

# CITY OF SMYRNA, GA

## Financial Planning & Rate Study

MAY 11, 2017



# AGENDA

- Rate Study Objectives
- Key Assumptions & Cost Drivers
- Financial Plan
- Current Rates
- Proposed Rate Structure
- Customer Impacts

# RATE STUDY OBJECTIVES

1. Evaluate the existing rate structure
2. Develop a comprehensive financial plan
3. Recommend rate adjustments that fully support the utility
4. Build a financial planning model for use by the utility

# **KEY ASSUMPTIONS & COST DRIVERS**



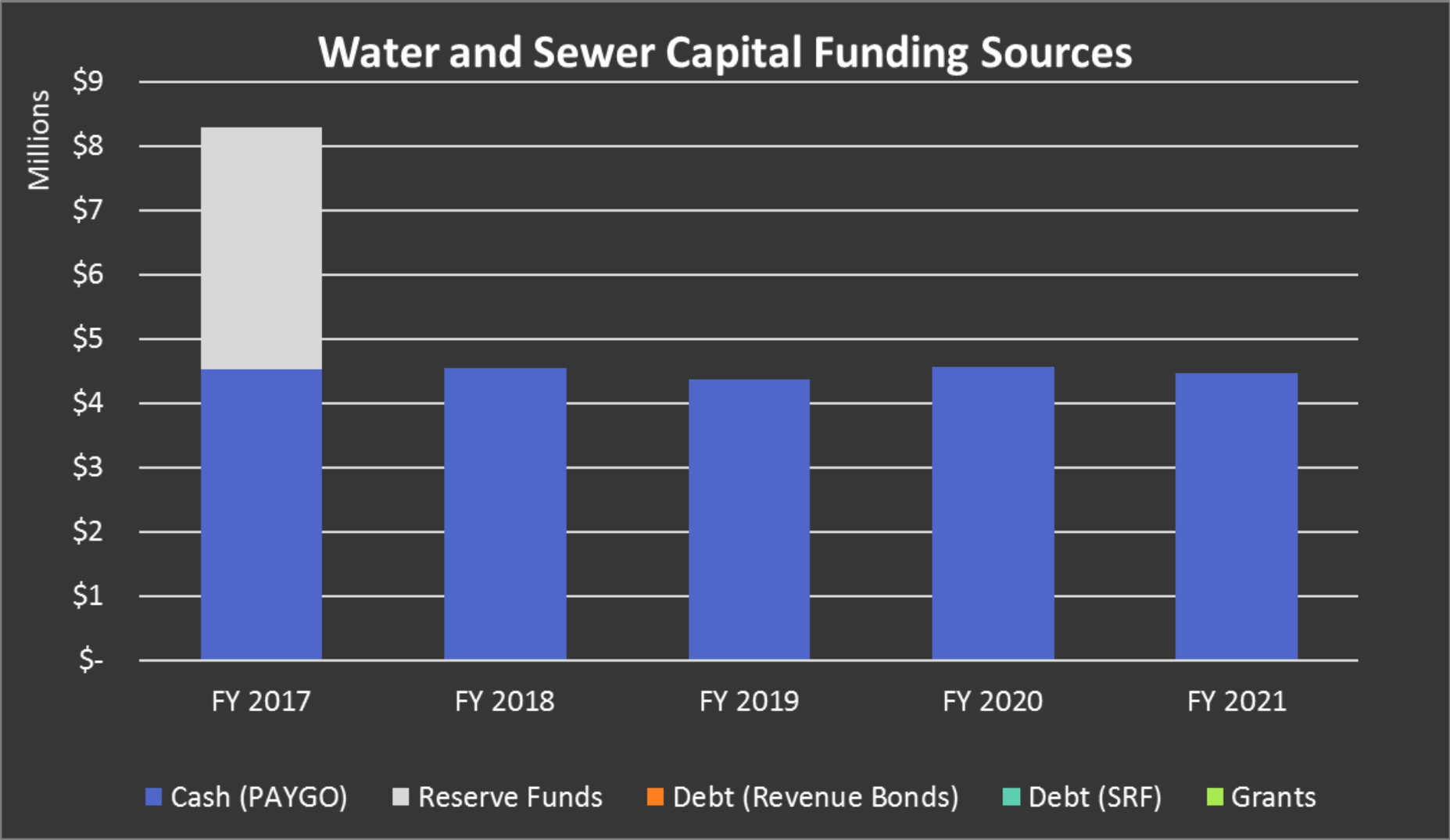
# KEY ASSUMPTIONS & COST DRIVERS

- Billing Data
  - Account growth – 1.0%
  - Demand growth – 0.5%
- Operations and Maintenance (O&M) cost growth
  - Budget (baseline)
  - Escalation rates vary by expense type
    - To address inflationary impacts
- Anticipated wholesale rate increases
  - Water: 3.0% annually
  - Sewer: 0.0% annually

