



City of Ely Drinking Water Rate Study

Rural Community Assistance Corporation

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Executive Summary

The City of Ely partnered with Rural Community Assistance Corporation (RCAC) to evaluate the financial sustainability of its drinking water utility and determine whether existing rates are sufficient to support current operations, debt obligations, reserve requirements, and long-term capital replacement needs.

RCAC reviewed the City's financial statements, customer and billing information, existing rate structure, debt obligations, reserve balances, and available asset management and capital planning information. This information was incorporated into a five-year financial model to evaluate the adequacy of existing rates and develop rate alternatives designed to support the continued financial stability of the Municipal Water Fund.

The analysis determined that existing water rates are not sufficient to meet the City's projected five-year revenue requirement. If rates remain unchanged, projected expenses increase from approximately \$1.42 million in 2027 to \$1.65 million in 2031 while annual rate revenue remains approximately \$1.36 million. This results in an estimated cumulative five-year revenue deficiency of approximately \$846,000. The model also indicates that existing rates do not provide sufficient revenue to consistently support planned reserve and capital replacement contributions.

RCAC evaluated two rate adjustment alternatives in addition to maintaining existing rates. Both alternatives substantially improve the financial position of the Water Fund; however, the timing of the adjustments produces different long-term results.

Under the Gradual Rate Adjustment Scenario, the in-city residential monthly rate increases from \$34.97 to \$36.00 in the first year, followed by annual adjustments of 3.0%, 3.5%, 4.0%, and 4.0%. The residential rate reaches \$41.51 in Year 5. This scenario generates approximately \$7.69 million in revenue over five years, maintains positive annual operating results throughout the projection, provides the modeled reserve contributions in each year, and maintains positive annual cash flow.



The Front-Loaded Rate Adjustment Scenario increases the residential rate to \$38.00 in the first year followed by annual 2.0% adjustments. This alternative generates approximately \$7.72 million over five years and provides stronger revenue in the early years; however, the smaller subsequent increases do not keep pace with projected expense growth. Annual revenue deficiencies return in 2030 and 2031, and the modeled reserve funding requirement is not fully achieved during those years.

Based on the five-year financial analysis, RCAC recommends implementation of the Gradual Rate Adjustment Scenario. This approach provides sufficient recurring revenue to meet projected annual financial requirements throughout the study period while distributing the customer impact over multiple years. The recommended scenario increases the in-city residential monthly rate from \$34.97 to \$36.00 in Year 1 and gradually increases the rate to \$41.51 by Year 5.

The recommended rates remain within the affordability range evaluated by the model. Based on an MHI of \$86,389, the modeled residential affordability measure increases from approximately 0.50% in Year 1 to 0.58% in Year 5.

Implementation of the recommended rate schedule should be accompanied by annual review of actual revenues, operating expenses, reserve balances, capital expenditures, and customer usage. Rate adjustments should be revisited as necessary if actual financial performance or capital requirements differ materially from the assumptions used in this analysis.

Introduction

The City of Ely retained RCAC to complete a drinking water rate study to evaluate whether current water rates provide sufficient revenue to support the long-term financial and operational needs of the Municipal Water Fund.

A financially sustainable water utility must generate sufficient recurring revenue to fund routine operations, meet debt obligations, maintain appropriate reserves, and provide for the eventual repair and replacement of system infrastructure. Reliance on existing cash balances or one-time funding sources does not eliminate the need for rates that adequately support recurring utility obligations.

RCAC developed a five-year financial model using financial and operational information provided by the City. The model evaluates projected operating costs, debt service, reserve requirements, capital replacement funding, customer impacts, and affordability under alternative rate structures.

The primary objectives of the study are to:

- Evaluate the adequacy of existing water rates;
- Identify the City's projected five-year revenue requirement;
- Incorporate appropriate funding for debt, reserves, and capital replacement;
- Evaluate the financial and customer impacts of alternative rate adjustments; and
- Recommend a rate strategy that supports the long-term financial sustainability of the Municipal Water Fund.

Disclaimer

The findings, recommendations and conclusions contained in this rate analysis are based on financial information provided to RCAC by the City of Ely. Although reasonable care was made to ensure the reliability of this information, no warranty is expressed or implied as to the correctness, accuracy or completeness of the information contained herein. Any action taken based on such findings, recommendations or conclusions is undertaken at the discretion of the



City of Ely. In no event will RCAC or its partners, employees or agents be liable for any decision made or action taken in reliance on the information contained in this analysis.

