



## STAFF REPORT

**DATE:** March 14, 2024

**TO:** The Honorable Mayor and City Council

**FROM:** Justun Edwards, Public Works Director; Kyle Maurer, Director of Finance and Administrative Services

**SUBJECT:** Public hearing and consideration of a Resolution approving amendments to the City of Herriman's water and secondary water rates.

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**RECOMMENDATION:**

Staff recommends approval of the water rate amendments.

**ISSUE BEFORE COUNCIL:**

Should the City Council approve amendments to the City's culinary and secondary water rates?

**BACKGROUND/SUMMARY:**

In February 2023 the City engaged Bowen Collins & Associates (Bowen Collins) to perform a rate study for the City's culinary and secondary water utilities. The previous rate study was done by Zions Bank Public Finance in 2019 and its last recommended rate increase (2%) was implemented in July 2022. In June 2023, the City Council tentatively agreed to tier rate and volume changes to be included in the rate study, along with combining certain meter classes to simplify the rate structure. The initial results of the rate study recommended the following rate increases:

Fiscal year 2025: 13.0%  
Fiscal year 2026: 13.0%  
Fiscal year 2027: 13.0%  
Fiscal year 2028: 9.5%  
Fiscal year 2029: 3.0%

The final staff and consultant recommended rate increases are as follows:

Fiscal year 2025 (October 1, 2024 implementation): 16.3%  
Fiscal year 2026: 13.0%  
Fiscal year 2027: 13.0%

Fiscal year 2028: 7.0%

Fiscal year 2029: 3.0%

During the work session discussion on February 28, 2024, the City Council requested an evaluation related to delaying the fiscal year 2025 rate increase to October 1, 2024. This change would result in a first year rate increase of 16.3% (versus 13% if implemented on July 1, 2024). This change has been included in the final staff recommendation.

**DISCUSSION:**

The City's Water and Storm Water utilities are designed to be self-sustaining, which means expected expenses should be funded by revenues generated by the utility. Until 2023, the water utility had sufficient revenues to cover expenses. Expenses are now anticipated to exceed revenues. Some of the reasons for this are as follows:

- Capital expenses – The City is anticipating a number of significant capital expenses in the upcoming years. This is due to the City's current and future growth and continuing expansion of the secondary water system. These expenses require large upfront capital costs.
- Increased cost associated with Jordan Valley Water Conservancy District (JVWCD) purchases – The City has decided to begin purchasing additional water from JVWCD rather than use City-owned wells during months with lower water demand. This increases water purchase costs by approximately \$500,000 annually.
- Rehabilitation and replacement – Although much of the City's infrastructure is relatively new, it is important for all utility systems to budget for system rehabilitation and replacement costs. The City is now starting to see the need for significant repair and rehabilitation projects.
- Inflation – Over the last several years, the City has seen significant increases in cost as a result of inflation. Previous rate increases (as dictated in the last rate study) were only 2% per year, which was lower than actual inflation. Inflationary pressures affect nearly all budget categories of the utility including operation and maintenance costs as well as capital costs. Existing and future budgets have been increased to reflect these cost changes.

With no changes to the City's rate structure, the City's water fund will be insolvent in fiscal year 2024. Even if all capital projects were cancelled, the City would only have enough revenue to fund expected O&M and debt service until approximately 2028. Immediate revenue increases are needed to fund planned capital projects for culinary and secondary system growth and maintenance.

Staff and the City's consultant are recommending rate increases in combination with bonding. The consultant provided a "cash finance" option, which would require an 85% rate increase in fiscal year 2025. This is not the staff recommended rate increase.

Changes to the consumption (volume) tier structures are also recommended by staff. These changes are outlined on pages 7 and 8 of the attached Technical Memorandum.

The new rate structure is included in Table B1 of the attached Technical Memorandum.

**ALTERNATIVES:**

The City Council may choose to accept, deny, or modify the requested rate increases.

**FISCAL IMPACT:**

Fiscal impact to individual customers will depend on water consumption, meter size, and if the property has access to secondary water. For an average residential customer without secondary access, the yearly average will increase from \$595 to \$668 (\$73, or 12.2% per year). A high residential user without secondary access will see an increase from \$1,300 to \$1,558 (\$258, or 19.8%)

