

City of St. Marys, Georgia



State of the Utility Evaluation

October 29, 2012

Presented by



Public Resources Management Group, Inc.

Utility, Rate, Financial and Management Consultants



Purpose of Presentation

- ❖ Provide Overview of Utility System
 - ▶ Plant Investment and Characteristics
 - ▶ System Service Area and Growth Potential
 - ▶ Financial Position and Rate Competitiveness
- ❖ Discuss Issues Facing Utility
- ❖ Obtain Council Direction – Define Next Steps

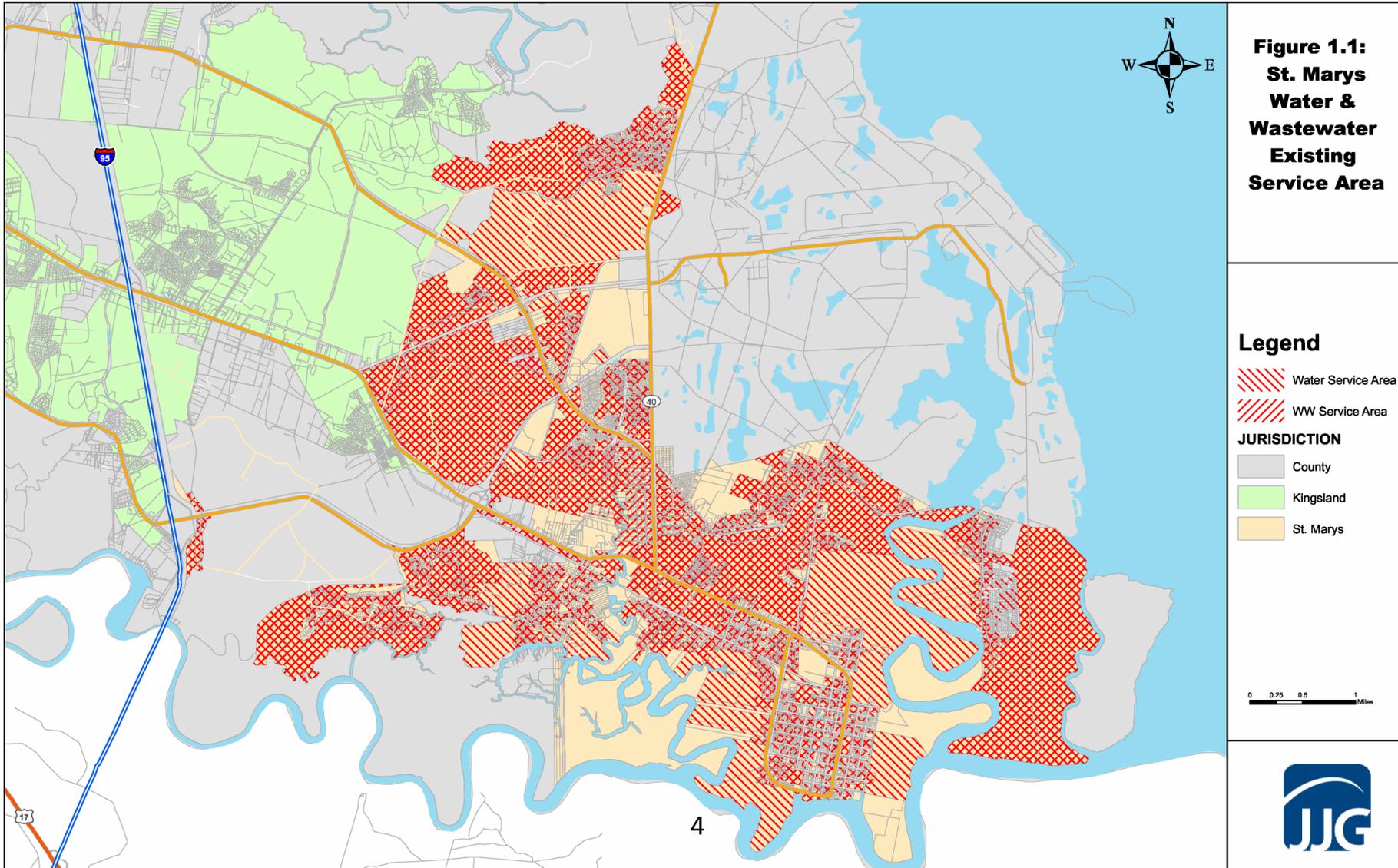


Utility General Statistics

- ❖ Total Gross Utility Investment = \$99.9 M
 - ▶ Currently Serve Approximately 6,600 Active Customers
 - 1,500 Inactive Accounts Estimated
 - 8,100 Total Connections / Meters
 - ▶ Equates to \$15,136 of Capital Investment per Active Customer



