St. Mary's Metropolitan Commission

2014 Rate Study Addendum

Results

October 25, 2018

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Stantec

Presentation Overview

Today's Topics

1. 2014 Rate Study
2. Drivers of Financial Performance
3. 2018 Revenue Sufficiency Update
4. Conclusions and Recommendations

Timeline of Events

2014/2015

Rate study completion
- Financial sufficiency
- New conservation based rates
- Measured wastewater rates

2016

Annual Update
- Financial sufficiency
- Wastewater Billing Cap

2017

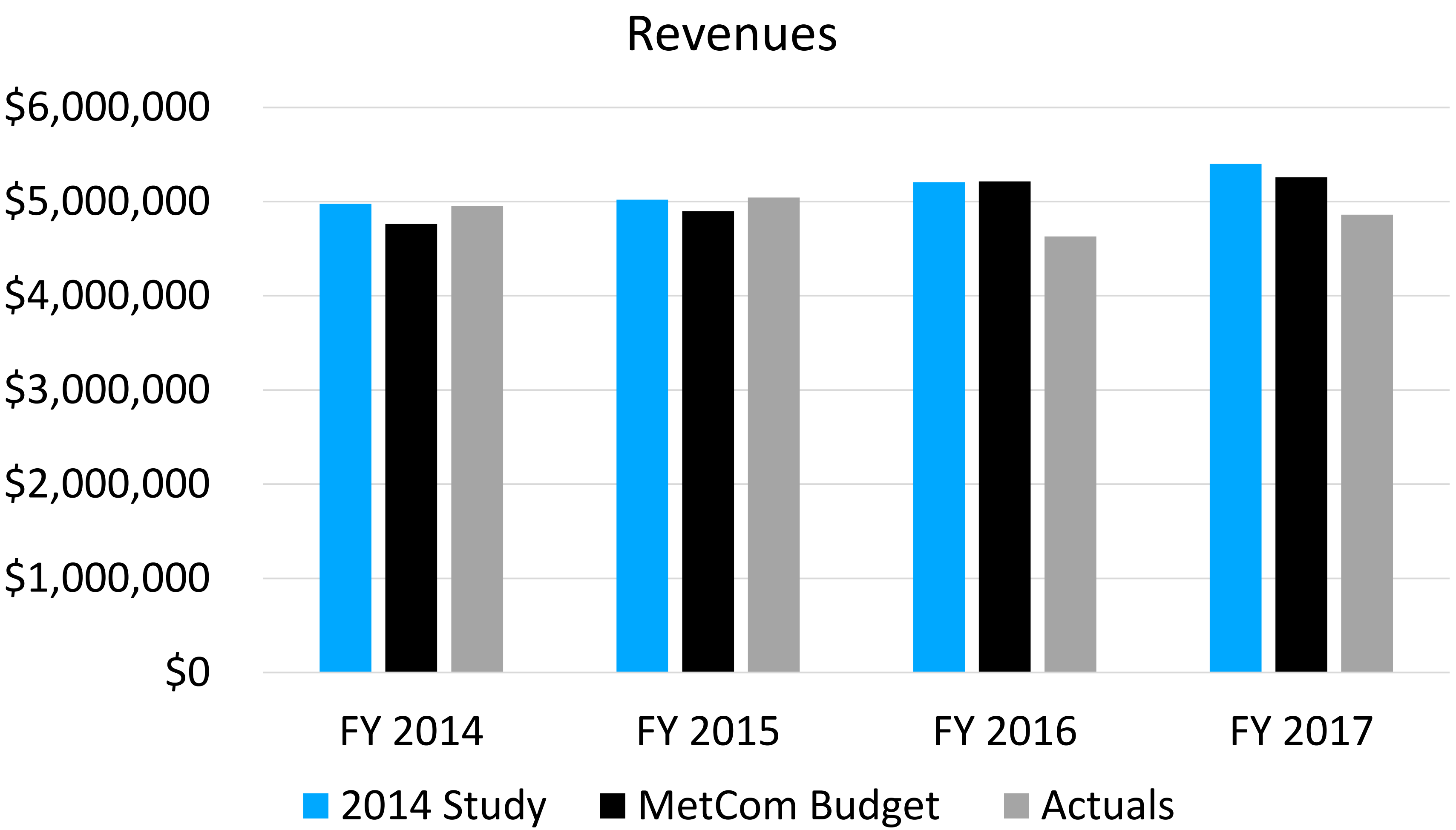
Annual Update
- Financial sufficiency

2018

Annual Update
- Financial sufficiency
- Rate Study Addendum

2014 Rate Study

2014 Rate Study Water Projections



Water Revenue Drivers

1. EDU Growth

	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
2014 Study Water EDUs	141	142	144	145	147
Budgeted Water EDUs	160	179	131	167	105
Actual Water EDUs	357	58	53	103	81

