
FY2020 Utility Rate Study Overview

Town of Round Hill

Background

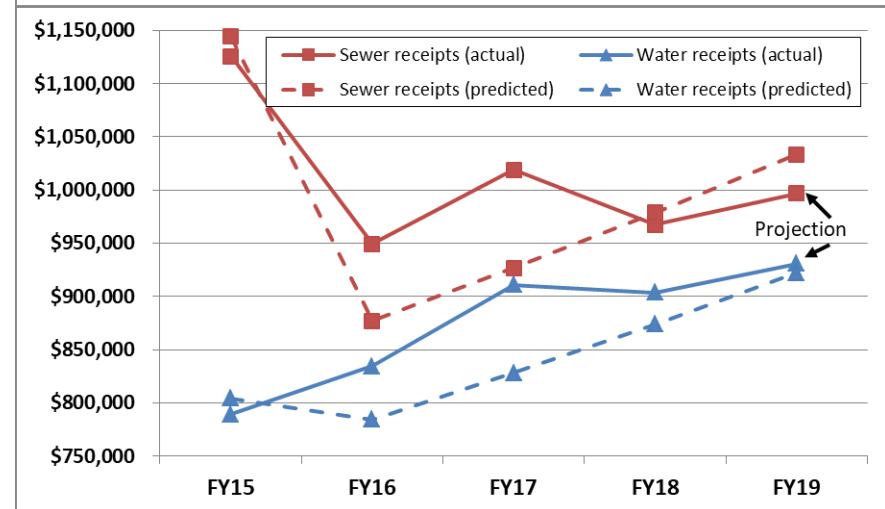
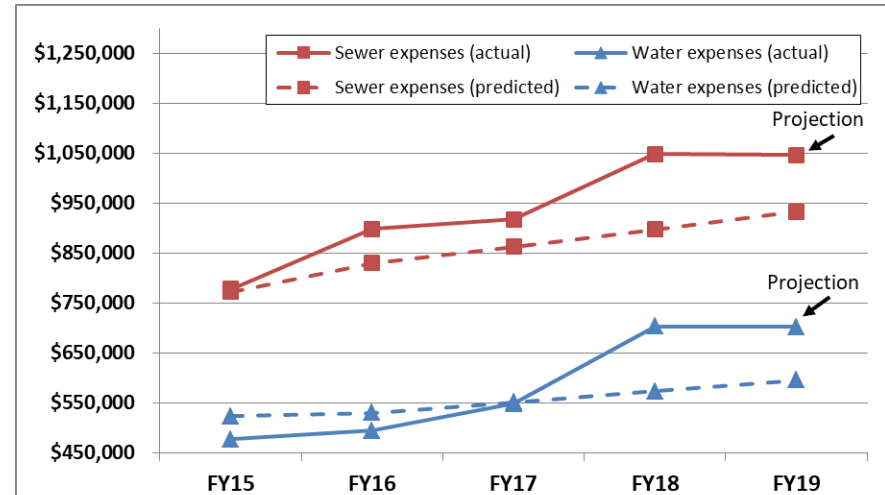
- Last rate study adopted in March 2015
 - Report on Town web site (36 pages)
 - Set new rates with a 3% annual escalator
- This study recommends rates for 2019-20 (FY20) and beyond
- Current Recommendation:
 - Reserve levels are ~\$2M higher than recommended (\$4.4M vs. \$2.2M)
 - User growth exceeded projections (+55/yr vs. +30/yr assumed)
 - Operating expenses have recently increased significantly
 - Set rates to reduce reserves to desired level over next 5 years
 - Adjust water/sewer user rates to break even on operating costs
 - Spend down reserves on planned CIP
 - Availability Fees need to be increased ~5%
 - Significant events in next 2-3 years should trigger another review of rates
 - Timing, construction costs and financing for \$2.7M Southern Water Tank
 - Potential Boundary Line Adjustment (primary impact to availability fees)