# CAPITAL COSTS

- Capital Improvements Plan through FY 2017 - 2021
  - Water: \$9.0 million
  - Sewer: \$10.2 million
  - Stormwater: \$6.3 million
- Funding Sources
  - 86% Cash (PAYGO)
  - 14% Reserve Funded (RFC Estimate)
  - No future debt issuances

# CAPITAL FUNDING SOURCES



# FINANCIAL PLAN





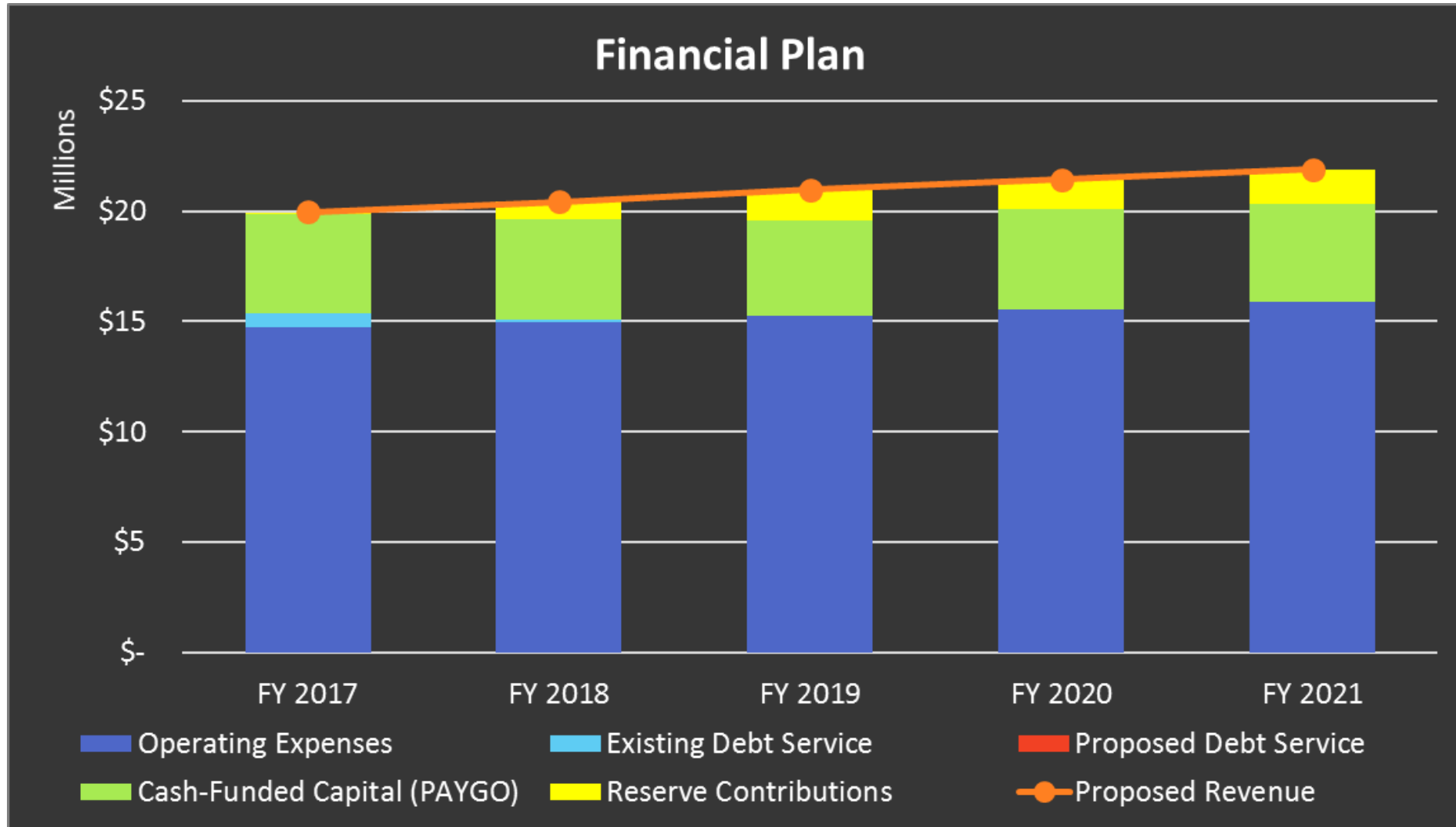
# STUDY FINDINGS

- Utility is in strong financial position
  - Reserves, PAYGO funding amounts
- Expect increases in water wholesale rates
- Implement rate increases to maintain financial position, address capital needs, and wholesale cost increases
- Establish internal financial policies for reserves
  - Operating Reserve
  - Capital Reserve