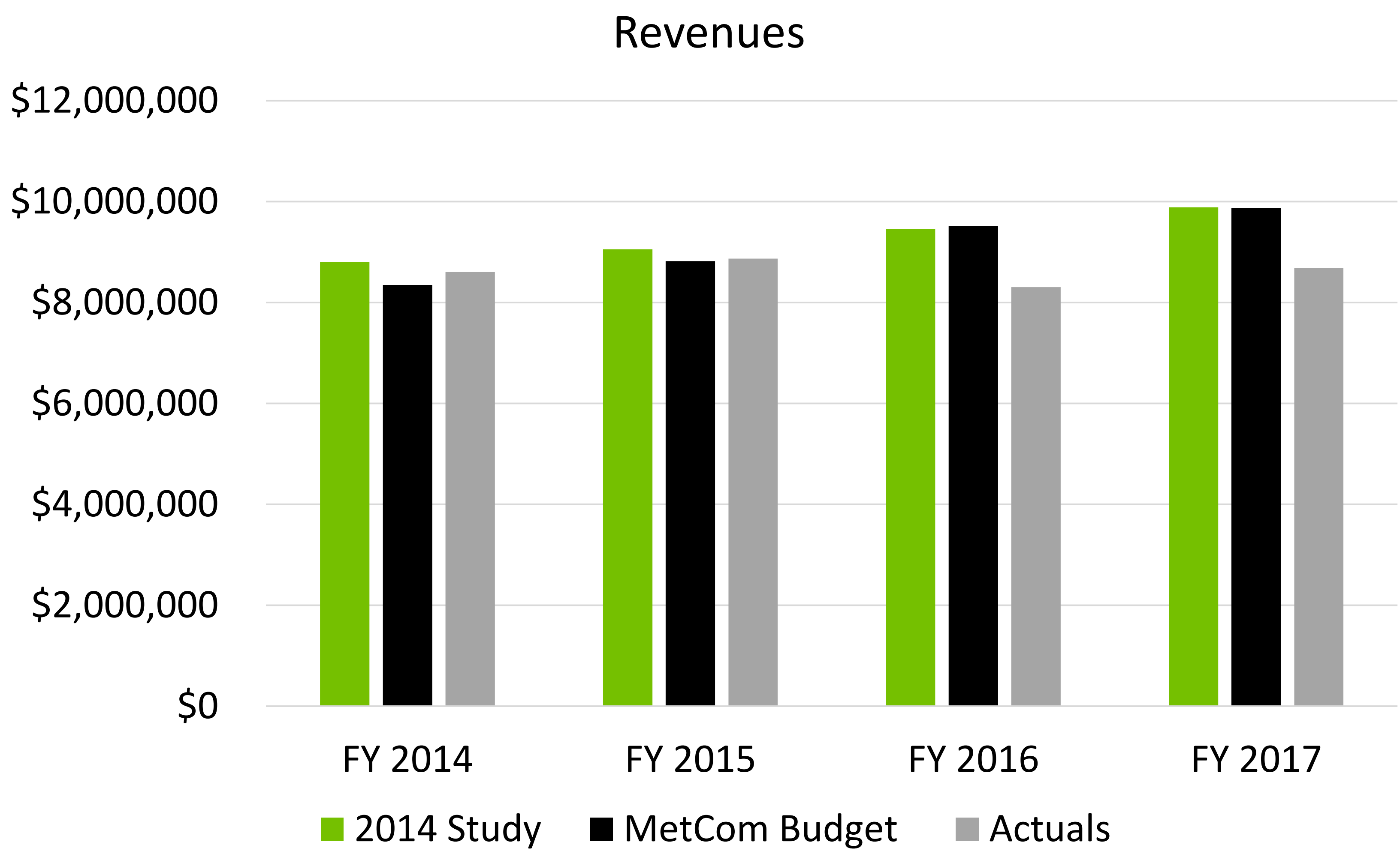
2. Behavioral Changes

Inclining block rates result in conservation
Industry wide trend toward efficiency
Accurate billing data needed to confirm trends

3. Bill Modification Practices

2014 Rate Study

2014 Rate Study Sewer Projections



Sewer Revenue Drivers

1. EDU Growth

