AWWU Proposed 2024 Q1 Budget Revisions

Originally Submitted to OMB
March 1, 2024

Endorsed by:
Mark A. Corsentino, P.E.
AWWU General Manager
MOA Position 5232
AWU Proposed Q1 Budget Requests

<table>
<thead>
<tr>
<th>Division</th>
<th>Description</th>
<th>Fund</th>
<th>Commit Item</th>
<th>PCE(s)</th>
<th>Position(s) Added / Removed</th>
<th>Vacant or Filled</th>
<th>Direct Cost Incr / (Dec)</th>
<th>Non-Prop Tax Revenue Increase / (Decrease)</th>
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<td>Non-Div Water Residential Sales</td>
<td>540000</td>
<td>870100</td>
<td>410010</td>
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<td>(1,000,000)</td>
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<td>-</td>
<td>25,000</td>
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<tr>
<td>14</td>
<td>GM Other Professional Services</td>
<td>540000</td>
<td>871100</td>
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<td>(25,000)</td>
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<td>15</td>
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<td>870100</td>
<td>560060</td>
<td>210,593</td>
<td>-</td>
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</tbody>
</table>
| 18       | - - | - | - | - | - | $947,746 | $900,000 | **Regulatory Requirements per AMC, GASB, RCA, EPA**

Net Zero Changes necessary for Staff Retention and Professional Certification Requirements
ASU Proposed Q1 Budget Requests

<table>
<thead>
<tr>
<th>Division</th>
<th>Description</th>
<th>Fund Center</th>
<th>Commitment Item</th>
<th>Position(s)</th>
<th>Direct Cost Incr / (Decr)</th>
<th>Non-Prop Tax Revenue Increase / (Decrease)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-Div</td>
<td>Sewer Residential Sales</td>
<td>650000</td>
<td>411010</td>
<td>$ -</td>
<td>$ (100,000)</td>
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</tr>
<tr>
<td>Non-Div</td>
<td>Sewer Commercial Sales</td>
<td>650000</td>
<td>411020</td>
<td>-</td>
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<tr>
<td>Non-Div</td>
<td>Sewer Public Authority Sales</td>
<td>650000</td>
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<td>Non-Div</td>
<td>Sewer Misc Charges</td>
<td>550000</td>
<td>411040</td>
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<tr>
<td>various</td>
<td>GASB 101 One-time starting balance</td>
<td>various</td>
<td>various</td>
<td>44,622</td>
<td>-</td>
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<td>various</td>
<td>Leave accrual adjustment GASB 101</td>
<td>various</td>
<td>501035</td>
<td>373,071</td>
<td>-</td>
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<tr>
<td>various</td>
<td>Travel</td>
<td>various</td>
<td>520000</td>
<td>25,000</td>
<td>-</td>
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<tr>
<td>GM</td>
<td>Other Professional Services</td>
<td>550000</td>
<td>530380</td>
<td>(25,000)</td>
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<td>MUSA</td>
<td>550000</td>
<td>580510</td>
<td>(51,107)</td>
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<td>27,154</td>
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**Net Zero Changes necessary for Staff Retention and Professional Certification Requirements**

**Regulatory Requirements per AMC, GASB, RCA**
AWWU Proposed Q1 Budget Request History – No Feedback until 4/9 LOTT

March 1st

To: AWWU and ASU 2024 First Quarter Budget Proposal and Narratives
Cc: AWWU

Subject: Re: AWWU and ASU 2024 First Quarter Budget Proposal and Narratives

From: Consentino, Mark A.
Sent: Friday, March 1, 2023 5:05 PM
To: Kohlhaase, Kent E.; Kohlhaase, Koaly A.; Lechner, Sharon
Cc: West, Cathi M.; Breyer, Jack O.; Eagles, David S.; turbine, Christopher L.