Service Area Map – 2008 Master Plan



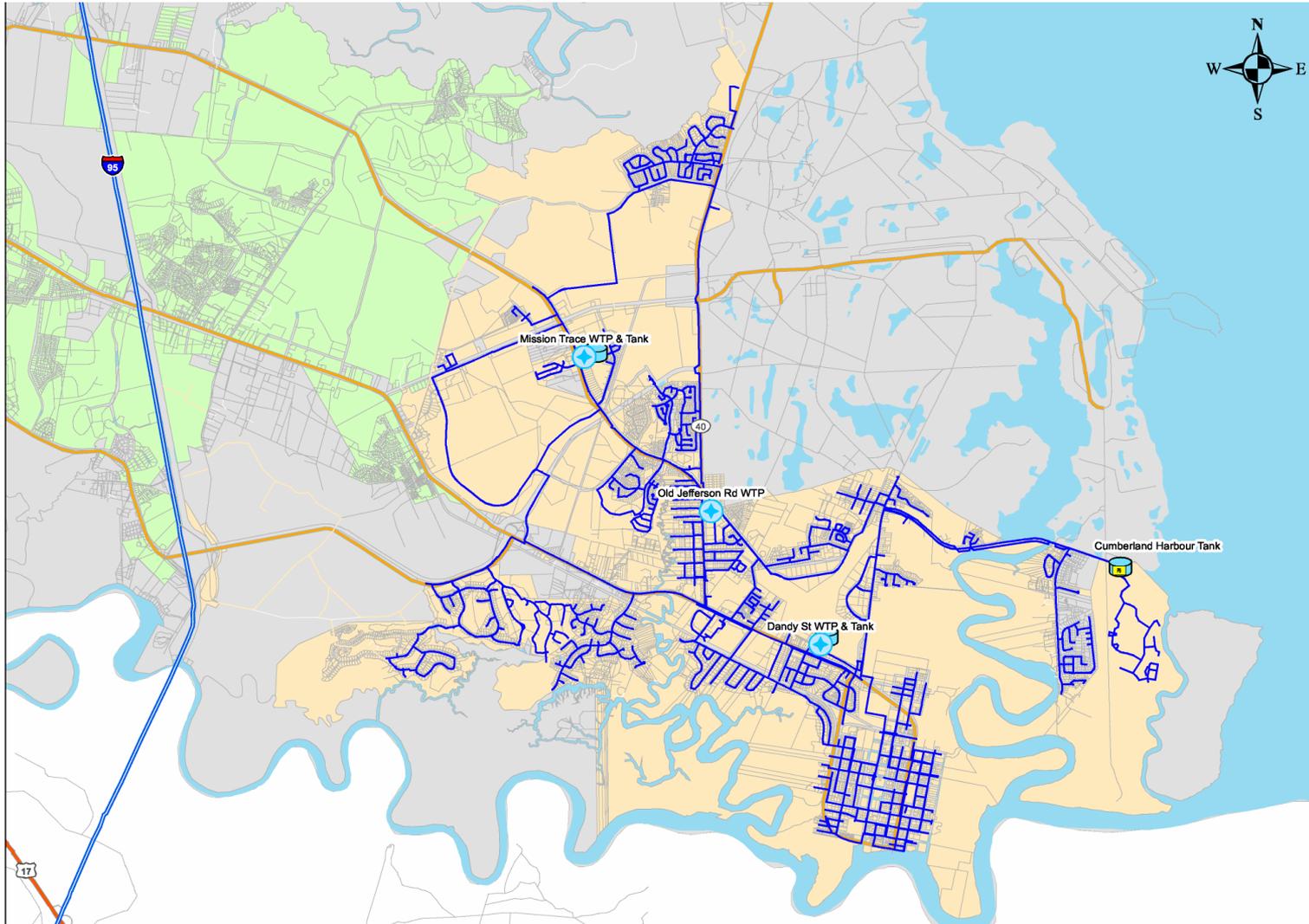


Utility General Statistics (cont'd.)

- ❖ Water Treatment Plants
 - ▶ Three Separate Plants – All are Interconnected
 - ▶ Good Quality Water – Only Requires Chlorination for Disinfection
 - ▶ Total Water Capacity – Expressed on Maximum Daily Flow Basis
 - 6.0 MGD of Total Capacity
 - ▶ Over 120 Miles of Water Distribution Piping – 2” to 12”