System Overview

Service Area & Customer Base

The City of Ely provides drinking water service to customers located within and surrounding the city limits. The utility serves approximately 2,470 accounts, consisting primarily of in-city residential, out-of-city residential, and commercial customers. Residential customers are billed on a flat-rate basis, while commercial accounts are metered and billed based on actual water usage.

The service area includes a combination of residential, commercial, and institutional accounts. Water is delivered through a developed distribution system designed to serve both densely populated neighborhoods and outlying areas. The City of Ely remains responsible for system maintenance and operations to ensure the reliable delivery of clean, safe drinking water.

Median Household Income & Demographics

According to the 2023 American Community Survey, the median household income (MHI) for the City of Ely is \$86,389. This figure helps evaluate the affordability of water rates, especially for low- to moderate-income households.

As of the 2020 Decennial Census, Ely had an estimated population of 3,924. The city spans approximately 7.6 square miles and serves as a rural hub for White Pine County. Population and income data are useful metrics when aligning rate recommendations with the community's financial capacity.

Financial Overview

The City's FY2025 audited financial statements reported \$1,393,191 in operating revenue and \$1,402,716 in operating expenses for the Municipal Water Fund, resulting in an operating loss of \$9,525.

Operating revenues consisted primarily of \$1,387,521 in water sales and \$5,670 in connection fees. Operating expenses included salaries and wages, employee benefits, services and supplies, and depreciation and amortization.

Although the FY2025 operating deficit was relatively small, the rate study evaluates the utility prospectively. The five-year projection indicates that the gap between recurring rate revenue and projected financial requirements increases substantially if rates remain unchanged.

This distinction is important. The current financial position of the Water Fund provides the City with financial resources; however, existing balances should not be used as a substitute for establishing recurring rates sufficient to support recurring utility costs.

Reserves

At June 30, 2025, the Municipal Water Fund reported:

Classification	Balance
Restricted for Debt Service	\$74,174
Restricted for Capital Improvements	\$2,727,651
Unrestricted	\$1,777,076

The City enters the planning period with a strong reserve position, including resources specifically restricted for debt service and capital improvements, as well as unrestricted funds that provide additional financial flexibility. These balances strengthen the City's



ability to respond to planned capital investment, unexpected system needs, and fluctuations in operating costs.

However, reserve balances represent accumulated financial resources and should not be relied upon as a substitute for sufficient recurring rate revenue. Drawing on reserves to routinely offset operating shortfalls would gradually reduce the City's financial capacity and could limit the availability of funds for future capital improvements and unforeseen needs.

Restricted balances should continue to be preserved and used for their designated purposes. Unrestricted resources provide an important financial cushion for operating contingencies and other eligible needs, while maintaining adequate recurring revenue helps protect these resources over the long term.

Debt Service

The Municipal Water Fund currently carries debt associated with the 1996 Water Revenue Bond, which was originally issued in the amount of \$1,189,800 to refund interim water revenue bonds used to finance the Southside Water Project. The bond carries an interest rate of 5.00% and is scheduled to mature in January 2036. As of June 30, 2025, the outstanding principal balance was \$543,923.

Annual principal and interest payments total approximately \$69,540 through 2030. For FY2026, this consists of \$43,325 in principal and \$26,215 in interest. As principal is paid down, the interest portion of the annual payment declines and a greater portion is applied toward principal. The City's audited financial statements identify water system revenues as the pledged source for repayment of the bond.

The rate model incorporates the annual \$69,540 debt service requirement to ensure sufficient revenue is available to meet this obligation while also supporting operating expenses, reserve funding, and capital replacement needs. Because the bond remains outstanding through 2036, maintaining adequate debt-service coverage remains an important component of the City's long-term rate planning.

Capital Planning & Reserve Funding

Capital Improvement Needs

Capital replacement is a significant component of long-term water utility sustainability. Water infrastructure has finite useful lives, and rates should provide an appropriate level of ongoing funding for rehabilitation and replacement rather than relying exclusively on future borrowing, grants, or accumulated reserves.

Based on the City's available asset management and capital planning information, the rate model currently includes approximately \$269,265 annually for replacement of existing capital assets. Historical depreciation remains reflected in the City's audited financial statements. Projected depreciation is not separately included in the five-year revenue requirement because the model directly incorporates capital replacement funding. This approach avoids duplicating the recovery of capital-related costs within the rate calculation.

The capital replacement requirement should be reviewed periodically as the City updates its asset inventory and capital planning information. This process should include confirming assets currently in service, identifying assets that have already been replaced or retired, and updating estimated replacement costs and priorities as additional information becomes available.

