



November 14, 2024

Mr. Tim Callanan
County Manager
Effingham County, GA
480 Edsel Drive, Suite 100
Richmond Hill, GA 31324

Subject: Rate and Financial Planning Study – Amendment 1

Raftelis is pleased to submit this Amended Scope of Work to Effingham County, GA (the “County”) Department of Water Resources to reflect the additional task of creating a long-term forecasting model for a new Water Treatment Plant. We appreciate the opportunity to submit this amended proposal, which describes our approach to meeting the County’s new and existing objectives.

We are excited to continue working with the County on this project. Should you have any questions regarding our submittal, please do not hesitate to contact us.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Bart Kreps'.

Bart Kreps
Executive Vice President
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A handwritten signature in blue ink, appearing to read 'Chad Cowan'.

Chad Cowan
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Approach & Understanding

The scope of services requested by the County involves activities associated with the preparation of a financial forecast to assist the County with its long-term financial planning process. Raftelis' main tasks will be to develop a financial planning model that incorporates customer data, operating costs, and financing of a capital improvement plan and that projects water and sewerage rates including wholesale, industrial and water reuse fees, such that a five-year forecast of debt service coverage and reserve fund levels can be produced.

Task 1: Project Initiation and Management

The project team will conduct a kick-off meeting (virtually) with County staff to confirm the project approach, work plan, schedule, priorities and determine the project's goals and expectations. It will be important to establish a calendar for meetings and due dates for various aspects of the project including coordination on meeting dates and the distribution of drafts of the financial model and any required final reports. This task also addresses the level of effort required throughout the project to coordinate project activities with other members of the team to ensure that all tasks are completed in a timely and efficient manner.

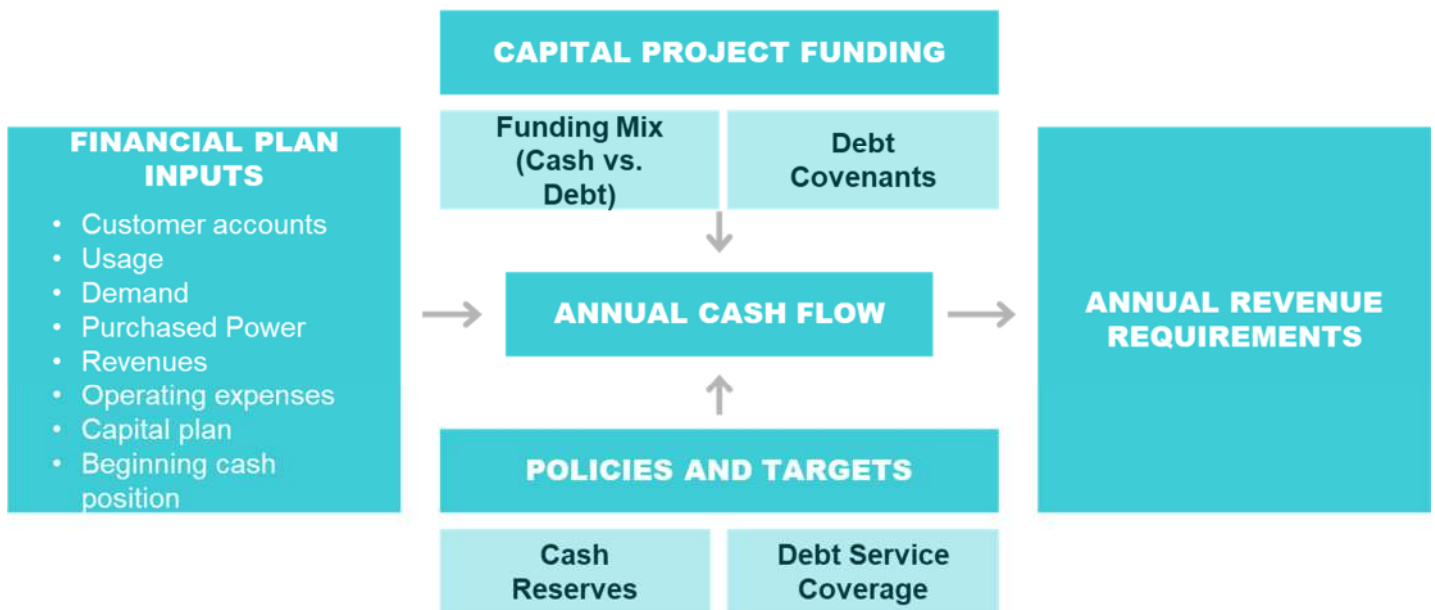
Task 2: Data Collection and Review

A significant amount of information and background data will be needed to develop the model and prepare the report. Raftelis will prepare a data request list to submit to the County and the list will include information related to operating expenses, capital projects, revenues from rates, fees, and other sources, the number and types of accounts, and billable flows for the utility. We will thoroughly review the data as it is critical to appropriately use the most accurate data possible and work closely with County staff to ensure that we all agree on the intended use of what is being provided. Even though we may request additional data or clarification as the study progresses, we will minimize the additional data requests based on effort required to provide the data with the relative impact it has on the analysis.