Water Distribution System – 2008 Master Plan



-  Well Field
-  Storage Tank
-  Pump Station

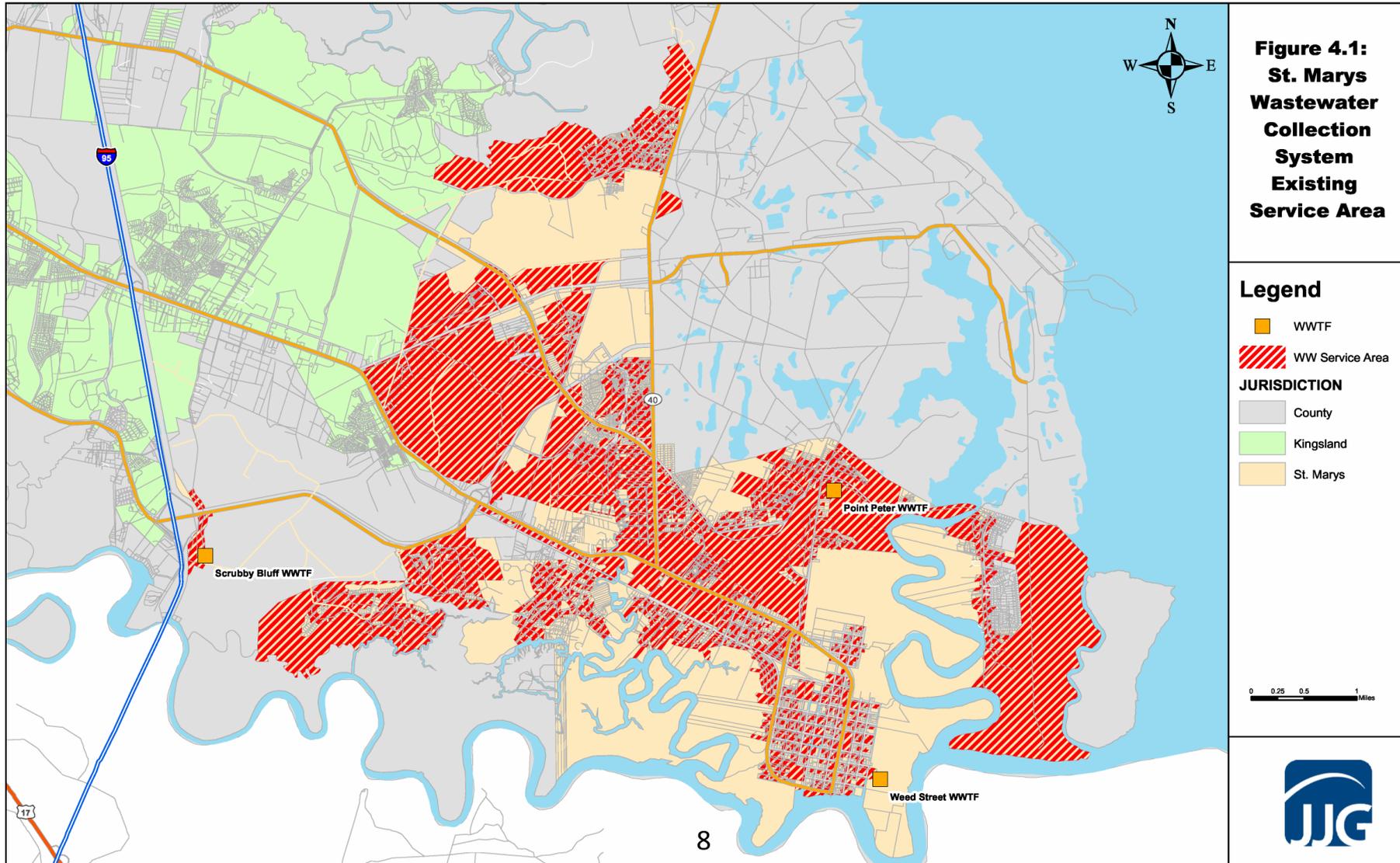


Utility General Statistics (cont'd.)

- ❖ Wastewater Treatment Plants
 - ▶ Three Separate Plants – All are Interconnected
 - Plan to Close Weed Street Plant (Reduced Operating Cost Benefit)
 - ▶ Recently Constructed / Upgraded WWTPs to Meet Regulations
 - ▶ Total Wastewater Capacity – Expressed on Average Daily Flow Basis
 - 5.20 MGD of Total Capacity
 - ▶ Over 120 Miles of Wastewater Collection Piping – 4” to 24”
 - ▶ Approximately 70 Pumping Stations / Over 2,400 Utility Access Points



Sewer Service Area Map – 2008 Master Plan





Utility System Issues

❖ Capacity Utilization

Description	Daily Water Production		Daily Sewer Treated	
	Peak Day	Avg. Day	Max Month	Avg. Day
Plant Capacity	6.000 mgd	4.500 mgd	6.20 mgd	5.20 mgd
Fiscal Year 2012	2.582 mgd	1.500 mgd	3.47 mgd	1.49 mgd
Fiscal Year 2006	3.190 mgd	2.282 mgd	2.61 mgd	1.78 mgd
Percent Capacity Use:				
Fiscal Year 2012	43.0%	33.3%	66.7%	28.6%
Highest Fiscal Year	53.2%	36.4%	45.6%	36.4%



Utility System Issues (cont'd.)