State of the System

- Utility financial condition is healthy
 - Reserve factor ~2.0 (1.0 = 12 months expenses in unrestricted cash)
 - \$4.4M unrestricted net assets vs. \$2.2M annual operating+debt expenses
 - Fiscal policy recommends reserve factor of >1.0
 - Debt servicing costs are 17% of expenses (<30% policy objective)
 - Overall debt load is \$5.4M (would increase to \$7M with Southern Tank)
 - Fiscal policy debt limit is ~\$11M
- Outlook is generally positive
 - Strong reserves
 - One major project on horizon (Southern Water Tank)
 - Operating expenses rose sharply in last fiscal year
 - Supplies and equipment replenishments, water tower maintenance

What happened since 2015?

- What went 'wrong' (financially):
 - Significant jump in operating expenses in FY18
 - Usage/household dropping
 - Down to 132 gal/day (was 140)
 - Revenue flat even with more accounts
- What went 'right' (financially):
 - Strong user growth (+55/yr)
 - Several capital projects lagging
 - Especially Southern Tank, now assumed to be built in FY21



CIP Plan (FY20-FY24)

Abbreviation	%Growth	Total	Estimated	Projected	Projected	Projected	Projected	Projected
			2019	2020	2021	2022	2023	2024
SrcXplore	80%	\$ 242,000	\$ 2,000	\$ 40,000	\$ 100,000	\$ 100,000		
WellUpgrades	50%	\$ 71,500	\$ 5,000	\$ 66,500				
SthrnTank	60%	\$ 2,705,000	\$ 10,000	\$ 195,000	\$ 500,000	\$2,000,000		
YattonLoop	50%	\$ 760,000	\$ 650,000	\$ 110,000				
Generators	50%	\$ 160,000	\$ 75,000	\$ 85,000				
Unspecified	50%	\$ 400,000	\$ -	\$ -	\$ 50,000	\$ 50,000	\$ 150,000	\$ 150,000
Total	58%	\$ 4,338,500	\$ 742,000	\$ 496,500	\$ 650,000	\$2,150,000	\$ 150,000	\$ 150,000
Growth	100%	\$ 2,512,350	\$ 372,600	\$ 279,750	\$ 405,000	\$1,305,000	\$ 75,000	\$ 75,000
Abbreviation	%Growth	Total	2019	2020	2021	2022	2023	2024
WWUpg	60%	\$ 215,000	\$ 30,000	\$ 185,000				
INI	50%	\$ 100,000		\$ 100,000				
WWBldg	60%	\$ 368,000		\$ 118,000		\$ 250,000		
Unspecified	50%	\$ 400,000	\$ -	\$ -	\$ 50,000	\$ 50,000	\$ 150,000	\$ 150,000
Total	55%	\$ 1,083,000	\$ 30,000	\$ 403,000	\$ 50,000	\$ 300,000	\$ 150,000	\$ 150,000
Growth	100%	\$ 599,800	\$ 18,000	\$ 231,800	\$ 25,000	\$ 175,000	\$ 75,000	\$ 75,000

Total = Total CIP spending in a given fiscal year

Growth = Portion of CIP spending in a given fiscal year attributable to new users (growth)

