

TOWN OF WELLTON FINANCIAL PLAN AND WATER RATE ANALYSIS 2017



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September 2017



Town of Wellton Financial Plan and Water Rate Analysis

Date: September 21, 2017

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Purpose and Object: The Town of Wellton through USDA requested that Rural Community Assistance Corporation (RCAC) complete a financial plan and rate analysis for the water enterprise. The financial plan and the rate analysis were developed using historical financial and water use records provided by the Town.

An accurate and useful financial plan and rate analysis not only identifies the total annual revenue required by a utility to conduct its normal day-to-day operations, it also anticipates and plans for future operating and capital needs. The primary objective of this process is to ensure that the Town and the Water Utility have the ability to manage and operate the enterprise, obtain funds to develop, construct, operate, maintain and manage on a continuing basis, in full compliance with federal, state and local requirements.

DISCLAIMER

The recommendations contained in this financial plan are based on financial information and water usage provided to RCAC by the Town of Wellton Accounting Department and the guidance provided during conference calls with the Town Manager and Grants Administrator. Although every effort was made to assure the reliability of this information, no warranty is expressed or implied as to the correctness, accuracy or completeness of the information contained herein.

The Purpose of a Financial Plan and Rate Analysis

A financial plan serves multiple purposes. One of them is to determine if the enterprise generates sufficient revenues to cover the day-to-day operations of the utility, meet the debt requirements and adequately fund the reserves.

The financial plan also evaluates capital improvement projects over the short and long term period, particularly those that will require additional debt capacity. The basic financial plan for a government-owned utility normally evaluates:

- The operating revenue budget;
- The operation and maintenance (O&M) expenses budget;
- Debt service (principal and interest payments) on borrowed funds, and
- Any reserve requirements.

The development of Town of Wellton financial plan includes a comprehensive analysis of all the above mentioned elements. Based on historical information provided by the Town, the plan evaluates any trends or particular issues that may cause the enterprise to run into any financial capacity issues. The historical information provided is used to forecast a 5-yr. budget projection which attempts to assist the council in making informed decisions regarding the utility's future.

At the heart of the financial plan is a rate analysis. The analysis reflects on the ability of the current rate structure to support the utility's normal operations, debt service and reserves and the life expectancy of the current rate structure. As part of the analysis, determination is made to either adjust or increase the rates.

Lastly, the plan will provide a set of recommendations based on the findings and resource materials to support implementation of the recommendations. The implementation of any of the recommendations made by RCAC is up to the local utility, governing body and decision makers.

The Financial Plan Components

I. Revenues

As a business, a utility needs to recover the cost of providing services, whatever those might be. In the case of a water utility, there are major expenses that must be covered in order to ensure safe and reliable drinking water to its customers 24/7. In order to do that, water utilities must generate a constant revenue stream to support the operation.

Operating revenues are the stable and reliable income from the operations of a water utility. Operating revenues includes:

- Income from monthly water fees
- Per 1,000 water sales (commodity charge)

Aside from the revenue generated from regular operations, utilities also generate non-operating revenue.

Non-operating revenues are generated from sources such as interest bearing accounts, late payments, penalties and connection/reconnection fees among other things.

In the case of the Town of Wellton, the non-operating revenues include:

- Water Tax (Gross Receipts)
- Connection fees/Reconnection Fees*
- Interest revenue
- Penalty charges*
- Other revenues / incomes

*Revenue streams such as interest revenue and others may be considered operating revenue source if is they are stable and dependable enough from year to year.

For the purpose of evaluating expenses against revenues and to determine if in fact the current rate structure supports the enterprise it is best to ignore non-operating revenues and rely solely on operating revenue to cover utility's expenses.

Who hasn't heard the term "Water is free", true, water might be free but finishing it to meet safe drinking water standards is not. Finishing water for human consumption requires pumping, treating, storing, distributing, etc. All of which are functions that require some type of energy, energy that has a cost associated with it. In a utility, these expenses make what it is best known as the *operating expense budget* and water utilities must recover the true cost of such production process.

II. Operating Expenses

What make up the operating expenses of a utility and how do you determine how to recover them from your customers? In order to ensure that the cost of drinking water is fully recovered and fulfill its purpose of providing safe drinking water its customer 24/7, the utility expenses are broken down into two categories: **Fixed and Variable Expenses**.

What are fixed expenses and where do they come from? **Fixed Expenses** are expenses that must be recovered whether water is sold or not. For example, the utility has a monthly payment, the payment has to be made regardless of the water sales. These type of expenses are usually recovered from each customer on an *equal basis* through the revenue generated from the minimum monthly bill.

Fixed expenses *may* be recovered at 100 percent while others may be recovered only partially. Examples of fixed expenses may include: *insurance, debt repayment, rent, all or part of the employee salaries benefits.*

Fixed costs are costs that you should recover in your Minimum Bill – the minimum monthly fee charged equally to each customer within each customer classification (residential, multi-residential, commercial, etc.)

The method for identifying all or part of some expenses as fixed includes determining to what extent each of the expenses identified benefit all customers and to what extent. Determining whether the expenses are fixed or variable requires input from the utility as does determining the percent of the expense budget categories should be recovered at. Table 1 below provides a list of fixed expenses identified with the Town staff.

Table 1. Town of Wellton Fixed Expenses

FIXED EXPENSE BUDGET				
FIXED EXPENSES		%	2017 Budget	2018 Budget
1	FT. Employees	75%	\$ 104,505.00	\$ 107,640.15
2	Employee Benefits	75%	\$ 44,384.30	\$ 45,715.82
3	Professional/Contractual Services	50%	\$ 1,750.00	\$ 1,802.50
4	Utilities - Power	10%	\$ 4,000.00	\$ 4,120.00
5	Utilities - Water	100%	\$ 21,000.00	\$ 21,630.00
6	Laboratory	75%	\$ 5,250.00	\$ 3,862.50
7	Insurance	90%	\$ 11,500.00	\$ 11,845.00
8	Debt Service	100%	\$ -	\$ -
9	Debt Service Reserve	100%	\$ -	\$ -
10	Total Fixed Expense Budget	75%	\$ 192,389.30	\$ 196,615.97

One thing to note on the fixed expense budget above is that it not all items identified as fixed expenses are recovered at 100%. The American Water Works Association recommends that utilities with a customer base of less than 5,000 connections recover their fixed expense budget at a rate of *no less than 75%* in order to achieve long term sustainability.

Assuming the 75% AWWA recommendation, Table 1 above provides the breakdown of what expenses should be recovered at what percent. The figures identified are no more than recommendations and they can be modified as needed; however, one thing to remember is that any category adjusted either up or down must be fully recovered either from the monthly minimum or from the water sales. At the end of the day, there is a bottom line the utility needs to recover at 100%.

In an effort to determine if the current rate structure is able to meet the fixed expense budget, the revenues generated from the water included in monthly minimum must be deducted. Table 2 below illustrates that the current rate structure without the water included in the monthly fee can only recover 45.69% of the total fixed expense budget.

Table 2. Monthly Minimum Recovery Rate (Current Rate Structure)

FIXED REVENUE BUDGET & RECOVERY RATE CURRENT RATE STRUCTURE (2009)	
Number of accounts	1,011
Revenue Needed for 2017 to meet 75% of the fixed budget	\$192,389.30
Estimated Revenue from Monthly Minimum (Including 3,500 gal.)	\$209,256.00
Minus Revenue Generated from Water Included	\$121,542.85
Fixed Revenue Available from Monthly Minimum w/o water	\$87,713.15
Monthly Minimum Recovery Rate	45.59%

On the other hand are the **Variable Expenses**. Variable expenses are those directly influenced by the demand of the product the utility sells: water. The amount of water pumped, treated, stored and sold influences the variable expense budget. What expenses make up the variable expense budget? All of the expenses not covered under the fixed expense budget and those that are only partially covered, the balance is covered in the variable expense budget. Examples of variable expenses includes electrical power, chemicals and the salaries among others. To recover variable costs, a water rate structure will need a “usage charge” also called a “consumption” or “commodity charge” which is the cost of water per 1,000 gallons. Table 4 below illustrates the fixed expense budget for the Town’s water enterprise.