	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
2014 Study Sewer EDUs	500	172	174	175	177
Budgeted Sewer EDUs	205	233	178	200	143
Actual Sewer EDUs	**304**	**267**	**54**	**155**	**149**

2. Wastewater Billing Cap

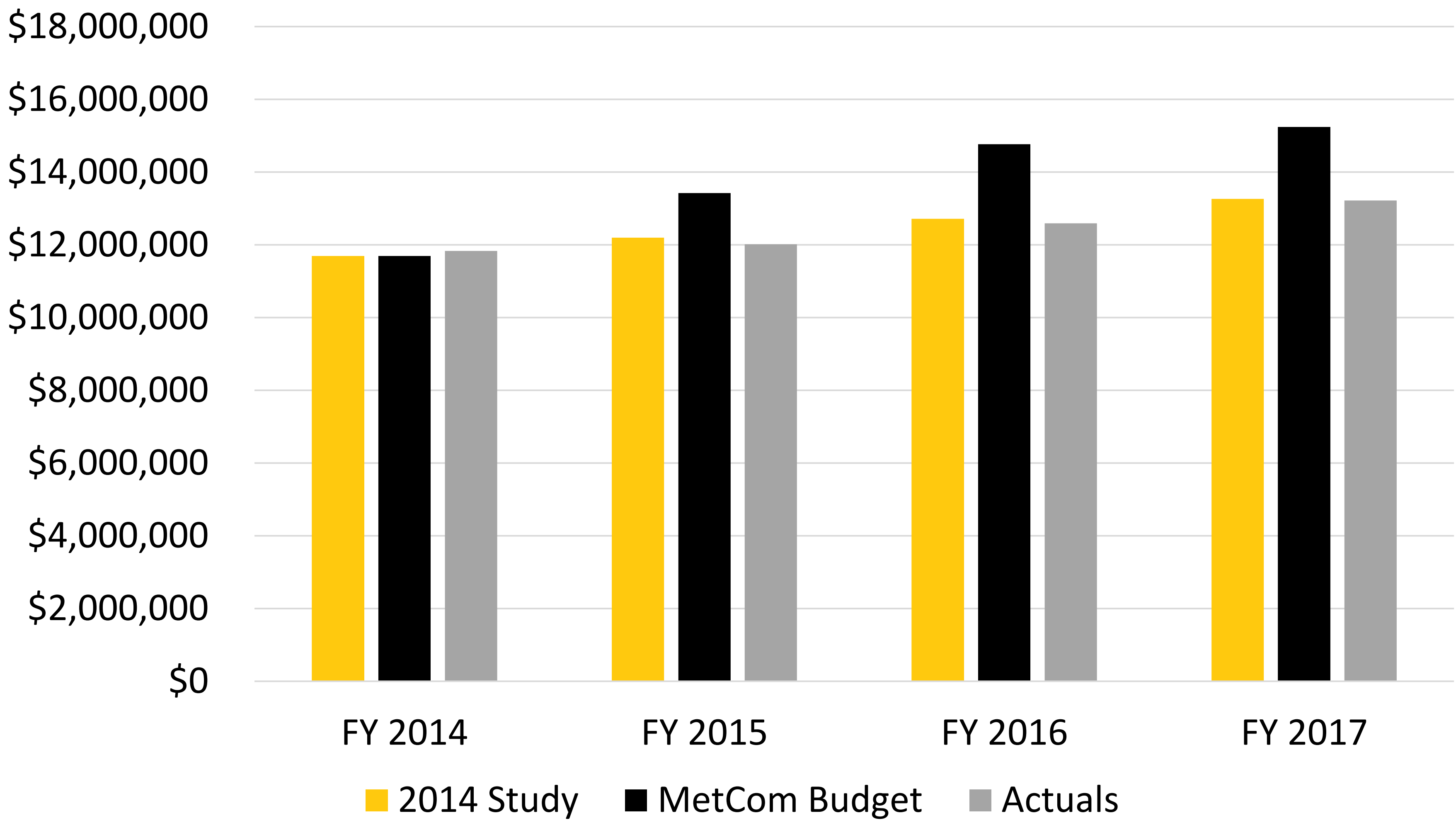
Wastewater capped at 10,000 gal monthly
Estimated to reduce revenues by $600K