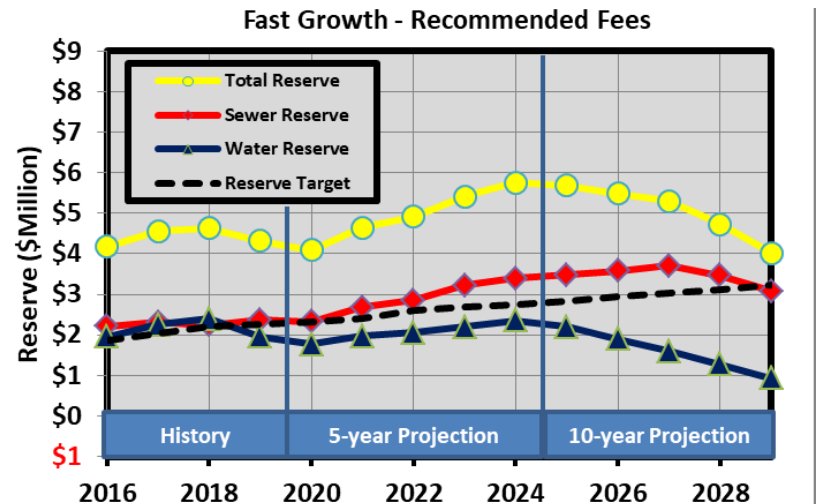
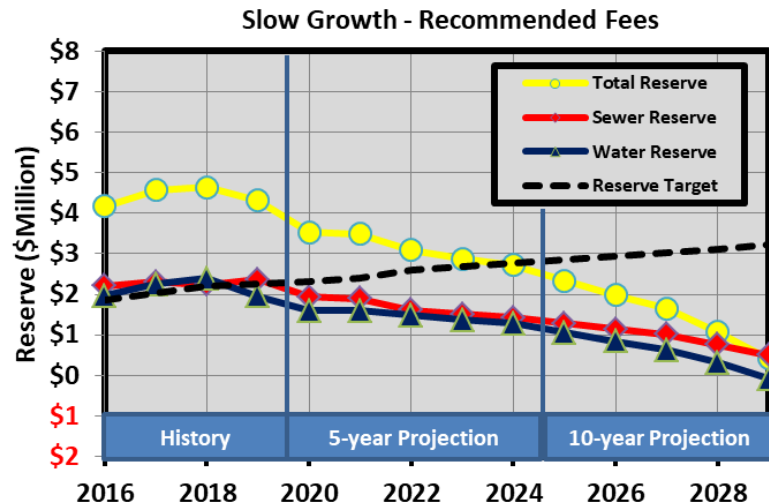
- After 2024, study assumes increase in unspecified CIP
 - \$300K/yr Water, \$250K/yr sewer
 - Placeholder for unknown future capital projects

Model Output

In-Town Rates	Current	FY20 Proposed	% Increase	Annual Escalator	Out-of-Town Multiplier
Water Availability	\$8,197	\$8,900	8.6%	3%	1.5
Sewer Availability	\$12,676	\$13,100	3.3%	3%	1.5
Combined Availability	\$20,873	\$22,000	5.4%		
Water Usage (per 1000 gal)	\$8.30	\$6.96	-16.1%	3%	1.5
Sewer Usage (per 1000 gal)	\$9.61	\$10.44	8.6%	3%	1.5
Combined Usage	\$17.91	\$17.40	-2.8%		

- Key Assumptions

- 30 new connections/year
- \$2.5M new water bond in FY21 to pay for Southern Water Tank
- Operating expenses growth at 4% per annum
- Water rates go down but sewer rates go up to balance ratio of costs (40% water/60% sewer)