The important level IV summary, particularly for Kent and Koaly, is to submit this submission is essentially a net-zero budget change for AWWU other than the $250k sewer increase for Water based on the recent $240k bid opening for those chemicals.

Otherwise, MUSA, depreciation, revenue, and AFUDC are calculated non-manageable budget items.

The GAGS increase for MCA is a new regulatory requirement for enterprise-type entities.

The travel is a net-zero change to the budget, we are moving money from commitment item to another to support business needs.

Get Drafted for CIS

Kent, Koaly, Sharon,

Can you provide an update on Q1 Budget revision requests?

AWWU has several invoices to pay (like $50k to AL) which we made several Q1 net-zero changes to move funding from one fund/center to another.

Without those net-zero changes (along with the modest budget increase requests due to chemical cost increase), we will continue to face delays in payments, some of which are new and now.

The new budget changes don’t move Assembly approval, however, the modest increases will.

We can hold off payments for a short time and wait for the Assembly Q1 budget schedule (April 9th intro and April 23rd approval?).

However, if the net-zero changes aren’t going to move forward, we’ll need to move forward with budget transfers sooner than later to pay bills.

Please let us know if you need anything from us to move this forward.

Thank you,
LOTT Q1 Utility Revenue Distribution AIM - Misinformation & Associated Impacts

Water Utility Is at Risk on Multiple Fronts and Cannot Afford an Irresponsible $5.6M Dividend as Proposed in LOTT AIM

- PFAS New SDWA Requirements by EPA Finalized April 10, 2024
- Eklutna Raw Water Sales threats are in active RCA Case TA179-122
- Eklutna Raw Water Main from Eklutna Lake at Increased Risk
- AWU will be spending $10’s of Millions to make up for lost water supply

Past Assembly EUOC Briefings Touched upon these risks; August 17, 2023 & January 18, 2024

Strategic Risks: New Regulatory Requirements and Ongoing Inflation will add to Financial Costs

- EPA and ADE&C have new Safe Drinking Water Act Regulations for PFAS*
- EPA and ADE&C have new proposed Safe Drinking Water Act Regulations for Cryptosporidium
- EPA and ADE&C have new proposed Clean Water Act Regulations for Human Health Criteria
- EPA and ADE&C have new Clean Water Act Regulations for PFAS*

*Gas and Diesel initially went down in ’22, but are increasing again and we absorbed the increase in last year budget

Specialty Environmental Regulatory Legal Services

- Time sensitive and urgent as several EPA and ADE&C environmental regulatory actions are active
- AWU has several specialized legal contracts for Water Flows and RCA Regulatory services and has had past environmental legal service contracts

- August 17, 2023
- January 18, 2024
AWWU Payments to the MOA are Disproportionately High and are Major AWWU Operating Expense & Driver in Rates

- AWWU pays over $25 Million in annual expenses to the MOA for MUSA, IGCs, and dividends; these expenses have grown from 15% to 25% of AWWU’s Budget since 2010.
- AWWU provides over $125 Million in cash to the MOA Treasury ($10M per month); money the MOA does not need to borrow to pay its expenses.