3. Behavioral Changes

Wastewater billed on measured water consumption

2014 Rate Study

Expense Trends



2014 Rate Study

Expense Drivers

1. Inflation Trends

	FY 2014 Actual	FY 2015 Actual	FY 2016 Actual	FY 2017 Actual
2014 Study	$13,640,565	$13,679,102	$14,296,798	$14,946,701
Inflation		0.28%	4.52%	4.55%
Actuals	$12,798,249	$12,303,549	$12,818,976	13,436,605
Inflation		-3.87%	4.19%	4.82%

2. Budget Execution Trends

	FY 2016	FY 2017	FY 2018
Budget	15,024,410	15,475,624	$14,913,483
Actual	12,818,976	13,436,605	$13,767,474
Execution	**85%**	**87%**	**92%**

Financial Performance

Key Findings

Revenues

- Wastewater billing cap implementation (-$600,000)
- Lower customer growth (EDUs) than expected
- Customer usage patterns changes (inclining block rates, wastewater cap, measured wastewater usage)
- Utility bill reductions practices (-$32,000)

Expenses

- Budget execution trends (improving trend)
- Moderate underlying Inflationary trends (cost under control)

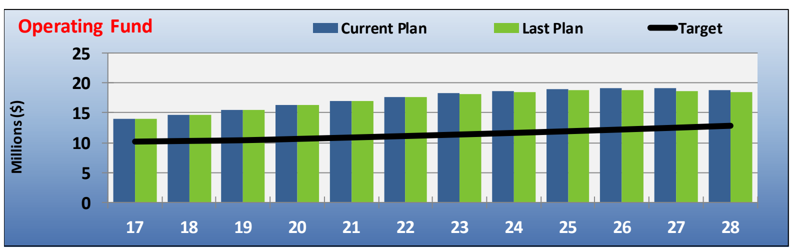
2018 Revenue Sufficiency Update

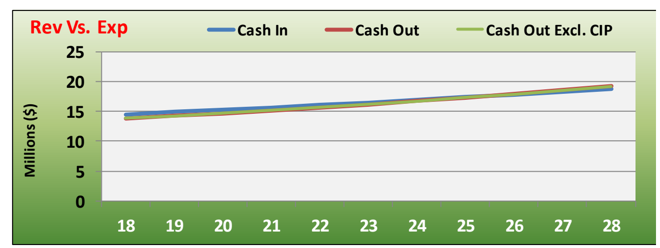
Ten year forecasting model

FINANCIAL ANALYSIS AND MANAGEMENT SYSTEM (FAMS) SUMMARY

SAVE CALC ROLL

	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	Cumulative Change FY 2023	Cumulative Change FY 2028
Override ▶		3.00%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%		
Water Rate Increases	0.00%	3.00%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	11.84%	23.00%
Last Plan	0.00%	3.00%	1.75%	1.75%	1.75%	1.75%	1.75%	1.75%	1.75%	1.75%	1.75%	11.04%	20.96%
Override ▶		3.75%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	*PS FY19* ▶	95.0%
Sewer Rate Increases	0.00%	3.75%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	*OMV FY19* ▶	95.0%
Last Plan	0.00%	3.75%	1.75%	1.75%	1.75%	1.75%	1.75%	1.75%	1.75%	1.75%	1.75%	*OMF FY19* ▶	80.0%
Operating Reserve Mo ▶	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0		
Capital Reserve $ ▶	$3.5	$3.5	$3.5	$3.5	$3.5	$3.5	$3.5	$3.5	$3.5	$3.5	$3.5	*Salary Adjustment?*	Yes
Water $20.17	$11.25	$11.60	$11.75	$11.95	$12.15	$12.35	$12.55	$12.75	$12.95	$13.15	$13.36		
Sewer $43.57	$43.57	$45.21	$46.09	$47.04	$48.00	$48.96	$49.93	$50.91	$51.96	$53.01	$54.07		
Average Bill (6000 gals.)	$54.82	56.81	57.84	58.99	60.15	61.31	62.48	63.66	64.91	66.16	67.43		
Last Plan	$54.82	56.81	57.80	58.80	59.80	60.87	61.94	63.02	64.10	65.20	66.31		





Key Assumptions

- FY 2018 adopted budget projected forward
- 95% Personal Service budget execution
- 80% O&M budget execution
- 1.00% EDU water & sewer growth