**ATTACHMENTS:**

Technical Memo  
Presentation  
Resolution



# Herriman Water Rates

**Bowen Collins & Associates**

**Keith Larson, P.E.**

**March 2024**

# Outline

Recommended Structure Changes



Total Revenue Needs



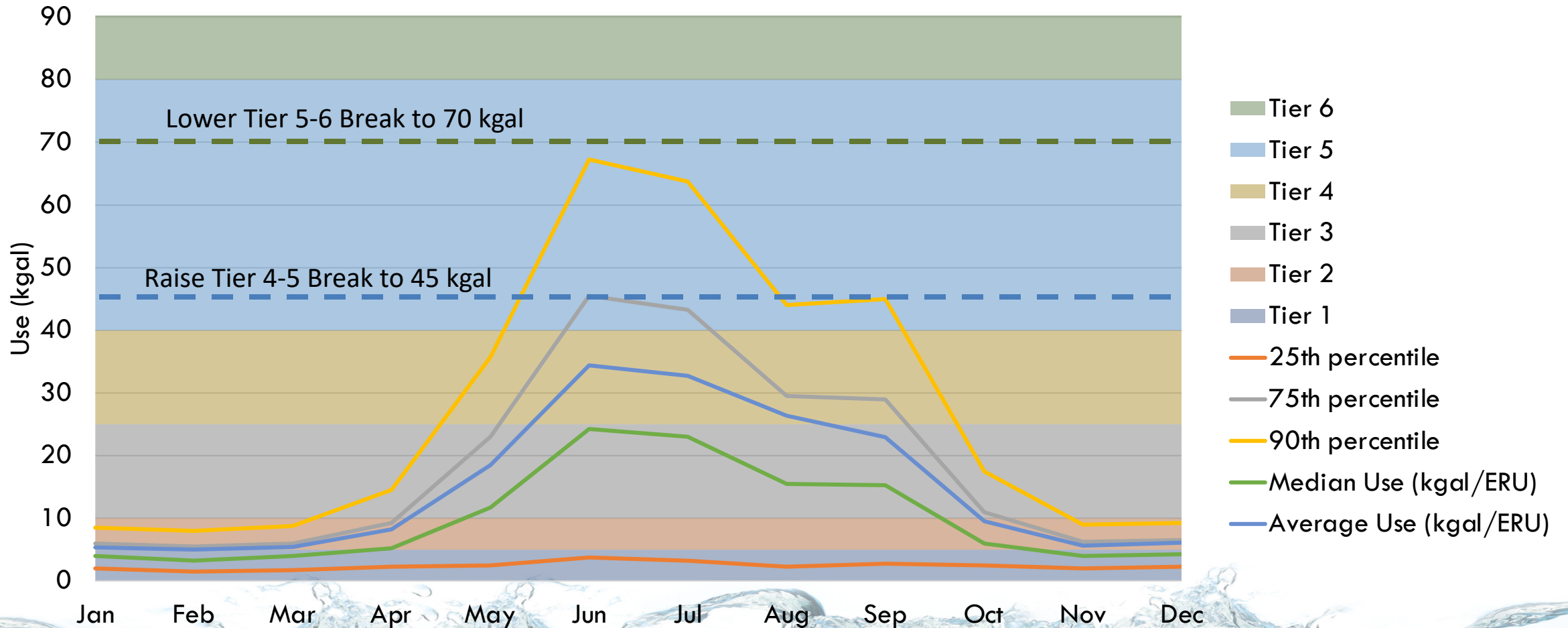
Rate Alternatives

# Review of Recommended Structure Changes

- 1 Adjust volume breaks between upper tiers
- 2 Adjust tier costs to match typical cost of service range
- 3 Scale tier volumes for larger meters to match AWWA capacity ratios
- 4 Other minor changes to simplify rates
- 5 Add volumetric rate schedule for Olympia Hills

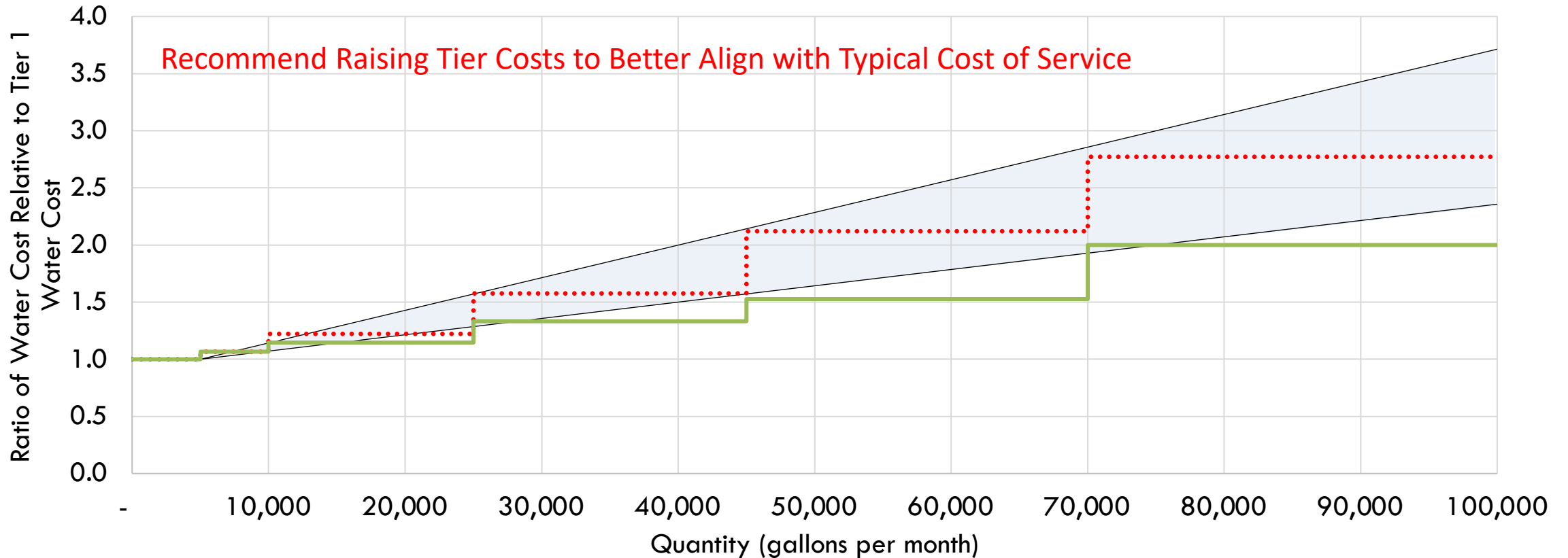
# Actual Usage vs Tier Volumes

## Culinary Residential Without Secondary Access



# Water – Tier Cost of Service

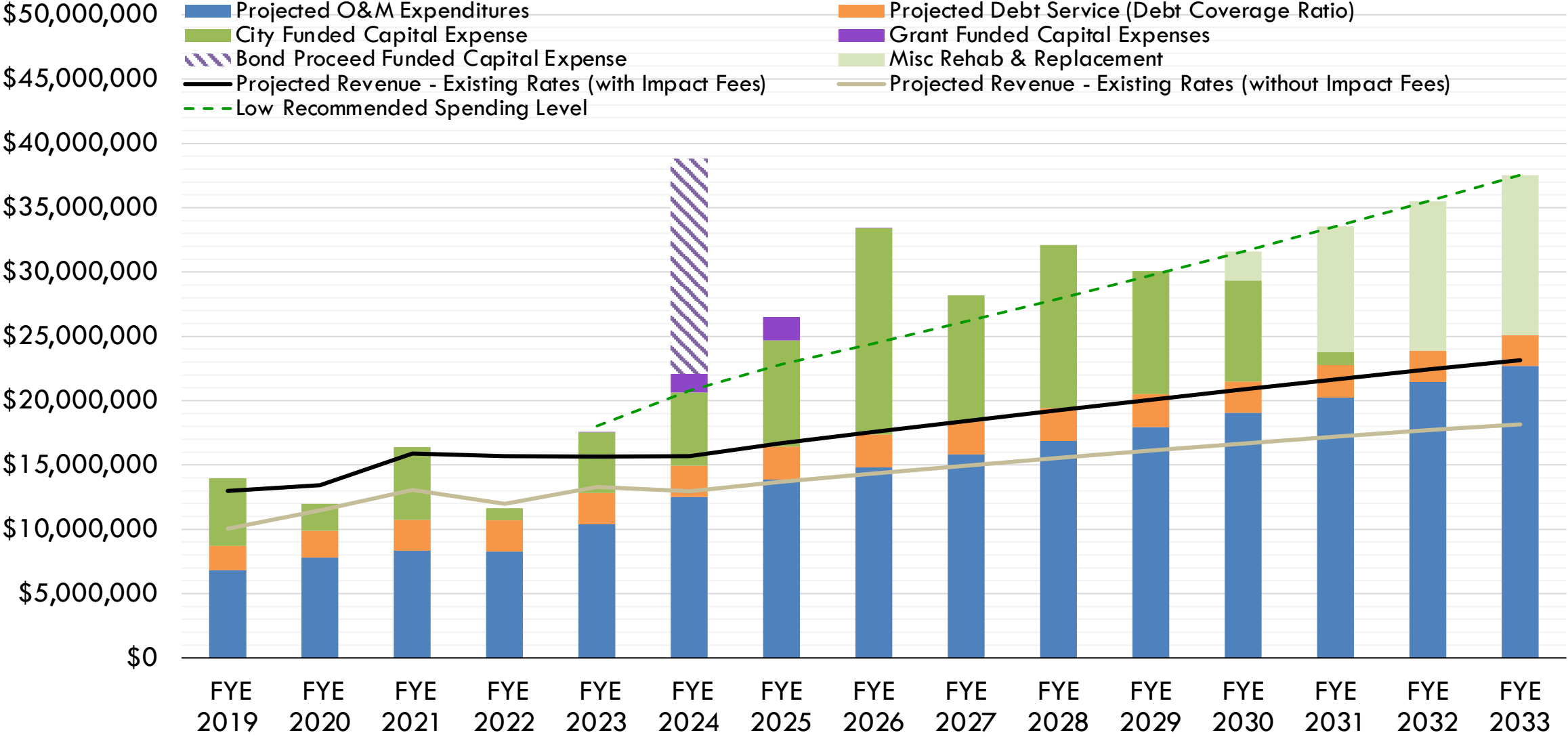
Normalized Culinary Residential Without Secondary Access