<table>
<thead>
<tr>
<th>Utility</th>
<th>Operating Revenues ($)</th>
<th>Operating Expenses ($)</th>
<th>Net Capital Assets ($)</th>
<th>PILT/MUSA Paid ($)</th>
<th>% of Revenues</th>
<th>% of Op Expenses</th>
<th>% of Cap Assets</th>
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</thead>
<tbody>
<tr>
<td>AWWU</td>
<td>126,643,082</td>
<td>78,408,944</td>
<td>585,655,296</td>
<td>17,165,191</td>
<td>13.55%</td>
<td>21.89%</td>
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<td>Madison Water Utility</td>
<td>47,113,949</td>
<td>26,068,368</td>
<td>300,981,958</td>
<td>629,228</td>
<td>1.34%</td>
<td>2.41%</td>
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<tr>
<td>Portland (ME) Water District</td>
<td>27,780,678</td>
<td>22,101,327</td>
<td>236,445,553</td>
<td>60,987</td>
<td>0.22%</td>
<td>0.28%</td>
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<tr>
<td>Superior Water, Light &amp; Power (Water)</td>
<td>10,256,901</td>
<td>6,858,889</td>
<td>114,878,380</td>
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<td>2.03%</td>
<td>3.04%</td>
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<tr>
<td>Colorado Springs Utilities w/gas/elect.</td>
<td>1,234,456,000</td>
<td>873,548,000</td>
<td>6,733,008,000</td>
<td>37,279,000</td>
<td>3.02%</td>
<td>4.27%</td>
<td>0.55%</td>
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</tbody>
</table>
Cutting Essential Utility Services while providing a dividend could put AWWU on a Dividend Restriction. To avoid that, AWWU proposed the dividend with the RCA LRFP and to prevent irreparable harm to AWWU Operations in the eyes of AWWU management and the RCA (AWWU is already dividend restricted for Sewer):

In RCA Order 22 of Docket U-13-184, dated 7/16/2015:
ML&P was restricted from paying dividends to the MOA effective January 1, 2016 “…to enhance the financial position of ML&P and allow it to retain earnings… to protect the utility and its ratepayers and…the continued financial stability of ML&P is the over-riding concern…it is simply not fair for the utility to continue dividends given…decreasing equity…

January 11, 2022 RCA Transcript in AWWU Rate Case:
AWWU Provides Essential Community Services that are Highly Scrutinized and Regulated Economically and Environmentally

- **AWWU's mission and purpose:** Safeguard the public health and environment by providing safe, economic and reliable water and wastewater services in a sustainable manner.

- The Regulatory Commission of Alaska (RCA or Commission) regulates public utilities by certifying qualified providers and ensuring that they provide safe and adequate services and facilities at just and reasonable rates, terms, and conditions.

- AWWU is rate based, funded by customers and collects no property taxes; changing AWWU's budget has NO impact on property taxes.

- AWWU's rates are regulated by the RCA and are not tied to budgets; rates have remained flat even with budget increases.

- AWWU underspends budgets as we do zero based budgeting and budget for anticipated needs (regulatory cases and regulatory changes) and anticipated water demands that may NOT come to full fruition, but we must quickly fund if the need comes up. Case in point, we had limited RCA spend last year, but we are spending at a very high rate this year. Those schedules are oftentimes not known to AWWU during budgeting.

- There are no consequences to budget conservatively (no rate impact), but severe consequences if we underbudget and don’t have funds to meet regulatory obligations.

- AWWU Management is obligated to adhere to prudent management practices to furnish and maintain adequate, efficient, and safe service and facilities…that shall be reasonably continuous and without unreasonable interruption or delay (AS 42.05.0291(a)).

- AS 42.05.511 allows the Commission to investigate management practices, “including but not limited to staffing patterns, wage and salary scales and agreements, investment policies and practices, purchasing and payment arrangements with affiliated interests that are inefficient or unreasonable and that adversely affect the cost of quality of service of the public utility.”

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### Calculating the Revenue Requirement for Rates

**Simplified Calculation:**

- **Operating Expenses** (2022 actuals including known/measurable changes in 2023)
- **Depreciation Expense** (on non-contributed Plant Used & Useful during 2022)
- **MUSA Expense** (calculated on NBV of Plant on 12/31/22)
- **Return on Rate Base Expense** (based on capital structure and ROE)

**= Annual Revenue Base Requirement (used to set rates)**
Legal Consequences of Failure to Uphold AWWU’s Mission Resulting from Imposing Budgetary Constraints and Increased Dividend Expenses

State of AK RCA Tariff and ADEC:

Fines and penalties add up quickly and are not limited to the MOA but also include personal liability against the officers, managers, agents or employees who aid or abet the violation.