- ❖ Available Unused Capacity
 - ▶ Water System = 67% Average Daily Flow
 - ▶ Sewer System = 71% Average Daily Flow
 - ▶ Carry Costs of Unused Capacity Borne by Existing Customers
 - Fixed Operating Expenses and Cost of Financing Plant

Issue = Must Increase Capacity Utilization to Lower Average Unit Cost

Issue = Capacity Built for Benefit of Total Service Area – Existing Customers Carry Debt until Connection



Utility System Issues (cont'd.)

❖ Declining Customer Base / Water Use

Estimated Historical Customer Statistics for the Fiscal Year Ended June 30,

	2008	2009	2010	2011	2012
Water System					
Avg. Customers Served	6,659	6,656	6,696	6,608	6,658
Billed Water Flows (000's) [*]	463,272	444,307	439,416	446,014	440,830
Average Monthly Use (Gallons)	5,798	5,563	5,469	5,625	5,518
Total Treated (000's)	585,272	598,253	555,096	564,063	547,352
Water Sales Revenues	\$1,966,243	\$2,022,200	\$2,217,642	\$2,871,975	\$2,879,274
Sewer System					
Avg. Customers Served	6,211	6,148	6,212	6,058	6,080
Billed Sewer Flow (000's) [*]	429,535	372,156	417,641	414,499	409,681
Average Monthly Use (Gallons)	5,500	4,710	5,264	5,818	5,615
Total Treated (000's)	583,058	639,176	690,505	545,162	521,823
Sewer Treated Revenues	\$1,829,026	\$1,880,602	\$2,075,528	\$2,642,367	\$2,693,212

[*] Amounts shown were estimated based on reported revenues.



Utility System Issues (cont'd.)

- ❖ Since 2008
 - ▶ Rates Increased Approx 45% / Total Gross Revenues Increased 14%
 - ▶ Capital Recovery / Construction / Investment Revenues Down \$1.2 M

Description	Fiscal Year Ended June 30,				
	2008	2009	2010	2011	2012
Operating Revenues:					
User Fees	\$3,795,269	\$3,902,802	\$4,293,181	\$5,514,333	\$5,572,497
Miscellaneous Fees	190,184	194,988	197,240	221,273	300,456
Capital Recovery	488,144	484,025	531,084	145,664	245,388
Construction Fee	333,074	227,741	312,923	119,201	132,222
Investment Income	708,406	295,020	103,530	30,055	12,599
Miscellaneous Revenues	0	0	8,361	18,094	13,090
Total Operating Revenues	\$5,515,077	\$5,104,576	\$5,446,319	\$6,048,620	\$6,276,252
Annual % Change		(7.4%)	6.7%	11.1%	3.8%
Cumulative % Change		(7.4%)	(1.2%)	9.7%	13.8%
SPLOST (Non-Operating)	\$0	\$2,645,093	\$1,580,959	\$996,192	\$11,060
Total Income & Funds	\$5,515,077	\$7,749,669	\$7,027,278	\$7,044,812	\$6,287,313



Utility System Issues (cont'd.)

❖ Top Ten Utility Customers

	<u>Revenues</u>	<u>As % of Total</u>
Park Place Apartments	\$103,839	1.86%
Brant Creek, LLC	74,408	1.34%
Cumberland Oaks	53,881	0.97%
Mission Forest Apartments	53,534	0.96%
Specialty Adhesives	46,810	0.84%
Pines Apartments	42,699	0.77%
Pelican Point, LLC	27,640	0.50%
Park Place Apartments	25,078	0.45%
Consolidated Properties	20,500	0.37%
Southeast Georgia Health Systems	17,686	0.32%
Total Top Ten	<u>\$466,076</u>	<u>8.36%</u>
Total FY 2012 User Fee Revenues	<u><u>\$5,572,497</u></u>	<u><u>100.00%</u></u>



Utility System Issues (cont'd.)

- ❖ System Does Have Ability for Growth
 - ▶ 3,000 Vacant Properties Within Service Area
 - 80% Zoned as Residential
 - Lines in Front or Near Property
 - 1,675 Vacant Lots = Water Service is Available
 - 1,525 Vacant Lots = Sewer Service is Available

 - ▶ Outside Area Available for Service
 - 1,200 Undeveloped Acres
 - Competition with Kingsland for Service
 - What is Cost to Developer to Receive Service?



Utility System Issues (cont'd.)

- ❖ Bulk Water and Wastewater Service to Navy Base
 - ▶ Feasibility Study to Evaluate Federal Government Costs Required
 - ▶ May Require Rate Differential – Any Contribution to Fixed Costs is a Benefit

Issue = Must Make City the “Preferred Provider” of Service

Issue = Must Secure / Expand Service Area for Capacity Planning and Increase Customer Base Served

Issue = Need to Convince Federal Government that System is Lowest Cost Service Alternative



Utility System Issues (cont'd.)