— Typical Range of Cost of Service    ..... Herriman Recommended Rates    — Herriman Rates with Adjusted Tiers

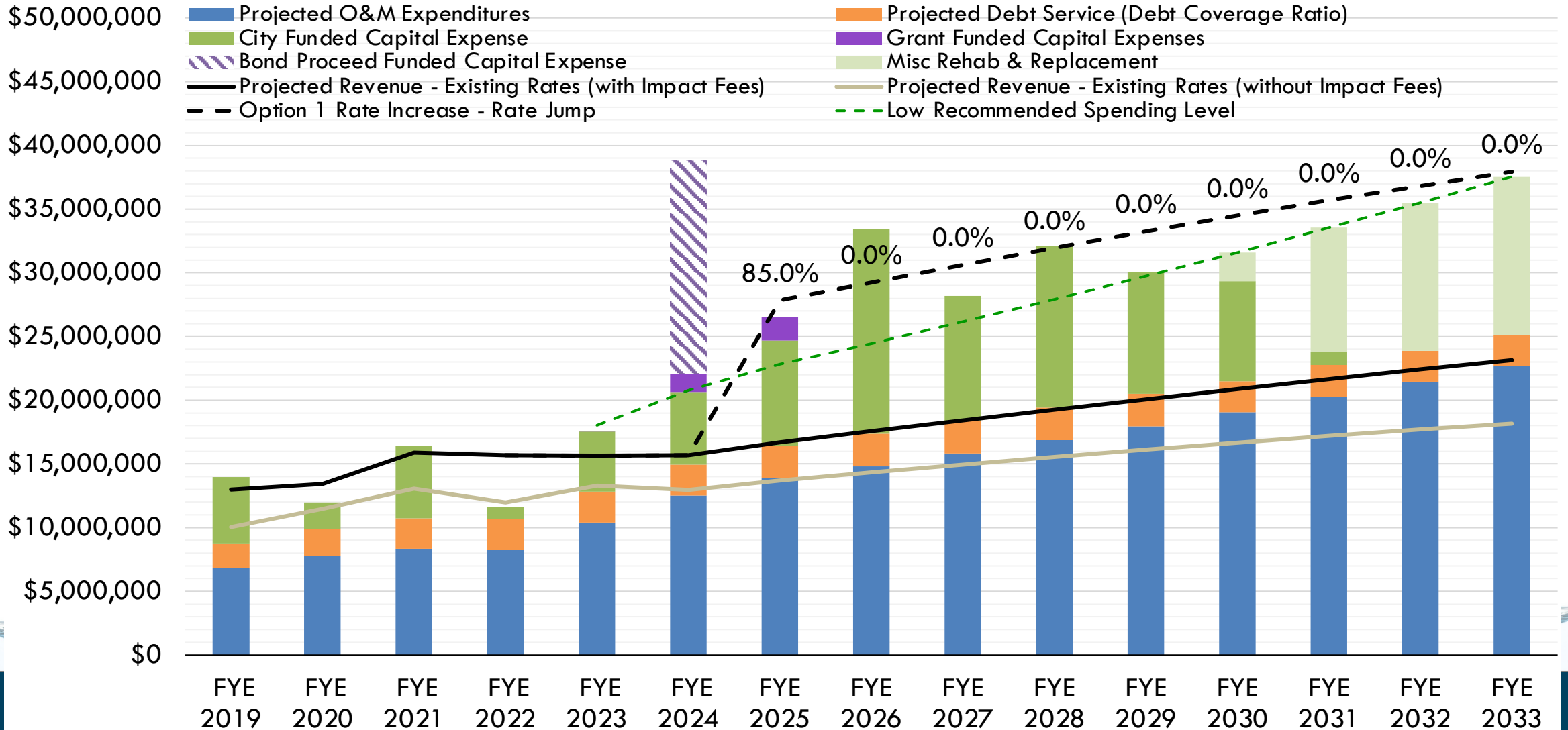


# Projected Revenue Needs



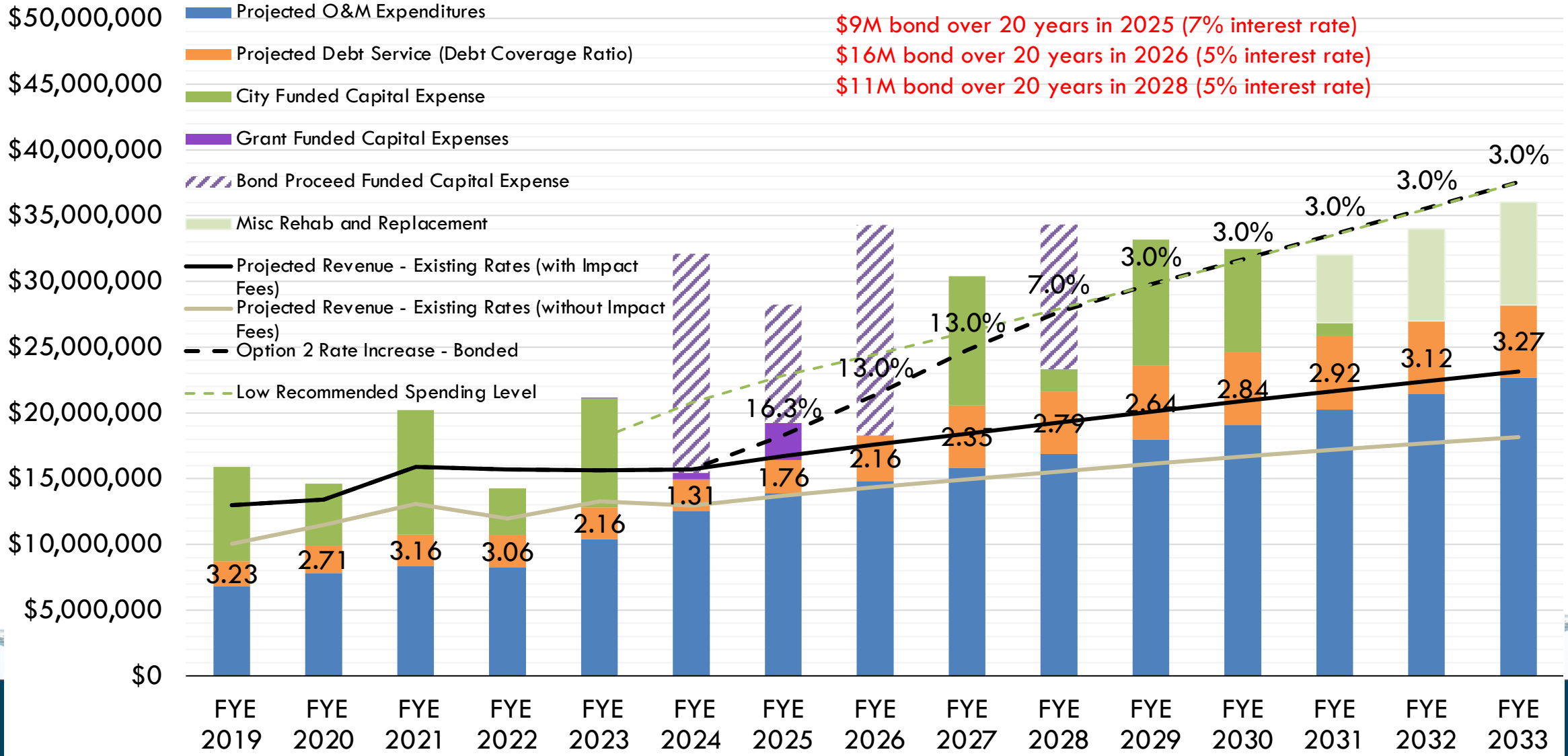
# Rate Increase: Option 1

## Large Increase, No Bonding



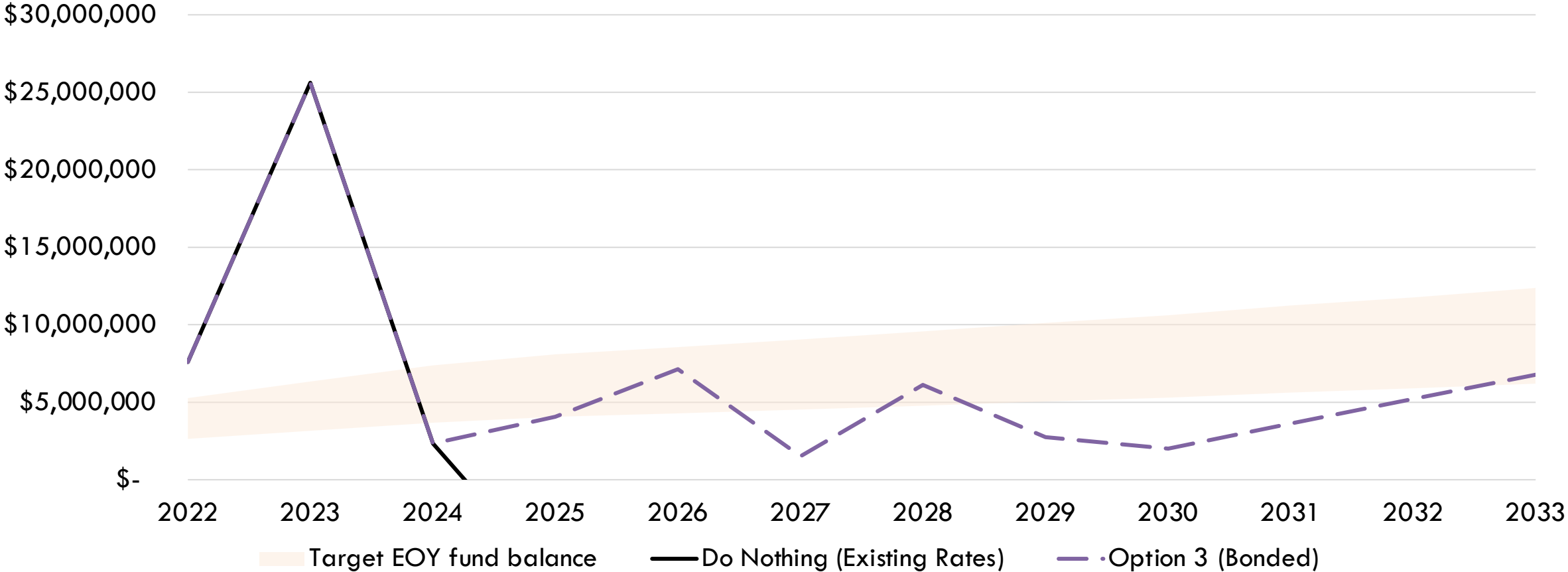
# Rate Increase: Option 2

## Steady Increases with Bonding



# Cash Flow

## Herriman Water Fund Balance



# Rate Increase Alternatives

	2025	2026	2027	2028	2029
<b>Alternative 1: One Large Increase</b>					
<b>Percent Increase:</b>	85%	0%	0%	0%	0%
<b>Alternative 2: Steady Increase with Bonding</b>					
<b>Percent Increase:</b>	16.3% + \$9M Bond	13% + \$16M Bond	13%	7% + \$11M Bond	3%