Rate Recommendations

Projected annual expenses increase from approximately \$1.42 million in 2027 to \$1.65 million in 2031, resulting in a five-year revenue requirement of approximately \$7.66 million.

Without rate adjustments, annual rate revenue remains approximately \$1.36 million and does not increase with projected operating and capital requirements.

Scenario 1 – Maintain Existing Rates

Under the status quo scenario, no rate adjustments are implemented during the five-year planning period.

Year	Revenue	Expenses	Gain/(Loss)
2027	\$1,362,962	\$1,418,590	(\$55,627)
2028	\$1,362,962	\$1,472,602	(\$109,640)
2029	\$1,362,962	\$1,529,315	(\$166,353)
2030	\$1,362,962	\$1,588,864	(\$225,902)
2031	\$1,362,962	\$1,651,390	(\$288,428)
Total	\$6,814,810	\$7,660,760	(\$845,949)

The results demonstrate that maintaining existing rates is not financially sustainable over the five-year planning period. Annual deficiencies increase each year, modeled reserve contributions are not adequately funded, and annual cash flow becomes negative by 2031.

Without rate adjustments, the City would increasingly rely on existing financial resources or other funding sources to offset recurring revenue deficiencies.

Scenario 2 – Gradual Rate Adjustment

The Gradual Rate Adjustment Scenario is structured to progressively increase recurring revenue as projected expenses increase.

The in-city residential rate increases from \$34.97 to \$36.00 in Year 1, followed by increases of 3.0%, 3.5%, 4.0%, and 4.0%.

Year	Residential Rate	Rate Adjustment*	Total Revenue	Total Expenses	Annual Gain/(Loss)
2027	\$36.00	2.95%	\$1,435,162	\$1,418,590	\$16,572
2028	\$37.08	3.00%	\$1,478,217	\$1,472,602	\$5,615
2029	\$38.38	3.50%	\$1,529,954	\$1,529,315	\$639
2030	\$39.91	4.00%	\$1,591,152	\$1,588,864	\$2,289
2031	\$41.51	4.00%	\$1,654,798	\$1,651,390	\$3,409
5-Year Total	—	—	\$7,689,283	\$7,660,760	\$28,524

The scenario generates approximately \$7,689,283 in five-year revenue, exceeding projected five-year expenses by approximately \$28,524.

Importantly, revenue remains sufficient to meet projected expenses in every year of the analysis.

The model also indicates adequate reserve funding and positive annual cash flow throughout the projection period.

The relatively small cumulative five-year surplus demonstrates that the recommended adjustments closely align projected revenues with the City's modeled financial requirements.

Scenario 3 – Front-Loaded Rate Adjustment

The Front-Loaded Rate Adjustment Scenario increases the residential rate to \$38.00 in Year 1, followed by 2.0% annual adjustments.

Year	Residential Rate	Rate Adjustment*	Total Revenue	Total Expenses	Annual Gain/(Loss)
2027	\$38.00	8.66%	\$1,482,806	\$1,418,590	\$64,217
2028	\$38.76	2.00%	\$1,512,462	\$1,472,602	\$39,861
2029	\$39.54	2.00%	\$1,542,712	\$1,529,315	\$13,397
2030	\$40.33	2.00%	\$1,573,566	\$1,588,864	(\$15,298)
2031	\$41.13	2.00%	\$1,605,037	\$1,651,390	(\$46,352)
5-Year Total	—	—	\$7,716,584	\$7,660,760	\$55,824

This scenario generates approximately \$7,716,584 in five-year revenue, exceeding projected expenses by approximately \$55,824.

The larger initial adjustment strengthens the Water Fund during the first three years. However, the subsequent 2% annual increases do not keep pace with projected expense growth. The model produces an annual deficiency of approximately \$15,300 in 2030 and \$46,400 in 2031, and modeled reserve funding is not fully achieved in those years.

The front-loaded alternative therefore improves near-term revenue but would likely require another rate adjustment or reevaluation before the end of the five-year planning period.

Comparison of Rate Scenarios

The following table provides a side-by-side comparison of the three rate scenarios evaluated, highlighting the projected customer impacts and key financial outcomes over the five-year planning period.