Table 3. Town of Wellton Variable Expenses

VARIABLE EXPENSES		%	2017 Projected Variable Expense Budget	2018 Projected Variable Expense Budget
1	FT. Employees	25%	\$ 34,835.00	\$ 35,880.05
2	Employee Benefits	25%	\$ 14,794.77	\$ 15,238.61
3	Professional/Contractual Services	50%	\$ 1,750.00	\$ 1,802.50
4	Utilities- Power	90%	\$ 36,000.00	\$ 37,080.00
5	Laboratory	25%	\$ 1,750.00	\$ 3,347.50
6	Reserves (minus Asset Management)	100%	\$ 25,198.71	\$ 25,654.67
7	General Variable Expenses	100%	\$ 83,249.99	\$ 85,747.50
7	Total Variable Expenses:	59%	\$ 197,578.47	\$ 204,750.83

Unaccounted for Water

For the purpose of the financial analysis, all water produced is considered part of the revenue stream for the water enterprise, regardless of whether it is sold or not. There is a cost associated with pumping, treating, storing, and distributing. Whether the water is sold or lost due to illegal connections, line flushing, leaks in distribution or any other type of activity, it has a dollar value to it and it represents either a financial gain or a financial loss for the Town. The American Water Works Association (AWWA) recommends utilities to set a water loss target of less than 5% - 10%. To determine unaccounted for water, RCAC evaluated 24-months of water data provided by the Town. Table 4 below illustrates the water loss reported and the financial impact to the enterprise.

Table 4. Town of Wellton Unaccounted for Water

2014 Water Pumped	=	140,683,275	gallons
2014 Water Sold	=	111,428,969	gallons
2014 Town Facilities Usage	=	4,314,460	(Parks, cemetery, golf course)
2014 Other Uses	=	5,366,300	(Backwashed, flushed, and fire)
Water Loss	=	19,573,546	14%
Cost of water pumped (Per 1,000 gal.)		\$ 1.46	
Cost of water sold (per 1,000 gal.)		\$ 2.58	
Unaccounted for Revenue:		<u>\$ 50,499.75</u>	
2015			
2015 Water Pumped	=	159,207,552	
2015 Water Sold	=	111,546,379	
2015 Town Facilities Usage	=	11,398,860	(Parks, cemetery, golf course)
2015 Other Uses		12,848,604	(Backwashed, flushed, and fire)
Water Loss	=	23,413,709	14.71%
Cost of water pumped (Per 1,000 gal.)		\$ 1.29	
Cost of water sold (per 1,000 gal.)		\$ 2.58	
Unaccounted for Revenue:		<u>\$ 60,407.37</u>	

The unaccounted for water loss reported for both years exceed the AWWA recommended levels and it has a significant impact on the utility’s budget. If the utility were to recover 100% of the water produced, it would extend the life of the rate structure and it would generate sufficient revenues to cover 100% of the enterprise’s operating expense budget.

The US EPA also recommends a water loss of no more than 10%.

III. Revenues vs. Expenses

As in any business, decisions are made based on the financial ability and capacity of the enterprise to sustain itself. In the case of a water utility, the revenues generated must be able to cover the operating expenses. Table 5 below evaluates the state of the enterprise financial affairs in the last 2 fiscal years and projects the financial state of the utility for FY'18.

The projected FY'17 & FY'18 expense budget assumes a 3% inflation rate, based on the last 20 year average. The revenue budget also assumes a rate increase for FY'18.

Table 5. Wellton Operating Expenses vs. Revenues

FY'16 Actual Revenue from Operating Revenues (projected)		\$ 368,594.10
FY'16 Actual Operating Expenses		\$ 394,812.89
Net Profit/Loss		(\$ 26,218.79)
FY'17 Projected Operating Revenue		\$ 368,889.82
FY'17 Projected Operating Expenses		\$ 389,967.77
Net Profit/Loss		(\$ 21,077.95)
FY'18 Projected Operating Revenues (Rate Scenario #4)		\$428,796.96
FY'18 Projected Operating Expenses (Rate Scenario #4)		\$401,367.80
Net Profit/Loss		\$ 27,429.16

Assumptions can be made regarding the financial state of the utility. One of them is that rate structures have a life expectancy and that the Town's water rate structure's life ran least 5 years. The conclusion can be drawn from the financial information provided by the Town. Table 6 illustrates how the revenues at the end of the year have been in the red in four out of the five years analyzed and potentially beyond it.

Table 6. Prior Year Balance

WELLTON FINANCIAL DATA (WATER ENTERPRISE)								
Water Rate Analysis 2017/2018								
Line Item:	Operating Revenue:	FY'12 Actual Revenue	FY'13 Actual Revenue	FY'14 Actual Revenue	FY'15 Actual Revenue	FY'16 Actual Revenue	FY'17 Projected Revenue	FY'18 Projected Revenue
	Prior Year Balance	\$ -	\$ (43,751.00)	\$ (48,060.00)	\$ (2,528.00)	\$ 26,481.00	\$ (26,218.79)	\$ (21,077.95)
1	Transfer In (General Fund)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2	Monthly Minimum Revenue	\$ -	\$ -	\$ -	\$ -	\$ 208,009.23	\$ 209,256.00	\$ 209,256.00
3	Water Sales Revenue	\$ 372,207.00	\$ 356,709.00	\$ 363,677.00	\$ 360,519.00	\$ 160,584.87	\$ 159,633.82	\$ 159,633.82
4	Bulk Water Sales	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
5	Total Operating Revenue:	\$ 372,207.00	\$ 312,958.00	\$ 363,677.00	\$ 360,519.00	\$ 368,594.10	\$ 368,889.82	\$ 368,889.82

IV. Reserves

Historically, the Town has been putting aside approximately \$16,000 per year towards the Capital Improvement Fund. The reserve fund is funded from non-operating revenues. Setting aside reserves can mean the difference between being self-sustaining, falling apart or becoming financially unstable even during small emergencies. Having a reserve account system is critical to developing financial capacity.

How much reserve set aside should a utilities have? There are several different categories of reserves and ways to estimate reserve targets. The question of how much a water system will want to set aside is based on many factors including if there are any existing set asides, planned projects, existing debt, etc. Following are the descriptions of the different reserves to consider.

Debt Service Reserve

If money was borrowed, depending on the terms of the loans, the Town might be obligated to place money in a Debt Service Reserve until an agreed upon amount has been reached. A Debt Service Reserve is in addition to the annual loan repayment. The Debt Service Reserve helps guarantee that payments will be made on time even if there is a financial emergency. If required by a loan agreement, having a Debt Service Reserve is a legal and binding obligation. If the Town does not have a Debt Service Reserve requirement, it is still a good business practice to establish a 10% monthly set aside to fund an annual loan payments for ALL outstanding debt. This reserve account should be “protected” and ONLY be used to meet the annual loan payment during the life of the loan(s). Once a loan has been fully paid off, whatever amount is encumbered in the reserve can be rolled over to the capital improvement reserve.

Emergency Reserve

An emergency reserve is cash in-hand to replace the most critical piece of equipment for the utility. What is a good emergency reserve target? Some specialists suggest setting aside enough cash to cover cost of replacement of the most “vulnerable component” the utility has. That would be the component that has the ability to cripple the operations and/or compromise the health of the customers should it fail.

Replacement of the main production well, the main transmission line, the largest piece of equipment are examples the most vulnerable components of a water system. The cost of replacement or repair of this component(s) may be used to determine necessary set aside amount. In addition to determining what component to fund, it is necessary to know how much time you have to fund it. Every component has a life expectancy. Determining how much life it has left will help determine how much the annual set aside target should be. It is recommended that the operations staff be involved in determining critical components, this process calls for informed judgment.

Historically the Town has not specifically funded an emergency reserve nor has it identified the most critical component of the water enterprise. For that reason, the recommendation is to set aside \$10,000 per year into a dedicated emergency reserve account.

