



Fiscal Year 2017 Water and Sewer System Utility Rate Study

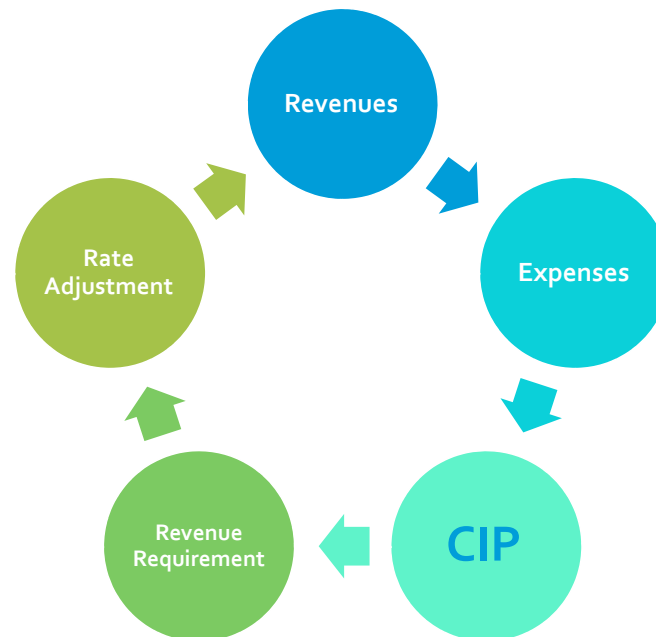


Public Resources Management Group, Inc.



Rate Study Objectives

- ❖ Develop Financial Forecast of Utility
 - Revenues Sufficient to Recover Full Cost of Providing Service
 - Expressed on a “By-Utility” Basis
- ❖ Identified Financial and Cost Recovery Programs
 - Promote Sustainability of Rates (Long-term)
 - Promote Creditworthiness of Utility
 - Limit Financial Risk
- ❖ Evaluate Rate Structures
 - Cost Recovery Practices – How Pay for Service
 - Assure Revenue Stability





System Overview



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System Attributes

- ❖ Customers – Water = 9,421 / Sewer = 2,052
- ❖ Equivalent Residential Connections (ERCs) – Water = 10,160 / Sewer = 2,384
- ❖ Gross System Assets = \$123,637,068 (2015 Audit) (Includes Bear Creek and Hard Labor Creek)
- ❖ Water Supply Agreements
 - Reservoir Agreement – with Upper Oconee Basin Water Authority – Existing Capacity at Bear Creek Reservoir
 - Intergovernmental Contract – with Walton County – Hard Labor Creek (Future Capacity)
- ❖ Water Capacity = 4.0 MGD (Bear Creek)
 - Capacity Utilization = 2.5 MGD / 62.5%
- ❖ Sewer Capacity = 1.067 MGD
 - Capacity Utilization = 0.98 MGD / 91.8%

System Attributes (cont'd.)

- ❖ Bond Resolution
 - Adopted by County October 1998
 - Governs Issuance of Senior Lien Debt
 - Operating Reserve (Revenue Fund) = 45 Days of O&M Expense
 - Rate Covenant – Net Revenues = 115% of Annual Debt Service
 - Flow of Funds – Disposition of Revenues

Flow of Funds – Disposition of Revenues		
1 st	Operating Expenses	Pay reasonable and necessary costs of operating, maintaining, and repairing the System
2 nd	Sinking Fund	Pay debt service on Bonds Issued Pursuant to Resolution (Senior Lien Debt)
3 rd	Junior Lien Obligations	Repay junior lien obligations including GEFA loans of County and payments to UOBWA for Intergovernmental Agreement (2 nd Lien Debt)
4 th	Renewal & Extension Fund	<u>All</u> remaining Revenues (Less 45 days of O&M Reserve) for capital expenditures and Payment of Walton County Debt (3 rd Lien Debt)

Financial Targets

❖ Governmental Accounting Standards Board:

*"Enterprise funds should be used to account for operations that are financed and **operated in a manner similar to private business enterprises** – where the intent of the governing body is that costs of providing **services** to the general public on a continuing basis **be financed or recovered primarily through user charges.**"*

Reserve Targets and Ratios Recognized in Forecast Development:

Cash Reserve – Operating Funds = 45 days of Operating Expenses

Cash Reserve – Capital Funds: 2% of Gross Assets

Cash Flow – All-In Debt Coverage Ratio: Revenues Less Expenses Equal to or Greater than 150% of Annual Total Debt Service Payments

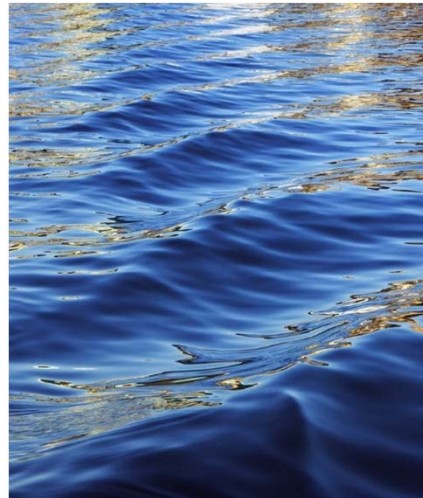
Cash Flow – Free Cash Flow to Depreciation Ratio: Revenues Less Expenses and Debt ("Free Cash Flow" or "Pay-Go") Equal to or Greater than 70% of Depreciation

Debt Issuance – Debt to Net Plant Investment Ratio: Outstanding Debt to Nets Plant-in-Service (Depreciated Assets) Equal to or Less than 50%



Revenue Sufficiency

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Customer Demographics – Water System

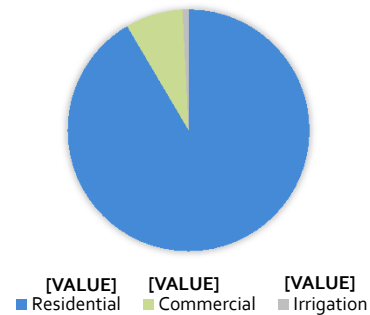
❖ Residential Customers

- Accounts for 92% of All Water Accounts
- Equivalent Residential Unit = 3/4-inch Residential Metered Customer
 - Allows for Customer Classes to be Compared Uniformly
- Average Use per Account Approximately **5,800** Gallons
 - 74% if Customer Bills are for 6,000 Gallons or less
- Forecast Recognizes Reduced Use for Effects of Ongoing Conservation = (0.25%) Annually
- Average Annual Account Growth = 265 (3%)