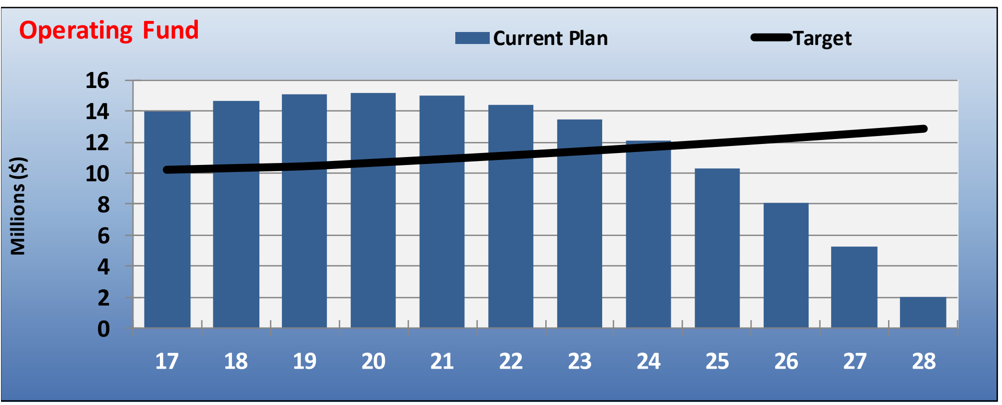
2018 Revenue Sufficiency Update

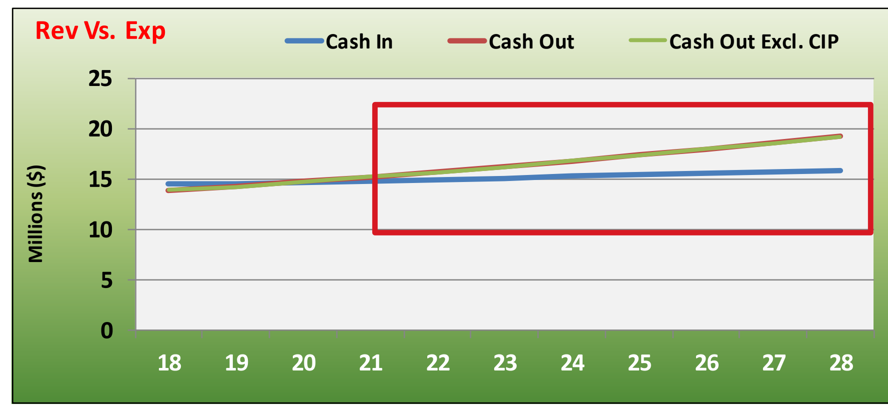
Revenue Sufficiency Baseline

FINANCIAL ANALYSIS AND MANAGEMENT SYSTEM (FAMS) SUMMARY

SAVE CALC ROLL

	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	*Cumulative Change* FY 2023	FY 2028
Override ▶		0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%		
Water Rate Increases	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Override ▶		0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	*PS FY19* ▶	95.0%
Sewer Rate Increases	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	*OMV FY19* ▶	95.0%





Two Prong Sustainability Test