# Revenue Needs Conclusions

- Cost to maintain and operate culinary and secondary systems have exceeded water revenues
- Increase water rates as soon as possible to meet revenue needs
- Option 2 approach to increase system revenue:
  - \$9M bond in 2025
  - \$16M bond in 2026
  - \$11M bond in 2028
  - Annual rate increases:

Fiscal Year	2025	2026	2027	2028	2029
% Rate Increase	16.3%	13%	13%	7%	3%

# How Does This Affect Typical Customer Bills?

## Residential Customers Without Secondary Access

		2024	2025	2026	2027	2028
<b>Lower User</b>	Annual Cost	\$515	\$580	\$656	\$741	\$793
	% Change	--	12.7%	13.0%	13.0%	7.0%
<b>Average User</b>	Annual Cost	\$595	\$668	\$755	\$853	\$913
	% Change	--	12.2%	13.0%	13.0%	7.0%
<b>High User</b>	Annual Cost	\$976	\$1,121	\$1,267	\$1,432	\$1,532
	% Change	--	14.9%	13.0%	13.0%	7.0%
<b>Very High User</b>	Annual Cost	\$1,300	\$1,558	\$1,760	\$1,989	\$2,128
	% Change	--	19.8%	13.0%	13.0%	7.0%

## Secondary Customers (Secondary Water Only)

		2024	2025	2026	2027	2028
<b>Lower User</b>	Annual Cost	\$227	\$250	\$283	\$319	\$342
	% Change	--	10.3%	13.0%	13.0%	7.0%
<b>Average User</b>	Annual Cost	\$336	\$365	\$412	\$465	\$498
	% Change	--	8.6%	13.0%	13.0%	7.0%
<b>High User</b>	Annual Cost	\$498	\$545	\$616	\$696	\$744
	% Change	--	9.5%	13.0%	13.0%	7.0%
<b>Very High User</b>	Annual Cost	\$717	\$797	\$901	\$1,018	\$1,089
	% Change	--	11.2%	13.0%	13.0%	7.0%

# Questions?



# Supplemental Material



# Summary of Recommended Structure Changes

## 1. Residential without secondary access:

- a. Reduce the volume break between tiers 5 and 6 from 80 thousand gallons to 70 thousand gallons.
- b. Increase the volume break between tiers 4 and 5 from 40 thousand gallons to 45 thousand gallons.
- c. Adjust tier costs to match typical cost of service range. This involves increasing tier cost for tiers 3 through 6.

## 2. Culinary residential with secondary access:

- a. Reduce the volume break between tiers 5 and 6 from 80 thousand gallons to 70 thousand gallons.
- b. Increase the volume break between tiers 4 and 5 from 40 thousand gallons to 45 thousand gallons.

## 3. Culinary Outdoor Irrigation & Secondary Water:

- a. Increase tier volumes for larger meters to match AWWA capacity ratios rather than cost ratios.