Task 3: Financial Plan Development

The primary objective of this task is to prepare a multi-year financial forecast for the water and sewer utilities. The projections of revenues and debt service coverage, as well as the analysis and description of operating trends, customer usage, and rate projections, requires the development of a financial planning model. The model will focus on developing a five-year projection of total revenue requirements, or cash needs, which will be based on detailed budget and cost information.

FINANCIAL PLAN ELEMENTS



Projection of Revenues

Raftelis will use the County's most recent detailed water and sewer budget and then project each line item using various escalation factors, which will be developed with County staff input as well as a review of historical data. The model will incorporate all existing debt issues as well as expected financing scenarios for the capital improvement plan (e.g., PayGo, reserve-funded capital expenditures, State Revolving Fund Loans, SPLOST, Grants and future Revenue Bonds, etc.).

We will then use the County's current water and sewerage rate structures and projected water/sewerage rates to estimate the revenues generated from user rates and charges over the forecast period. To project revenues, we will use detailed customer information such as the number of customers by class and meter size and water flow by customer class. We will also ask for historical data to project future water/wastewater demands. Projected customer demand will then be applied to water/sewerage rates to determine revenues. The financial planning model will be set up so that percentage changes can be applied to base charges and volumetric rates independently as well as separately for water and sewerage. The projections will assume the existing rate structures remain in place, but rates will be set so that the enterprise's annual cash needs are met, including sufficient debt service coverage ratios and reserve fund balances. We will also evaluate revenues from other sources, such as miscellaneous fees, penalties, connection fees, etc. that, depending on specifications in the County's Bond Resolution, if applicable, may be available for calculating debt service coverage.

The financial planning model will focus on providing the flexibility to change key assumptions related to customer growth, water and sewerage usage trends, and the timing and amount of future capital investments and associated debt service to determine the impact on customers, overall financial condition, and key metrics for debt service coverage and liquidity (reserves). The financial planning model will be developed in Excel and will be a formal deliverable provided to the County at the end of the engagement. While the financial planning model will not be designed to calculate cost-justified rates and charges based on detailed cost-of-service analyses, the financial planning model will already house detailed information on the County's water and sewer budget, revenues, and customer data that can be leveraged by the County to perform cost-of-service-based allocations and evaluate alternative rate designs in the future.

Development of Revenue Requirements

The revenue requirement represents the overall level of revenue necessary to fund operations and maintenance expenses (O&M), routine repair and replacement capital expenditures, and repayment of debt service (current and future) while maintaining compliance with bond ordinances and achieving the financial management objectives. Determining the revenue requirement involves a detailed cash flow forecast, which compares projected baseline revenues to projected expenditures and identifies any adjustments to revenues that may be necessary to fund utility operations in a financially sustainable manner such as the following:

- **Projection of O&M Expenses:** Water and sewer budgets will serve as the starting point for the projection of O&M expenses. We will prepare a projection of operation and maintenance expenses and non-operating expenses. To project these expenses, we may need to account for adjustments for expected future changes in O&M expenses such as adding new personnel or programs that are not currently captured in the existing budgets or one-time expenses, which are not expected to be incurred in the future. Inflationary adjustments account for expected future inflation in O&M expenses after accounting for budget performance and any incremental expenses. We will work closely with County staff to reasonably project the costs, especially with the current impact of high inflation rates.
- **Projection of Routine and Major Capital Expenditures and Financing:** The cash flow impact of routine and major capital expenditures is dependent on the County's capital improvement plan (CIP) and the approach to financing it. This step involves developing a financing plan that identifies the County's water and sewer capital projects (routine and major) and the mix of cash and debt used to finance them. The model will incorporate all existing debt issues as well as expected financing scenarios for the capital improvement plan (e.g., PayGo, reserve-funded capital expenditures, future revenue bonds, and other financing sources). The future debt service, as well as the impact on the bond covenants, will be accounted for in the projections and will inform the revenue adjustments.