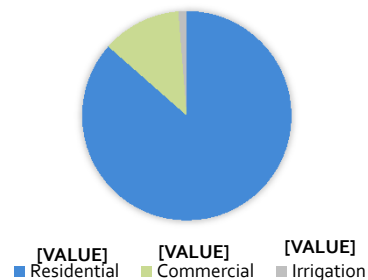
❖ Commercial / Other Customers

- Accounts for 8% of All Water Accounts
- Average Annual Account Growth = 25

ACCOUNTS – 9,421



EQUIVALENT RESIDENTIAL UNITS – 10,160

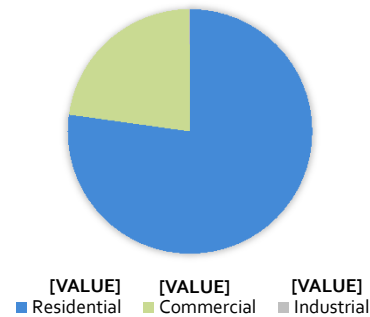


Customer Demographics – Sewer System

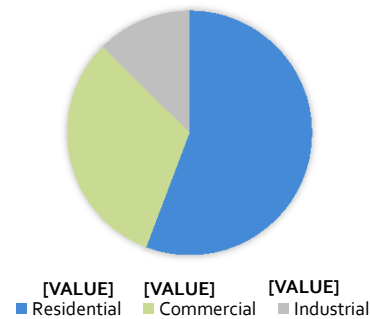
- ❖ Residential Customers
 - 77% of All Accounts / 56% of All ERUs
 - Average Billed Flow per Account Approx. **4,500** Gallons
 - Average Annual Account Growth = 50 (3%)
- ❖ Commercial
 - 23% of All Accounts / 32% of All ERUs
 - Average Annual Account Growth = 22
- ❖ Industrial Customers
 - 2 Accounts
 - Accounts for 12% of All Sewer ERUs

Customer Forecast – Basis for Projection of Rate Revenues

ACCOUNTS – 2,052



EQUIVALENT RESIDENTIAL UNITS – 2,384



Revenues

Rate Revenues

- ❖ Based on Customer Demographics
- ❖ Existing Rates / Charges for Service

Other Revenue

- ❖ Late Penalties, Connection Fees, and Water Fines
- ❖ Adopted Fiscal Year 2017 Budget

Water System – Forecast Revenues					
	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Existing Rate Revenues	\$6,544,189	\$6,544,189	\$6,544,189	\$6,544,189	\$6,544,189
Revenue from Growth	0	202,472	386,731	527,385	669,002
Other Rev. / Interest	<u>317,141</u>	<u>320,473</u>	<u>329,005</u>	<u>329,022</u>	<u>339,358</u>
Total Water Revenues	\$6,861,331	\$7,067,133	\$7,259,926	\$7,400,596	\$7,552,549
Sewer System – Forecast Revenues					
	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Existing Rate Revenues	\$1,525,266	\$1,525,266	\$1,525,266	\$1,525,266	\$1,525,266
Revenue from Growth	0	91,386	182,772	206,004	229,231
Other Rev. / Interest	<u>47,754</u>	<u>89,155</u>	<u>91,255</u>	<u>49,355</u>	<u>50,694</u>
Total Sewer Revenues	\$1,573,020	\$1,705,807	\$1,799,293	\$1,780,625	\$1,805,192
Total System – Forecast Revenues					
Total Revenues	\$8,434,351	\$8,772,940	\$9,059,219	\$9,181,221	\$9,357,741

Projected Operating Expenses

- ❖ Forecast Based on Recent Actual Results and Adopted Fiscal Year 2017 Budget
- ❖ Accounts for Approximately 53% of Gross Revenue Requirements
- ❖ Majority of Operating Expenses = Personnel, Utilities, Chemicals, and Purchased Water
 - Account for 68% of Total System Operating Expenses
 - Purchased Water is Significant = 24% of Total Operating Expense Budget
- ❖ \$148K in Salaries and Benefits Reallocated between Water and Sewer
- ❖ Accounted for Additional Personnel
- ❖ Reclassified Budgetary Capital to the Capital Improvement Plan
- ❖ Compound Annual Growth
 - Water System = 3.8% / Sewer System = 3.3%
 - Water and Sewage Maintenance Index – Last 5 Years has averaged 5.23%
 - NACWA's Projections (national average) = 4.3% next five years
 - ENR Construction Cost Index = 3.0% last five years

Projected Operating Expenses (cont'd.)

Projected Operating Expenses					
	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Salaries/Benefits	\$1,635,286	\$1,793,837	\$1,849,433	\$1,906,761	\$1,965,874
Repair and Maintenance	571,000	590,071	609,780	630,146	651,193
Purchased Water	1,124,297	1,178,433	1,225,272	1,271,306	1,318,960
Chemical/Electricity	498,000	509,218	520,926	532,917	545,197
Other	<u>962,865</u>	<u>956,089</u>	<u>983,119</u>	<u>1,010,916</u>	<u>1,039,528</u>
Total	\$4,791,448	\$5,027,648	\$5,188,531	\$5,352,046	\$5,520,752
Water Allocated	\$2,954,465	\$3,104,997	\$3,233,507	\$3,329,972	\$3,425,676
Sewer Allocated	1,836,983	1,922,651	1,955,023	2,022,074	2,095,076