1. AS 42.05.561(a): “A person who violates a provision of AS 42.05.291 insofar as it governs . . . any regulation issued under AS 42.05.291 is subject to a civil penalty of not more than $1,000 for each violation for each day that the violation persists. However, the civil penalty may not exceed $200,000 for any related series of violations.” AS 42.05.291 governs standards of service and facilities, and in particular requires that “[e]ach public utility shall furnish and maintain adequate, efficient, and safe service and facilities. This service shall be reasonably continuous and without unreasonable interruption or delay.” The RCA gets to be the arbiter or what is “reasonable.”

2. AS 42.05.571(a): “In addition to all other penalties and remedies provided by law, a public utility and every person, and their lessees or receivers appointed by a court in any way subject to the provisions of this chapter, together with their officers, managers, agents, or employees that either violate or procure, aid, or abet the violation of any provision of this chapter, or of any order, regulation, or written requirement of the commission are subject to a maximum penalty of $100 for each violation. Each act of omission as well as each act of commission shall be considered a violation subject to the penalty.” Like AS 42.05.561, AS 42.05.581 provides that “[e]ach violation of a provision of this chapter or of an order, decision, regulation, or written requirement of the commission is a separate and distinct offense, and in case of a continuing violation each day’s continuance is a separate and distinct offense.”

3. AS 46.03.761(a): “The department may assess an administrative penalty against an entity that violates or causes or permits to be violated a provision of AS 46.03.720(b) or a term or condition of a regulation, order, permit, approval, or certificate of the department issued or adopted under AS 46.03.720(b).” AS 46.03.720(b) is the general law governing regulation of public water systems.

US Code of Federal Regulations EPA:

1. Under the Clean Water Act, any person whose negligence causes a discharge of pollutants from a point source into waters of the United States is subject to criminal prosecution and faces a fine of up to $25,000 per day of violation and imprisonment for one year. 33 U.S.C. §1319(c)(1).

At least two federal appellate courts have interpreted the degree of negligence that triggers criminal liability as simple negligence, which can amount to no more than a plant manager’s switch of the wrong valve, so the bar for liability is pretty low. If budget cuts impact the utility’s ability to adequately operate its plant, that could be considered negligence.

AKOSH and OSHA likely follow similar consequences from a State and Federal regulatory consequence.

PERSONAL AND PROFESSIONAL IMPACT

American Society of Civil Engineers Code of Ethics Fundamental Canon 1:

Engineers shall hold paramount the safety, health and welfare of the public and shall strive to comply with the principles of sustainable development in the performance of their professional duties.

The consequence of failing to meet our mission will be the loss of public confidence in the public health of essential community water and sewer services along with public & media backlash. The Flint, MI disaster started as a cost savings measure.
AWWU Management 2024 Proposed Budget Recommendation for Just, Fair and Equitable Rates, to Meet Essential Community Services & Regulatory Requirements

AWWU’s Budget was Unanimously Endorsed by the AWWU Board on August 7, 2023; it included a modest $1.0 M Water Dividend – AWWU negotiated in good faith with the Administration to increase the Dividend to $1.5M and limit the proposed rate increase to 3%. The LOTT AIM proposal completely undermines that negotiation with a 300+% Dividend Increase and severely threatens the sustainability of AWWU Operations.

AWU is at risk of losing nearly 10 Million Gallons per day of water supply as a result of the EPA SDWA PFAS Rule finalized as of April 10, 2024; this makes Eklutna Water Supply more critical; while at the same time Eklutna Water supply is at an increased vulnerability from Bottled Water customer demands and proposed instream flows above Anchorage’s Raw Water Main in the Eklutna River.

AWU is actively working on our upcoming CIP (capital improvement plans) and LRFP that will see $10’s of millions of dollars of increased capital expenses to find and fund supplemental water sources and treatment options to mitigate and make up for water supply shortages. A $5.6M dividend will erode AWU’s financial metrics and ability to do this necessary work. See next slide regarding CIP and Metrics.