Operating Reserve

An operating reserve compensates for cash flow variations. There generally is a significant length of time between the service the water services are delivered and the time payment for the services is recovered. On average 45-60 days is the industry norm. In order to ensure that the utility continues to operate an operating reserve fund can be used to cover regular cash shortfalls or unplanned expenses (other than emergencies) such as an increase in electrical or operational costs, costs caused by leaks; extra callouts, late payments, etc. The industry norm calls for a 1/8 of their operating budget (minus any debt payments) which should cover cost of operations for 45 days in the event of any shortfalls.

The Town does not have an operating reserve which make the enterprise vulnerable to cash fluctuations in the operation. Because the Operating Reserve should always be funded and replenished when drawdowns occur, the reserve funds should not be committed into any type of long term investment. The utility must have access to it at any point. Because the target for this reserve can be substantial, the recommendation is to fund it over a 3-year period and review and adjust the set aside during every year’s budget development process.

Table 7. Proposed Emergency and Operating Reserve Targets

WELLTON FINANCIAL DATA (WATER ENTERPRISE)								
Water Rate Analysis 2017/2018								
Line Item:	Operating Revenue:	FY'12 Actual Revenue	FY'13 Actual Revenue	FY'14 Actual Revenue	FY'15 Actual Revenue	FY'16 Actual Revenue	FY'17 Projected Revenue	FY'18 Projected Revenue
Line Item	Reserves							
38	Emergency Reserve						\$10,000.00	\$10,000.00
39	Operation & Maintenance Reserve						\$15,198.71	\$15,654.67
40	Total Reserves						\$25,298.71	\$25,654.67
		\$	\$	\$	\$	\$		

Capital Reserve for New Projects and Equipment Replacement

A capital reserve is to be used for full or partial payment of new projects (such as planning, engineering, equipment/components) as well as cash on-hand cash for long-term equipment replacement and rehabilitation. How far into the future will you need to plan and save for? The Council should determine the appropriate planning horizon for the utility. In general, the further you can look into the future, the better prepared the utility will be. Utility systems saving for equipment replacement 10 to 12 years into the future are doing an excellent job of managing their assets.

To establish and properly fund a capital reserve account, the Town must rely on existing planning documents such as the capital improvement plan (CIP), water master plan, engineering studies, etc. Any type of planning documents which evaluate existing system conditions, establish asset rehabilitation and maintenance priorities and estimate costs for these improvements. In addition to larger projects outlined in the existing plans, the Town should also develop an Asset Management Plan which evaluates all the components of the utility, determine condition, level of criticality as well as financial implication to repair or replace them.

In the absence of an Asset Management Plan, Table 8 below illustrates the proposed reserve target for the Capital Reserve set aside or Capital Improvement Fund and the annual targets. One thing to note is that this reserve would be funded from the non-operating revenue budget.

Table 8. Capital Improvement Fund

Asset Management Reserve (Capital Improvement Fund)	\$16,170.00	\$16,367.00	\$16,874.00	\$16,404.00	\$ 16,709.00	\$ 25,000.00	\$25,000.00
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V. Determining an Appropriate Water Structure for the utility

Charging customers for the actual cost of water service will ensure that the utility earns enough revenue to cover the costs of operation, treatment, storage and distribution, plus maintaining a healthy reserve system. An appropriate water rate structure for the Town customers will ensure that the necessary financial resources are available to meet established goals and implement future plans.

Budget Rate Setting Principles:

1. Water rate(s) should generate the revenue necessary to produce, treat, store, and distribute water to customers. This includes debt service, financial reserves, operating, maintenance and regulatory compliance costs as identified in the budget.
2. Water rates should be adequate and equitable. Adequate means the rate(s) generate sufficient income to cover the full cost to operate the water system. Equitable means that each class of customer is paying its proportional share of the costs directly influenced by their consumption. Charging the full cost to deliver water ensures your system's financial health by protecting the system's ability to provide safe water now and into the future.
3. Water rate structures should be explained to the utility customers. Customers will be more receptive to rate changes if they understand how rates are related to covering the full cost of the water they receive. Water rate changes should be posted and customers should be sent a rate schedule annually and each time the rates are adjusted.
4. Water rates have a "disposable" life span. Water rates should be examined annually during the budget development process to determine if it is time to dispose them and replace them with another rate structure.
5. Good rate structures are based on good budgets and should be reviewed each year. Annual review will ensure that a system will continue to earn sufficient revenue to cover costs.
6. Create a rate structure that is easy to administer. Complex rate structures are difficult to manage and are likely to be hard for customers to understand and support.

Setting and implementing rates to cover the full cost of service will help improve and maintain the water system.

Five Common Types of Rate Structures

- Flat rate or fixed fee,
- Uniform rate,
- Decreasing block rate,
- Increasing block rate, and
- Seasonal rate

Under each of these rate structures, systems have the flexibility to set different rates for different categories of customers. The Town has been operating under a modified uniform rate structure. Modified in the sense the cost of water does not increase regardless of the consumption. The base rate and the per 1,000 gal rate does increase based on the customer category and location of the service.

Table 9. 2016 Wellton Rate Schedule (Current rate structure)

WELLTON CURRENT RATE STRUCTURE AND INCOME ESTIMATES

Residential In Town Use and Income Estimate:						
Minimum Minimum \$	16.00	for			3,500 gallons	
All over	3,501 gallons		for	\$ 1.85 per	1,000 gallons	
898	uses @	0	gallons @	\$16.00 per users=	<u>\$14,368.00</u>	Monthly
Annual Revenue Generated from Residential Monthly Minimum Fee:					<u>\$172,416.00</u>	Annually
Use and Income	540	users @	3,501 and above gallons @	\$6,393.60	per month =	\$76,723.20 Annually
Total Residential	540					
Annual Revenue Generated from Per 1,000 gallons Sales:					<u>\$76,723.20</u>	

Residential Out of Town Use and Income Estimate:						
Monthly Minimum \$	18.00	for			3,500 gallons	
All over	3,501 gallons		for	\$ 2.75 per	1,000 gallons	
1	uses @	0	gallons @	\$18.00 per users=	<u>\$18.00</u>	Monthly
Annual Revenue Generated from Residential Monthly Minimum Fee:					<u>\$216.00</u>	Annually
Use and Income	1	users @	3,501 and above gallons @	\$50.88	per month =	\$610.50 Annually
Total Residential	1					
Annual Revenue Generated from Per 1,000 gallons Sales:					<u>\$610.50</u>	

Commercial In Town Use and Income Estimate:						
Monthly Minimum \$	\$27.00	for			3,500 gallons	
All over	3,501 gallons		for	\$ 2.40 per	1,000 gallons	
98	users @	0	gallons @	\$27.00 per user =	<u>\$2,646.00</u>	Monthly
Annual Revenue Generated from Commercial Monthly Minimum:					<u>\$31,752.00</u>	Annually
Use and Income	53	users @	3,501 and above gallons @	\$6,379.84	per month =	\$76,558.12 Annually
Total Commercial	53.00					
Annual Revenue Generated from Commercial Monthly Minimum Fee:					<u>\$76,558.12</u>	

Commercial Out of Town Use and Income Estimate:						
Monthly Minimum \$	\$29.00	for			3,500 gallons	
All over	3,501 gallons		for	\$ 3.30 per	1,000 gallons	
14	users @	0	gallons @	\$29.00 per user =	<u>\$406.00</u>	Monthly
Annual Revenue Generated from Commercial Monthly Minimum:					<u>\$4,872.00</u>	Annually
Use and Income	5	users @	3,501 and above gallons @	\$478.50	per month =	\$5,742.00 Annually
Total Commercial	5					
Annual Revenue Generated from Commercial Monthly Minimum Fee:					<u>\$5,742.00</u>	

VI. Six (6) - Year Financial Plan

A financial plan forecasting 5-years for the Town's water utility service was developed using the above listed information (Appendix D). The plan incorporates the revenue and cost data described earlier in the report. The plan begins with the FY'16 actual budget and forecasts from FY'17 through FY'21.