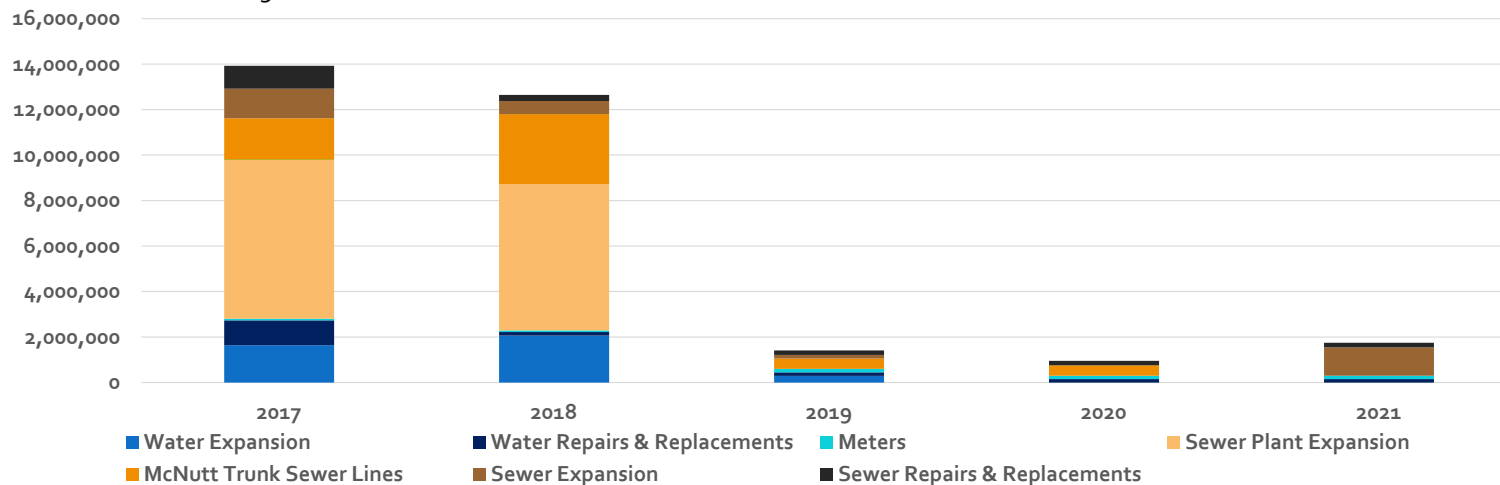
Capital Improvement Plan = \$30.7 M

❖ Sewer Projects = \$24.4M

- Calls Creek Sewer Plant Expansion = \$13.4M
- McNutt Creek Sewer Trunk Lines = \$5.8M
- Other = \$5.2M

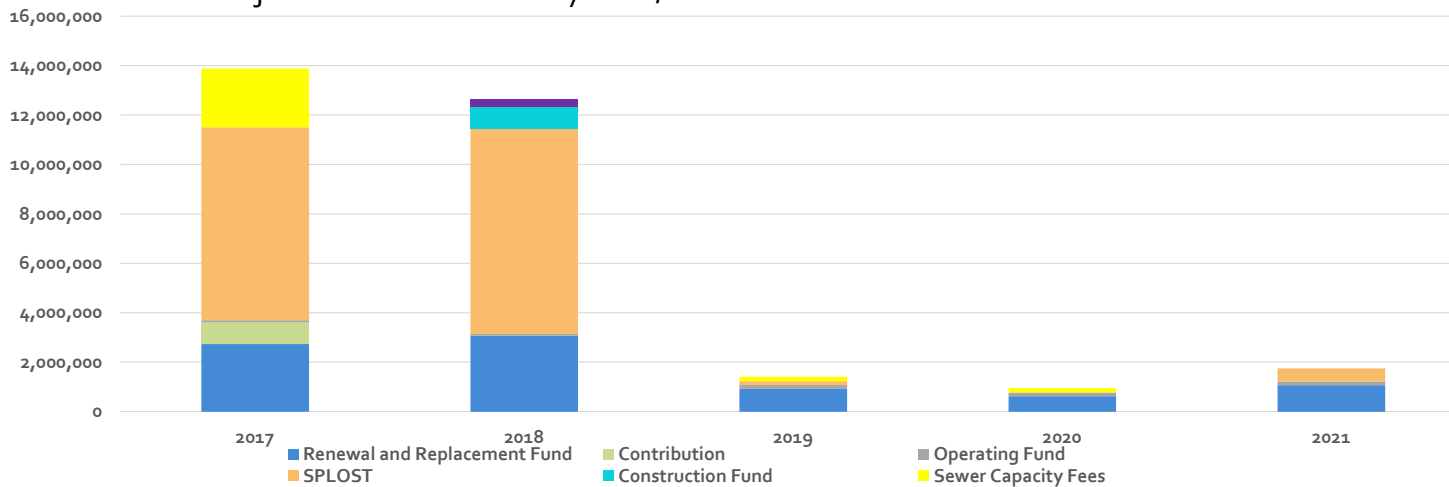
❖ Water Projects = \$6.3M

- System Expansion = \$4.0M
- Repairs and Replacements = \$1.7M
- Meters = \$0.6M



Capital Improvement Plan (cont'd.)

- ❖ Based on Master Plan and County Budgeted Projects
- ❖ Water Average Annual Funding = \$1.3M / Estimated Annual Depreciation = \$890K
- ❖ Sewer Average Annual Funding = \$4.9M / Estimated Annual Depreciation = \$715K
- ❖ All Projects Funded from "Pay-Go" / Internal Sources



Renewal and Extension (Replacement) Fund

- ❖ Fund Established by Bond Resolution
 - Is the “Last Bucket” – All Remaining Revenues Deposited to Fund
 - Primary Purpose to Fund Ongoing Capital Improvements
 - Payments to Walton County for Hard Labor Creek Reservoir
 - No Required Transfer Provision in Bond Resolution

- ❖ Recommendations (Best Management Practices)
 - Establish Additional Operating and Capital Reserves to Reduce Financial Risk (Above 45 Days)
 - Utilize Debt for Expansion Capital and Limit Debt for Replacement Capital
 - Dedicated Annual Transfer from Operations = 15% of Prior Year Revenues
 - Projected to Fund All Capital Improvements of System for Forecast Period
 - Represents 11% of Gross Revenue Requirements

Renewal and Extension Fund					
	2017	2018	2019	2020	2021
Revenues	\$8,277,918	\$8,418,195	\$8,762,828	\$9,038,711	\$9,157,551
Percent of Gross Revenues	<u>0.00%</u>	<u>15.00%</u>	<u>15.00%</u>	<u>15.00%</u>	<u>15.00%</u>
Total R&E Deposit	0	1,262,729	1,314,424	1,355,807	1,373,633