- ❖ Capital Investment = \$99.9 Million
- ❖ Accumulated Depreciation as % of Gross Assets = 23.2%
 - ▶ Assuming a 75-Year Average Service Life = 58 Yr Remaining Service Life
 - ▶ Low Composite Life – Due to Recent Upgrade of WWTPs (High Weighted Cost)
- ❖ 75 Year Asset Replacement – Annual Reinvestment Rates:
 - ▶ At 100% of Asset Value = \$1.33 M per Year
 - ▶ At 50% of Asset Value = \$0.66 M per Year
 - ▶ At 25% of Asset Value = \$0.33 M per Year



Utility System Issues (cont'd.)

- ❖ Utility System Capital Needs – City Responsibility
 - ▶ 2008 Master Plan Identified Over \$120 M in Capital Needs through FY 2040
 - Major Project: Downtown Water / Sewer Line Replacement
 - ▶ Extension of Service to Unserved Areas – Secure Service Area?
 - ▶ Ongoing Renewals and Replacements
 - Meter Replacement / Lift Station and Utility Access Point Improvements, etc.

Issue = Must have Dedicated Long-Term Capital Reinvestment Plan (Increases Equity and Reduces Need for Future Debt)



Utility System Issues (cont'd.)

❖ Current Five-Year Capital Plan

Description	Fiscal Year Ending June 30,					Total
	2014	2015	2016	2017	2018	
Buildings	\$0	\$0	\$70,000	\$0	\$0	\$70,000
Machinery	330,000	350,000	230,000	250,000	52,000	1,212,000
Equipment	58,000	45,000	67,000	45,000	67,000	282,000
Vehicles	59,000	22,000	15,000	0	15,000	111,000
Projects	20,000	20,000	20,000	20,000	20,000	100,000
Total	\$467,000	\$437,000	\$402,000	\$315,000	\$154,000	\$1,775,000

***Average = \$355k Corresponds to Low Reinvestment Rate**

Issue = Current Availability of Funds Restricts Ability to Fund Capital Program yet Projects Remain / Needs Compound Over Time

Issue = Limited Debt Capability from Current System Operations



Utility System Issues

❖ Comparison of FY12 Financial Results Compared to FITCH 2011 Medians for Single-A Rated Utilities

	<u>St. Mary's FY2012</u>	<u>Medians "A" Rated</u>
Days of Expenses - Cash	612	231
All-In Coverage	114%	180%
Free Cash to Depreciation	13%	80%
Debt per Customer	\$6,872	\$2,341



Rates for Utility Service

❖ Three Customer Classes

- ▶ Residential
- ▶ Commercial
- ▶ Master-Metered Residential

Monthly Water and Wastewater Rates

	Residential	Commercial	Master-Metered
Base Fee	\$40.90 / acct.	\$40.90 / acct.	\$20.00 / Unit
User Fee			
0 – 6,000 Gallons	\$5.72 / 1,000	\$5.72 / 1,000	\$5.72 / 1,000
Over 6,000 Gallons	6.56 / 1,000	6.56 / 1,000	6.56 / 1,000

