
Round Hill Rate Study Capital Project Scenarios

Last Meeting - Introduction of Issues

 Today – Capital Project Scenarios

Next Meeting – Rate Scenarios

April 5, 2023

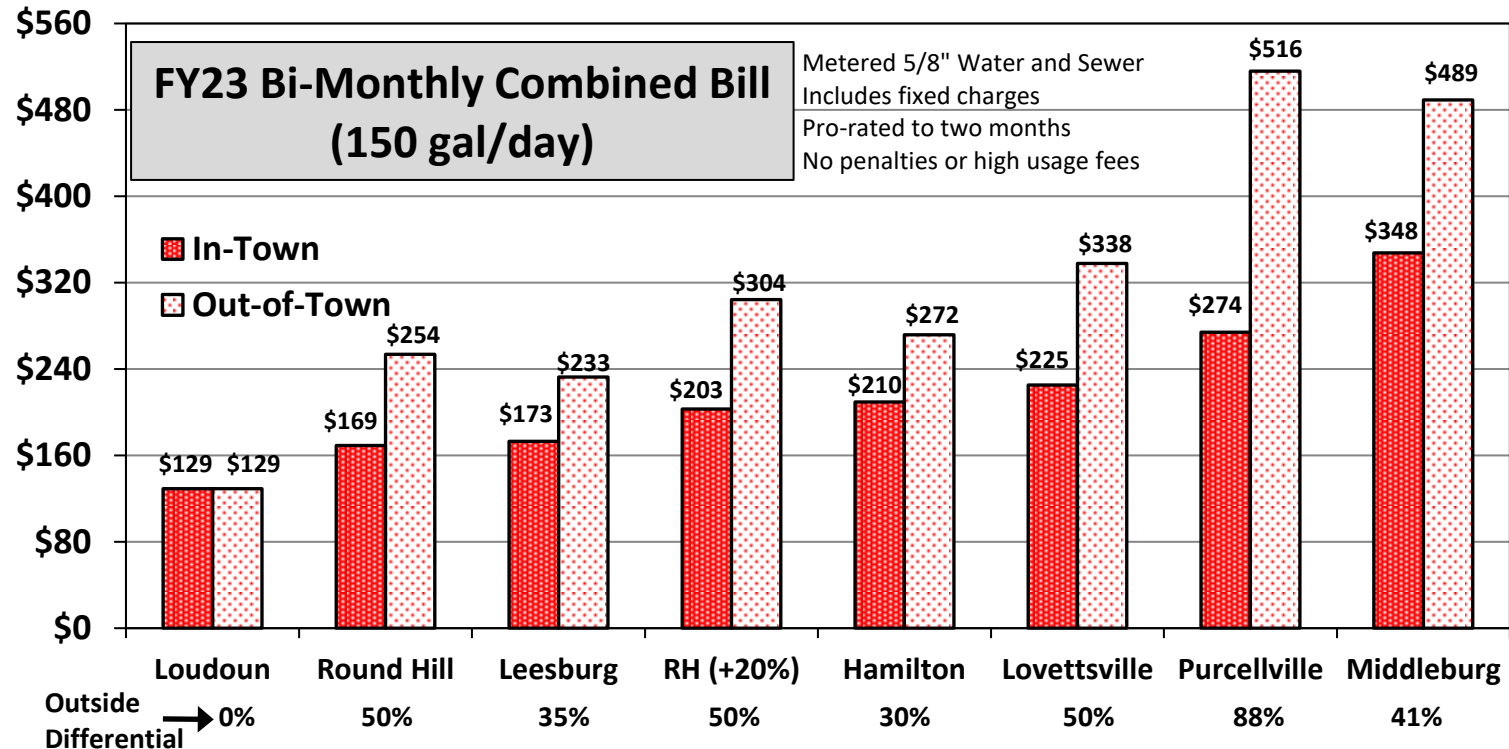
Rate Study Recap

- March 15 meeting provided an overview of utility system
 - Good
 - Current rates are lowest of Loudoun Towns
 - Current reserves are healthy
 - System growth strong in recent years – large user base
 - Bad
 - Very few future availability fees incoming
 - Capital projects and budgets growing much faster than planned
 - Rates were set to fund \$9.6M CIP, but \$13.4M in draft utility CIP
 - Ugly
 - Inflation and borrowing costs increased sharply past 2 years
 - 5-8% annual inflation instead of 2-4%, also impacts borrowing costs
 - Rate increases inevitable even if most capital projects cut

Today is a discussion of capital project scenarios and inflation/interest rate scenarios to illustrate impacts on rates

Current (FY23) Rate Comparison

FY23 Bi-Monthly Combined Bill (150 gal/day)



- Round Hill currently has lowest utility rates of the Loudoun towns
 - Even if rates increased 20%, would still be lower than all other towns except Leesburg

Major CIP Projects (Well-Defined)

- Southern Tank (\$4.2M)
 - Must be done for system resiliency (major single point of failure)
 - Secondary benefits improve fire flow south of bypass and provide cell leasing site
 - Projected costs have grown 70% in last 4 years (Covid effect on construction costs)
 - Get project 'shovel-ready' then monitor construction/borrowing costs for opportunity

- ESTP Replacement (\$3.4M) / Well-D (\$500K)
 - Water capacity near limit – little margin for drought or well failure
 - Close to restrictions in summer 2021 after Goose Creek WTP failed
 - Water demand stable since 2021 (systems users grew as average use dropped)
 - If major CIP cut needed, get ESTP shovel-ready but delay construction
 - Well D can be used in manual operation as emergency source prior to ESTP

- Tertiary Filter Replacements (\$900K)
 - Filters already ordered – Town is committed. Investigating financing options.