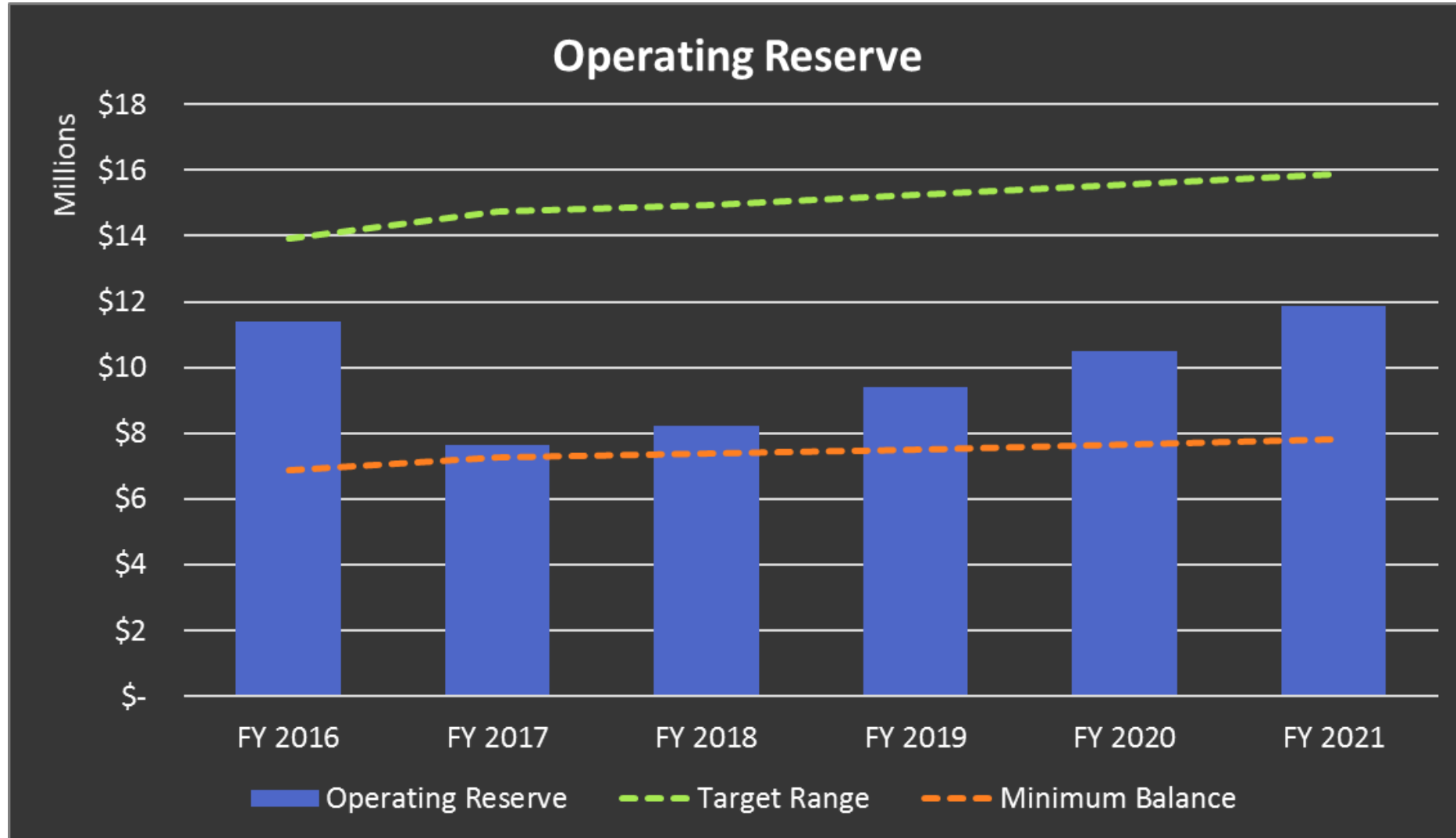
# FINANCIAL PLAN – RATE INCREASES

- Implement annual, programmatic rate increase over the next five years
  - Base Charges = 3.0% annually
  - Water Volumetric = 3.0% annually (CCMWA)
  - Sewer Volumetric = 0.0% annually (CCWS)
  - Stormwater = Increase charge by 50¢ to \$2.95 per month, annual increase of 5¢ thereafter