The 6-year financial plan calculates the revenue increases necessary to provide positive revenue over the next 5 years. In other words, how much revenue is required to operate a healthy and self-sustaining enterprise? Analysis of this scenario determined that in order to adequately fund all major cost categories and recommended reserves, an annual adjustment ranging between a 2 and a 3 percent must be implemented during the annual budget development process. The adjustment proposed should help the Town operate as self-sustaining utility while assuming a 3% inflation rate on the operating expense budget.

VII. Findings and Recommendations

1. Wellton has not had a rate analysis since, at least, 2009. Utilities rely on a good rate structure to generate the revenues needed to operate the utility. Periodic reviews of the rate structure is highly recommended to avoid significant increases. Instead, when periodic reviews of the utility structure are conducted, if adjustments need to be made, those usually have a minimal impact to the end user. Going extended periods of time without reviewing/updating the rate structure creates the need for rate increases which have a more significant financial impact to the end user creating unhappy customers.
2. In reviewing the historical financial information provided, it was determined that the current rate structure has not been generating sufficient revenues to cover the utility's operating expenses. Utilities are Propriety (Enterprises) and as such should be operated as a business. The water enterprise should generate adequate revenues to cover all operating related expenses, along with emergencies, debt service, and replacement of equipment and most infrastructure projects. For quite some time, the current rate structure has not fulfilled that job. Rate structures have a life expectancy and the current structure has lived its life expectancy, it is time to update it. The Town must increase the water rates to adequately cover the major cost categories, including the reserve set asides.
3. The 6-year financial plan and past history reflects the need for annual water rate *adjustments*. Review and adjustment of the rates should be done every year, as part of the budget development process. Frequent review and implementation of the rate structure adjustment increases the potential to adequately cover the operating expenses of the utility without creating a significant impact on the current rate structure. Adjustments are more welcomed than increases and should be considered on an annual basis to avoid drastic increase to the utility customer.
4. Based on information provided, the water utility has a water loss in excess of 10%, higher than the national recommended annual average of less than 10%. It is recommended that the Town invest resources to conduct a water audit and determine the sources of unaccounted for water. Water loss represent cash loss. The impact of such significant water loss represents a financial deficit that places an artificial expectation on the rate structure to support unnecessary expenses.
5. In order to adequately determine Capital Reserve, it is strongly recommended that the Town conducts an Asset Management Plan. An Asset Management Plan not only evaluates the condition of the assets, it helps to prioritize the assets that are critical to the operations of the utility. The recommended reserve set aside as part of this plan has no backing but it does help the Town to get into the practice of setting aside a reserve fund to address the tear and wear of the assets in the utility.
6. It is strongly recommended that (12) twelve months after the implementation of the new rate structure, a thorough assessment of the revenues vs. expenses be conducted. During the assessment, the Town might determine the need for additional adjustments in order to generate the revenues needed to cover all operating expenses and reserve set asides.

7. A rate analysis compares operating revenues vs. operating expenses. The proposed rate increase is developed assuming that all operating expenses should be funded strictly from operating revenues generated from the sales of water. However, since the Water Enterprise is part of a larger utility structure, from time to time the utility will have the need to contribute to the General Fund, the recommendation is that the non-operating revenues be used to fund any unfunded reserves and/or the general fund when necessary.
8. In the case where water is included in the monthly minimum, it is important to fully recover the cost of the water included. In the case of the Town, the 3,500 gallons of water included in the monthly minimum significantly take impact from the monthly minimum's ability to cover the fixed expenses identified. Please reference Appendix B for more information.
9. As part of the rate analysis, several scenarios are presented. The scenarios are included in Appendix C. RCAC recommends the implementation of Rate Scenario #4 because it has a lesser impact on the customer rates yet it provides the financial foundation the Town needs to move forward and a safe revenue stream to support the water utility for more than a 12 month period once implemented.

VIII. Summary

In conclusion, the Council should consider implementing Proposed Rate Structure #4 or other rate structure that will help address the current financial gap. The longer the implementation takes, the bigger the financial gap.

The proposed structure should generate sufficient revenues to adequately cover ALL major costs, fund a healthy reserve system and get the utility to a solid financial footing. The proposed rate increase will get the Town to a self-sustaining enterprise status and additional annual rate adjustments, as needed, should guarantee the operation of the Town water utility as a business with adequate reserves.

The appendixes included provide the background data used to develop the financial analysis the resulting recommendations.

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Attachment A – Financial Information

WELLTON FINANCIAL DATA (WATER ENTERPRISE)

