

***REVISED* - MEMORANDUM**

TO: Jay Melder, City Manager
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File#15.63

FROM: David F. Maxwell, Chief Financial Officer

DATE: October 8, 2024

SUBJECT: **REVISED FOR 5% ANNUAL INCREASES-** Water and Sewer Revenues and Rates – 2025 through 2029

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. Keep in mind that this memo only addresses the City of Savannah retail/groundwater system and does include analysis for the Industrial and Domestic Surface Water Operation.

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 \$545,055,000
- four new borrowings are projected to be required (\$411 million total)
- incremental rate increases are forecasted in each of the years in the 5-year planning period with an average annual increase of 5.0% for the median usage in-side city customer

The 2024 rate increase approved as part of the 2024 budget adoption was implemented as of 1/1/2024. Rate increases for years 2025 – 2029 are projected to be **HIGHER** than the \$1.95 per month increases strived for in previous plans for the median in-side city customer. These higher than normal 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 2025 are increased from 2024. The proposed base charge for 2025 is unchanged from 2024; 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 2025 through 2029 and are summarized later in this memo. The 2024 and proposed 2025 water rate schedules are as follows:

| | Water Rates | | | |
|--------------------------|--------------------|-------------|---------------------|-------------|
| | Inside City | | Outside City | |
| | 2024 | 2025 | 2024 | 2025 |
| Base Charge (bi-monthly) | \$11.06 | \$11.06 | \$16.59 | \$16.59 |
| Consumption Charges: | | | | |
| First 15 CCFs bi-monthly | \$1.37 | \$1.43 | \$2.05 | \$2.14 |
| Over 15 CCFs bi-monthly | \$1.55 | \$1.61 | \$2.32 | \$2.41 |

- b. **Sewer Rates** – Rates proposed for sewer service for 2025 are higher than 2024. The proposed base charge for 2025 is unchanged from 2024; only the consumption charge is proposed to increase. The recommended increase for inside city rates is +\$.30/CCF; and for outside city rates the increase is +\$0.45/CCF. Future rate increases for sewer are projected for each year in the five year plan for 2025 through 2029 and are summarized later in this memo. The 2024 and proposed 2025 sewer rate schedules are as follows:

| | Sewer Rates | | | |
|--------------------------|--------------------|-------------|---------------------|-------------|
| | Inside City | | Outside City | |
| | 2024 | 2025 | 2024 | 2025 |
| Base Charge (bi-monthly) | \$8.80 | \$8.80 | \$13.20 | \$13.20 |
| Consumption Charges: | | | | |
| First 15 CCFs bi-monthly | \$4.48 | \$4.78 | \$6.72 | \$7.17 |
| Over 15 CCFs bi-monthly | \$4.86 | \$5.16 | \$7.29 | \$7.74 |

- c. **Rate Change Impact** – The impact of the proposed 2025 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>2025 over 2024</u> |
|-------------------------------|------------------------------|
| Increase in Combined W&S bill | \$2.70/month or \$32.40/year |
| Percentage Increase | 5.0% |

- 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 2025-2029 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 |
| 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 (actual) | 1.95 | 3.25 | 4.55 | 3.76% | 3.93% | 4.01% |
| 2025 | 2.70 | 4.50 | 6.30 | 5.02% | 5.24% | 5.34% |
| 2026 | 2.85 | 4.75 | 6.65 | 5.04% | 5.26% | 5.35% |
| 2027 | 3.00 | 5.00 | 7.00 | 5.05% | 5.26% | 5.35% |
| 2028 | 3.15 | 5.25 | 7.35 | 5.05% | 5.24% | 5.33% |
| 2029 | 3.30 | 5.50 | 7.70 | 5.04% | 5.22% | 5.30% |
| Average (last 5 years actual) | \$1.56 | \$2.60 | \$3.64 | 3.20% | 3.35% | 3.42% |

* 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 2024, it is projected that 5,000 MG in surface water will be required to supplement groundwater withdrawals; and for 2025, it is assumed that 5,100 MG will be needed at a projected cost of \$3,580,200. 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 2025 are higher than 2024. Wholesale water rates for 2025 are proposed to be \$2.60/1,000 gallons or \$1.94/CCF compared to the rates of \$2.52/1,000 gallons or \$1.88/CCF charged in 2024.

