

## MEMORANDUM

To: Dr. Kenneth Haskin, City Manager

From: Erica Bogenpohl, Regional Operations Manager, Alliance Water Resources  
Casey Brunke, Public Works Director  
Lisa Mills, Finance Director  
Trevor Pulley, Deputy City Manager  
Jonathan (JJ) Ridings, Local Manager, Alliance Water Resources

Date: July 15, 2024

Re: Water Rate Analysis Report

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A Water Rate Analysis Report was conducted and prepared by Mr. Carl Brown with GettingGreatRates.com, LLC to determine how to fund projects as recommended per the Water System Facility Plan (WSFP) received in mid-2022. It is believed this is the first ever water rate study conducted for the City's water system. This study is attached herein and summarized below.

### Background

The WSFP was conducted by Crawford, Murphy, and Tilly, an engineering firm contracted by the City in 2020, to study the needs of the water system. The report identifies over \$100 million worth of improvements to the City's water system, including expansion and upgrades to the 90-year-old water plant, distribution system redundancies and replacements, and other needed repairs and upgrades to pump stations, system controls, and other water infrastructure.

As mentioned, the rate analysis was completed by Carl Brown. Mr. Brown has conducted 300+ rate studies, primarily for clients in Missouri since starting his business in 2005. He previously did grant and loan coordination work for the Missouri Department of Natural Resources.

### Water Rate Study

Carl submitted several iterations of the report, each time making changes based on feedback from City and Alliance staff. The final report includes recommendations from Public Works and Finance Departments, the Deputy City Manager, and Alliance Water Resources. The following are key points of the 75-page document.

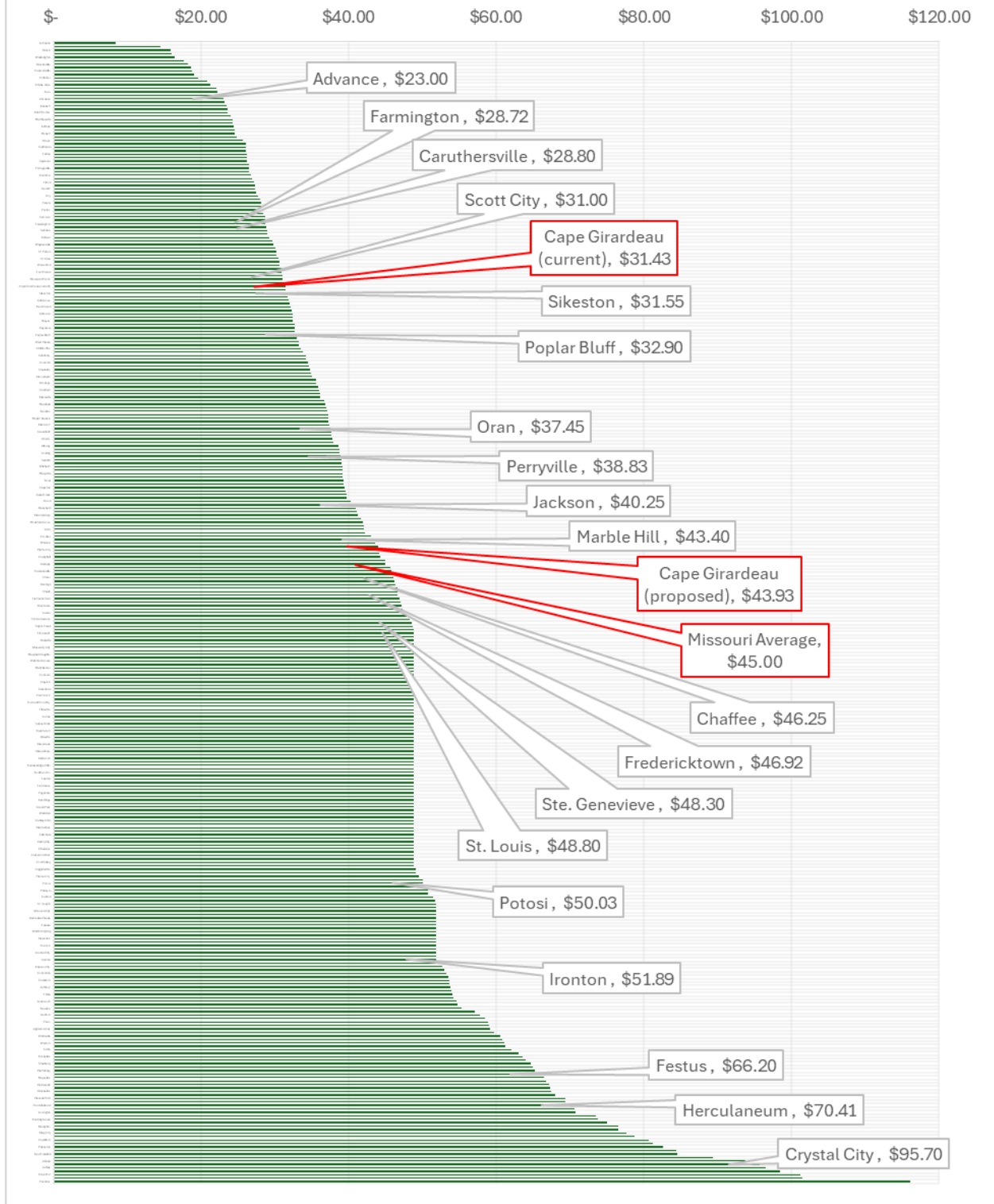
- 1. Ongoing expenses and necessary improvements to the water system can be financed through reserves funding given a modest rate increase.**
  - a. Cape Girardeau's current water rates are below the national, state, and regional averages. The proposed rates are reasonable. (See attached Figures 1-3).**
    - i. The average Cape Girardeau customer bill would go from \$25.78 to \$36.81 (+\$11.03).