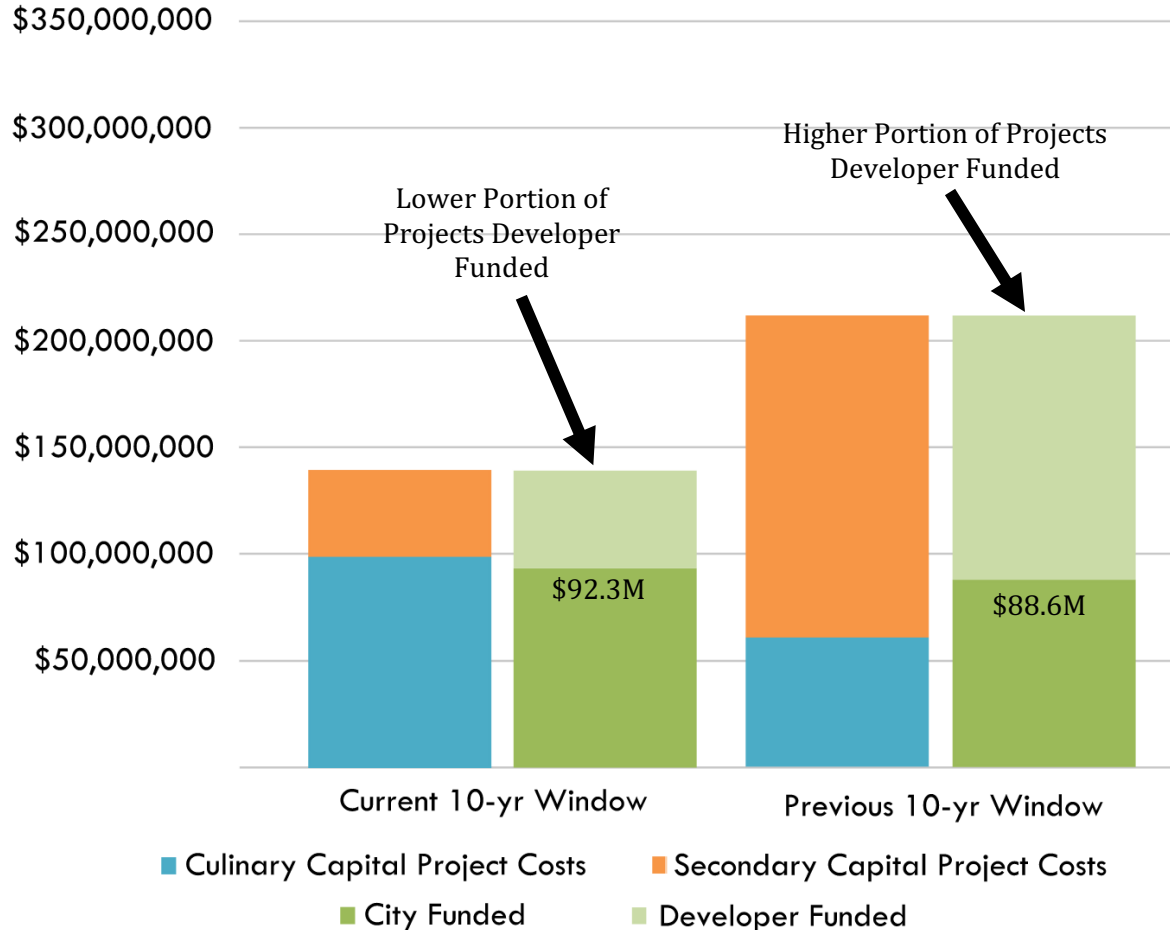
## 4. Combine

- a. City-Owned, Culinary MM Residential/Non-Residential, & Wholesale

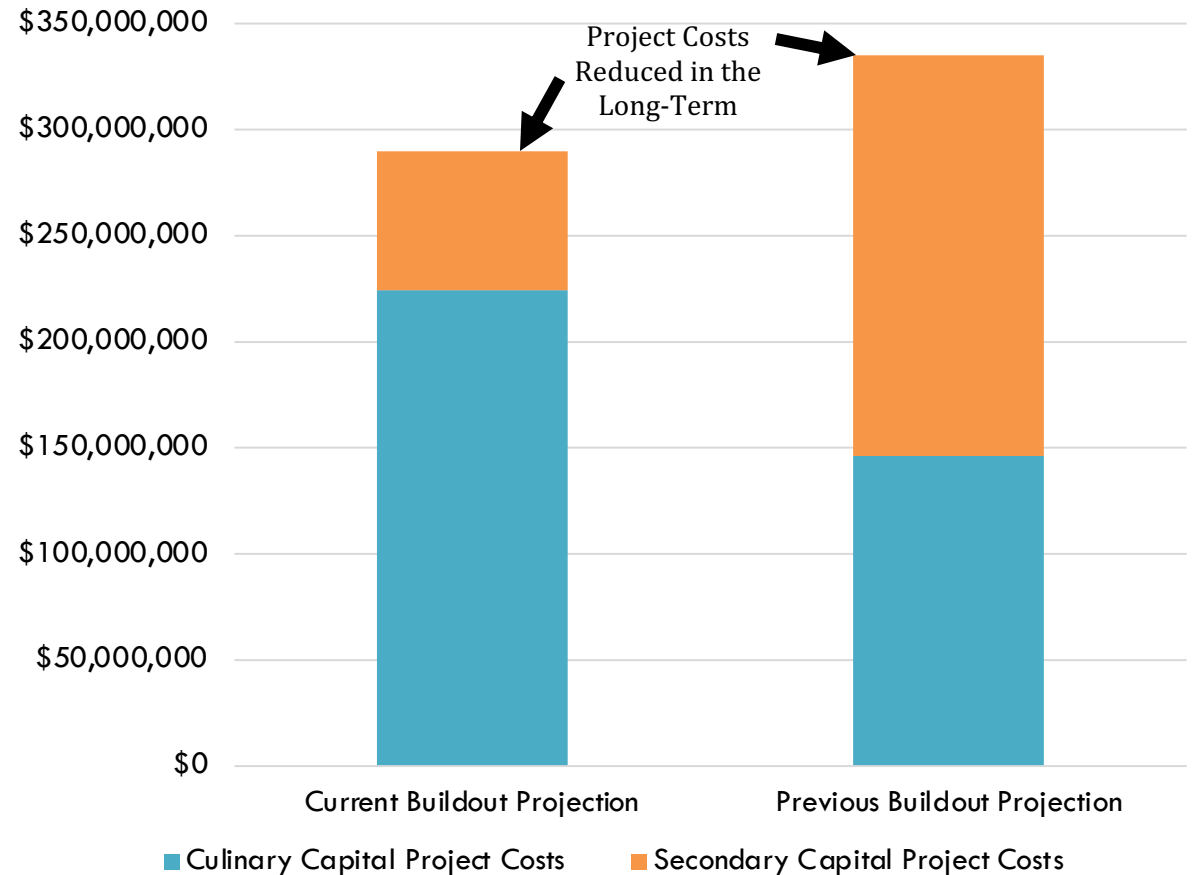
## 5. Adjust tiered rates for “Residential Customers with Secondary Access” to maintain relationship with tiered rates of “Residential Customers without Secondary Access”