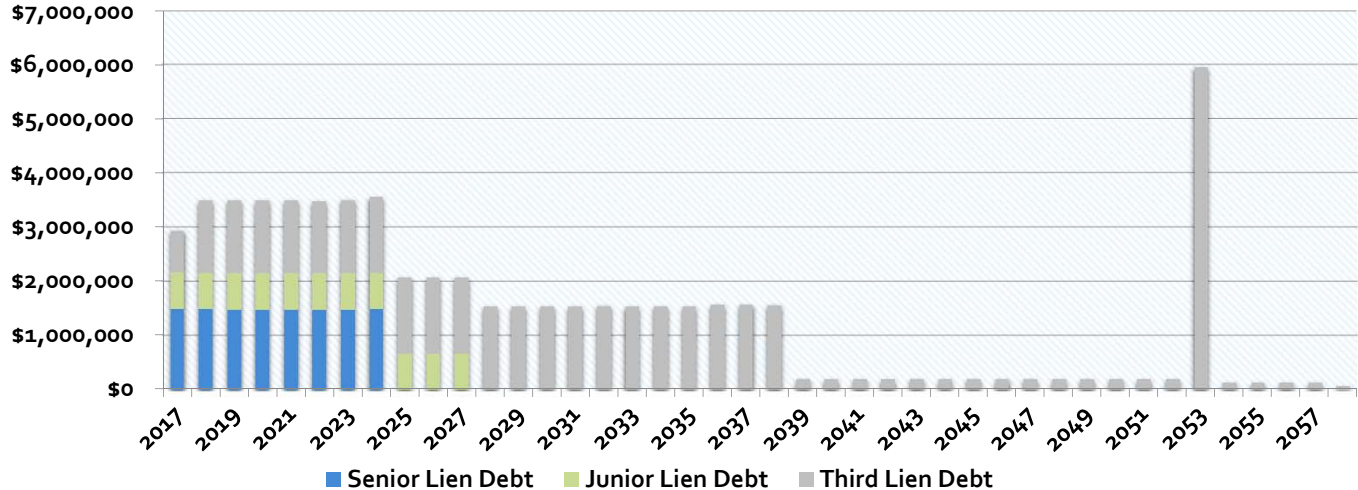
Outstanding Debt

- ❖ **Senior Lien – (\$9.0M Outstanding – Matures 2024)**
 - Issued Pursuant to the Bond Resolution Adopted by County October 1998 and Amended Thereafter
 - Debt Issued by County, Net Revenues of System Pledged for Repayment
 - Not Secured by Full Faith and Credit of County
 - Includes Series 2003 Bonds, Series 2009 Bonds, and Series 2012 Bonds

- ❖ **Second Lien – (\$5.8M Outstanding)**
 - Series 2015 A&B Upper Oconee Basin Water Authority (“UOBWA”) Bonds
 - Issued by UOBWA on Behalf of Oconee County
 - County has Obligation to Pay its Allocable Share of Debt Service Based on Interlocal Agreement
 - Considered as a Subordinate Obligations After Senior Lien Debt

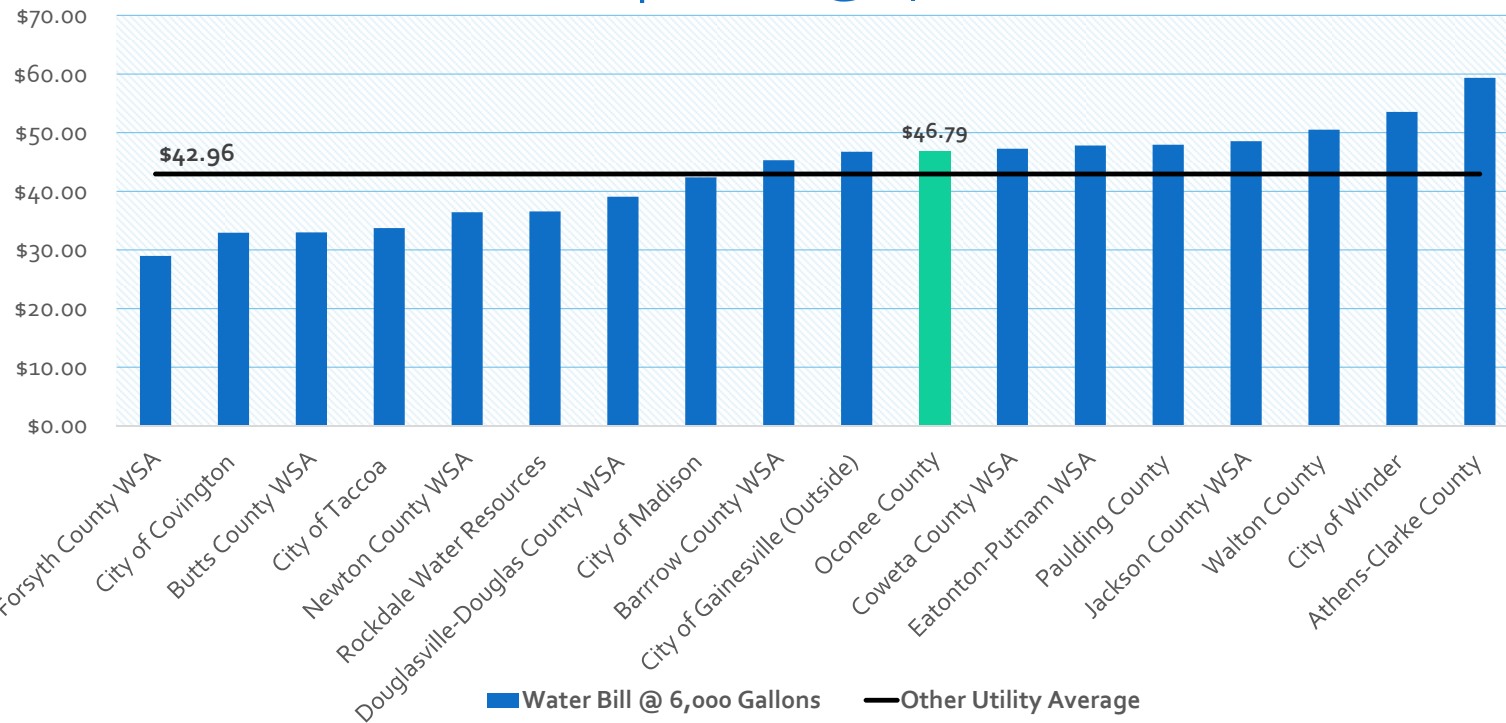
- ❖ **Third Lien – (\$27.0M Outstanding)**
 - Hard Labor Creek Series 2015 and 2016 Bonds and GEFA 2012 and 2014 Notes Payable
 - Issued by Walton County
 - No Utility Revenues have been Pledged as Security of Contract Payments

