – Inside City Rate Impact – Full Implementation

											Proposed			
Usage		COS Rates		Current Rates		Proposed Rates	Monthly Change	Daily Change		Current \$/kGal	\$/kGal			
1	\$	45.25	\$	27.30	\$	38.30	\$	11.00	\$	0.37	\$	27.30	\$	38.30
2	\$	53.77	\$	32.60	\$	46.60	\$	14.00	\$	0.47	\$	16.30	\$	23.30
3	\$	62.28	\$	37.90	\$	54.90	\$	17.00	\$	0.57	\$	12.63	\$	18.30
4	\$	70.80	\$	43.20	\$	63.20	\$	20.00	\$	0.67	\$	10.80	\$	15.80
5	\$	79.31	\$	48.50	\$	71.50	\$	23.00	\$	0.77	\$	9.70	\$	14.30
6	\$	87.83	\$	53.80	\$	79.80	\$	26.00	\$	0.87	\$	8.97	\$	13.30
7	\$	96.34	\$	59.10	\$	88.10	\$	29.00	\$	0.97	\$	8.44	\$	12.59
8	\$	104.86	\$	64.40	\$	96.40	\$	32.00	\$	1.07	\$	8.05	\$	12.05
9	\$	113.37	\$	69.70	\$	104.70	\$	35.00	\$	1.17	\$	7.74	\$	11.63
10	\$	121.89	\$	75.00	\$	113.00	\$	38.00	\$	1.27	\$	7.50	\$	11.30
Average Usage				5,402										

Sewer – Projected Recovery – Full Implementation