# Recommended Capital Projects

## 10-yr Window Capital Projects

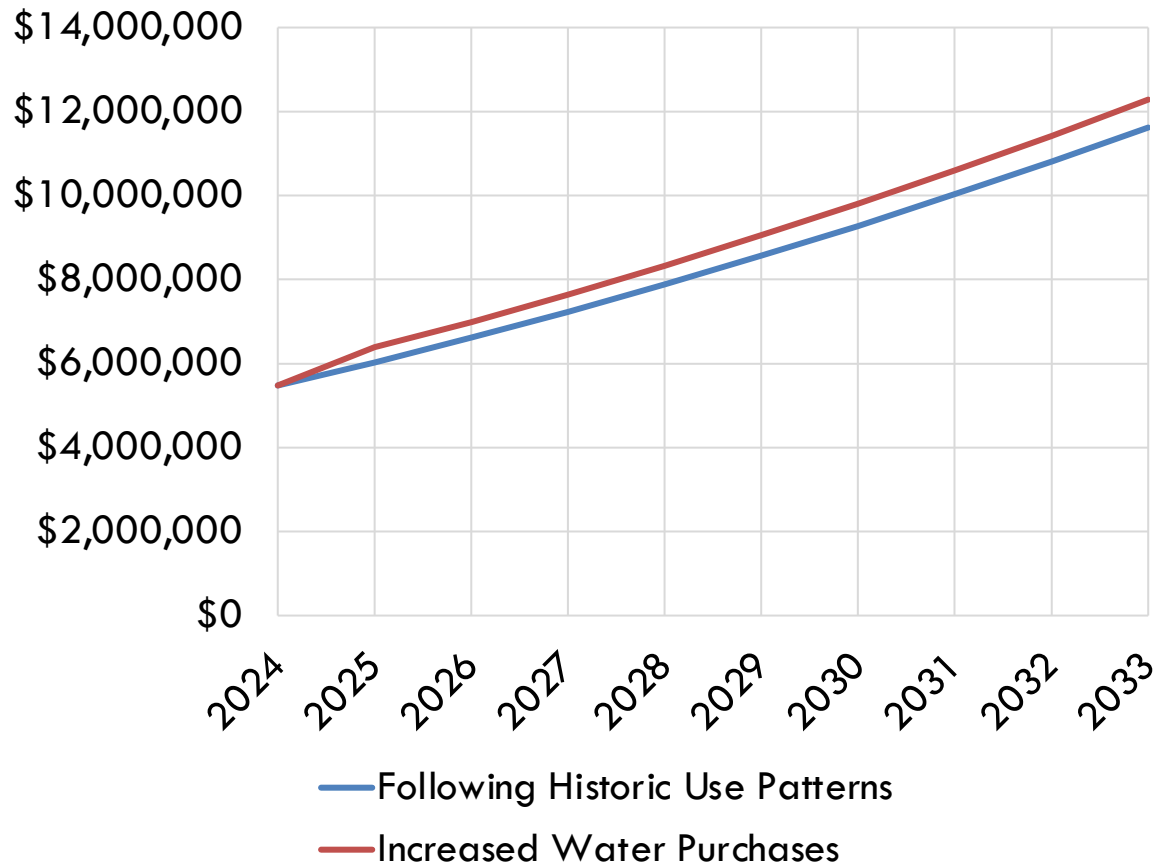


## Buildout Capital Projects



# JVWCD Water Purchase Increases

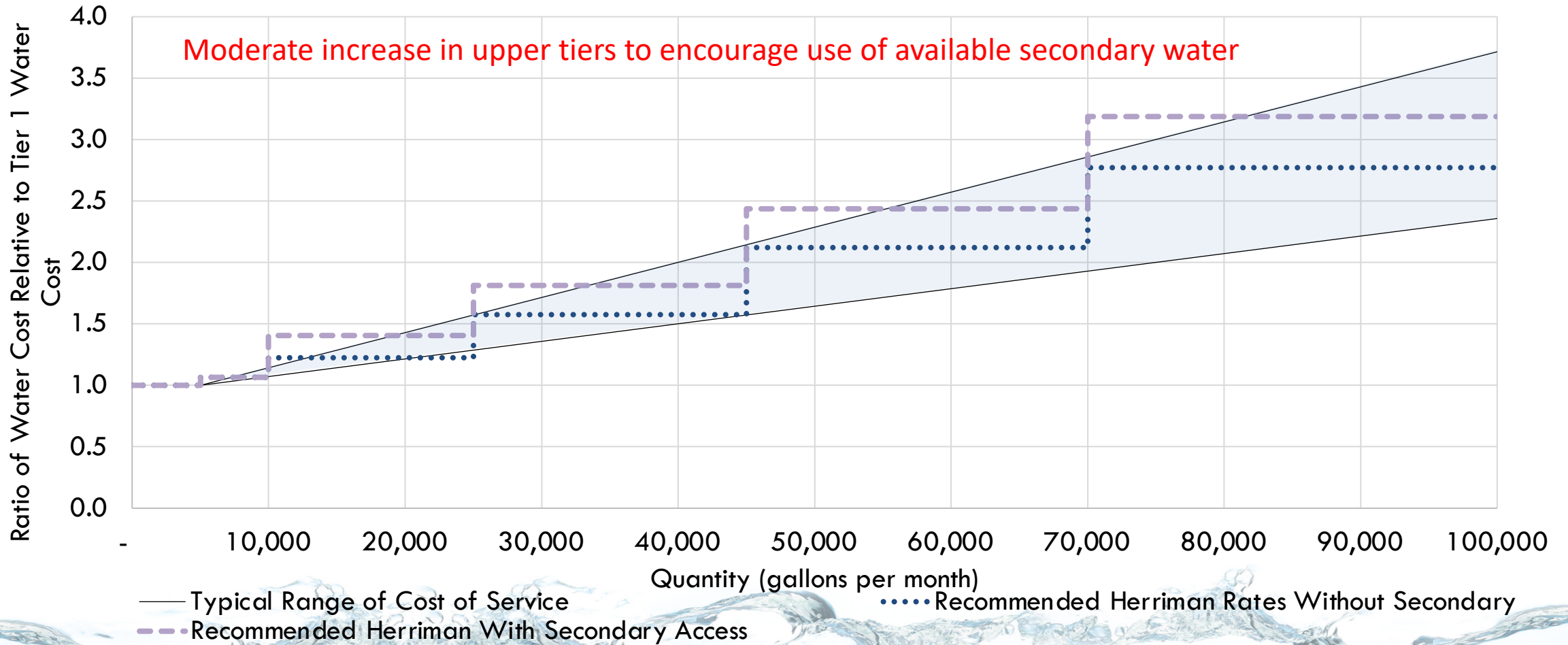
Projected JVWCD Water Purchases



- Average annual cost increase:  
\$499,000
- Total cost increase over 10 years:  
\$5 M
- Impact to Rates: Additional 4.3% increase starting in 2025

# Water – Tier Cost of Service

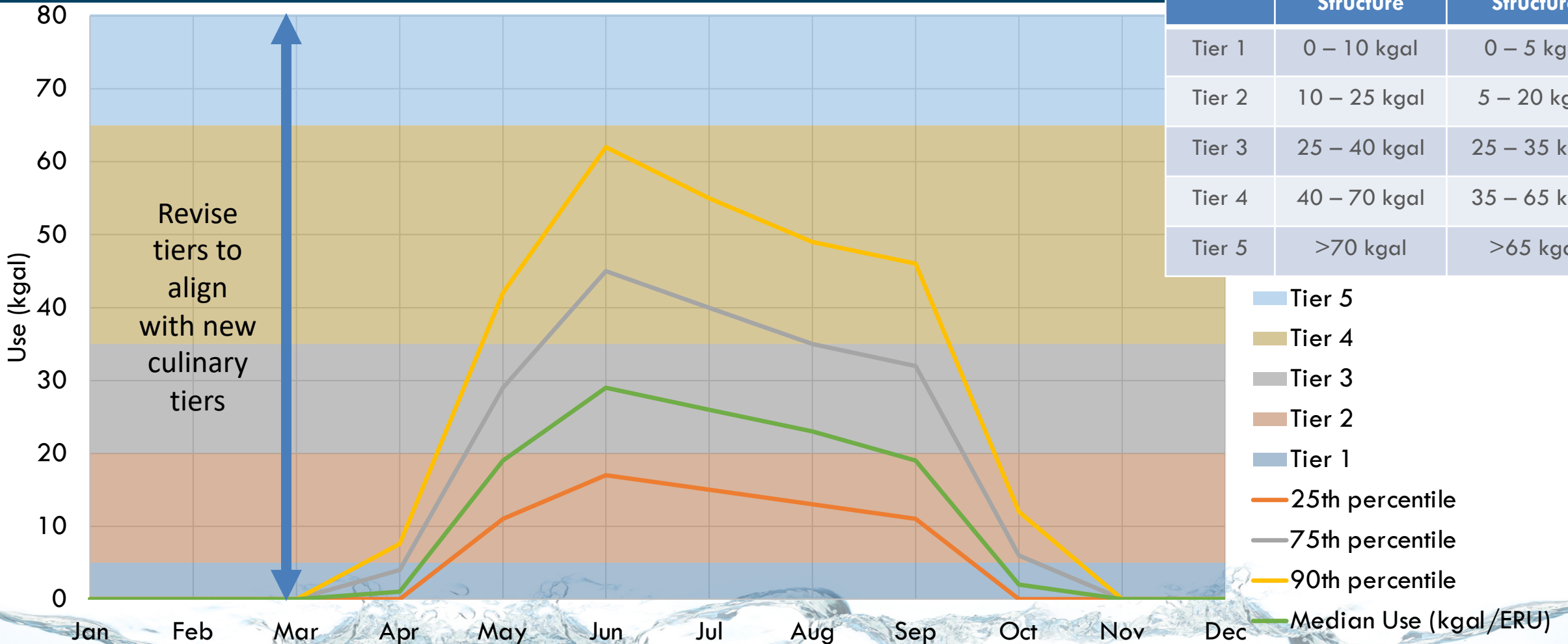
Normalized Culinary Residential **With** Secondary Access