Existing Debt Service Payments



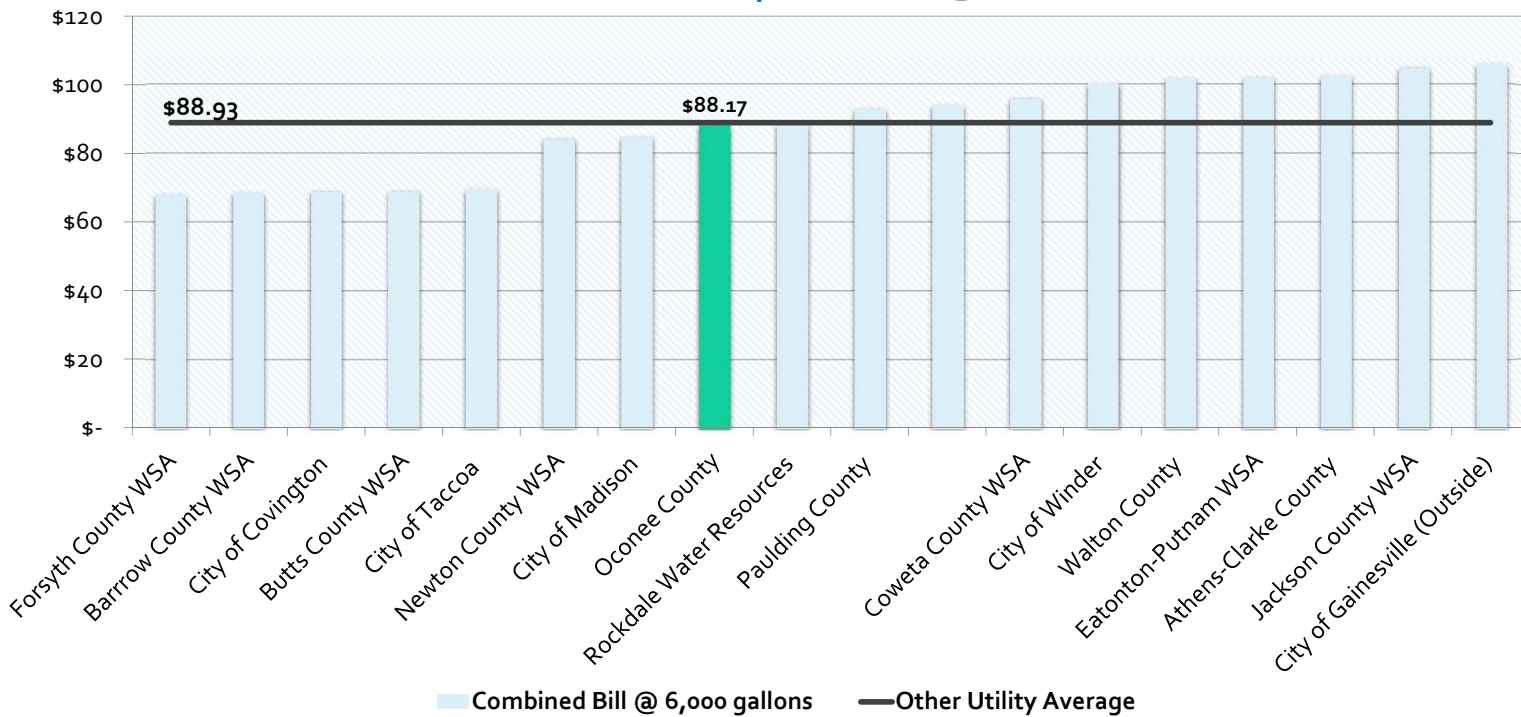
- ❖ Represents 35% of Gross Revenue Requirements
- ❖ Hard Labor Creek 2012 GEFA Loan – Balloon Payment = \$5.8M (2053)
- ❖ Recommend Annual Deposit to Fund Balloon Payment Liability = \$153K