Big 3 is now the Big 4

Other Major CIP Projects On Horizon

- New Utility Building (\$1M?)
 - Need for better working environment, more storage facilities
 - CIP reduced to only address immediate storage needs (\$250K) for now
- Stoneleigh 2nd Tank (\$600K?) and pressure issues (\$\$??)
 - Significant concerns about whether 2nd tank is even adequate
 - CIP reduced to only address safety issues until a zone redesign can be studied
- New treatment plant for Well 719 (\$1M? More?)
 - Relocate treatment from a backyard to adjoining town-owned parcel
- Large Reservoir Dam Rehab (\$1.5M? \$2.5M?)
 - Still awaiting state recommendations and investigating options
 - Town has no further use for site, so lowest cost options will be pursued
- All of these major projects removed from the 5-year planning window
 - Minor allowances included for safety issues, immediate needs and studies

Minor Capital Projects (Well-Defined)

- Most have minor impact on rates

- WWTP Upgrades (\$365K)
- Valve replacements (\$500K over 5 years)
- Stoneleigh Well Vault Rehab (\$130K for safety issues only)
- 719 Lift Station Rehab (\$150K for safety issues only)
- Backhoe (\$135K)

- Other Miscellaneous/undefined CIP (\$1.7M over 5 years)
 - Rate study must assume some things just 'come up'
 - Allowance for less-defined projects, studies, etc. and/or emergencies
 - \$300K/year water + \$200K/year sewer (in out years)

CIP Scenarios

- Mayor and Town Manager have refined project list several times
 - Reduced \$13.4 draft CIP down to \$12M (including allowance for miscellaneous)
 - Town Manager cut many projects that may still be needed eventually

- Mayor and Project Manager have refined financing scenarios
 - Developing financing options for Well D and Tertiary filters, as well as future projects

- Town Manager's New Recommended CIP is **Baseline Scenario (\$12M)**
 - **Step increase: 27% - 5% - 5% - 5% - 5% - 5%** (build each project as needed with financing)
 - **Phased increase: 13% - 13% - 10% - 10% - 5% - 5%** (only if delay 1 major project 2-3 years)

- Illustrate rate sensitivity to CIP with **Alternate Scenario (\$8.7M)**
 - Only building one of Southern Tank or ESTP, but not both
 - In addition to delaying one of them 2-3 years, move other outside 5-year rate planning window
 - Fixes 5-year outlook but 10-year outlook still grim
 - **Step increase: 10% - 5% - 5% - 5% - 5% - 5%**

- Numbers are still a little rough and may move +/- a little over next few weeks

Inflation Scenarios

- Illustrate sensitivity of rates to outside forces we have less control over
- Baseline inflation assumption:
 - O&M Annual expense inflation = 4%
 - Borrowing costs = 5%
- Pessimistic inflation assumption:
 - O&M Annual expense inflation = 6% (has been 8% annual over past 5 years)
 - Borrowing costs = 7%
- Looking solely at Baseline Scenario – Step Increase
 - Baseline Scenario – Step Increase, Baseline Inflation: **27% - 5% - 5% - 5% - 5% - 5%**
 - Baseline Scenario – Step Increase, Pessimistic Inflation: **39% - 5% - 5% - 5% - 5% - 5%**
- O&M Annual expense inflation ~2x more important than borrowing cost inflation
 - E.g. of the extra 12% in rate increase, 8% was from O&M and 4% from borrowing costs

Rate Setting Recommended Outlook

- Raise rates enough to give future Councils options
 - Option to expand water capacity
 - Option to build second tower
 - Fund long term instead of short term decision making
 - Investments in preventative maintenance and system modernization
 - Investments in resiliency to breaks and failures

- High risk if we do not set rates realistically to meet projected costs
 - Removes options from future Councils
 - Leads to emergency rate increases to meet payroll while system decays
 - Round Hill historically drives rates back down whenever possible
 - Why we already have the lowest utility and tax rates of Loudoun towns
 - Lots of unknowns today with ill-defined capital projects and inflation climate

- Each major capital project will have its own separate decision process
 - Timing of construction, how to finance on case-by-case basis
 - Those decisions are far more consequential than the rate setting

Next Steps

- Finalize CIP framework for budget and rate study today (April 5)
 - Establish overall level of rate increase (10% vs. 25%, etc.)

- Finalize detailed rate design and CIP plan at next meeting (April 19)
 - Step vs. phased, water vs. sewer split, etc.
 - Final CIP budget sheets

- Staff/Mayor prepare formal Rate Study report for review at following meeting (May 3)
 - Rates ready for advertisement, gather feedback on draft study