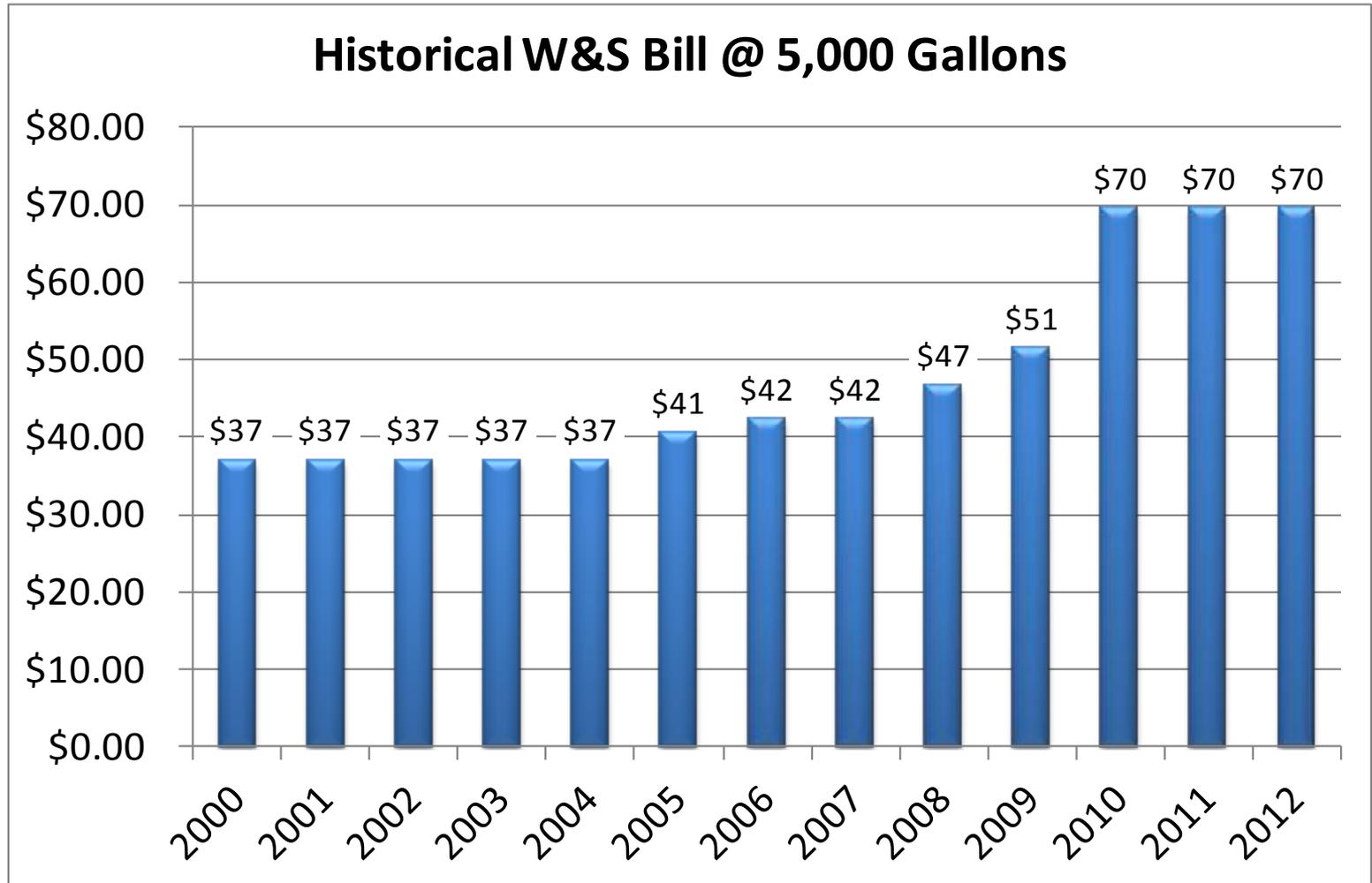


Rates for Utility Service (cont'd.)

- ❖ Three Customer Classes (cont'd.)
 - ▶ No Real Differentiation Between Classes
 - Residential Vs. Commercial Demand / Meter Size
 - ▶ No Separate Water and Sewer Rates (Combined for Billing Basis)
 - ▶ Senior Citizens Receive 20% Discount



Rates for Utility Service (cont'd.)





Customers by Meter Size

Water Meters (Active & Inactive)

Meter Size	Residential/ Master-Metered	Commercial	Totals
3/4 – inch	7,256	640	7,896
1 – inch	16	38	54
1½ – inch	11	30	41
2 – inch	17	40	57
3 – inch	1	4	5
4 – inch	3	7	10
6 – inch	<u>5</u>	<u>1</u>	<u>6</u>
Totals	<u>7,309</u>	<u>760</u>	<u>8,069</u>



Customers by Meter Size (cont'd.)

Issue = No Difference in Cost Recovery Among Users
(Except Master-Metered)