1. The average Cape Girardeau uses 3,658 gallons per month, compared to the national average of 5,000 gallons. A Cape Girardeau using the national average is being billed \$31.43 and that would increase to \$43.93 (+\$12.50).
  2. **The proposed rates keep Cape Girardeau competitive with neighboring communities:**
    - a. Perryville: \$38.83
    - b. Jackson: \$40.25
    - c. Ste. Genevieve: \$48.30
    - d. St. Louis: \$48.80
  3. Many communities do not provide softened water, requiring the consumer to purchase and maintain residential water softening units. Cape Girardeau's tap water is softened, so residents do not have this additional expenditure, whereas, for example, Jackson residents do.
- b. Cape Girardeau citizens can afford a rate increase.**
- i. The national average affordability index (AI) for water is 1.00%. What this means is that a residential customer earning at the City-wide median household income level is, on average, using 1% of their monthly household income to pay their monthly water bill. **Currently, the City's AI is 0.76% and it would increase to 1.02%.**
  - ii. Grant funding eligibility generally looks for an AI of 1.5-2.0%. **Because the City's rates are low, and will remain reasonable, grant funding is unlikely now and in the future.**
2. The study recommends adopting a level unit charge for residential users, i.e. cease the declining rate structure.
    - a. Currently, the higher your water usage, the lower your rate. This is an uncommon practice and generally reserved for cities oriented to high industrial production.
    - b. This structure would remain for commercial customers.
  3. Without a rate adjustment, reserves will continue to decline. With the proposed adjustment, reserves will remain steady, even as the City tackles necessary capital improvements.
  4. An assumption was made that operating costs will inflate by 4% per year for the next 5 years.