# UTILITY FINANCIAL PLAN

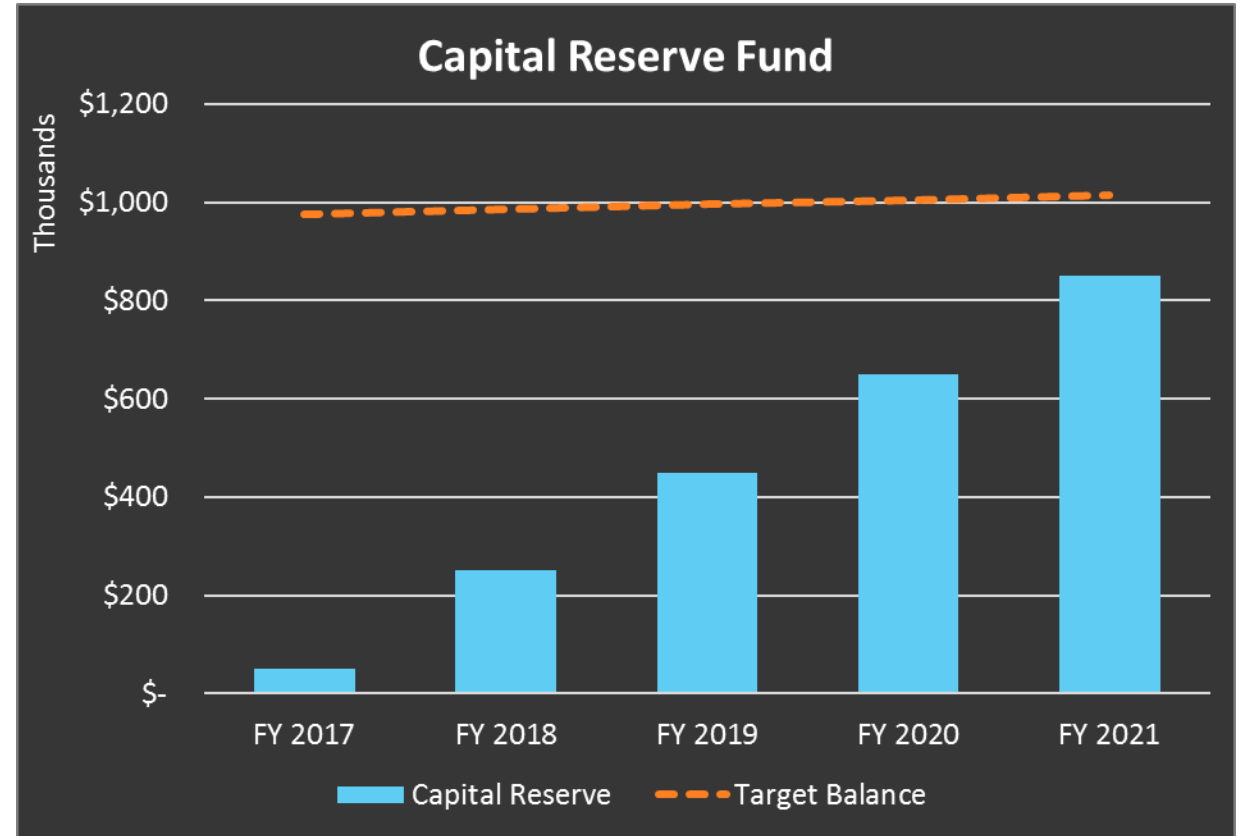


# OPERATING RESERVE BALANCE



# UTILITY CAPITAL RESERVE

- RFC recommends the City establish a Utility Capital Reserve
- Increase liquidity and serves as an emergency capital fund
  - Target: 100% of annual depreciation



