

Town of Warrenton, Virginia

Water & Sewer Discussion Materials



May 14, 2024



- Davenport & Company LLC (“Davenport”) serves as Financial Advisor to the Town of Warrenton (the “Town”).
- In Spring of 2023, Davenport, in concert with NewGen Strategies & Solutions (“NewGen”), presented a multi-year rate plan regarding the Water & Sewer Utility System (the “Utility System”) for the Town’s consideration.
- The Town is currently in the process of adopting its FY 2025 Operating and Capital Budget for the self-supporting Utility System.
 - This would represent the third year of the multi-year rate plan previously introduced to Town Council.
- Davenport was tasked with updating the multi-year financial modeling for the Utility System.
- The results herein focus on financial “best-practices” with respect to key financial / debt metrics and Town Policies.

Goals & Objectives



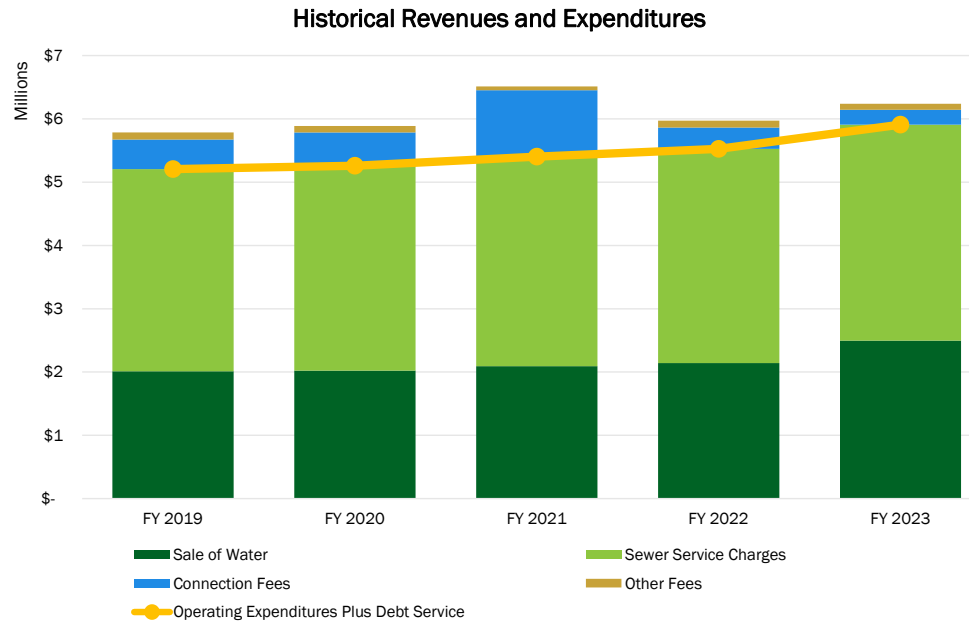
1. Present the historical financial results of the Utility System;
2. Present the Utility System's current debt profile;
3. Present the updated financial projections for the Utility System; and
4. Review the multi-year rate plan that aims to maintain the self-supporting nature of the Utility System and projects financial metrics at / or above industry-wide "best-practice" levels and above absolute Financial Policy minimums.

Utility System Observations



- The Town's Utility System has historically generated solid cash flows (i.e., debt service coverage) and maintained healthy reserves (i.e., days cash on hand).
- Charges for Service (i.e., Operating Revenues) have grown annually by roughly 3.2% over the last five years.
- Operating Expenditures have grown annually by roughly 6.4% over the last five years.
- The imbalance between revenue and expenditure growth has slightly decreased the financial strength and resiliency of the Utility System.
 - This is evidenced by a declining Debt Service Coverage Ratio. In FY 2023, the Utility System's Debt Service Coverage Ratio was 1.60x, the lowest level of the prior five years. (Note: Typically, 1.50x is considered a "best-practice", and 1.15x is the Town's adopted minimum threshold).
- Maintaining a self-supporting utility system is critical for several reasons, including the fact that it insulates the General Fund from the additional burden of needing to cover utility-related costs.