# Actual Usage vs Proposed Tier Volumes

## Residential Secondary

	Existing Structure	Proposed Structure
Tier 1	0 – 10 kgal	0 – 5 kgal
Tier 2	10 – 25 kgal	5 – 20 kgal
Tier 3	25 – 40 kgal	25 – 35 kgal
Tier 4	40 – 70 kgal	35 – 65 kgal
Tier 5	>70 kgal	>65 kgal

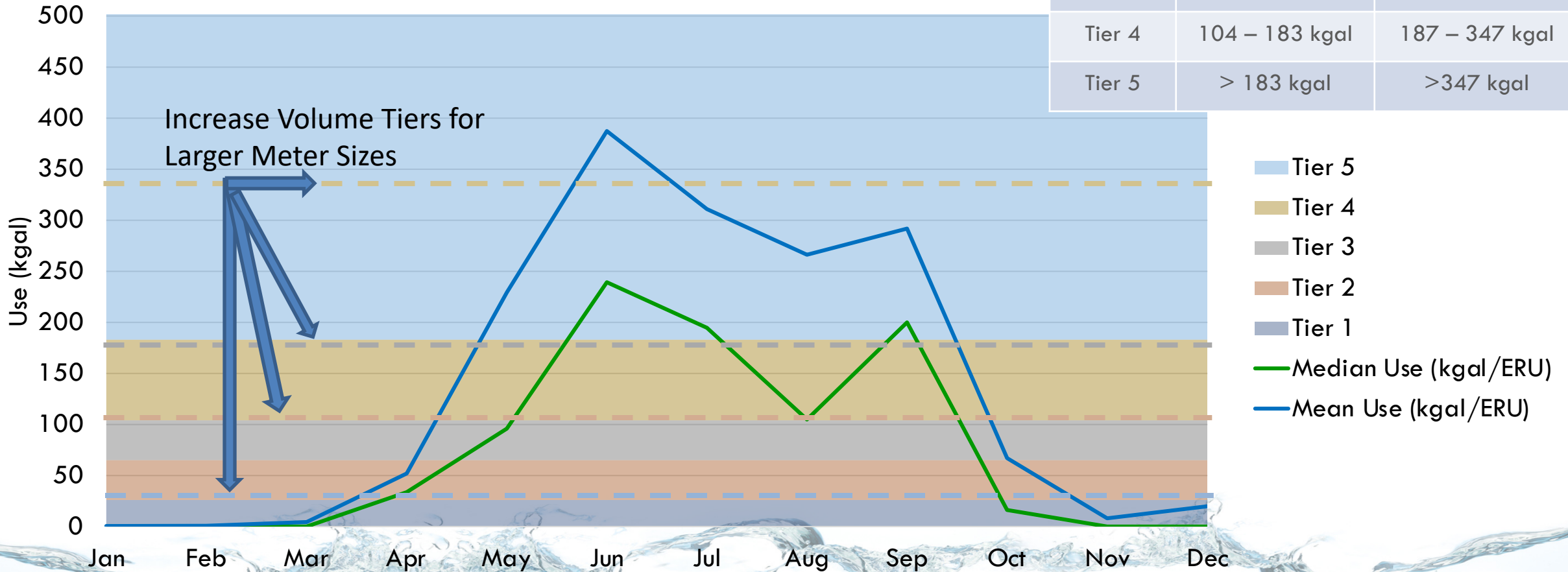


# Actual Usage vs Tiers

## Culinary Outdoor Irrigation & Secondary

	Existing Structure	Proposed Structure
Tier 1	0 – 26 kgal	0 – 27 kgal
Tier 2	26 – 65 kgal	27 – 107 kgal
Tier 3	65 – 104 kgal	107 – 187 kgal
Tier 4	104 – 183 kgal	187 – 347 kgal
Tier 5	> 183 kgal	>347 kgal

2-inch Meter



# Recommended Changes

## Culinary Outdoor Irrigation & Secondary

- Increase tier volumes for larger meters to match AWWA capacity ratios. New tiers as follows:

	¾-inch and 1-inch	1 ½-inch	2-inch	3-inch	4-inch	6-inch
<b>Meter Ratio</b>	1.0	3.3	5.3	11.7	21.0	43.3
Tier Volumes in Thousand Gallons						
Tier 1	0 – 5	0 – 17	0 – 27	0 – 59	0 – 105	0 – 217
Tier 2	5 – 20	17 – 66	27 – 107	59 – 234	105 – 420	217 – 866
Tier 3	20 – 35	66 – 116	107 – 187	234 – 410	420 – 735	866 – 1,516
Tier 4	35 – 65	116 – 215	187 – 347	410 – 761	735 – 1,365	1,516 - 2,815
Tier 5	>65	>215	>347	>761	>1,365	>2,815



# Existing Customer Classes and Rates

## Culinary

- ~~City Owned~~
- Residential Without Access to Secondary
- Residential With Access to Secondary
- Master Meter Residential/ Non-Residential
- ~~Wholesale~~
- ~~Out of City Boundary (addressed with footnote)~~
- Southeast Herriman Bluffdale Residential
- Southeast Herriman Bluffdale Commercial

## Secondary

- ~~City Owned~~
- Residential
- Master Meter Residential/ Non-Residential