# **RATE STRUCTURE ADJUSTMENTS**



# CURRENT RATE STRUCTURE

	<u>FY 2017</u> <i>Actual</i>		<u>FY 2017</u> <i>Actual</i>
<b>Base Rates</b>		<b>Water Rates</b>	
Effective: 1/1/2017		<u>Volume Charges (per kgal)</u>	
<u>Residential</u>		Residential	
3/4"	\$ 15.18	Tier 1 0 - 3 kgal	\$ 3.97
1"	15.18	Tier 2 3 - 7 kgal	5.28
		Tier 3 7 - 14 kgal	6.59
		Tier 4 > 14 kgal	7.71
<u>Commercial</u>		Multi-family / Commercial	
3/4"	\$ 15.18	All Usage	\$ 5.28
1"	22.24		
1 1/2"	48.43		
2"	90.00		
3"	266.25		
4"	317.24		
6"	421.18		
8"	526.11		
<u>Irrigation</u>		<b>Sewer Rates</b>	
3/4"	\$ 12.77	<u>Volume Charges (per kgal)</u>	
1"	12.77	All Customers	\$ 7.25
		<b>Stormwater Fee</b>	
		All Customers (per unit)	\$ 2.45

# RATE STRUCTURE CONSIDERATIONS

- Increase equity between water and sewer utilities
  - Separate base charge by utility
    - Escalated by AWWA meter capacity ratios
  - Recovers customer service related costs and a portion of other fixed costs
  - Improved revenue stability
- Irrigation
  - Set irrigation rate at the Tier 4 volumetric rate
- Stormwater
  - Maintain existing Stormwater structure



# PROPOSED RATE ADJUSTMENTS

## PROS

- Better alignment with industry best practice
- More direct link to cost-causation
- Increased revenue stability

## CONS

- Impacts to lower volume customers
- Customer communication, understanding, and acceptance

# PROPOSED RATE ADJUSTMENTS

- Base Charge

## Base Charges

### All Customers

3/4"	\$	15.18	\$	9.39	\$	8.82	\$	<b>18.21</b>	20.0%	\$	3.03
1"		22.24		9.39		8.82		<b>18.21</b>	-18.1%		(4.03)
1 1/2"		48.43		25.67		24.08		<b>49.75</b>	2.7%		1.32
2"		90.00		46.04		43.17		<b>89.21</b>	-0.9%		(0.79)
3"		266.25		132.37		124.09		<b>256.46</b>	-3.7%		(9.79)
4"		317.24		157.35		147.50		<b>304.85</b>	-3.9%		(12.39)
6"		421.18		208.26		195.23		<b>403.49</b>	-4.2%		(17.69)
8"		526.11		259.66		243.41		<b>503.07</b>	-4.4%		(23.04)

# PROPOSED RATE ADJUSTMENTS

- Volumetric Rates

## Water Rates

### Volume Charges (per kgal)

#### Residential

Tier 1	0 - 3 kgal	\$	3.97	\$	3.87	-2.5%
Tier 2	3 - 7 kgal		5.28		5.16	-2.3%
Tier 3	7 - 14 kgal		6.59		6.44	-2.3%
Tier 4	> 14 kgal		7.71		7.54	-2.2%

#### Multi-family / Commercial

All Usage	\$	5.28	\$	5.16	-2.3%
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#### Irrigation (All Use)

\$	7.54
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## Sewer Rates

### Volume Charges (per kgal)

All Customers	\$	7.25	\$	7.27	0.3%
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## Stormwater Fee

All Customers (per unit)	\$	2.45	\$	2.95	20.4%
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FY 2017	FY 2018	
<i>Actual</i>	<i>Calculated</i>	<i>% Change</i>