AWU will not be able to meet RCA LRFP, Lender Financial Metrics and Bond Covenants with the LOTT AIM Q1 Budget Changes and will set us up for RCA scrutiny and violations of lending covenants.

As AWWU GM, I urge you to support AWWU’s Q1 Budget Requests submitted by AWWU on March 1, 2024 and reject the LOTT AIM from April 9, 2024; failure to do so puts AWWU down a path of failing to meet its mission critical community water and sewer services for Anchorage.
AWWU CIP Plans and Financial Metrics

The Capital Improvement Plan is created every year to solve problems for work groups in the utility. To get a problem solved, we follow a procedures to make sure the utility has the necessary information and documentation for several months and state stakeholders. The first step of the process is to create a new business case evaluation (BCE) for on-going projects or a new BCE for on-going projects. BCEs need to be completed and submitted during the planning, and information will be incorporated in the creation of the next BCE.

To be considered for the next CIP (2023-2030), a BCE is required. Below are the steps you would need to follow to complete a BCE (depending on your problem or project). Please look at the Bce Guidance Document for additional information on the BCE form.

In addition, we have implemented a Capital Projects Web Map Studio to the creator, Andrew Block, to quickly review key BCE information and map locations online, called Capital Project Map Directory. Use your AWWU computer login in your capital projects BCE. Add your normal password. If you have any technical issues, please contact us.

With Increasing Water Utility Regulatory Expenses these financial metrics will be broken if the LOTT AIM Dividend is accepted and AWWU’s will be unable to provide long term financial sustainability.

NOW, THEREFORE, THE ANCHORAGE WATER AND WASTEWATER UTILITY BOARD OF DIRECTORS RESOLVES:

To recommend the following policies for long term financial sustainability:

- Maintain bond ratings of at least “AA” from Fitch Rating and/or S&P Global
- Review rates on an annual basis and adjust as necessary to ensure that revenue levels adequately fund AWWU’s and ASU’s financial, capital and operational goals, objectives, and requirements.
- Manage the Anchorage Water Utility to achieve a target capital structure of 67% debt and 33% equity over the planning horizon.
- Manage the Anchorage Water Utility to achieve a target capital structure of 67% debt and 33% equity over the planning horizon.
- Maintain a minimum of 180 days of operating cash.
- Target a total debt service coverage of 1.3x or greater per utility over the planning horizon. Maintain a minimum total debt service coverage of 1.15x, or as necessary to satisfy bond covenants.
- Target a level at or above 30% for equity funding for the capital programs of AWWU and ASU to mitigate AWWU’s reliance on debt.
- Maintain debt service as a percentage of revenue at or below 35% of gross operating revenues.
- Maintain a minimum of 180 days of operating cash.
- Strengthen the debt profile of both AWWU and ASU by gradually reducing debt per customer account over the planning horizon.

Approved by a majority vote of the Anchorage Water and Wastewater Utility Board of Directors.

Fitch Rating Agency 2017 Water Report

Both senior and in all in DSC (excluding the MUSA payment) are forecast to decline with the issuance of additional debt. The utility’s financial forecast shows all-in DSC (excluding the MUSA payment) dropping as low as 1.3x as debt service rises with additional borrowing. Fitch expects the utility to better the conservative forecast, which assumes very slow increases in connection and no connection fee revenues. The utility has historically outperformed its forecasts. Fitch believes the utility can sustain narrower coverage than most utilities at the current rating level because it has very stable revenues (residential users are charged a flat rate), a solid reserve position, and a strong history of raising rates as necessary to maintain adequate financial performance. Over time the rating could come under downward pressure if all-in DSC (excluding the MUSA payment) drops to the 1.3x level on a sustained basis.
AWWU Management 2024 Proposed Budget Recommendation for Just, Fair and Equitable Rates, AMC 26.10 History