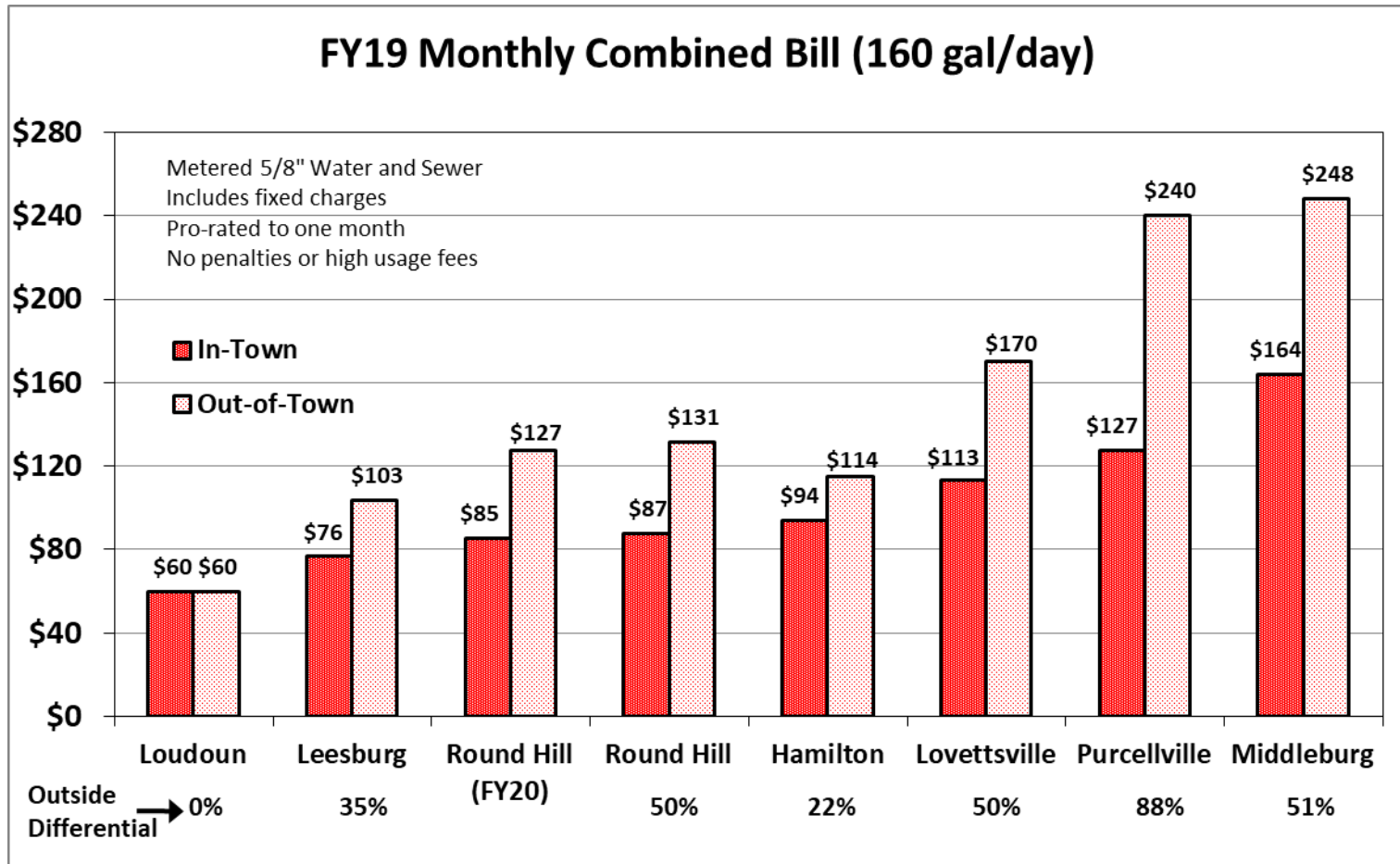
5-Year Projection

	Historical				5-year Projection				
	Actual 2016	Actual 2017	Actual 2018	Projected 2019	Projected 2020	Projected 2021	Projected 2022	Projected 2023	Projected 2024
Slow Growth - Recommended Fees									
Water Operating Receipts	\$ 834,529	\$ 910,736	\$ 903,884	\$ 934,530	\$ 785,930	\$ 824,391	\$ 864,892	\$ 907,497	\$ 951,077
Sewer Operating Receipts	\$ 949,464	\$ 1,019,128	\$ 967,614	\$ 1,023,172	\$ 1,137,384	\$ 1,194,298	\$ 1,253,677	\$ 1,315,585	\$ 1,380,084
Operating Receipts	\$ 1,783,993	\$ 1,929,864	\$ 1,871,498	\$ 1,957,701	\$ 1,923,314	\$ 2,018,689	\$ 2,118,569	\$ 2,223,082	\$ 2,331,161
Water Operating Payments	\$ (486,031)	\$ (552,612)	\$ (681,588)	\$ (702,035)	\$ (730,117)	\$ (759,322)	\$ (789,694)	\$ (821,282)	\$ (854,133)
Sewer Operating Payments	\$ (882,220)	\$ (924,545)	\$ (1,015,745)	\$ (1,046,218)	\$ (1,088,066)	\$ (1,131,589)	\$ (1,176,852)	\$ (1,223,927)	\$ (1,272,884)
Operating Payments	\$ (1,368,251)	\$ (1,477,157)	\$ (1,697,333)	\$ (1,748,253)	\$ (1,818,183)	\$ (1,890,910)	\$ (1,966,547)	\$ (2,045,209)	\$ (2,127,017)
Operating Surplus/(Deficit)	\$ 415,742	\$ 452,707	\$ 174,165	\$ 209,448	\$ 105,131	\$ 127,779	\$ 152,022	\$ 177,873	\$ 204,144
Total Debt Service (P+I)	\$ (502,771)	\$ (565,229)	\$ (497,880)	\$ (501,600)	\$ (499,044)	\$ (500,847)	\$ (633,538)	\$ (634,660)	\$ (634,413)
Water Cash-funded Capital	\$ (119,167)	\$ (159,620)	\$ (159,527)	\$ (737,000)	\$ (491,500)	\$ (145,000)	\$ (145,000)	\$ (145,000)	\$ (145,000)
Sewer Cash-funded Capital	\$ 2,167	\$ (61,531)	\$ (41,220)	\$ (25,000)	\$ (398,000)	\$ (45,000)	\$ (295,000)	\$ (145,000)	\$ (145,000)
Cash-funded capital	\$ (117,000)	\$ (221,151)	\$ (200,747)	\$ (762,000)	\$ (889,500)	\$ (190,000)	\$ (440,000)	\$ (290,000)	\$ (290,000)