Historical Revenues & Operating Expenditures



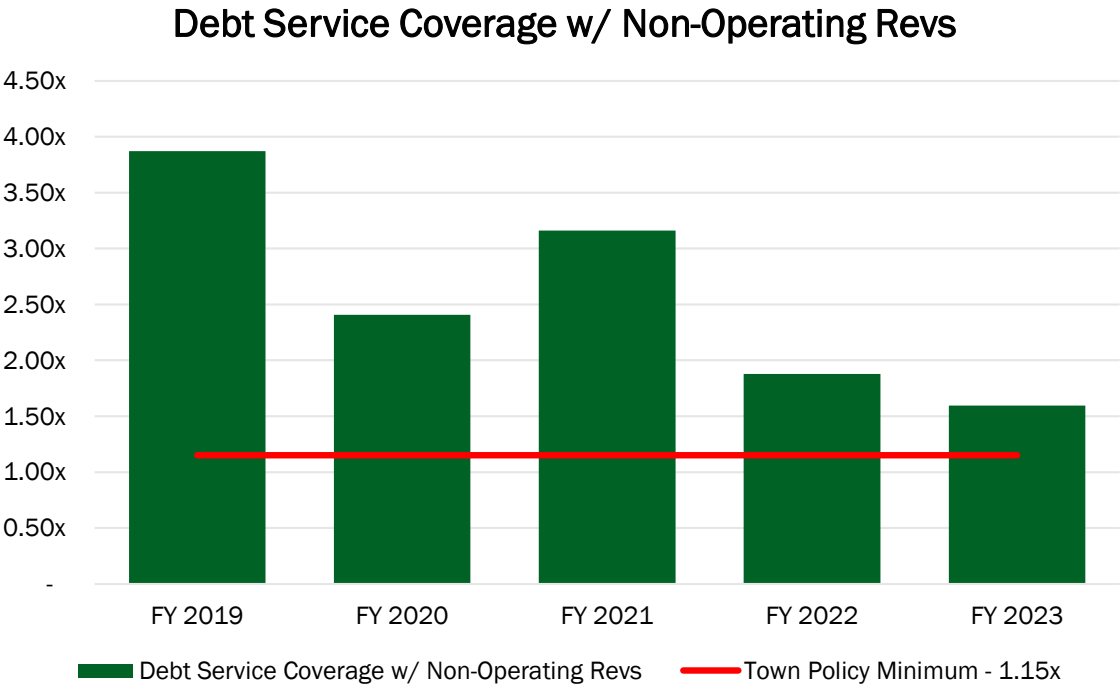
	Fiscal Year 2019	Fiscal Year 2020	Fiscal Year 2021	Fiscal Year 2022	Fiscal Year 2023	CAGR
Revenues						
Sale of Water	\$ 2,012,245	\$ 2,023,159	\$ 2,092,318	\$ 2,140,716	\$ 2,497,514	5.5%
Sewer Service Charges	3,193,272	3,234,461	3,309,247	3,384,176	3,410,119	1.7%
Connection Fees	467,187	526,725	1,050,300	336,545	236,250	-15.7%
Other Fees	113,275	103,257	60,687	109,151	92,376	-5.0%
A Total Operating Revenues	\$ 5,785,979	\$ 5,887,602	\$ 6,512,552	\$ 5,970,588	\$ 6,236,259	1.9%
Growth	N/A	1.8%	10.6%	-8.3%	4.4%	
B Total Operating Expenses	\$ 4,266,934	\$ 4,504,090	\$ 4,467,687	\$ 4,798,238	\$ 5,472,073	6.4%
Growth	N/A	5.6%	-0.8%	7.4%	14.0%	
A-B=C Net Revenue Available for Debt Service	\$ 1,519,045	\$ 1,383,512	\$ 2,044,865	\$ 1,172,350	\$ 764,186	
Debt Service						
	\$ 519,516	\$ 718,684	\$ 720,657	\$ 772,236	\$ 830,277	

Note: Depreciation is excluded from Operating Expenditures

Note: FY 2022 Debt Service taken from FY 2021 projected Debt Service.

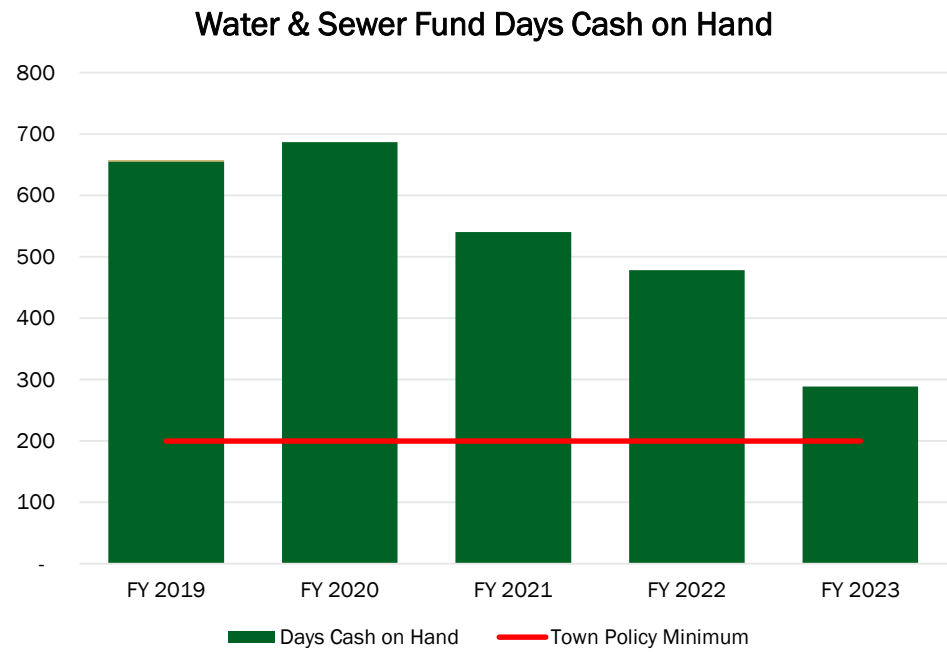
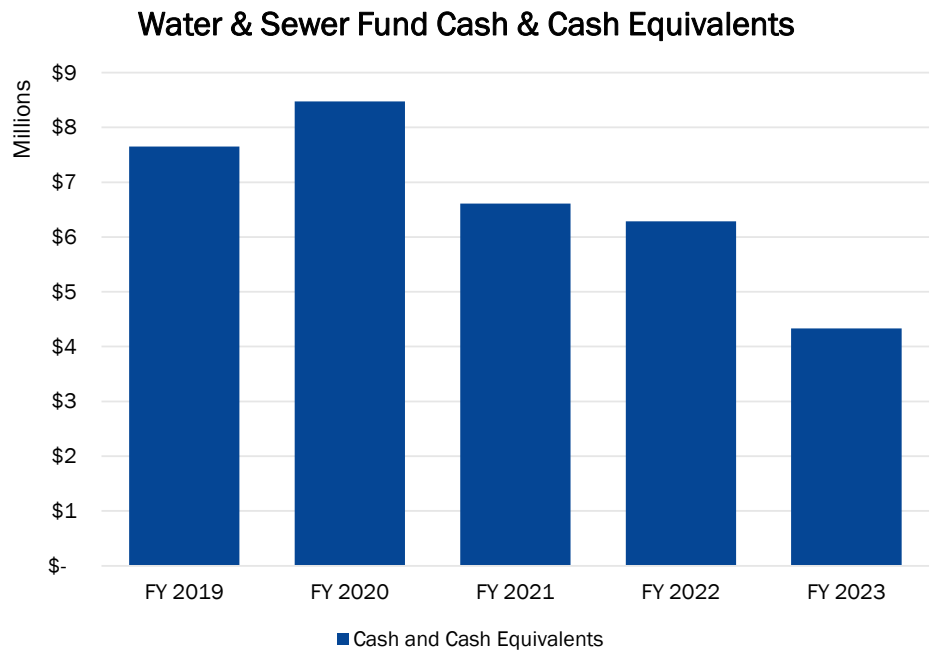
Source: Town Audits.