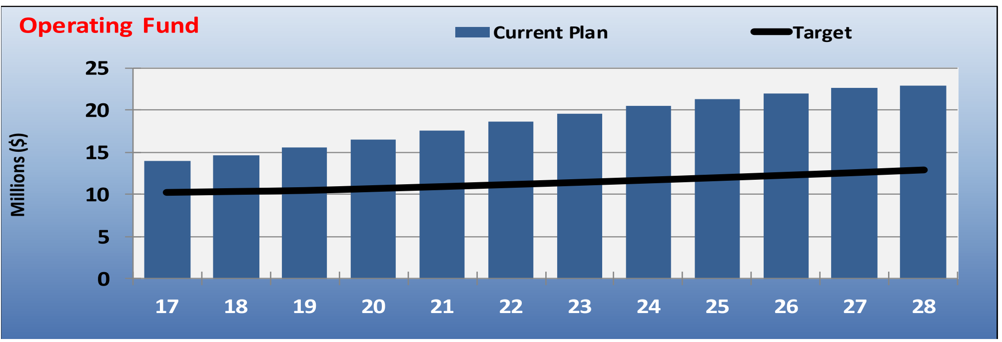
- Revenues meet expenditures
- Reserve target is met

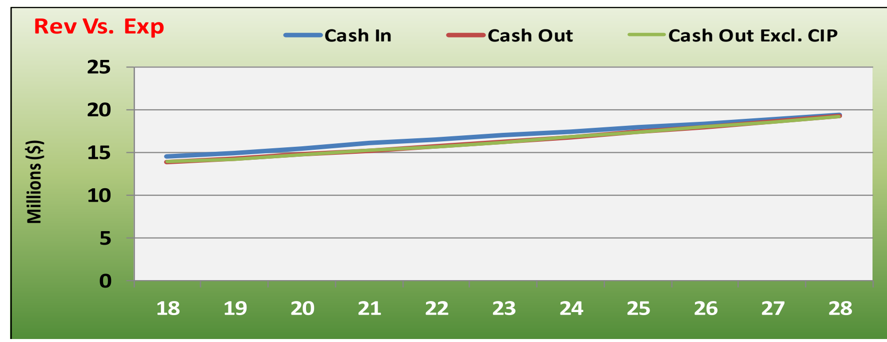
Revenue Sufficiency Options

FINANCIAL ANALYSIS AND MANAGEMENT SYSTEM (FAMS) SUMMARY

SAVE CALC ROLL

	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	*Cumulative Change*	
Override ▶		3.00%	2.70%	2.40%	2.10%	1.80%	1.50%	1.50%	1.50%	1.50%	1.50%	FY 2023	FY 2028
Water Rate Increases	0.00%	3.00%	2.70%	2.40%	2.10%	1.80%	1.50%	1.50%	1.50%	1.50%	1.50%	15.41%	26.85%
Override ▶		3.75%	3.40%	3.05%	2.70%	2.35%	2.00%	2.00%	2.00%	2.00%	2.00%	*PS FY19* ▶	95.0%
Sewer Rate Increases	0.00%	3.75%	3.40%	3.05%	2.70%	2.35%	2.00%	2.00%	2.00%	2.00%	2.00%	*OMV FY19* ▶	95.0%