# **CUSTOMER IMPACTS**



# CUSTOMER IMPACTS - RESIDENTIAL

- Proposed Rate Structure

<u>Description</u>				<u>FY 2017</u> <i>Forecast</i>	<u>FY 2018</u> <i>Forecast</i>	<u>FY 2019</u> <i>Forecast</i>	<u>FY 2020</u> <i>Forecast</i>	<u>FY 2021</u> <i>Forecast</i>
<b>Residential</b>	<b>Meter Size</b>	<b>ERUs</b>	<b>Usage</b>					
<u>Average</u>								
Water	1"	1	4 kgal	\$ 32.37	\$ 26.16	\$ 26.95	\$ 27.76	\$ 28.58
Sewer	1"	1	4 kgal	29.00	37.90	38.16	38.43	38.71
Stormwater	1"	1	4 kgal	2.45	2.95	3.00	3.05	3.10
Total				<b>\$ 63.82</b>	<b>\$ 67.01</b>	<b>\$ 68.11</b>	<b>\$ 69.24</b>	<b>\$ 70.39</b>
			\$ Change		3.19	1.10	1.13	1.15
			% Change		5.00%	1.64%	1.66%	1.66%

- Across-the-Board

<u>Description</u>				<u>FY 2017</u> <i>Forecast</i>	<u>FY 2018</u> <i>Forecast</i>	<u>FY 2019</u> <i>Forecast</i>	<u>FY 2020</u> <i>Forecast</i>	<u>FY 2021</u> <i>Forecast</i>
<b>Residential</b>	<b>Meter Size</b>	<b>ERUs</b>	<b>Usage</b>					
<u>Average</u>								
Water	1"	1	4 kgal	\$ 32.37	\$ 33.35	\$ 34.34	\$ 35.38	\$ 36.44
Sewer	1"	1	4 kgal	29.00	29.00	29.00	29.00	29.00
Stormwater	1"	1	4 kgal	2.45	2.95	3.00	3.05	3.10
Total				<b>\$ 63.82</b>	<b>\$ 65.30</b>	<b>\$ 66.34</b>	<b>\$ 67.43</b>	<b>\$ 68.54</b>
			\$ Change		1.48	1.04	1.09	1.11
			% Change		2.32%	1.59%	1.64%	1.65%

# CUSTOMER IMPACTS - IRRIGATION

- Proposed Rate Structure

<u>Description</u>				<u>FY 2017</u> <i>Forecast</i>	<u>FY 2018</u> <i>Forecast</i>	<u>FY 2019</u> <i>Forecast</i>	<u>FY 2020</u> <i>Forecast</i>	<u>FY 2021</u> <i>Forecast</i>
<b>Irrigation</b>	<b>Meter Size</b>	<b>ERUs</b>	<b>Usage</b>					
Water	1"	1	6 kgal	\$ 40.52	\$ 54.63	\$ 56.29	\$ 57.96	\$ 59.70
Sewer	1"	1	6 kgal	-	-	-	-	-
Stormwater	1"	1	6 kgal	-	-	-	-	-
Total				<b>\$ 40.52</b>	<b>\$ 54.63</b>	<b>\$ 56.29</b>	<b>\$ 57.96</b>	<b>\$ 59.70</b>
			\$ Change		14.11	1.66	1.67	1.74
			% Change		34.82%	3.04%	2.97%	3.00%

- Across-the-Board

<u>Description</u>				<u>FY 2017</u> <i>Forecast</i>	<u>FY 2018</u> <i>Forecast</i>	<u>FY 2019</u> <i>Forecast</i>	<u>FY 2020</u> <i>Forecast</i>	<u>FY 2021</u> <i>Forecast</i>
<b>Irrigation</b>	<b>Meter Size</b>	<b>ERUs</b>	<b>Usage</b>					
Water	1"	1	6 kgal	\$ 40.52	\$ 41.74	\$ 42.97	\$ 44.28	\$ 45.60
Sewer	1"	1	6 kgal	-	-	-	-	-
Stormwater	1"	1	6 kgal	-	-	-	-	-
Total				<b>\$ 40.52</b>	<b>\$ 41.74</b>	<b>\$ 42.97</b>	<b>\$ 44.28</b>	<b>\$ 45.60</b>
			\$ Change		1.22	1.23	1.31	1.32
			% Change		3.01%	2.95%	3.05%	2.98%

