

Utilities Rate Study Update

City Council Workshop

March 19, 2018



Economic and Financial Factors

<u>Economic & Financial Factors</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
General Cost Inflation	1.77%	1.77%	1.77%	1.77%	1.77%
Construction Cost Inflation	3.50%	3.50%	3.50%	3.50%	3.50%
Labor Cost Inflation	3.00%	3.00%	3.00%	3.00%	3.00%
Benefit Cost Inflation	3.00%	3.00%	3.00%	3.00%	3.00%
Investment Interest*	1.25%	1.75%	2.25%	2.75%	3.25%
Excise Taxes	5.029%	5.029%	5.029%	5.029%	5.029%
B&O Taxes	1.50%	1.50%	1.50%	1.50%	1.50%
City Utility Tax	0.00%	0.00%	0.00%	0.00%	0.00%

*Investment Interest grows 0.50% per year to 3.25% then stabilizes for remainder of planning horizon.

Financial Assumptions

- Minimum Operating Fund Balance Target (days of O&M expense):
= **90 Days**
- Minimum Capital Fund Balance Target - **2% of Net Assets**:
 - = Water - \$1,24 mil
 - = Sewer - \$1.54 mil
 - = Storm - \$380,000
- Developer Share of Projects:
= **75%**
 - Only those projects that are development driven, but still benefit system as a whole
 - Primarily North Shore Expansion Projects
- Borrowing Assumptions:
= **20 year, 5% Interest, 1% issuance cost** (e.g. Revenue Bond)
- Rate Funded System Reinvestment:
= **Varies by year and system**
- **Rates set at level to fund all Operations, Maintenance and Capital**
 - SDCs not relied upon for Debt Service

Growth Assumptions

<u>Area</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
South Lake	328	156	140	110	70	81
North Shore	27	30	140	140	140	54
Total	355	186	280	250	210	135
% Customer Growth		1.49%	2.21%	1.93%	1.59%	1.01%

Notes:

- Numbers provided are Total Residential Units
- Assumes no commercial activity – conservative!
- 5-Year Residential Totals based on known subdivision activity
- Sustained 1.5% Growth from 2023 through end of planning horizon

DRAFT
**Capital
Improvement
Plans**

20-Year

Water

- Total \$101 mil
- \$28 mil in Supply
- \$24 mil for North Shore
- \$22 mil in Storage
- \$11.5 mil in Pumping
- \$9.0 mil in R&R

Sewer

- Total \$66 mil
- \$27 mil WWTP
- \$8.5 mil Pump Station
- \$28.5 mil Piping Upgrades

Stormwater

- Total \$6.5 mil
- \$6 mil System Upgrades
- \$800k Wetland Mitigation (10-yr)

*Capital Improvement Plans included as separate attachment.

Changes from Last Rate Study Update

General

- Indirect Costs significantly higher
 - Water/Sewer Combined – 2018 (old) \$540k vs. 2018 (new) \$1.2 mil
 - Stormwater - \$80k (old) vs. \$123k (new)
- Growth and Finance assumptions updated

Water

- CIP costs have increased
 - Slow Sand Water Treatment Plant System cost significantly more than expected
 - Steigerwald Development
 - Inflation

Sewer

- CIP costs have decreased
 - More efficient solution for North Shore Sewer Project

Stormwater

- Draft CIP has been modified to include up to date projects

Next Steps

- Confirm Assumptions
- Finalize Revenue Requirements
 - Heavy focus on Water system
- Complete Draft Rate Design
 - Draft projections look similar to last update
- Complete Cost of Service Analysis
- Analyze SDC Options
- Complete Draft SDC Design
- Review complete Rate and SDC Model
- Finalize and adopt Rates and SDCs