Availability fees	\$ 864,251	\$ 725,788	\$ 596,256	\$ 806,026	\$ 501,214	\$ 513,706	\$ 526,568	\$ 539,783	\$ 553,368
Non-Operating Surplus/(Deficit)	\$ 244,480	\$ (60,592)	\$ (102,371)	\$ (457,574)	\$ (887,330)	\$ (177,141)	\$ (546,970)	\$ (384,877)	\$ (371,045)
Water Surplus/Deficit (Cash Flow)	\$ 369,978	\$ 295,166	\$ 137,151	\$ (303,700)	\$ (359,243)	\$ 781	\$ (119,841)	\$ (104,164)	\$ (88,434)
Sewer Surplus/Deficit (Cash Flow)	\$ 290,244	\$ 96,949	\$ (65,357)	\$ 55,574	\$ (422,955)	\$ (50,143)	\$ (275,106)	\$ (102,840)	\$ (78,467)
Total Cash Surplus/(Deficit)	\$ 660,222	\$ 392,115	\$ 71,794	\$ (248,126)	\$ (782,198)	\$ (49,362)	\$ (394,947)	\$ (207,004)	\$ (166,901)
Water Cash Reserves	\$ 1,963,621	\$ 2,258,787	\$ 2,395,938	\$ 2,092,238	\$ 1,732,995	\$ 1,733,776	\$ 1,613,935	\$ 1,509,771	\$ 1,421,337
Sewer Cash Reserves	\$ 2,210,894	\$ 2,307,843	\$ 2,242,486	\$ 2,298,060	\$ 1,875,105	\$ 1,824,962	\$ 1,549,856	\$ 1,447,016	\$ 1,368,550
Total Cash Reserves	\$ 4,174,518	\$ 4,566,633	\$ 4,638,427	\$ 4,390,301	\$ 3,608,103	\$ 3,558,741	\$ 3,163,794	\$ 2,956,790	\$ 2,789,889
Reserve Target (Op Pmts + Debt)	\$ 1,871,022	\$ 2,042,386	\$ 2,195,213	\$ 2,249,853	\$ 2,317,227	\$ 2,391,757	\$ 2,600,085	\$ 2,679,868	\$ 2,761,430
Reserve Ratio (>1)	2.23	2.24	2.11	1.95	1.56	1.49	1.22	1.10	1.01
Total Expenditures	\$ 1,988,022	\$ 2,263,537	\$ 2,395,960	\$ 3,011,853	\$ 3,206,727	\$ 2,581,757	\$ 3,040,085	\$ 2,969,868	\$ 3,051,430
Debt Servicing Ratio (<0.3)	0.25	0.25	0.21	0.17	0.16	0.19	0.21	0.21	0.21
Total Debt	\$ 6,060,000	\$ 5,845,000	\$ 5,620,000	\$ 5,380,000	\$ 5,130,000	\$ 7,365,000	\$ 7,041,572	\$ 6,701,448	\$ 6,344,571
Pro-Rata Debt	\$ 969,600	\$ 935,200	\$ 899,200	\$ 860,800	\$ 821,898	\$ 1,167,206	\$ 1,104,183	\$ 1,040,052	\$ 974,802
Debt vs. Assessments (<2%)	1.2%	1.0%	0.9%	0.9%	0.8%	1.1%	1.0%	0.9%	0.9%