Water Rate Analysis 2017/2018

Line Item:	Operating Revenue:	FY'12 Actual Revenue	FY'13 Actual Revenue	FY'14 Actual Revenue	FY'15 Actual Revenue	FY'16 Actual Revenue	FY'17 Projected Revenue	FY'18 Projected Revenue
	<i>Prior Year Balance</i>	\$ -	\$ (43,751.00)	\$ (48,060.00)	\$ (2,528.00)	\$ 26,481.00	\$ (26,218.79)	\$ (21,077.95)
1	Transfer In (General Fund)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2	Monthly Minimum Revenue	\$ -	\$ -	\$ -	\$ -	\$ 208,009.23	\$ 209,256.00	\$ 209,256.00
3	Water Sales Revenue	\$ 372,207.00	\$ 356,709.00	\$ 363,677.00	\$ 360,519.00	\$ 160,584.87	\$ 159,633.82	\$ 159,633.82
4	Bulk Water Sales	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
5	Total Operating Revenue:	\$ 372,207.00	\$ 312,958.00	\$ 363,677.00	\$ 360,519.00	\$ 368,594.10	\$ 368,889.82	\$ 368,889.82
Line Item:	Operating Expenses:	FY'12 Actual Expenses	FY'13 Actual Expenses	FY'14 Actual Expenses	FY'15 Actual Expenses	FY'16 Actual Expenses	FY'17 Projected Expenses	FY'18 Projected Expenses
7	FT Salaries	\$ 180,302.00	\$ 150,209.00	\$ 141,823.00	\$ 113,205.00	\$ 118,731.97	\$ 139,340.00	\$ 143,520.20
8	Employee Benefits	\$ 64,412.00	\$ 52,856.00	\$ 47,217.00	\$ 43,259.00	\$ 51,122.27	\$ 59,179.06	\$ 60,954.43
9	Office Supplies	\$ 661.00	\$ 699.00	\$ 636.00	\$ 635.00	\$ 821.24	\$ 750.00	\$ 772.50
10	Small Tools & Minor Equipment	\$ 228.00	\$ 215.00	\$ 828.00	\$ 179.00	\$ 539.58	\$ 600.00	\$ 618.00
11	Uniforms	\$ 1,062.00	\$ 1,129.00	\$ 985.00	\$ 935.00	\$ 1,092.19	\$ 1,000.00	\$ 1,030.00
12	Vehicle Expense	\$ 5,592.00	\$ 5,167.00	\$ 7,089.00	\$ 8,065.00	\$ 5,022.67	\$ 5,000.00	\$ 5,150.00
13	Equipment Expense	\$ 6,380.00	\$ 8,801.00	\$ 4,061.00	\$ 6,616.00	\$ 1,785.66	\$ 3,000.00	\$ 3,090.00
14	Gas, Fuel & Lubricants	\$ 7,460.00	\$ 5,780.00	\$ 2,974.00	\$ 4,250.00	\$ 1,208.82	\$ 1,750.00	\$ 1,802.50
15	Purification	\$ 22,212.00	\$ 22,532.00	\$ 25,704.00	\$ 27,886.00	\$ 67,172.27	\$ 20,000.00	\$ 20,600.00
16	Laboratory	\$ 8,039.00	\$ 6,873.00	\$ 9,160.00	\$ 10,267.00	\$ 7,393.99	\$ 7,000.00	\$ 7,210.00
17	Miscellaneous	\$ 1,349.00	\$ 376.00	\$ 372.00	\$ -	\$ -	\$ 100.00	\$ 103.00
18	Safety Program	\$ -	\$ -	\$ -	\$ -	\$ 185.29	\$ 250.00	\$ 257.50
19	Communications	\$ 3,230.00	\$ 3,454.00	\$ 4,182.00	\$ 2,806.00	\$ 3,253.05	\$ 3,200.00	\$ 3,296.00
20	Utilities - Power	\$ 36,004.00	\$ 36,502.00	\$ 35,759.00	\$ 37,348.00	\$ 42,548.96	\$ 40,000.00	\$ 41,200.00
21	Utilities - Water Acquisition	\$ 22,406.00	\$ 22,610.00	\$ 27,490.00	\$ 23,816.00	\$ 17,961.43	\$ 21,000.00	\$ 21,630.00
22	Professional/Consultant Services	\$ 5,693.00	\$ 4,255.00	\$ 4,355.00	\$ 1,812.00	\$ 4,212.15	\$ 3,500.00	\$ 3,605.00
23	Mailing	\$ 2,816.00	\$ 1,800.00	\$ 2,606.00	\$ 2,200.00	\$ 2,000.00	\$ 2,200.00	\$ 2,266.00
24	Dues, Memberships, Subscriptions	\$ 4,708.00	\$ 1,795.00	\$ 1,408.00	\$ 3,591.00	\$ 4,557.14	\$ 4,200.00	\$ 4,326.00
25	Advertising/Publicity	\$ -	\$ -	\$ 638.00	\$ 290.00	\$ 565.71	\$ 600.00	\$ 618.00
26	Travel, Conferences, Meetings	\$ 1,483.00	\$ 1,126.00	\$ 1,382.00	\$ 1,777.00	\$ 1,326.32	\$ 1,200.00	\$ 1,236.00
27	Printing	\$ 835.00	\$ 1,959.00	\$ 1,928.00	\$ 1,657.00	\$ 1,732.90	\$ 1,500.00	\$ 1,545.00
28	Support & Maintenance Contracts	\$ 2,068.00	\$ 2,358.00	\$ 2,515.00	\$ 2,046.00	\$ 2,252.92	\$ 2,100.00	\$ 2,163.00
29	Surcharge/Capacity Fees	\$ 1,815.00	\$ (1,730.00)	\$ 1,381.00	\$ (1,612.00)	\$ (1,346.00)	\$ -	\$ -
30	Uncollectible Accounts Exp	\$ 4,315.00	\$ 34.00	\$ 8,265.00	\$ -	\$ -	\$ 2,000.00	\$ 2,060.00
31	Insurance - General	\$ 10,035.00	\$ 10,572.00	\$ 11,549.00	\$ 11,500.00	\$ 13,022.00	\$ 11,500.00	\$ 11,845.00
32	R&M	\$ 16,936.00	\$ 10,855.00	\$ 10,146.00	\$ 12,510.00	\$ 16,897.68	\$ 14,000.00	\$ 14,420.00
33	Building/Janitorial Maintenance	\$ 368.00	\$ 113.00	\$ 113.00	\$ 846.00	\$ 1,587.78	\$ 1,800.00	\$ 1,854.00
34	Water Plant Maintenance	\$ 5,549.00	\$ 10,678.00	\$ 11,639.00	\$ 18,154.00	\$ 29,164.90	\$ 18,000.00	\$ 18,540.00
35	Transfer Out	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
36	Total Operating Expenses:	\$ 415,958.00	\$ 361,018.00	\$ 366,205.00	\$ 334,038.00	\$ 394,812.89	\$ 364,769.06	\$ 375,712.13
37	Operating Revenue-Operating Expense Profit/Loss:	\$ (43,751.00)	\$ (48,060.00)	\$ (2,528.00)	\$ 26,481.00	\$ (26,218.79)	\$ 4,120.76	\$ (6,822.31)
Line Item:	Reserves:							
38	Emergency Reserve						\$ 10,000.00	\$ 10,000.00
39	Operation & Maintenance Reserve						\$ 15,198.71	\$ 15,654.67
40	Total Reserves	\$ -	\$ 25,198.71	\$ 25,654.67				
41	Operating Expenses + Emergency & O&M Reserve	\$ 415,958.00	\$ 361,018.00	\$ 366,205.00	\$ 334,038.00	\$ 394,812.89	\$ 389,967.77	\$ 401,366.80
42	Operating Revenue - Operating Expenses (Net Profit/Loss)	\$ (43,751.00)	\$ (48,060.00)	\$ (2,528.00)	\$ 26,481.00	\$ (26,218.79)	\$ (21,077.95)	\$ (32,476.99)
Line Item:	Non-Operating Revenue:							
43	Connection fees/Reconnection Fees	\$ 13,127.00	\$ 11,324.00	\$ 10,434.00	\$ 10,207.00	\$ 11,521.00	\$ 10,500.00	\$ 10,500.00
44	Interest revenue	\$ 818.00	\$ 685.00	\$ 579.00	\$ 352.00	\$ 37.88	\$ 25.00	\$ 25.00
45	Other revenues / incomes	\$ 12,680.00	\$ 32,534.00	\$ 27,262.00	\$ 16,550.00	\$ 36,605.42	\$ 25,850.00	\$ 25,000.00
46	Total Non-Operating Revenue:	\$ 26,625.00	\$ 44,543.00	\$ 38,275.00	\$ 27,109.00	\$ 48,164.30	\$ 36,375.00	\$ 35,525.00
47	Asset Management Reserve (Capital Improvement Fund)	\$ 16,170.00	\$ 16,367.00	\$ 16,874.00	\$ 16,404.00	\$ 16,709.00	\$ 25,000.00	\$ 25,000.00
48	Non-Operating Revenues - Asset Management Reserve	\$ 26,625.00	\$ 44,543.00	\$ 38,275.00	\$ 27,109.00	\$ 48,164.30	\$ 11,375.00	\$ 10,525.00

Town of Wellton Water Use Customers

				Jul	Feb	May	Estimated
Residential - In Town				15	16	16	Average
358	Users @ 1 - 3500	gallons @ .00457	\$ -	346	321	406	358
284	Users @ 3501 - 8000	gallons @ .00185	\$ 1.85	226	369	256	284
67	Users @ 8001 - 10000	gallons @ .00185	\$ 1.85	60	73	67	67
177	Users @ 10001 - above	gallons @ .00185	\$ 1.85	243	137	151	177
885							

				Jul	Feb	May	Estimated
Residential - Out of Town				15	16	16	Average
3	Users @ 1 - 3500	gallons @ .00514	\$ -	3	4	3	3
1	Users @ 3501 - 8000	gallons @ .00275	\$ 2.75	0	1	1	1
0	Users @ 8001 - 10000	gallons @ .00275	\$ 2.75	0	0	0	0
0	Users @ 10001 - above	gallons @ .00275	\$ 2.75	0	0	0	0
4							

				Jul	Feb	May	Estimated
Commercial - In Town				15	16	16	Average
42	Users @ 1 - 3500	gallons @ .00771	\$ -	40	45	40	42
7	Users @ 3501 - 8000	gallons @ .00240	\$ 2.40	4	6	11	7
3	Users @ 8001 - 10000	gallons @ .00240	\$ 2.40	2	4	4	3
29	Users @ 10001 - above	gallons @ .00240	\$ 2.40	32	28	28	29
81							

				Jul	Feb	May	Estimated
Commercial - Out of Town				15	16	16	Average
9	Users @ 1 - 3500	gallons @ .00286	\$ -	5	10	12	9
2	Users @ 3501 - 8000	gallons @ .00330	\$ 3.30	2	3	1	2
1	Users @ 8001 - 10000	gallons @ .00330	\$ 3.30	0	2	0	1
0	Users @ 10001 - above	gallons @ .00330	\$ 3.30	0	0	0	0
12							

982 MONTHLY CUSTOMER ACCOUNTS (ESTIMATED)

Average cost per 1,000 gal.	\$ 1.93
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APPENDIX B - RATES