- Both prior versions of AMC 26.10.025D and 26.10.065A would have calculated a much lower MAX dividend based on approx. $68M of 2023 gross income ($850k and $3.4M respectively) versus the LOTT AIM proposal of $5.6M

- More importantly as noted in the 2017/2018 RCA Testimony, the 33% dividend level was for ILLUSTRATIVE PURPOSES ONLY, THE UTILITY WILL EVALUATE ITS FINANCIAL STANDING ON AN ANNUAL BASIS AND PROPOSE A DIVIDEND

- AWWU HAS DONE THAT AND PROPOSED A $1.5M DIVIDEND IN GOOD FAITH NEGOTIATIONS WITH THE ADMINISTRATION

- Providing a 33% distribution from prior year net income has detrimental financial consequences as shown in the preliminary LRFP version with the LOTT AIM dividend and new SDWA PFAS constraints and Eklutna Lake Water Supply risks

- This dividend amounts to a regressive tax on lower income Utility ratepayers to offset property taxes for non-Ulility ratepayers that generally have higher incomes (final slide)
AWU has been increasing Dividend Payments over time since it has been lifted

Water Utility Dividend Payments are approaching an average of 10% earnings allocation

10% is the RCA regulated return on equity (ROE)

A Dividend exceeding 10% of a prior year earnings can erode AWU's equity and ability to remain financially solvent in an era where water as a precious commodity is growing with ongoing pollution threats and water resource competing interests...all of which necessitate and need for ongoing investment in water when investment costs continue to escalate

AWWU's expenses have been lower than anticipated over the last few years because of severely high vacancies and our throughput of work has suffered and our service levels have dropped.

The consequence of lower expenses has been higher net income/earnings. This increase in net income goes directly back to the ratepayers to keep their Utility operating, except what goes to a dividend.

AWWU budgets and plans for a full workforce, we refuse to give up on our staff that are overworked and burnt out. We continue to advertise and recruit and make PD and classification changes with HR to improve our budget to actual performance. But taking a larger dividend hurts our customers the most as it’s a sign we are not reinvesting in their Utility,

<table>
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<tr>
<th></th>
<th>2020</th>
<th>2021*</th>
<th>2022</th>
<th>2023</th>
<th>AWU '2024</th>
<th>OMB '2024</th>
</tr>
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<td>Paid</td>
<td>1,630,000</td>
<td>-</td>
<td>300,000</td>
<td>1,500,000</td>
<td>1,500,000</td>
<td>5,600,000</td>
</tr>
<tr>
<td>Change in Equity - PY</td>
<td>17,297,811</td>
<td>11,908,300</td>
<td>14,097,470</td>
<td>16,832,960</td>
<td>15,000,000</td>
<td>15,000,000</td>
</tr>
<tr>
<td>% of Change in Equity</td>
<td>9.42%</td>
<td>0.00%</td>
<td>2.13%</td>
<td>8.91%</td>
<td>10.00%</td>
<td>37.33%</td>
</tr>
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Five year avg 6.09% 11.56%
Avg excluding COVID year 7.62% 14.45%
*No Dividend - COVID revenue decline
**Estimated 2023 totals
***AWU's accepted ROE is 10.0%
This dividend amounts to a regressive tax on lower income Utility ratepayers to offset property taxes for non-Utility ratepayers that generally have higher incomes.

- Anchorage is home to several disadvantaged and low income communities, all of which are within AWWU’s service area.
- A $5.6 million dividend costs $100 per AWWU water customer, annually
  - AWWU’s monthly water bill for a single family residence is $62.04. 13% of every bill (or 1.6 months of service), would go toward the dividend.
  - The dividend will reduce investment in infrastructure in disadvantaged communities and effectively provide a tax break to the more affluent communities in Anchorage.
- For more information on disadvantaged communities in Anchorage, see