

MEMORANDUM

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FROM: David F. Maxwell, Chief Financial Officer

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SUBJECT: Water and Sewer Revenues and Rates – 2024 through 2028

This memo provides an annual update to the five year water and sewer funding plan and rate impact projection. This memo is preliminary and may need to be revised during the budget process.

Because the capital requirements of the water and sewer utility are very large, a multi-year approach for financial planning is essential. Careful financial planning is also required because of the system's reliance on the public capital markets for borrowing, and the need to remain in compliance with the system's bond covenants.

In summary:

- the five year capital plan totals \$161,014,000
- no new borrowing is projected to be required
- small, incremental rate increases are forecasted in each of the years in the 5 year planning period with an average annual increase of 3.51% for the median usage in-side city customer

The 2023 rate increase approved as part of the 2023 budget adoption was implemented as of 1/1/2023. Rate increases for years 2024 – 2028 as projected in the plan have been held steady at a combined \$1.95 per month for the median in-side city customer. These rate increases are necessary to fund the aggressive capital plan necessary to expand and maintain the system. While this memo contains some basic information about the five year capital plan, more information about the capital plan and its components should be obtained from the Water and Sewer management team.

1. **RATES**

- a. **Water Rates** – Rates proposed for water for 2024 are increased from 2023. The proposed base charge for 2024 is unchanged from 2023; only the consumption charge is proposed to increase. The recommended increase for the inside city rates is +\$0.06/CCF; and for outside city rates the increase is +\$0.09. Future rate increases for water are projected for each year in the five year plan for 2024 through 2028 and are summarized later in this memo. The 2023 and proposed 2024 water rate schedules are as follows:

	Water Rates			
	Inside City		Outside City	
	2023	2024	2023	2024
Base Charge (bi-monthly)	\$11.06	\$11.06	\$16.59	\$16.59
Consumption Charges:				
First 15 CCFs bi-monthly	\$1.31	\$1.37	\$1.96	\$2.05
Over 15 CCFs bi-monthly	\$1.49	\$1.55	\$2.23	\$2.32

- b. **Sewer Rates** – Rates proposed for sewer service for 2024 are higher than 2023. The proposed base charge for 2024 is unchanged from 2023; only the consumption charge is proposed to increase. The recommended increase for inside city rates is +\$.20/CCF; and for outside city rates the increase is +\$.30/CCF. Future rate increases for sewer are projected for each year in the five year plan for 2024 through 2028 and are summarized later in this memo. The 2023 and proposed 2024 sewer rate schedules are as follows:

	Sewer Rates			
	Inside City		Outside City	
	2023	2024	2023	2024
Base Charge (bi-monthly)	\$8.80	\$8.80	\$13.20	\$13.20
Consumption Charges:				
First 15 CCFs bi-monthly	\$4.28	\$4.48	\$6.42	\$6.72
Over 15 CCFs bi-monthly	\$4.66	\$4.86	\$6.99	\$7.29

- c. **Rate Change Impact** – The impact of the proposed 2024 increase on the combined monthly water and sewer bill for the median inside city customer (who uses about 15CCFs bi-monthly) is as follows:

	<u>2024 over 2023</u>
Monthly Increase in Combined W&S bill	\$1.95
Percentage Increase	3.76%

- d. **Future Rate Projection** – Water and sewer rates are projected five years into the future. Rate increases are projected to be necessary to fund anticipated increases in the operation and maintenance costs of the system, debt service, and to fund the Water and

Sewer System 2024-2028 five year capital improvement/capital maintenance plan. The projected monthly increase (and percentage increases) in combined water and sewer bills (on a monthly basis) for three different usage levels is as follows:

Year	Water and Sewer Rate Change History and Projection					
	Monthly Increase in Combined Bill			Percentage Increase in Combined Bill		
	15CCF*	25CCF	35CCF	15CCF*	25CCF	35CCF
2013 (actual)	\$1.50	\$2.50	\$3.50	4.25%	4.55%	4.69%
2014 (actual)	1.50	2.50	3.50	4.08%	4.35%	4.48%
2015 (actual)	1.50	2.50	3.50	3.92%	4.17%	4.29%
2016 (actual)	1.50	2.50	3.50	3.77%	4.00%	4.11%
2017 (actual)	1.65	2.75	3.85	4.00%	4.23%	4.34%
2018 (actual)	1.12	1.87	2.62	2.62%	2.77%	2.84%
2019 (actual)	1.95	3.25	4.55	4.43%	4.67%	4.78%
2020 (actual)	1.95	3.25	4.55	4.24%	4.46%	4.56%
2021 (actual)	0.00	0.00	0.00	0.00%	0.00%	0.00%
2022 (actual)	1.95	3.25	4.55	4.07%	4.27%	4.36%
2023 (actual)	1.95	3.25	4.55	3.91%	4.10%	4.18%
2024	1.95	3.25	4.55	3.76%	3.93%	4.01%
2025	1.95	3.25	4.55	3.62%	3.79%	3.86%
2026	1.95	3.25	4.55	3.50%	3.65%	3.72%
2027	1.95	3.25	4.55	3.38%	3.52%	3.58%
2028	1.95	3.25	4.55	3.27%	3.40%	3.46%
Average (last 5 years actual)	\$1.56	\$2.60	\$3.64	3.33%	3.50%	3.58%

* 15 CCFs is the usage of the system's median customer; that is half of the customers use more and half use less.

- e. **Restrictions on Groundwater Withdrawals Will Require Increased Reliance on Surface Water** – It can be anticipated that the EPD will further restrict the City's withdrawals from the floridan aquifer. For 2023, it is projected that 4,000 MG in surface water will be required to supplement groundwater withdrawals; and for 2024, it is assumed that 5,000 MG will be needed at a projected cost of \$3,250,000. Purchases of this volume of water from the surface water system will create upward pressure on the expenses of the groundwater system. The State of Georgia is engaged in discussions that may result in even greater curtailment of groundwater withdrawals. This would create a situation where even more purchases of surface water from the I&D system would be required creating more pressure on system expenses in the future.

- f. **Wholesale Rates** – Rates proposed for wholesale customers for 2024 are higher than 2023. Wholesale water rates for 2024 are proposed to be \$2.52/1,000 gallons or \$1.88/CCF compared to the rates of \$2.44/1,000 gallons or \$1.83/CCF charged in 2023.

Wholesale sewer rates for 2024 are proposed to be \$6.66/1,000 gallons or \$4.98/CCF compared to the rates of \$6.40/1,000 gallons or \$4.79/CCF charged in 2023.

Wholesale Rates for Municipal Customers

	2023	2024*
Wholesale Water Service (\$/1000 gallons)	\$2.44	\$2.52
Wholesale Water Service (\$/CCF)	\$1.83	\$1.88
Wholesale Sewer Service (\$/1000 gallons)	\$6.40	\$6.66
Wholesale Sewer Service (\$/CCF)	\$4.79	\$4.98

*Effective April 1, 2023 (contingent on Council approval)

2. CAPITAL IMPROVEMENT PROGRAM

The Capital Improvement Program funded by this plan totals \$161,014,000 for the five-year 2024-2028 period. The plan anticipates major system improvements, upgrades and maintenance projects required to keep the system running efficiently and in compliance with regulatory standards. Many of the projects are in response to reduced groundwater withdrawal limits and stricter standards on wastewater discharge pollutant levels.

The capital projects to be funded next year are summarized in the attached Capital Project Schedule.

3. PLANNED BORROWING and CIP FUNDING

The CIP funding plan includes no new borrowing during the five years.

The funding of the five-year \$161,014,000 CIP program would be provided from the following sources over the five year period:

	Five Year Total	Percent
Operating Net Income	\$ 129,269,000	80.3%
Tap-in and Connection Fees	22,245,000	13.8%
Planned New Borrowing	-	0.0%
Interest on Restricted Assets	9,500,000	5.9%
Total	\$ 161,014,000	100.0%

4. **WATER AND SEWER REVENUE PROJECTIONS**

Total revenues by account for 2022 actuals, 2023 budgeted and 2024 proposed are as follows:

Water and Sewer Fund Revenue Projections				
Revenue Summary				
		2022 Actual	2023 Budget	2024 Proposed
	Water Revenues			
42903	Transmitter Tower Rent	\$216,325	\$250,000	\$50,000
44522	Reimbursements from Sewer Fund	3,162,201	2,463,024	2,660,560
45111	Water Sales - Inside City	17,119,666	16,713,792	16,798,490
45112	Water Sales - Outside City	7,426,312	7,060,971	7,795,254
45114	Fire Spinkler Reimbursement Fee	8,201	4,000	7,500
45115	Senior Citizens Discount- Water	143	(2,000)	(2,000)
45116	Wholesale Water Sales	4,663,111	4,270,000	5,040,000
45121	Water Meter Installation Fees	422,080	381,375	371,050
45123	Water Tap-In Fees	662,813	667,500	525,000
45139	Additional Water Connection Fees	1,859,394	763,980	1,067,800
45141	Water Cut-On Fees	775,069	200,000	200,000
45142	Late Payment Penalty	1,693,156	200,000	1,600,000
45143	Account Establishment Fee	406,550	0	275,000
45154	Reimbursement from I&D Fund	398,950	226,800	245,000
45155	Reimbursement from Sanitation Fund	299,092	231,520	250,080
45156	Water Purchased by Other Funds	484,999	504,000	544,000
45199	Miscellaneous Water Revenue	194,437	5,000	5,000
	Total Water Revenues	\$39,792,500	\$33,939,962	\$37,432,734
	Sewer Revenues			
45211	Sewer Service Fees-Inside City	\$31,569,728	\$29,552,761	\$33,255,744
45212	Sewer Service Fees-Outside City	12,264,678	11,985,326	12,501,251
45213	Septic Tank Disposal Fees	251,976	225,000	250,000
45214	Reclaimed Water Sales	119,307	126,384	90,000
45215	Senior Citizens Discount -Sewer	148	(2,000)	(2,000)
45216	Wholesale Sewer Service	2,212,255	2,155,500	2,988,000
45221	Sewer Tap-in Fee	396,522	425,000	425,000
45222	Line Televising Fees	46,452	50,000	60,000
45225	Grease abatement permit fee	67,700	65,000	65,000
45226	Purple Pipe Fee	645,248	750,000	750,000
45239	Additional Sewer Connection Fees	2,493,926	2,060,105	2,060,105
45241	Sewer Cut-On Fees	775,071	100,000	400,000
45256	Sewer Service Purchased by Other Funds	439,030	457,000	385,000
45299	Miscellaneous Sewer Revenue	415,482	25,000	25,000
47112	Interest Earned - Sewer	545,216	100,000	100,000
48511	Transfer in from Sanitation Fund	403,101	428,434	428,434
	Total Sewer Revenues	\$52,645,840	\$48,503,510	\$53,781,534

5. **PROGRAM IMPROVEMENTS**

The projections in this memo assume no significant operating program improvements are implemented in 2024 or future years.

6. **SPECIFIC BUDGET ACCOUNT RECOMMENDATIONS**

- a. **Contribution to Capital Program.** The above revenue estimates should allow for balanced water and sewer funds which include the following approximate amounts budgeted for contributions to the capital program:

	Water/Sewer Expense Account	2023 Projection	2024 Budget Recommendation
Water	521-2509-51723	\$ 11,811,000	\$ 12,721,000
Sewer	521-2559-51723	16,981,000	19,965,774
Total		<u>\$28,792,000</u>	<u>\$32,686,774</u>

The above estimates can be adjusted to bring the fund budgets/projections into balance, but the adjusted amounts should be relatively close to the above amounts.

- b. **Estimated Franchise Fee Revenue/Expense.** The estimated franchise fee revenue (to General Fund), and expense (to Water and Sewer Fund) for 2023 and 2024 are as follows:

Item	General Fund Revenue Account	Water/Sewer Expense Account	2023 Projection	2024 Budget Recommendation
Sewer Franchise Fee	101-0000-42112	521-2559-51841	\$ 2,185,000	\$ 2,437,000
Water Franchise Fee	101-0000-42112	521-2509-51841	1,402,000	1,482,000
Total			<u>\$ 3,587,000</u>	<u>\$ 3,919,000</u>

- c. **Water Purchased from I&D Recommendation.** The following table provides recommendations for budgets and projections for some other specific accounts:

Item	Expense Account	2023 Projection	2024 Budget Recommendation
Water purchased from I&D	521-2502-51415	\$2,228,000	\$3,250,000
Assumed water purchased (1000-gallons)		4,000,000	5,000,000
Assumed I&D Rate (\$/k-gal)		\$0.55690	\$0.65000