Task 4: Financial Forecast

Based on the data collected in Task 3, we will develop a detailed cash flow forecast that will compare projected revenues to forecast revenue requirements. We will discuss existing financial policies and objectives (formal and informal) and evaluate the performance of the utility relative to key financial ratios (e.g., days cash, capital structure, and debt service coverage).

This forecast will be a key product of the financial planning model and will be formatted to show a forecast of revenues, expenses, debt service, and debt service coverage consistent with the specific definitions and requirements identified in the trust indenture or bond order, if needed. Adjustments to net income will be identified to determine income available for debt service (for calculating the debt service coverage ratios for each year in the forecast period), consistent with the specific requirements identified in the legal documents authorizing the debt.

Raftelis will conduct an on-site meeting with County staff to review the draft financial forecast.

Task 5: Rate Structure Review

We will evaluate the County's current water and sewer rate structure with specific focus on its industrial rate as well as development of a potential wholesale rate and water re-use rate. It is our understanding the County serves a large industrial customer that currently pays only the cost of potable water provided by the City of Savannah. The County wishes to examine the additional transmission related costs associated with providing service to the industry and ensure its industrial rate equitably recovers this cost. We also understand the County is considering the construction of a water re-use line from its wastewater treatment facility that will serve the same industrial customer. If constructed, the County will need to develop a separate water re-use rate for this type of service. Additionally, the County is contemplating providing wholesale services to several new customers and needs to establish a wholesale rate.

Task 6: Review Upfront Charges

Raftelis will evaluate the County's existing upfront fees assessed to new customers connecting to the water and sewer system. Our review will consider the cost basis and methodologies used to assess any current fees, to ensure they equitably recover appropriate levels of costs and are consistent with industry guidelines and state legislation. The type of calculation methodology used will depend on the specific fee and the intended cost recovery. For example, capacity fees are one-time charges assessed to new water and sewer customers to recover a proportional share of capital costs incurred to provide service availability and capacity for new customers. There are several accepted methodologies used to calculate capacity fees that consider either historical capital investments, future capital improvements, or a combination of the two. Tap fees are typically associated with recovering costs associated with the physical connection to the utility system. Calculation methodologies typically include a build-up of labor, material, and equipment costs associated with connecting a customer to the system. We will work with County staff and provide recommendations on the most appropriate upfront fee structure.

Task 7: Preparation of Reports and Presentation of Study Results

Raftelis will develop and provide the County a draft report that describes the study process along with recommendations. The draft report will be submitted to County staff for review and comment. Comments and revisions will be incorporated before finalizing the report. A final report will be delivered to the County, which can be used at the County's discretion. Raftelis can also be available to present study results to elected officials. We have assumed one presentation in this scope of services.

Task 8: Develop Model to Forecast the Construction of a New Surface Water Treatment Plant & Draft a Report of Results

Raftelis will leverage data collected in Tasks 1-5 to build a long-term financial plan that models the construction and operation of a new surface Water Treatment Plant ("WTP"). The project will include a raw water intake on the Savannah River, a raw water line and a finished water line to Hyundai Motor Group's new electric vehicle plant in Bryan County among other projects. Per conversations with both the County and Goodwyn Mills Cawood, LLC (the "Engineer" or "GMC"), the County and GMC will provide financing sources (state grants and GEFA loan) that would facilitate construction of the plant. GMC has also provided estimated operating costs for the new plant along with projected consumption estimates for known customers (including the County, Oglethorpe and the Hyundai Plant). Each of these contracts will be assumed to be take-or-pay contract providing known annual revenues to support the project. In addition to the known customers, the County has provided an estimate for new usage (1 MGD) that it considers to be conservative, which will also be included in the revenue projection. Once the model has been developed, Raftelis will draft a report summarizing the results of the forecast and any specific recommendations with regard to the development and funding of the new WTP.

Qualifications and Commitment

Our project approach described here is based on about 30 years of successful engagements to help utilities located throughout the United States set rates and address other financial planning issues. Our work products are familiar to the various parties involved in providing public finance support for utilities, which has allowed us to successfully provide planning tools for numerous clients. Furthermore, Raftelis' status as a registered Municipal Advisor further demonstrates our proactive efforts and commitment to providing the highest level of support and assistance to our clients, particularly as it relates to debt issuance support services. As a registered Municipal Advisor firm, Raftelis has a legal fiduciary duty, and a duty of care and loyalty, to look after the best interests of our clients, providing an extra level of assurance to the County.

Proposed Fee

We propose to complete the scope of work as detailed in this engagement letter for a lump sum amount of \$85,000. It is our practice to bill monthly based on the percent of the project complete. Total fees and expenses will be limited to the lump sum amount unless specific approval for an adjustment in scope is received from the County.