Residential Water Bill Comparison @ 6,000 Gallons



■ Water Bill @ 6,000 Gallons — Other Utility Average

Residential Combined Bill Comparison @ 6,000 Gallons



Proposed Financial Action Items

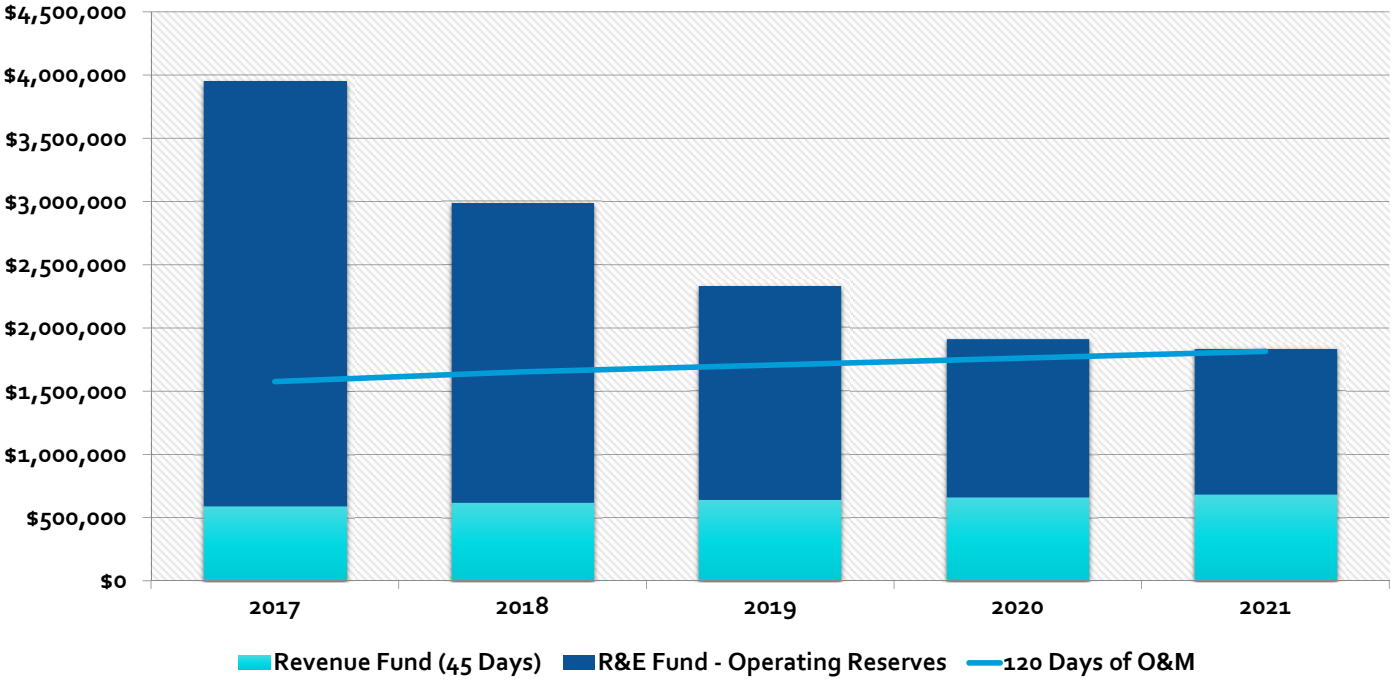
- ❖ Increase Liquidity to Reduce Financial Risk
 - Working Capital / Capital Reserves
- ❖ Dedicated Annual Transfer to Renewal and Extension Fund
 - Increases CIP Planning Flexibility
 - Limits Requirement for Additional Debt
 - Reduces Risk from Major Unplanned Capital Expenditures
- ❖ Create Sinking Fund for Balloon Payment (Hard Labor Creek – 2012 GEFA Loan)
- ❖ If Debt Financing Required, Issue Subordinate Lien Debt
- ❖ Consider Adoption of Financial Targets / Policy
 - All-In Debt Service Coverage = 150%
 - Capital Reserves Target = 2.0% of Gross Assets
 - Free Cash Flow to Depreciation Ratio = 70.0% Target
 - Debt Outstanding Compared to Net Plant Not Greater than 50.0%
 - Ratios Favorably Viewed by Credit Rating Agencies
- ❖ Financial Forecast Will Require Additional Revenues

Projected Debt Coverage

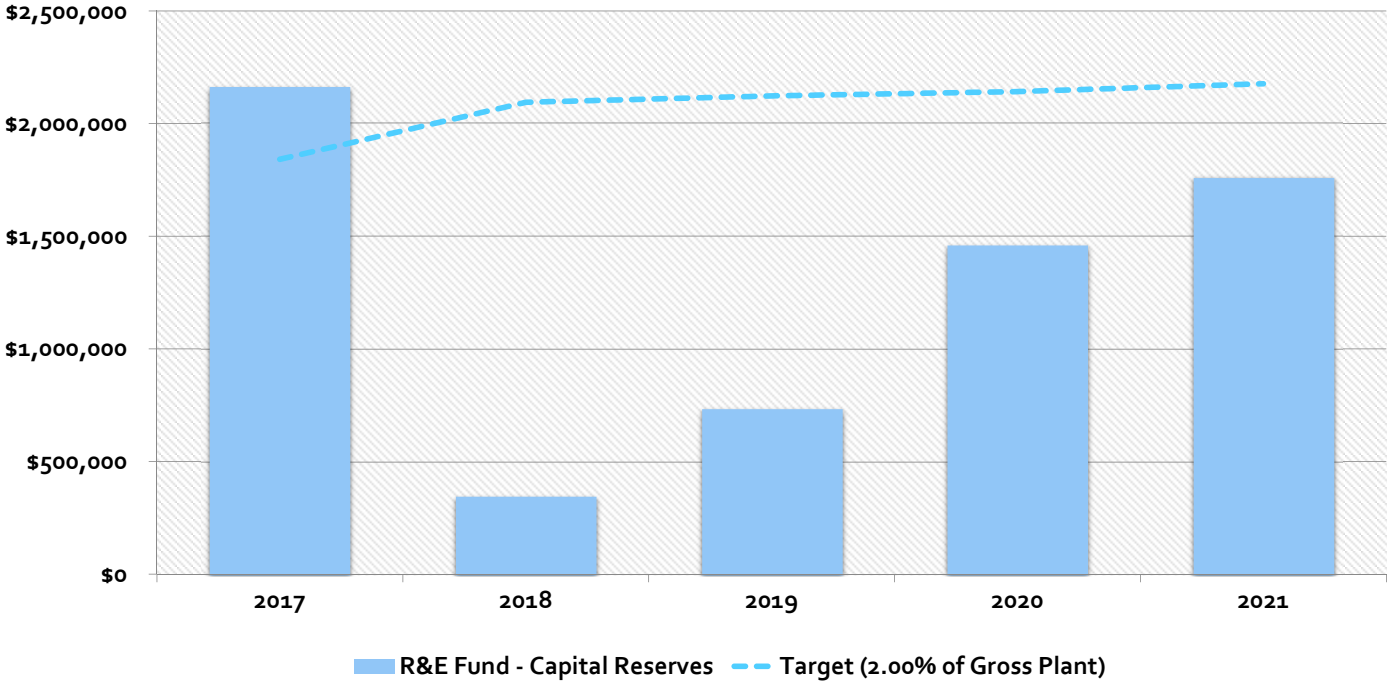
- ❖ Bond Resolution Requirement = 115.0% Minimum Coverage (Senior Lien)
- ❖ All-In Debt Coverage Target = 150% Recommended
 - Links to Capital Funding (15% Transfer to Renewal and Extension Fund)