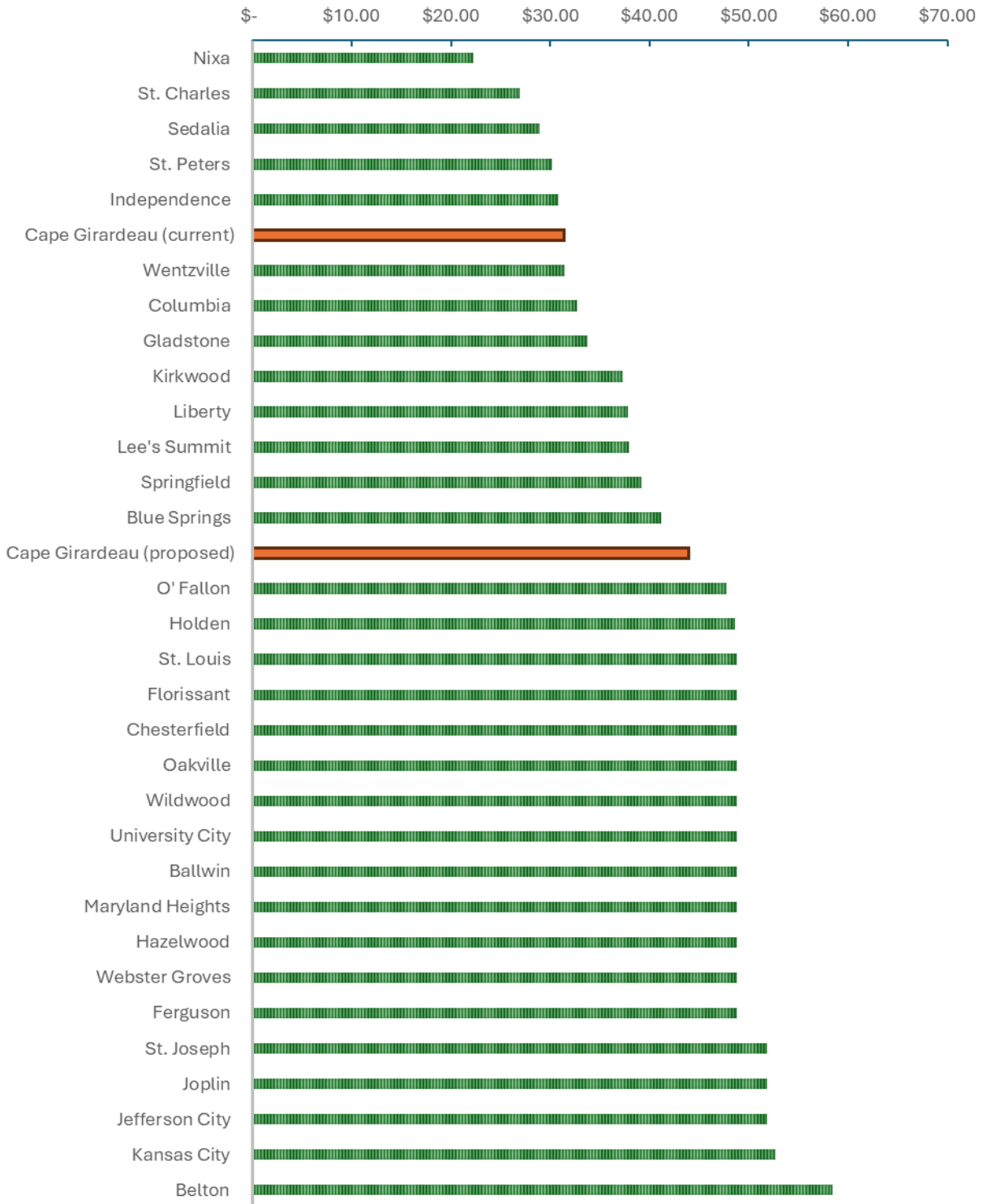
### Summary

If the recommended rates and fees are adopted, and if future costs, growth, and other assumptions come to fruition, the City will build prudent reserves and fully fund the water utility for many years to come. These rates will bill water users fairly for the service used and provided.

# FIGURE 1. MONTHLY WATER BILL FOR MISSOURI CITIES WITH POPULATION GREATER THAN 1,000



## FIGURE 2. MONTHLY WATER BILL FOR MISSOURI CITIES WITH POPULATION GREATER THAN 20,000



**FIGURE 3. MONTHLY WATER BILL FOR CITIES WITHIN SEMORPC TERRITORY AND POPULATION GREATER THAN 1,000**