Measure	Existing Rates	Gradual Adjustment	Front-Loaded
Year 1 Residential Rate	\$34.97	\$36.00	\$38.00
Year 5 Residential Rate	\$34.97	\$41.51	\$41.13
Year 1 Increase	0.00%	2.95%	8.66%
5-Year Revenue	\$6.815M	\$7.689M	\$7.717M
5-Year Gain/(Loss)	(\$845,949)	\$28,524	\$55,824
Meets Reserve Requirement Every Year	No	Yes	No
Positive Cash Flow Every Year	No	Yes	Yes
Year 5 Affordability	0.49%	0.58%	0.57%

Recommended Rate Plan

RCAC recommends Scenario 2 – Gradual Rate Adjustment.

The recommended scenario provides consistent alignment between recurring rate revenue and the City's projected annual financial requirements over the full five-year planning period.

Under the recommended schedule, the in-city residential monthly rate increases from \$34.97 to \$36.00 in 2027 and reaches \$41.51 by 2031. This represents an initial monthly increase of \$1.03, followed by incremental annual adjustments.

Residential Customer Impact

	Current	2027	2028	2029	2030	2031
Monthly Rate	\$34.97	\$36.00	\$37.08	\$38.38	\$39.91	\$41.51
Increase from Current	—	\$1.03	\$2.11	\$3.41	\$4.94	\$6.54
Annual Cost	\$419.64	\$432.00	\$444.96	\$460.56	\$478.92	\$498.12

The recommended schedule:

- Eliminates the projected revenue deficiencies associated with maintaining existing rates;
- Maintains positive annual financial results throughout the five-year projection;
- Provides the modeled reserve contributions in each year;
- Maintains positive annual cash flow;
- Incorporates funding for capital replacement;
- Avoids a larger immediate adjustment to residential customers; and
- Establishes a rate trajectory that more closely follows projected increases in system costs.

The front-loaded alternative produces a larger cumulative five-year surplus but does not maintain annual revenue sufficiency during the final two years. For long-term financial planning purposes, RCAC considers maintaining recurring annual revenue sufficient to meet projected annual requirements preferable to generating a larger early surplus followed by renewed annual deficiencies.

Recommendations & Next Steps

RCAC recommends that the City of Ely:

1. **Adopt the Gradual Rate Adjustment Scenario**, beginning with the proposed Year 1 rates and implementing the modeled annual adjustments over the five-year planning period.
2. **Review water rates annually** against actual revenues, expenses, customer usage, reserve balances, debt obligations, and capital expenditures. The modeled annual adjustments should be confirmed before implementation each year and modified if actual financial conditions differ materially from projections.
3. **Maintain restricted reserve balances for their designated purposes** and continue monitoring unrestricted resources available to support operating contingencies.

4. **Continue annual capital replacement funding** and update the modeled \$269,265 annual requirement as the City's asset inventory and capital replacement schedule are refined.
5. **Use grant and low-cost financing opportunities strategically** for major capital projects while maintaining rate revenue sufficient to support normal operations, required reserves, debt obligations, and an appropriate share of system reinvestment.
6. **Complete a comprehensive rate review at least every three to five years**, or sooner if significant changes occur in operating costs, customer demand, debt obligations, or planned capital improvements.

Conclusion

The City of Ely enters the planning period with meaningful financial reserves and resources designated for capital improvements. However, the five-year analysis demonstrates that the City's existing water rates do not generate sufficient recurring revenue to keep pace with projected operating, debt, reserve, and capital replacement requirements.

Maintaining existing rates would result in an estimated \$846,000 cumulative five-year revenue deficiency, with the annual shortfall increasing each year. Delaying rate adjustments would therefore increase the likelihood that future customers experience larger rate increases or that existing financial resources are increasingly relied upon to offset recurring revenue deficiencies. RCAC recommends implementation of the Gradual Rate Adjustment Scenario. The recommended rate schedule provides sufficient projected revenue in each year of the analysis, supports modeled reserve and capital replacement requirements, maintains positive annual cash flow, and distributes the necessary customer impact over the five-year planning period.

The recommended rate plan should not be viewed as a fixed schedule independent of future conditions. Annual monitoring remains essential. By reviewing financial performance and capital needs each year and making measured adjustments when necessary, the City can maintain the financial capacity necessary to provide reliable drinking water service while reducing the need for larger, less predictable rate increases in the future.



Appendix A: Budget & Financial Statements

Includes the City of Ely's FY24/FY25 audited financial statements and FY26 budget. These documents were reviewed to assess operating revenues, expenditures, debt obligations, and reserve balances for the water system.

Appendix B: Rate Model Outputs

Contains printouts from the rate model, including baseline financial health indicators, projected revenue needs, proposed rate structure, and customer impact tables. These outputs illustrate the assumptions used and results of the financial forecasting.