Wholesale sewer rates for 2025 are proposed to be \$7.06/1,000 gallons or \$5.28/CCF compared to the rates of \$6.66/1,000 gallons or \$4.98/CCF charged in 2024.

Wholesale Rates for Municipal Customers

| | 2024 | 2025* |
|---|-------------|--------------|
| Wholesale Water Service (\$/1000 gallons) | \$2.52 | \$2.60 |
| Wholesale Water Service (\$/CCF) | \$1.88 | \$1.94 |
| | | |
| Wholesale Sewer Service (\$/1000 gallons) | \$6.66 | \$7.06 |
| Wholesale Sewer Service (\$/CCF) | \$4.98 | \$5.28 |

*Effective April 1, 2025 (contingent on Council approval)

2. CAPITAL IMPROVEMENT PROGRAM

The Capital Improvement Program funded by this plan totals \$545,055,000 for the five-year 2025-2029 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 four new borrowings during the five years. The year and amount of each projected issue is as follows:

| Year | Amount |
|-------------|----------------|
| 2025 | \$ 89,000,000 |
| 2026 | 26,000,000 |
| 2027 | 181,000,000 |
| 2028 | 115,000,000 |
| | \$ 411,000,000 |

The funding of the five-year \$545,055,000 CIP program would be provided from the following sources over the five year period:

| | Five Year Total | Percent |
|-------------------------------|------------------------|----------------|
| Operating Net Income | \$ 83,190,000 | 15.3% |
| Tap-in and Connection Fees | 39,865,000 | 7.3% |
| Planned New Borrowing | 411,000,000 | 75.4% |
| Interest on Restricted Assets | 11,000,000 | 2.0% |
| Total | \$ 545,055,000 | 100.0% |

4. WATER AND SEWER REVENUE PROJECTIONS

Total revenues by account for 2023 actuals, 2024 budgeted and 2025 proposed are as follows:

| Water and Sewer Fund Revenue Projections | | | | |
|---|--|---------------------|---------------------|----------------------|
| Revenue Summary | | | | |
| | | 2023 Actual | 2024 Budget | 2025 Proposed |
| | Water Revenues | | | |
| 42903 | Transmitter Tower Rent | \$152,196 | \$50,000 | \$150,000 |
| 44522 | Reimbursements from Sewer Fund | 2,981,707 | 2,660,560 | 2,872,708 |
| 45111 | Water Sales - Inside City | 16,778,206 | 16,798,490 | 18,065,083 |
| 45112 | Water Sales - Outside City | 7,099,613 | 7,795,254 | 7,350,747 |
| 45114 | Fire Spinkler Reimbursement Fee | 15,477 | 7,500 | 7,500 |
| 45115 | Senior Citizens Discount- Water | (11) | (2,000) | (2,000) |
| 45116 | Wholesale Water Sales | 4,992,973 | 5,040,000 | 5,200,000 |
| 45121 | Water Meter Installation Fees | 671,485 | 371,050 | 677,650 |
| 45123 | Water Tap-In Fees | 1,579,446 | 525,000 | 945,000 |
| 45139 | Additional Water Connection Fees | 2,409,880 | 1,067,800 | 1,831,300 |
| 45141 | Water Cut-On Fees | 563,104 | 200,000 | 700,000 |
| 45142 | Late Payment Penalty | 1,740,952 | 1,600,000 | 1,750,000 |
| 45143 | Account Establishment Fee | 306,180 | 275,000 | 300,000 |
| 45154 | Reimbursement from I&D Fund | 396,318 | 245,000 | 264,600 |
| 45155 | Reimbursement from Sanitation Fund | 270,255 | 250,080 | 270,080 |
| 45156 | Water Purchased by Other Funds | 524,021 | 544,000 | 588,000 |
| 45199 | Miscellaneous Water Revenue | (6,691) | 5,000 | 5,000 |
| | Total Water Revenues | \$40,475,110 | \$37,432,734 | \$40,975,668 |
| | Sewer Revenues | | | |
| 45211 | Sewer Service Fees-Inside City | \$31,408,955 | \$33,255,744 | \$35,902,517 |
| 45212 | Sewer Service Fees-Outside City | 11,725,537 | 12,501,251 | 12,364,954 |
| 45213 | Septic Tank Disposal Fees | 380,434 | 250,000 | 250,000 |
| 45214 | Reclaimed Water Sales | 98,425 | 90,000 | 90,000 |
| 45215 | Senior Citizens Discount -Sewer | (11) | (2,000) | (2,000) |
| 45216 | Wholesale Sewer Service | 2,682,093 | 2,988,000 | 2,904,000 |
| 45221 | Sewer Tap-in Fee | 934,568 | 425,000 | 812,500 |
| 45222 | Line Televising Fees | 4,520 | 60,000 | 60,000 |
| 45225 | Grease abatement permit fee | 65,752 | 65,000 | 65,000 |
| 45226 | Purple Pipe Fee | 1,557,297 | 750,000 | 750,000 |
| 45239 | Additional Sewer Connection Fees | 6,509,383 | 2,060,105 | 3,706,290 |
| 45241 | Sewer Cut-On Fees | 563,104 | 400,000 | 400,000 |
| 45256 | Sewer Service Purchased by Other Funds | 385,016 | 385,000 | 385,000 |
| 45299 | Miscellaneous Sewer Revenue | (111,220) | 25,000 | 25,000 |
| 42994 | FEMA Reimbursement | 13,544 | 0 | 0 |
| 47112 | Interest Earned - Sewer | 2,035,346 | 100,000 | 100,000 |
| 48511 | Transfer in from Sanitation Fund | 403,101 | 428,434 | 428,434 |
| | Total Sewer Revenues | \$58,655,844 | \$53,781,534 | \$58,241,695 |

5. **PROGRAM IMPROVEMENTS**

The projections in this memo assume several operating program improvements (SERs) are implemented in 2025. The 2025 recurring costs of the included SERs is \$1,246,000 and the one-time costs total \$488,000.

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 for years 2024 and 2025:

| | Water/Sewer Expense Account | 2024 Projection | 2025 Budget Recommendation |
|-------|--|------------------------|---------------------------------------|
| Water | 521-2509-51723 | \$ 12,721,000 | \$ 13,089,000 |
| Sewer | 521-2559-51723 | 19,966,000 | 21,554,756 |
| Total | | <u>\$32,687,000</u> | <u>\$34,643,756</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 2024 and 2025 are as follows:

| | General Fund Revenue Account | Water/Sewer Fund Expense Account | Amounts | |
|---------------------|---|---|------------------------|---------------------------------------|
| | | | 2024 Projection | 2025 Budget Recommendation |
| Sewer Franchise Fee | 101-0000-42112 | 521-2559-51841 | \$ 2,048,894 | \$ 2,437,000 |
| Water Franchise Fee | 101-0000-42112 | 521-2509-51841 | 1,291,131 | 1,482,000 |
| Total | | | <u>\$3,340,025</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 | 2024 Projection | 2025 Budget Recommendation |
|--|----------------------------|------------------------|---------------------------------------|
| Water purchased from I&D | 521-2502-51415 | \$3,250,000 | \$3,580,000 |
| Assumed water purchased (1000-gallons) | | 5,000,000 | 5,100,000 |
| Assumed I&D Rate (\$/k-gal) | | \$0.65000 | \$0.70200 |