APPENDIX C – PROPOSED RATES

WELLTON WATER RATE ANALYSIS 2016/2017												
Proposed Rate Scenarios												
				Rate Scenario 1 Increase Monthly Minimum by 21% Per 1,000 gal. 0%	Rate Scenario 2 Increase Monthly Minimum by 15% Increase per 1,000 gal. fee by 10%	Rate Scenario 3 Do not increase Monthly Minimum Fee and include 0 gal.; Increase per 1,000 gal. fee by 15%	Rate Scenario 4 Increase Monthly Minimum by 21% and 10% to the commodity rate	Average Cost per 7,500 gallons + taxes				
Line Item:	Operating Revenue:	FY'17 Projected Revenue	FY'18 Projected Revenue	FY'18 Projected Revenue	FY'18 Projected Revenue	FY'18 Projected Revenue	FY'18 Projected Revenue	Residential In-Town	Residential Out-of-Town	Commercial In-Town	Commercial Out-of-Town	
1	Prior Year Balance	\$ (26,219)	\$ (21,078)	\$ (21,078)	\$ (21,078)	\$ (21,078)	\$ (21,078)					
2	Transfer In (General Fund)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -					
3	Monthly Minimum Revenue	\$ 209,256.00	\$ 209,256.00	\$ 253,199.76	\$ 240,644.40	\$ 215,606.40	\$ 253,199.76					
4	Water Sales Revenue	\$ 159,633.82	\$ 159,633.82	\$ 159,633.82	\$ 175,597.20	\$ 239,674.07	\$ 175,597.20					
5	Bulk Water Sales	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -					
6	Total Operating Revenue:	\$ 368,889.82	\$ 368,889.82	\$ 412,833.58	\$ 416,241.60	\$ 455,280.47	\$ 428,796.96	Scenario 1	\$ 26.76	\$ 32.78	\$ 42.27	\$ 48.29
Line Item:	Operating Expenses:	Projected	Projected	Projected	Projected	Projected	Projected					
7	FT Salaries	\$ 139,340.00	\$ 143,520.20	\$ 143,520.20	\$ 143,520.20	\$ 143,520.20	\$ 143,520.20					
8	Employee Benefits	\$ 59,179.06	\$ 60,954.43	\$ 60,954.43	\$ 60,954.43	\$ 60,954.43	\$ 60,954.43	Scenario 2	\$ 26.54	\$ 32.80	\$ 41.61	\$ 47.87
9	Office Supplies	\$ 750.00	\$ 772.50	\$ 772.50	\$ 772.50	\$ 772.50	\$ 772.50					
10	Small Tools & Minor Equipment	\$ 600.00	\$ 618.00	\$ 618.00	\$ 618.00	\$ 618.00	\$ 618.00					
11	Uniforms	\$ 1,030.00	\$ 1,030.00	\$ 1,030.00	\$ 1,030.00	\$ 1,030.00	\$ 1,030.00					
12	Vehicle Expense	\$ 5,000.00	\$ 5,150.00	\$ 5,150.00	\$ 5,150.00	\$ 5,150.00	\$ 5,150.00	Scenario 3	\$ 33.23	\$ 43.62	\$ 54.76	\$ 59.74
13	Equipment Expense	\$ 3,000.00	\$ 3,090.00	\$ 3,090.00	\$ 3,090.00	\$ 3,090.00	\$ 3,090.00					
14	Gas, Fuel & Lubricants	\$ 1,750.00	\$ 1,802.50	\$ 1,802.50	\$ 1,802.50	\$ 1,802.50	\$ 1,802.50					
15	Purification	\$ 20,000.00	\$ 20,600.00	\$ 20,600.00	\$ 20,600.00	\$ 20,600.00	\$ 20,600.00					
16	Laboratory	\$ 7,000.00	\$ 7,210.00	\$ 7,210.00	\$ 7,210.00	\$ 7,210.00	\$ 7,210.00	Scenario 4	\$ 27.50	\$ 33.88	\$ 43.23	\$ 49.61
17	Miscellaneous	\$ 100.00	\$ 103.00	\$ 103.00	\$ 103.00	\$ 103.00	\$ 103.00					
18	Safety Program	\$ 250.00	\$ 257.50	\$ 257.50	\$ 257.50	\$ 257.50	\$ 257.50					
19	Communications	\$ 3,200.00	\$ 3,296.00	\$ 3,296.00	\$ 3,296.00	\$ 3,296.00	\$ 3,296.00					
20	Utilities - Power	\$ 40,000.00	\$ 41,200.00	\$ 41,200.00	\$ 41,200.00	\$ 41,200.00	\$ 41,200.00					
21	Utilities - Water Acquisition	\$ 21,000.00	\$ 21,630.00	\$ 21,630.00	\$ 21,630.00	\$ 21,630.00	\$ 21,630.00					
22	Professional/Consultant Services	\$ 3,500.00	\$ 3,605.00	\$ 3,605.00	\$ 3,605.00	\$ 3,605.00	\$ 3,605.00					
23	Mailing	\$ 2,200.00	\$ 2,266.00	\$ 2,266.00	\$ 2,266.00	\$ 2,266.00	\$ 2,266.00					
24	Dues, Memberships, Subscriptions	\$ 4,200.00	\$ 4,326.00	\$ 4,326.00	\$ 4,326.00	\$ 4,326.00	\$ 4,326.00					
25	Advertising/Publicity	\$ 600.00	\$ 618.00	\$ 618.00	\$ 618.00	\$ 618.00	\$ 618.00					
26	Travel, Conferences, Meetings	\$ 1,200.00	\$ 1,236.00	\$ 1,236.00	\$ 1,236.00	\$ 1,236.00	\$ 1,236.00					
27	Printing	\$ 1,500.00	\$ 1,545.00	\$ 1,545.00	\$ 1,545.00	\$ 1,545.00	\$ 1,545.00					
28	Support & Maintenance Contracts	\$ 2,100.00	\$ 2,163.00	\$ 2,163.00	\$ 2,163.00	\$ 2,163.00	\$ 2,163.00					
29	Surcharge/Capacity Fees	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -					
30	Uncollectible Accounts Exp	\$ 2,000.00	\$ 2,060.00	\$ 2,060.00	\$ 2,060.00	\$ 2,060.00	\$ 2,060.00					
31	Insurance - General	\$ 11,500.00	\$ 11,845.00	\$ 11,845.00	\$ 11,845.00	\$ 11,845.00	\$ 11,845.00					
32	R&M	\$ 14,000.00	\$ 14,420.00	\$ 14,420.00	\$ 14,420.00	\$ 14,420.00	\$ 14,420.00					
33	Building/Janitorial Maintenance	\$ 1,800.00	\$ 1,854.00	\$ 1,854.00	\$ 1,854.00	\$ 1,854.00	\$ 1,854.00					
34	Water Plant Maintenance	\$ 18,000.00	\$ 18,540.00	\$ 18,540.00	\$ 18,540.00	\$ 18,540.00	\$ 18,540.00					
35	Transfer Out	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -					
36	Total Operating Expenses:	\$ 364,769.06	\$ 375,712.13	\$ 375,712.13	\$ 375,712.13	\$ 375,712.13	\$ 375,712.13					
Reserves:												
37	Emergency Reserve	\$ 10,000.00	\$ 10,000.00	\$ 10,000.00	\$ 10,000.00	\$ 10,000.00	\$ 10,000.00					
38	Operation & Maintenance Reserve	\$ 15,198.71	\$ 15,654.67	\$ 15,654.67	\$ 15,654.67	\$ 15,654.67	\$ 15,654.67					
39	O&M + Emergency Reserve	\$ 25,198.71	\$ 25,654.67	\$ 25,654.67	\$ 25,654.67	\$ 25,654.67	\$ 25,654.67					
40	Reserve	\$ 389,967.77	\$ 401,366.80	\$ 401,366.80	\$ 401,366.80	\$ 401,366.80	\$ 401,366.80					
41	(Operating Revenue - Operating Expenses)	\$ (21,077.95)	\$ (32,476.99)	\$ 11,466.77	\$ 14,874.80	\$ 53,913.67	\$ 27,429.16					
Line Item:	Non-Operating Revenue:											
42	Connection Fees/Reconnection Fees	\$ 10,500.00	\$ 10,500.00	\$ 10,500.00	\$ 10,500.00	\$ 10,500.00	\$ 10,500.00					
43	Interest Revenue	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00					
44	Other Revenues / Incomes	\$ 25,850.00	\$ 25,000.00	\$ 25,000.00	\$ 25,000.00	\$ 25,000.00	\$ 25,000.00					
45	Total Non-Operating Revenue:	\$ 36,375.00	\$ 35,525.00	\$ 35,525.00	\$ 35,525.00	\$ 35,525.00	\$ 35,525.00					
47	Asset Management Reserve (Capital Improvement Fund)	\$ 25,000.00	\$ 25,000.00	\$ 25,000.00	\$ 25,000.00	\$ 25,000.00	\$ 25,000.00					
48	Total Non-Operating Revenues - Asset Management Reserve	\$ 11,375.00	\$ 10,525.00	\$ 10,525.00	\$ 10,525.00	\$ 10,525.00	\$ 10,525.00					