Projected Debt Coverage					
	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Senior Debt Coverage	<u>244%</u>	<u>270%</u>	<u>300%</u>	<u>319%</u>	<u>344%</u>
Minimum Required	115%	115%	115%	115%	115%
All-In Debt Coverage	<u>124%</u>	<u>115%</u>	<u>127%</u>	<u>136%</u>	<u>146%</u>
Recommended Target	150%	150%	150%	150%	150%

Operating Reserves



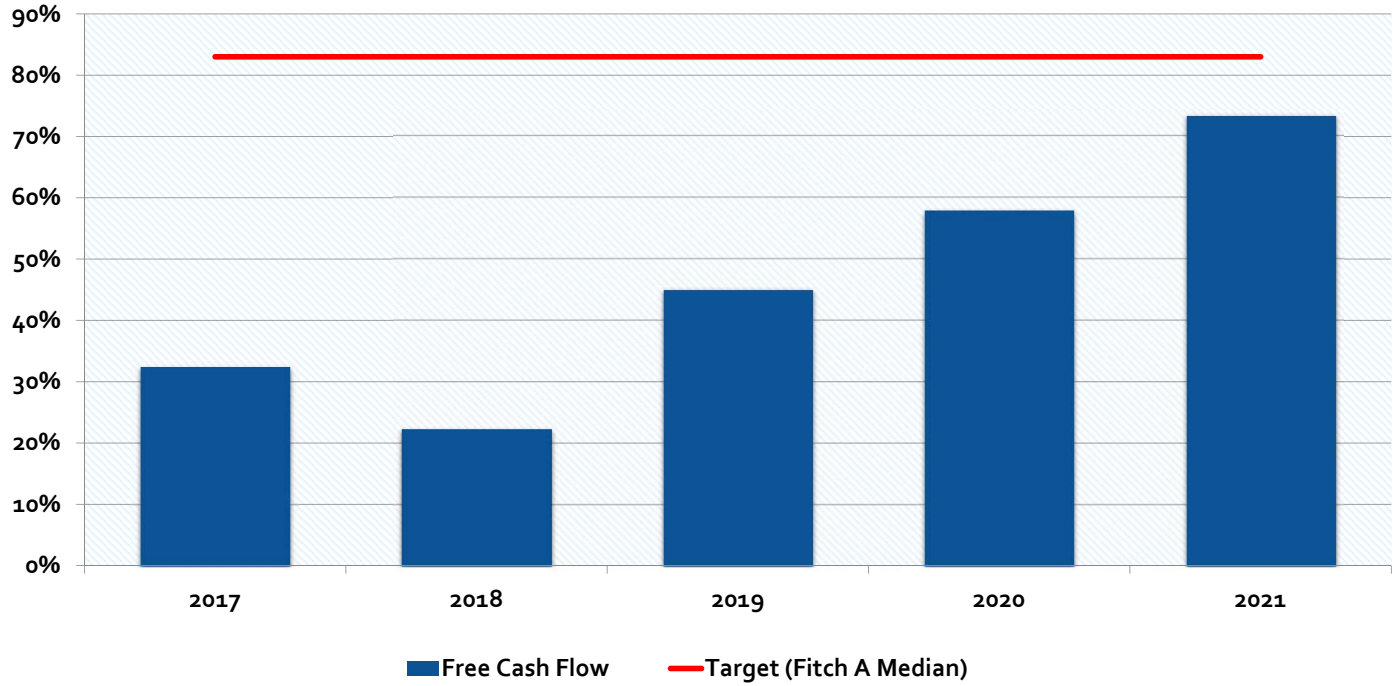
Capital Reserves



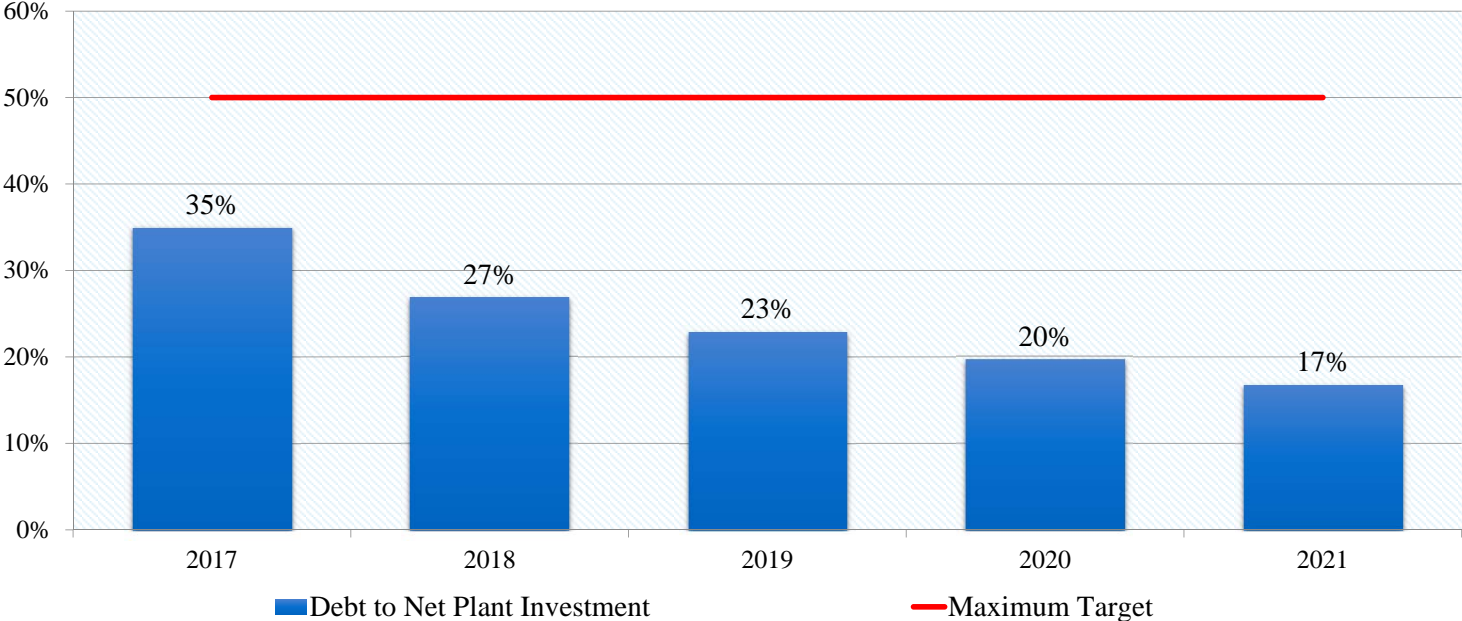
All-In Debt Coverage Ratio



Free Cash Flow-to-Depreciation Ratio



Debt-to-Net Plant Investment Ratio





Water and Sewer Rate Structure Review and Design Analysis

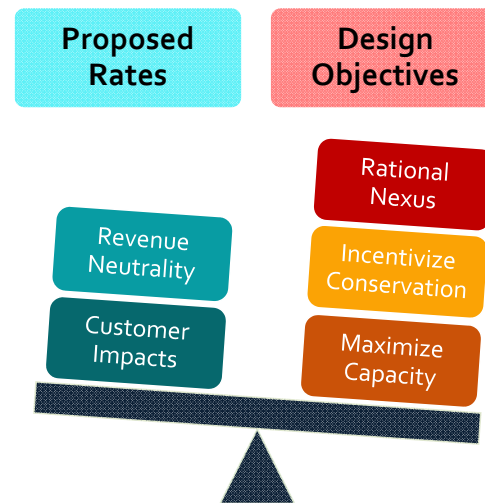


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Rate Design Purpose

- ❖ Rates should Link to Service Provided
- ❖ Rational Nexus of Charges
- ❖ Incentivize Conservation
- ❖ Maximize Existing Capacity
- ❖ Remain Revenue Neutral
- ❖ Minimize Customer Impacts



Base Charge Relationships

- ❖ Existing Base Charge Varies by Meter Size
- ❖ Links Capacity Reservation to Larger Demand Customers
- ❖ Base Charge Includes 1,000 Gallons on Water Use

Base Charge				
	<u>Existing</u>		<u>American Water Works Association</u>	
<u>Meter Size</u>	<u>Base Charge</u>	<u>Calculated ERU</u>	<u>Max Flow Per Minute</u>	<u>Calculated ERU</u>
5/8-Inch	\$19.79	1	20	1
1-Inch	31.47	1.6	50	2.5
1.5-Inch	46.18	2.3	100	5
2-Inch	93.89	4.7	160	8
3-Inch	187.78	9.5	300	15
4-Inch	326.32	16.5	500	25

Proposed Base Charge Calculation

- ❖ Estimated Billing Cost = \$1.62 per Bill
 - Includes 3rd Party Administrative(\$0.15), Mailing(\$0.47), and Meter Reading(\$1.00)
 - Does not Vary by Meter Size
- ❖ Includes Minimum Flow of 1,000 Gallons = \$5.00 per Bill
- ❖ Estimated Capacity Reservation Charge = \$13.17 per ERU
 - Reflects Existing Rate Relationship

Base Charge						
<u>Meter Size</u>	<u>Capacity Charge</u>	<u>Billing Charge</u>	<u>Minimum Flow</u>	<u>Proposed Rate</u>	<u>Existing Rates</u>	<u>Change</u>