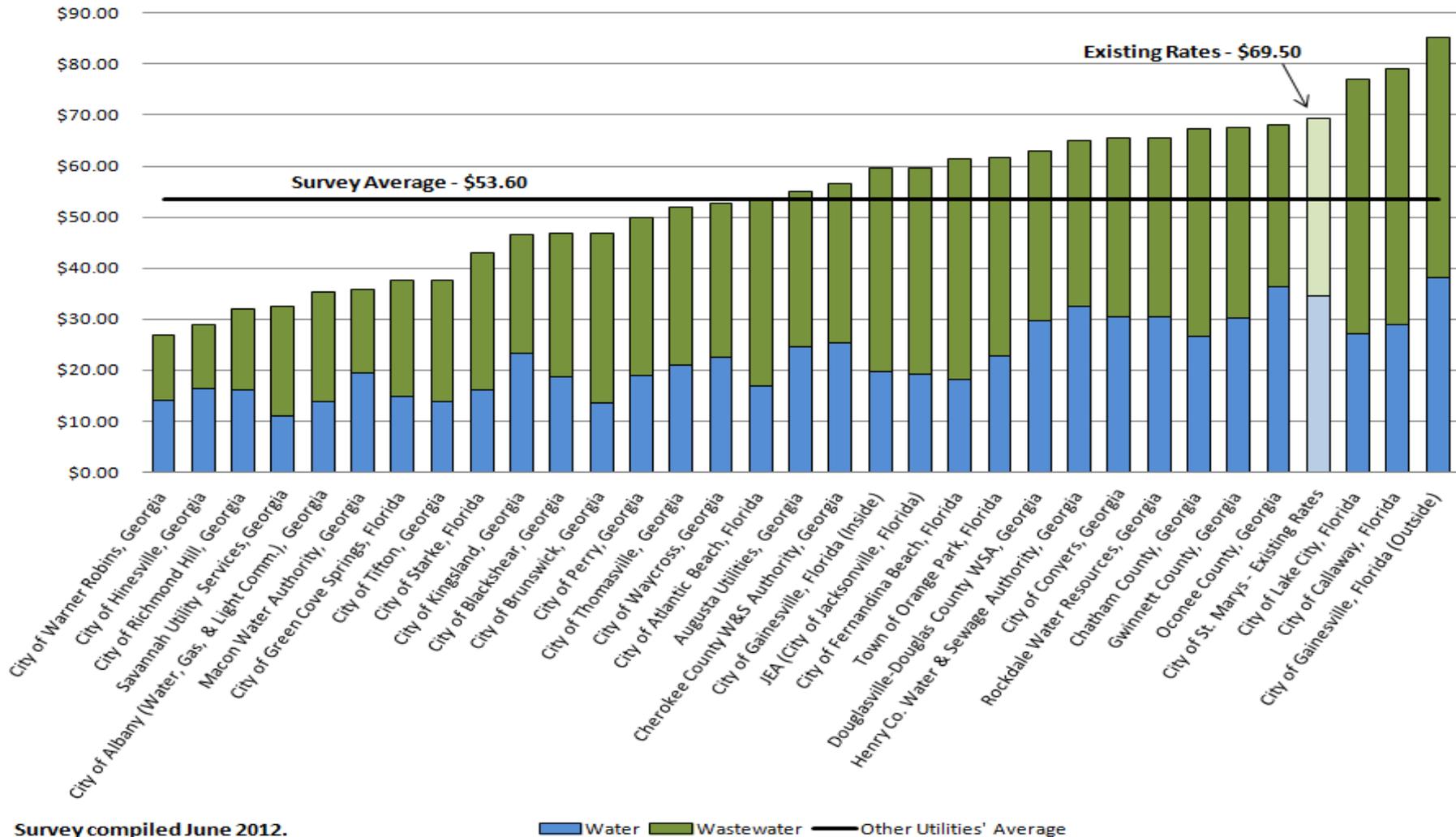
Issue = No Differentiation in Utility Service

Issue = Senior Citizen Discount Reduces Revenue –
What is Requirement?

Issue = Base Charge – Accounts for Approximately
50% of Rate Revenues



Comparison of Monthly Single-Family Water and Wastewater Bill at 5,000 Gallons of Water Usage



Survey compiled June 2012.



Business Principles – Where Do We Want Utility to Be?

1. The Utility Is Operated as an Enterprise Fund – per GASB:
*“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.**”*
2. Rates Should be Designed to Recover Full Cost of Providing Service
 - i. Issue Deals with Non-Used and Useful Plant (Unused Capacity)



Business Principles – Where Do We Want Utility to Be? (cont'd.)

3. Rates Should be Fair, Reasonable, and Equitable
 - i. Among Customer Classes
 - ii. Among Users Within a Class
4. Existing Customers, to the Extent Practical, Should Not Subsidize Growth; Growth Should Pay its Own Way
5. The Utility Should be Operated as a Strong Investment Credit – Minimum of "A" Category
 - i. Reflection on Management



Business Principles – Where Do We Want Utility to Be? (cont'd.)

6. Revenues Should Always Comply with Financial Policies / Best Practices:
 - i. GEFA Loans:
 - Debt Coverage – Targeting 115%
 - Moving Away from Recognition of SPLOST
 - ii. Conventional Bonds:
 - Debt Coverage – "A" Rated = 1.40 or Higher
 - iii. Adequate Unrestricted Cash Balances = 120 Days Operating Expenses
 - iv. Adequate Capital-Related Cash Balances = 1% of Gross Plant-in-Service
 - v. Capital Funding Ratio – 2% of Gross Plant Less Land
 - Often Expressed as a Percent of Revenues (e.g., 5% to 10%)



Utility Financial Issues

- ❖ Prepared Five-Year Financial Model
- ❖ Evaluated Revenue Requirements – Based on Following Formula:
 - + Operating Expenses
 - + Debt Service Payments
 - + Capital Funded from Operations
 - + Deposits to Working Capital (Fund Balance) / Debt Compliance
 - Other Operating Revenues and Income
 - Use of Working Capital (Fund Balance)
 - Use of General Fund Contributions

 - = Net Revenue Requirements Funded From Rates



Utility Financial Issues (cont'd.)

❖ Financial Forecast Presentation

▶ Primary Variables:

- Rate Adjustments
- Customer Growth
- Customer Demand
- SPLOST / General Fund
- Capital Funding
- Operating Expenses
- Cost Escalation Factors

▶ Primary Outputs:

- Cash Position
- Debt Compliance
- Revenue Sufficiency
- Identified Rate Adjs.
- Financial Ratios
- Sensitivity / What If's



Utility Financial Issues (cont'd.)