# CUSTOMER IMPACTS - COMMERCIAL

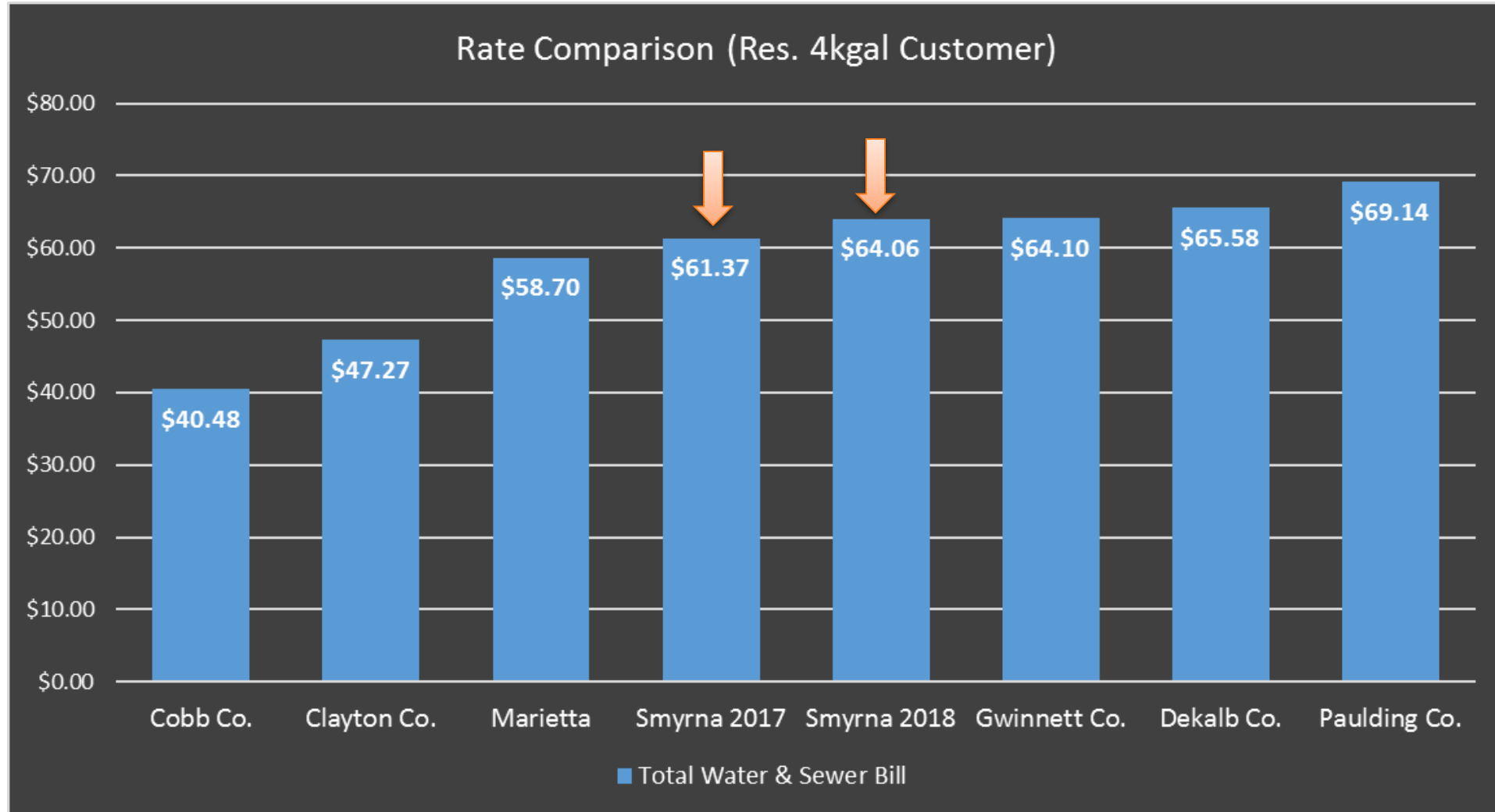
- Proposed Rate Structure

<u>Description</u>				<u>FY 2017</u> <i>Forecast</i>	<u>FY 2018</u> <i>Forecast</i>	<u>FY 2019</u> <i>Forecast</i>	<u>FY 2020</u> <i>Forecast</i>	<u>FY 2021</u> <i>Forecast</i>
<b>Commercial</b>	<b>Meter Size</b>	<b>ERUs</b>	<b>Usage</b>					
Water	2"	8	60 kgal	\$ 406.80	\$ 355.64	\$ 366.02	\$ 377.04	\$ 388.11
Sewer	2"	8	60 kgal	435.00	479.37	480.67	482.00	483.37
Stormwater	2"	8	60 kgal	19.60	23.60	24.00	24.40	24.80
Total				<b>\$ 861.40</b>	<b>\$ 858.61</b>	<b>\$ 870.69</b>	<b>\$ 883.44</b>	<b>\$ 896.28</b>
					\$ Change	12.08	12.75	12.84
					% Change	1.41%	1.46%	1.45%

- Across-the-Board

<u>Description</u>				<u>FY 2017</u> <i>Forecast</i>	<u>FY 2018</u> <i>Forecast</i>	<u>FY 2019</u> <i>Forecast</i>	<u>FY 2020</u> <i>Forecast</i>	<u>FY 2021</u> <i>Forecast</i>
<b>Commercial</b>	<b>Meter Size</b>	<b>ERUs</b>	<b>Usage</b>					
Water	2"	8	60 kgal	\$ 406.80	\$ 419.10	\$ 431.48	\$ 444.54	\$ 457.69
Sewer	2"	8	60 kgal	435.00	435.00	435.00	435.00	435.00
Stormwater	2"	8	60 kgal	19.60	23.60	24.00	24.40	24.80
Total				<b>\$ 861.40</b>	<b>\$ 877.70</b>	<b>\$ 890.48</b>	<b>\$ 903.94</b>	<b>\$ 917.49</b>
					\$ Change	16.30	13.46	13.55
					% Change	1.89%	1.51%	1.50%

# RATE COMPARISON



*Note: Assumes the proposed rate structure and January 1, 2018 implementation.*