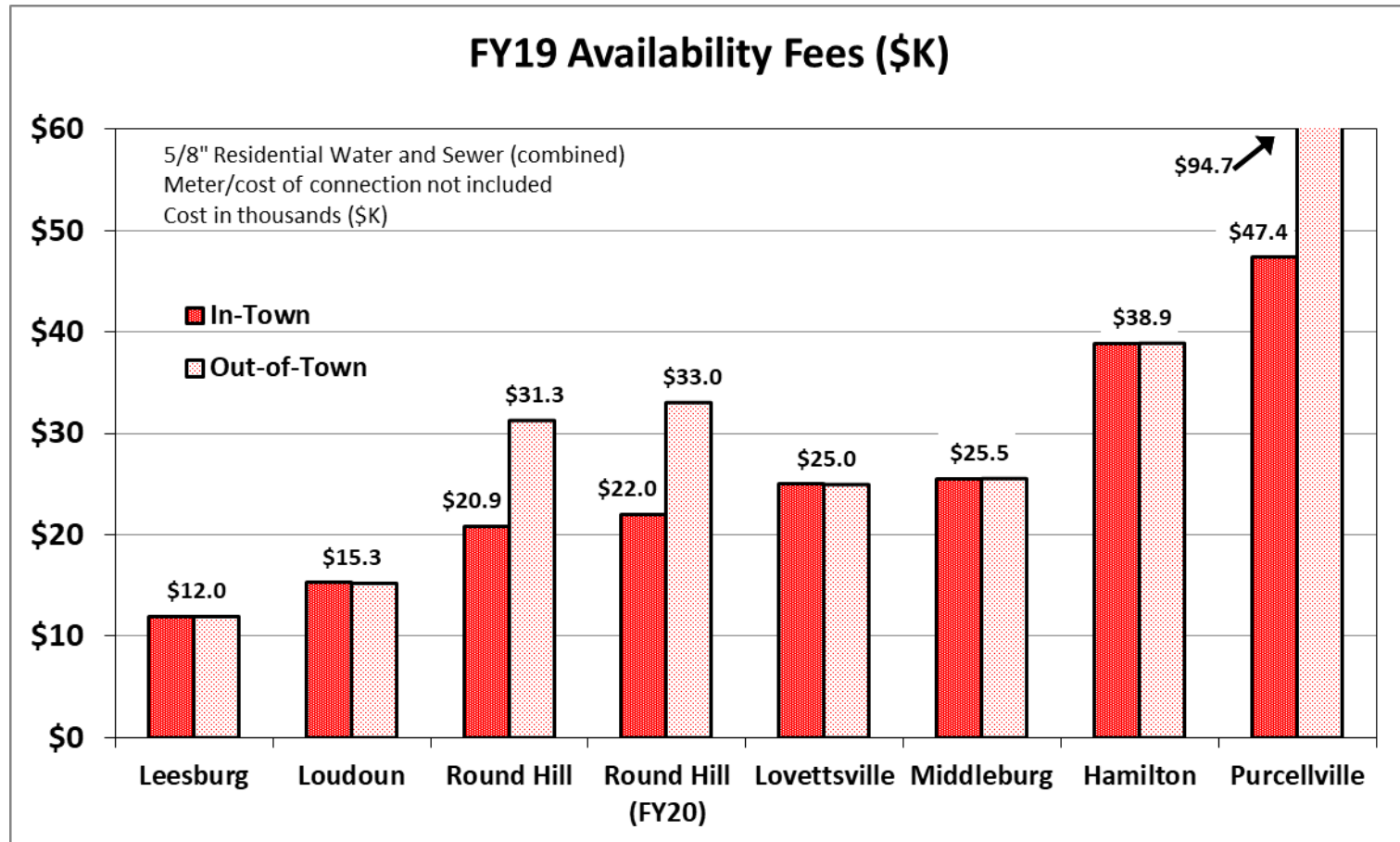
Next Steps

- 1) Town Council adoption of Rate Study
- 2) Incorporation of new rates into FY20 budget and fee schedule
 - Water \$6.96/kgal in-town, \$10.44/kgal out-of-town (decrease of 16.1%)
 - Sewer \$10.44/kgal in-town, \$15.66/kgal out-of-town (increase of 8.6%)
 - Combined Rate \$17.40/kgal in-town, \$26.10/kgal out-of-town (decrease of 2.8%)
 - Water availability (5/8") \$8,900 (higher for larger meter sizes) (increase of 8.6%)
 - Sewer availability (5/8") \$13,100 (higher for larger meter sizes) (increase of 3.3%)
 - Combined availability (5/8") \$22,000 (higher for larger meter sizes) (increase of 5.4%)
- 3) All rates to increase 3% per year after FY20

Rate Comparison to Other Localities



Availability Comparison to Other Localities



Multiplier

Multiplier	In-town		Out-of-town		In-town	Out-of-Town	Change	Multiplier Cost %	Out-of-Town Annual Cost	In-Town Annual Savings
	Combined Rate	% Change	Combined Rate	% Change	Annual Revenue	Annual Revenue	Annual Revenue			