PROPOSED RATE STRUCTURE (Scenario #1)
Increase Monthly Minimum Fee by 21% (Inc. 3,500 gal.); 0% Increase Commodity Fee

Residential In Town Use and Income Estimate:					
Minimum	\$ 19.36	for		3,500	gallons
All over	3,501	gallons	for	\$ 1.85	per 1,000 gallons
	898	uses @	3,500	gallons @	\$19.36 per users =
					<u>\$17,385.28</u> Monthly
					\$208,623.36 Annually
Use and Income Estimate:	540	users @	3,501 and above	gallons @	\$6,393.60 per month =
					\$76,723.20 Annually
Total Residential Connections	540				
					Annual Revenue Generated from Per 1,000 gallons Sales: <u>\$76,723.20</u>

Residential Out of Town Use and Income Estimate:					
Monthly Minimum	\$ 21.78	for		3,500	gallons
All over	3,501	gallons	for	\$ 2.75	per 1,000 gallons
	1	uses @	3,500	gallons @	\$21.78 per users =
					<u>\$21.78</u> Monthly
					\$261.36 Annually
Use and Income Estimate:	1	users @	3,501 and above	gallons @	\$50.88 per month =
					\$610.50 Annually
Total Residential Connections	1				
					Annual Revenue Generated from Per 1,000 gallons Sales: <u>\$610.50</u>

Commercial In Town Use and Income Estimate:					
Monthly Minimum	\$32.67	for		3,500	gallons
All over	3,501	gallons	for	\$ 2.40	per 1,000 gallons
	98	users @	3,500	gallons @	\$32.67 per user =
					<u>\$3,201.66</u> Monthly
					\$38,419.92 Annually
Use and Income Estimate:	53	users @	3,501 and above	gallons @	\$6,379.84 per month =
					\$76,558.12 Annually
Total Commercial Connections	53				
					Annual Revenue Generated from Commercial Monthly Minimum Fee: <u>\$76,558.12</u>

Commercial Out of Town Use and Income Estimate:					
Monthly Minimum	\$35.09	for		3,500	gallons
All over	3,501	gallons	for	\$ 3.30	per 1,000 gallons
	14	users @	3,500	gallons @	\$35.09 per user =
					<u>\$491.26</u> Monthly
					\$5,895.12 Annually
Use and Income Estimate:	5	users @	3,501 and above	gallons @	\$478.50 per month =
					\$5,742.00 Annually
Total Commercial Connections	5				
					Annual Revenue Generated from Commercial Monthly Minimum Fee: <u>\$5,742.00</u>

Income generated from monthly minimum=					\$253,199.76
Income generated from water sales =					\$159,633.82
					Total Annual Revenue: <u>\$412,833.58</u>
Average Monthly Residential In-Town Cost per 7,500 gal. =	26.76	plus tax			
Average Monthly Residential Out-of-Town Cost per 7,500 gal. =	32.78	plus tax			
Average Monthly Commercial In-Town Cost per 7,500 gal. =	42.27	plus tax			
Average Monthly Commercial Out-of-Town Cost per 7,500 gal. =	48.29	plus tax			

PROPOSED RATE STRUCTURE (Scenario #2)

Increase Monthly Minimum Fee by 15% (Inc. 3,500 gal.); 10% Increase Commodity Fee

Residential In Town Use and Income Estimate:					
Minimum	\$18.40	for			3,500 gallons
All over	3,501 gallons	for	\$ 2.04	per	1,000 gallons
	898	uses @	3,500	gallons @	\$18.40 per users =
					<u>\$16,523.20</u> Monthly
					Annual Revenue Generated from Residential Monthly Minimum Fee: <u>\$198,278.40</u> Annually
Use and Income Estimate:	540	users @	3,501 and above	gallons @	\$7,032.96 per month = \$84,395.52 Annually
Residential Connections	540				Annual Revenue Generated from Per 1,000 gallons Sales: <u>\$84,395.52</u>

Residential Out of Town Use and Income Estimate:					
Monthly Minimum	\$20.70	for			3,500 gallons
All over	3,501 gallons	for	\$ 3.03	per	1,000 gallons
	1	uses @	3,500	gallons @	\$20.70 per users =
					<u>\$20.70</u> Monthly
					Annual Revenue Generated from Residential Monthly Minimum Fee: <u>\$248.40</u> Annually
Use and Income Estimate:	1	users @	3,501 and above	gallons @	\$55.96 per month = \$671.55 Annually
Total	1				Annual Revenue Generated from Per 1,000 gallons Sales: <u>\$671.55</u>

Commercial In Town Use and Income Estimate:					
Monthly Minimum	\$31.05	for			3,500 gallons
All over	3,501 gallons	for	\$ 2.64	per	1,000 gallons
	98	users @	3,500	gallons @	\$31.05 per user =
					<u>\$3,042.90</u> Monthly
					Annual Revenue Generated from Commercial Monthly Minimum: <u>\$36,514.80</u> Annually
Use and Income Estimate:	53	users @	3,501 and above	gallons @	\$7,017.83 per month = \$84,213.93 Annually
Total Commercial Connections	53				Annual Revenue Generated from Commercial Monthly Minimum Fee: <u>\$84,213.93</u>

Commercial Out of Town Use and Income Estimate:					
Monthly Minimum	\$33.35	for			3,500 gallons
All over	3,501 gallons	for	\$ 3.63	per	1,000 gallons
	14	users @	3,500	gallons @	\$33.35 per user =
					<u>\$466.90</u> Monthly
					Annual Revenue Generated from Commercial Monthly Minimum: <u>\$5,602.80</u> Annually
Use and Income Estimate:	5	users @	3,501 and above	gallons @	\$526.35 per month = \$6,316.20 Annually
Total Commercial Connections	5				Annual Revenue Generated from Commercial Monthly Minimum Fee: <u>\$6,316.20</u>

Income generated from monthly minimum=	\$240,644.40
Income generated from water sales =	\$175,597.20
Total Annual Revenue:	\$416,241.60
Average Monthly Residential In-Town Cost per 7,500 gal. =	26.54 plus tax
Average Monthly Residential Out-of-Town Cost per 7,500 gal. =	32.80 plus tax
Average Monthly Commercial In-Town Cost per 7,500 gal. =	41.61 plus tax
Average Monthly Commercial Out-of-Town Cost per 7,500 gal. =	47.87 plus tax

PROPOSED RATE STRUCTURE (Scenario #3)

Do not increase current monthly minimum, include 0 gal.; Increase Commodity Fee 15%