❖ Financial Model Presentation



Utility Financial Issues (cont'd.)

- ❖ Recent & Past Rate Increase Mitigation Activities:
 - ▶ Debt Refinanced / Restructured
 - ▶ Deferred Capital Reinvestment – Fix When Breaks
 - ▶ Operational Efficiencies Study Underway
 - ▶ Plant Closures
 - Weed Street WWTP (Off Line)
 - Scrubby Bluff WWTP (Potential)



Utility Financial Issues (cont'd.)

Questions to the City Council / Direction:

- ❖ Does the City Want to be in the Utility Business?
 - ▶ Bulk from Another Provider or Sale of Utility or Both
- ❖ Does the City Want to Operate Utility Solely as an “Enterprise Fund” or Subsidize With Other Funds?
 - ▶ If Yes, When Does Utility “Stand on Its Own” from a Rates-Only Basis
- ❖ Does the City Want to Control Operations or Privatize?



Utility Financial Issues (cont'd.)

Questions to the City Council / Direction (cont'd.)

- ❖ Does the City Want To Encourage Economic Development through Rates?
- ❖ How Proactive Does the City Want to be Relative to Renewals and Replacement of Infrastructure (Reactive vs. Proactive and When)?
- ❖ How Would You Want the Utility Rated from a Credit Rating Perspective?
 - ▶ BBB to AAA
- ❖ Do You Want Growth to Pay-Its-Own-Way?



Utility Financial Issues (cont'd.)

Questions to the City Council / Direction (cont'd.)

- ❖ What is the Tolerance for Changes in Rates When Necessary?
 - ▶ Need for Rate Relief (Phased-in over time or Large Increase to Meet Objectives)
 - ▶ Indexing for Inflation
 - ▶ Pricing for Water Conservation
- ❖ Is Council Concerned About Utility Cost Recovery?
 - ▶ Water vs. Sewer (May Affect Bulk Service)
 - ▶ Base Fee (Revenue Sufficiency) vs. Flow (Variable)
- ❖ Is Council Concerned about Customer Service?



Utility Options

Utility Options	Effects
Privatize (Sell) Utility	Difficulty in Attracting Buyer/ Small Service Area; Less or no control (service / rates).
Use SPLOST	Short-term Solution & Bridges Gap; SPLOST 7 = up to \$1.5 M Annually.
Use General Fund	Short-term Solution & Bridges Gap / GF Transfer = up to \$1 M one time.
Use of Utility Cash Reserves	Should not exceed \$1 Million in total / One-time benefit.
Pursue EPA / Construction of WWTP	City Allowed Developers to Plot Land / EPA Required City to Over-Build Facilities; Possibly Seek Loan Forgiveness or Other Recourse
Assess Base Charge to Vacant & Discontinued Svc Lots (Property Owners)	Each 100 lots = \$49k in Annual Base Charge Revenues. Estimated that there may be up to 2,000 lots. May find issues in receiving payment.
Assess Capital Charge (treatment) to Vacant Lots	Provide funds to pay for debt service related to growth currently borne by current customers - 20yr / 4.5% = \$1.2 M Annually / 2,000 Vacant Lots
Restructure / Extend GEFA Loans	Extending GEFA Loans 30 Years = Possible Annual Reduction of \$100K - \$200k contingent upon interest rates (near-term savings, Higher long-term interest expense).



Utility Options (cont'd.)

Utility Options	Effects
Modify Senior Citizen & Disabled American Veterans Discount	Eliminate or Limit Senior Discount (e.g., limit discount to seniors with annual charges greater than 2-3% of household income). Approximately 1,000 Total Accounts w/ discounts = \$100k of discounted revenues.
Automatic Meter Reading (AMR) Improvements	Payback 5 yr - Investment \$1.55 M / Annual Savings \$300k or \$3M over 10 yrs.
Adjust Capital Charges (Non-recurring)	May result in increase in Impact Fees / Addition of a Carry Charge for Interest Recovery. Also consider discount to incentivize payments / connection.
Extend Lines & Secure Outside Territory	For each 100 accounts of new customers would result in a minimum of \$49k in additional Base Charge Revenues & \$1 M in connection fee revenues.
Consolidate Treatment Plants	Weed Street Closure Estimated Annual Savings = \$82k / Reduced Operation of Scrubby Bluff (Required for Future Growth) Staff Examining Cost Savings.
Increase Rates / Adopt Indexing	Increases Revenues - CPI Index Produces Minimal "Rate Shock". Every 1% increase = approximately \$54k in annual revenues.
Rate Design	Charge Customers Base Charge Tied to Meter Size / Units Behind Meter.



Public Discussion

❖ Comments & Ideas



City Council Discussion

❖ Questions and Answers