1.50	\$17.40	0.0%	\$26.10	0.0%	\$212,533	\$1,671,032	\$0	5.3%	\$67	\$351
1.40	\$18.49	6.3%	\$25.89	-0.8%	\$225,893	\$1,657,672	\$13,360	4.6%	\$57	\$298
1.30	\$19.73	13.4%	\$25.65	-1.7%	\$241,045	\$1,642,519	\$28,513	3.7%	\$46	\$239
1.20	\$21.15	21.6%	\$25.38	-2.7%	\$258,377	\$1,625,187	\$45,845	2.7%	\$33	\$171
1.10	\$22.79	31.0%	\$25.07	-3.9%	\$278,394	\$1,605,170	\$65,862	1.5%	\$18	\$92
1.00	\$24.71	42.0%	\$24.71	-5.3%	\$301,773	\$1,581,791	\$89,241	0.0%	\$0	\$0

- Out-of-town users pay 1.5 rate of In-town users
 - 1334 out-of-town users, 254 in-town users (84%/16%)
 - 6.2 out-of-town households for every in-town household
- A common rate for all households would be nearly the same as the current out-of-town rate
 - Would reduce out-of-town rates 5.3%, increase in-town rates 42%
- ‘Cost’ of multiplier is \$67/year per out-of-town household
 - Benefit to in-town households is \$351/year
- 5.3% is the premium paid by out-of-town users above average cost
 - In-town users responsible for debt and manage the system