THANK  
YOU

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# OTHER SLIDES



# CUSTOMER IMPACTS

- Proposed Rate Structure

<u>Description</u>				<u>FY 2017</u> <i>Forecast</i>	<u>FY 2018</u> <i>Forecast</i>	<u>FY 2019</u> <i>Forecast</i>	<u>FY 2020</u> <i>Forecast</i>	<u>FY 2021</u> <i>Forecast</i>
<b>Residential</b>	<b>Meter Size</b>	<b>ERUs</b>	<b>Usage</b>					
<u>Higher Volume</u>								
Water	1"	1	7 kgal	\$ 48.21	\$ 41.64	\$ 42.88	\$ 44.17	\$ 45.47
Sewer	1"	1	7 kgal	50.75	59.71	59.97	60.24	60.52
Stormwater	1"	1	7 kgal	2.45	2.95	3.00	3.05	3.10
Total				<b>\$ 101.41</b>	<b>\$ 104.30</b>	<b>\$ 105.85</b>	<b>\$ 107.46</b>	<b>\$ 109.09</b>
			\$ Change		2.89	1.55	1.61	1.63
			% Change		2.85%	1.49%	1.52%	1.52%

- Across-the-Board

<u>Description</u>				<u>FY 2017</u> <i>Forecast</i>	<u>FY 2018</u> <i>Forecast</i>	<u>FY 2019</u> <i>Forecast</i>	<u>FY 2020</u> <i>Forecast</i>	<u>FY 2021</u> <i>Forecast</i>
<b>Residential</b>	<b>Meter Size</b>	<b>ERUs</b>	<b>Usage</b>					
<u>Higher Volume</u>								
Water	1"	1	7 kgal	\$ 48.21	\$ 49.67	\$ 51.14	\$ 52.69	\$ 54.26
Sewer	1"	1	7 kgal	50.75	50.75	50.75	50.75	50.75
Stormwater	1"	1	7 kgal	2.45	2.95	3.00	3.05	3.10
Total				<b>\$ 101.41</b>	<b>\$ 103.37</b>	<b>\$ 104.89</b>	<b>\$ 106.49</b>	<b>\$ 108.11</b>
			\$ Change		1.96	1.52	1.60	1.62
			% Change		1.93%	1.47%	1.53%	1.52%