5/8-Inch	\$13.17	\$1.62	\$5.00	\$19.79	\$19.79	\$0.00
1-Inch	32.93	1.62	5.00	39.55	31.47	8.08
1.5-Inch	65.85	1.62	5.00	72.47	46.18	26.29
2-Inch	105.37	1.62	5.00	111.99	93.89	18.10
3-Inch	197.56	1.62	5.00	204.18	187.78	16.40
4-Inch	329.27	1.62	5.00	335.89	326.32	9.57

Proposed Volumetric Rates and Tiers

- ❖ Reconcile Conservation Tiers to Level of Service (Assumed at 8,000 Gallons per Month)
- ❖ Assumes Every ERU has Reserved Approximately 8,000 Gallons per Month of Water Capacity
- ❖ All Use Above 8,000 Represents Additional Reservation / ERUs
- ❖ Cost of Extra Capacity = Amortized Base Charge Divided by Monthly Level of Service (8,000 Gallons per Month) = \$1.65 per 1,000 Gallons
- ❖ Provides Rational Nexus Between Increased Charge and Service Provided
- ❖ Reconcile Minimum Flow Included in Base Charge

Existing Conservation Tiers	
<u>Meter Size</u>	<u>Charge</u>
Block 1 (0-1,000 Gallons)	\$0.00
Block 2 (1,001-4,000 Gallons)	5.00
Block 3 (4,001-8,000 Gallons)	6.00
Block 4 (8,001-12,000 Gallons)	6.87
Block 5 (12,000-20,000 Gallons)	8.01
Block 6 (20,001 Gallons and Above)	8.66

Proposed Conservation Tiers	
<u>Meter Size</u>	<u>Charge</u>
Block 1 (0-1,000 Gallons)	\$0.00
Block 2 (1,001-8,000 Gallons)	5.13
Block 3 (8,001-16,000 Gallons)	6.78
Block 4 (16,001 Gallons and Above)	8.43

Sewer Proposed Rates

- ❖ Reconcile Base Charge Minimum Flow Provision with Water
- ❖ Existing Sewer Base Charge Includes 2,000 Gallons (Water Includes 1,000 Gallons)
- ❖ Mitigate Customer Impact
- ❖ Recalculate Volumetric Charge to Remain Revenue Neutral

Existing Sewer Rates	
<u>Meter Size</u>	<u>Charge</u>
Base Charge	\$22.62
Block 1 (0-2,000 Gallons)	\$0.00
Block 2 (2,001 Gallons and Above)	4.69

Proposed Sewer Rates	
<u>Meter Size</u>	<u>Charge</u>
Base Charge	\$17.93
Block 1 (0-1,000 Gallons)	\$0.00
Block 1 (1,001 Gallons and Above)	5.07



Discussion / Questions

Fiscal Year 2017 Utility Rate Study