Option 1

Service Line	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Water	3.00%	1.50%	1.50%	1.50%	1.50%	1.50%
Sewer	3.75%	2.00%	2.00%	2.00%	2.00%	2.00%

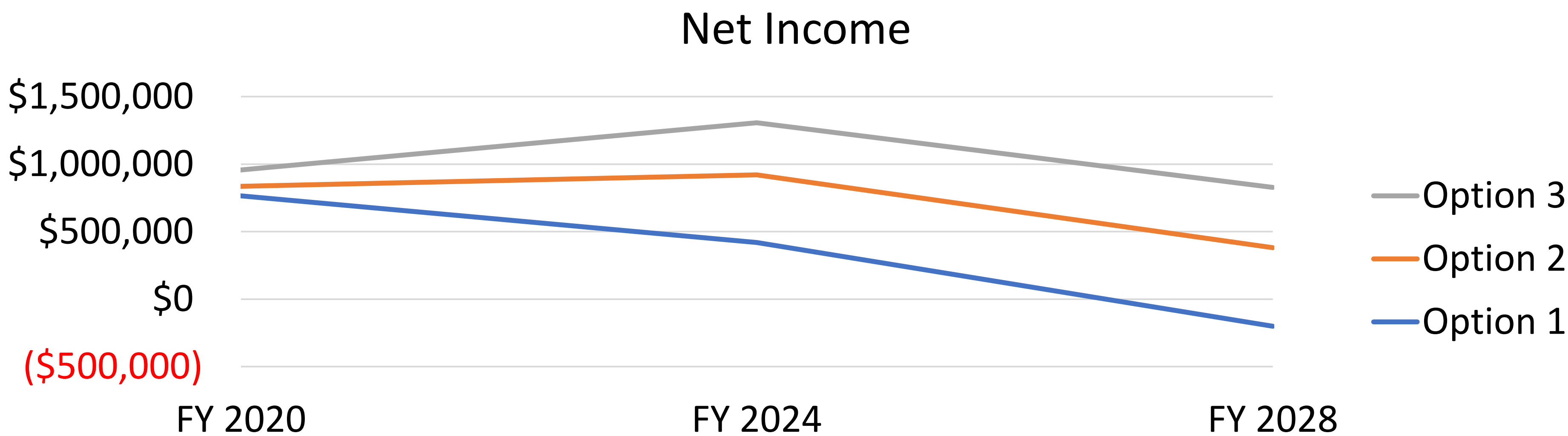
Option 2

Service Line	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Water	3.00%	2.70%	2.40%	2.10%	1.80%	1.50%
Sewer	3.75%	3.40%	3.05%	2.70%	2.35%	2.00%

Option 3

Service Line	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Water	3.00%	2.85%	2.71%	2.57%	2.44%	2.32%
Sewer	3.75%	3.56%	3.38%	3.22%	3.05%	2.90%

Revenue Sufficiency Options (Cont.)