Residential In Town Use and Income Estimate:							
Minimum	\$ 16.00	for				0	gallons
Tier 1	1-3,500	gallons	for	\$ 2.13	per	1,000	gallons
All over	3,501	gallons	for	\$ 2.45	per	1,000	gallons
898	uses @	0	gallons @	\$16.00	per users=	\$14,368.00	Monthly
Annual Revenue Generated from Residential Monthly Minimum Fee:						<u>\$172,416.00</u>	Annually
Use and Income Estimate:							
358	users @	1-3,500	gallons @	\$2,663.28	per month =	\$31,959.31	Annually
540	users @	3,501 and above	gallons @	\$8,592.95	per month =	\$103,115.46	Annually
Total Residential Connections 898							
Annual Revenue Generated from Per 1,000 gallons Sales:						<u>\$135,074.76</u>	

Residential Out of Town Use and Income Estimate:							
Monthly Minimum	\$ 18.00	for				0	gallons
Tier 1	1-3,500	gallons	for	\$ 3.16	per	1,000	gallons
All over	3,501	gallons	for	\$ 3.64	per	1,000	gallons
1	uses @	0	gallons @	\$18.00	per users=	\$18.00	Monthly
Annual Revenue Generated from Residential Monthly Minimum Fee:						<u>\$216.00</u>	Annually
Use and Income Estimate:							
1	users @	1-3,500	gallons @	\$11.07	per month =	\$132.83	Annually
1	users @	3,501 and above	gallons @	\$54.55	per month =	\$654.64	Annually
Total Residential Connections 2							
Annual Revenue Generated from Per 1,000 gallons Sales:						<u>\$787.46</u>	

Commercial In Town Use and Income Estimate:							
Monthly Minimum	\$32.40	for				0	gallons
Tier 1	1-3,500	gallons	for	\$ 2.76	per	1,000	gallons
All over	3,501	gallons	for	\$ 3.17	per	1,000	gallons
98	users @	0	gallons @	\$32.40	per user =	\$3,175.20	Monthly
Annual Revenue Generated from Commercial Monthly Minimum:						<u>\$38,102.40</u>	Annually
45	users @	1-3,500	gallons @	\$434.70	per month =	\$5,216.40	Annually
53	users @	3,501 and above	gallons @	\$7,738.21	per month =	\$92,858.54	Annually
Total Commercial Connections 98							
Annual Revenue Generated from Commercial Monthly Minimum Fee:						<u>\$98,074.94</u>	

Commercial Out of Town Use and Income Estimate:							
Monthly Minimum	\$29.00	for				0	gallons
Tier 1	1-3,500	gallons	for	\$ 3.80	per	1,000	gallons
All over	3,501	gallons	for	\$ 4.36	per	1,000	gallons
14	users @	0	gallons @	\$29.00	per user =	\$406.00	Monthly
Annual Revenue Generated from Commercial Monthly Minimum:						<u>\$4,872.00</u>	Annually
9	users @	1-3,500	gallons @	\$13.28	per month =	\$159.39	Annually
5	users @	3,501-8,000	gallons @	\$464.79	per month =	\$5,577.51	Annually
Total Commercial Connections 14							
Annual Revenue Generated from Commercial Monthly Minimum Fee:						<u>\$5,736.90</u>	

Income generated from monthly minimum=						\$215,606.40	
Income generated from water sales =						\$239,674.07	
Total Annual Revenue:						<u>\$455,280.47</u>	
Average Monthly Residential In-Town Cost per 7,500 gal. = 33.23 plus tax							
Average Monthly Residential Out-of-Town Cost per 7,500 gal. = 43.62 plus tax							
Average Monthly Commercial In-Town Cost per 7,500 gal. = 54.76 plus tax							
Average Monthly Commercial Out-of-Town Cost per 7,500 gal. = 59.74 plus tax							

APPENDIX D - 6 – Year Budget Projection

Town of Wellton Water Enterprise 6-year Budget Projection

Line		FY '16 Actual Budget	FY '17 Projected Budget	FY '18 Projected Budget	FY'19 Projected Budget	FY'20 Projected Budget	FY'21 Projected Budget
	REVENUE						
1	Operating Revenues:						
2	Monthly Water Revenue	\$ 208,009.23	\$ 209,256.00	\$ 209,256.00	\$ 243,239.17	\$ 243,239.17	\$ 243,239.17
3	Per 1,000 gal. fee Revenue	\$ 160,584.87	\$ 159,633.82	\$ 159,633.82	\$ 185,558.35	\$ 185,558.35	\$ 185,558.35
5	Bulk Water Sales	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
6	Operating Revenue	\$ 368,594.10	\$ 368,889.82	\$ 368,889.82	\$ 428,797.52	\$ 428,797.52	\$ 428,797.52
7	Percent Revenue Increase	0%	0%	16%	0%	0%	0%
8	Additional Revenue from Increase	\$ -	\$ -	\$ 59,907.71	\$ -	\$ -	\$ -
9	Total Operating Revenues	\$ 368,594.10	\$ 368,889.82	\$ 428,797.52	\$ 428,797.52	\$ 428,797.52	\$ 428,797.52
10	TOTAL REVENUE	\$ 368,594.10	\$ 368,889.82	\$ 428,797.52	\$ 428,797.52	\$ 428,797.52	\$ 428,797.52
11	Expenses:						
12	Operating Expenses	\$ 394,812.89	\$ 364,769.06	\$ 375,712.13	\$ 386,983.50	\$ 398,593.00	\$ 410,550.79
13	TOTAL EXPENSES	\$ 394,812.89	\$ 364,769.06	\$ 375,712.13	\$ 386,983.50	\$ 398,593.00	\$ 410,550.79
14	Subtotal- Net Operating Income:	\$ (26,218.79)	\$ 4,120.76	\$ 53,085.39	\$ 41,814.03	\$ 30,204.52	\$ 18,246.73
15	Debt Service	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
16	Plus: Beginning Cash Balance	\$ 26,481.00	\$ 262.21	\$ (20,815.74)	\$ 6,614.98	\$ 22,304.70	\$ 25,901.18
17	Ending Cash Balance Before Reserves	\$ 262.21	\$ 4,382.97	\$ 32,269.65	\$ 48,429.01	\$ 52,509.22	\$ 44,147.91
18	RESERVES						
19	Emergency Reserve	\$ -	\$ 10,000.00	\$ 10,000.00	\$ 10,000.00	\$ 10,000.00	\$ 10,000.00
20	Operating Reserve	\$ -	\$ 15,198.71	\$ 15,654.67	\$ 16,124.31	\$ 16,608.04	\$ 17,106.28
21	Total Reserves	\$ -	\$ 25,198.71	\$ 25,654.67	\$ 26,124.31	\$ 26,608.04	\$ 27,106.28
22	NET INCOME (LOSS) FROM OPERATIONS	\$ 262.21	\$ (20,815.74)	\$ 6,614.98	\$ 22,304.70	\$ 25,901.18	\$ 17,041.63
23	Non Operating Revenues:						
24	Connection Fees/Reconnection Fees	\$ 11,521.00	\$ 10,500.00	\$ 10,500.00	\$ 10,500.00	\$ 10,500.00	\$ 10,500.00
25	Interest revenue	\$ 37.88	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00
26	Other revenues / incomes	\$ 36,605.42	\$ 25,850.00	\$ 25,000.00	\$ 25,000.00	\$ 25,000.00	\$ 25,000.00
27	TOTAL NON-OPERATING	\$ 48,164.30	\$ 36,375.00	\$ 35,525.00	\$ 35,525.00	\$ 35,525.00	\$ 35,525.00
28	Capital Improvement Reserve	\$ 16,709.00	\$ 25,000.00	\$ 25,000.00	\$ 25,000.00	\$ 25,000.00	\$ 25,000.00
29	Non-Operating Revenue - CI Reserve	\$ 31,455.30	\$ 11,375.00	\$ 10,525.00	\$ 10,525.00	\$ 10,525.00	\$ 10,525.00
30	NET INCOME [LOSS] (Operating+Non-Operating)	\$ 31,717.51	\$ (9,440.74)	\$ 17,139.98	\$ 32,829.70	\$ 36,426.18	\$ 27,566.63

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