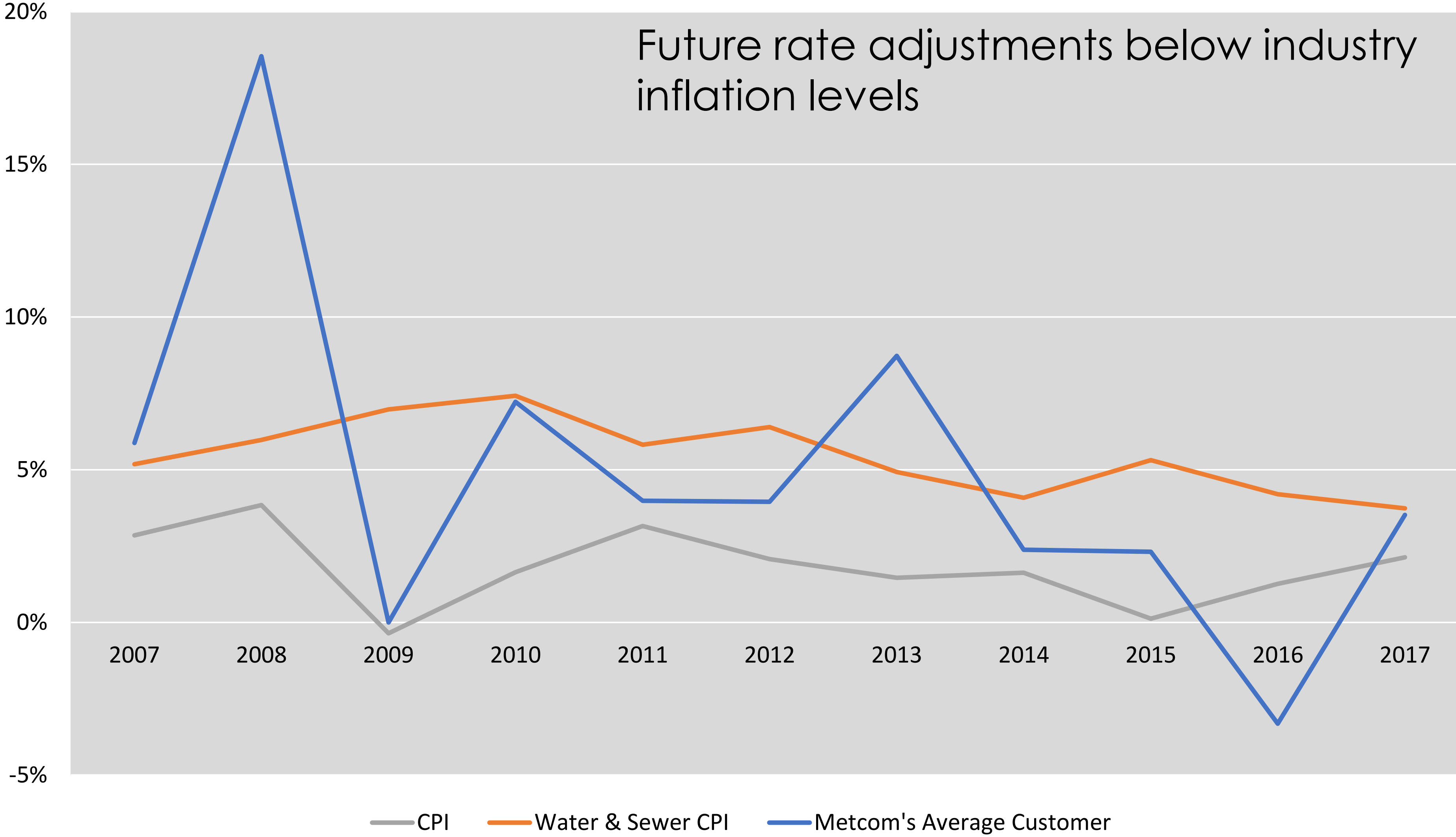
Key Considerations

- EDU Growth levels
- Customer Behavior
- Operational execution

Rate Adjustment Option Performance

Service Line	FY 2020	FY 2024	FY 2028
No Adjustment			
Net Cash Flow	$88,072	$(1,362,403)	$(3,302,819)
Reserves to Target	$4,487,241	$452,090	$(10,882,720)
Option 1			
Net Cash Flow	$764,676	$419,981	$(201,766)
Reserves to Target	$5,595,649	$6,971,548	$5,991,238
Option 2			
Net Cash Flow	$836,318	$921,770	$381,187
Reserves to Target	$5,767,709	$8,860,468	$10,087,132
Option 3			
Net Cash Flow	$957,000	$1,306,205	$828,565
Reserves to Target	$5,787,974	$9,711,601	$12,120,907

Industry Trends



Conclusion & Recommendations

1. Continue to manage the utility in a proactive manner
2. Ensure the accuracy of billed volumes in the billing system
3. Review bill adjustment policies at the Board level
4. Review the inflation factor for FY 2020 vs. holding the budget flat
5. Closely review realized EDU growth
6. Consider an initial $250K residential connection pilot program
7. Consider a 50% capital deferral program to help incentivize development but consider unrestricted reserve levels

Questions and Discussion