Selected Historical Financial Metrics



Water & Sewer Fund	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Debt Service Coverage w/ Non-Operating Revs	3.87x	2.41x	3.16x	1.88x	1.60x
Town Policy Minimum - 1.15x	1.15x	1.15x	1.15x	1.15x	1.15x

Selected Historical Financial Metrics

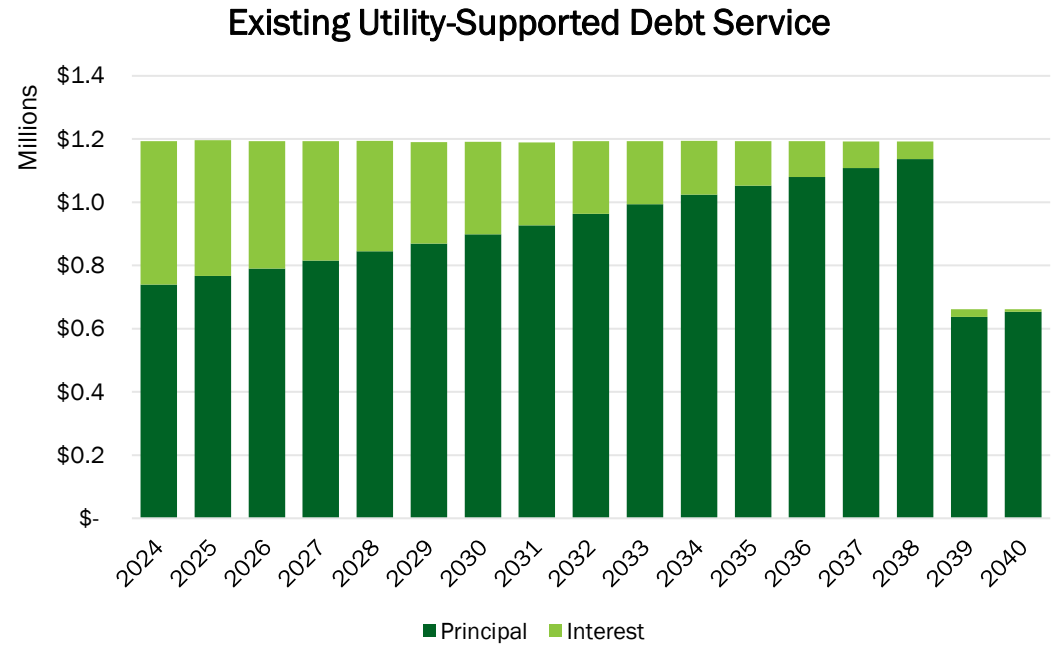


Water & Sewer Fund	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Cash and Cash Equivalents	\$ 7,653,103	\$ 8,473,309	\$ 6,612,579	\$ 6,287,203	\$ 4,329,251
Days Cash on Hand	655	687	540	478	289
Town Policy Minimum	200	200	200	200	200

Existing Utility System Debt Profile



Existing Utility-Supported Debt Service				
Fiscal Year	Principal	Interest	Total	Payout Ratio
2024	740,000	453,627	1,193,627	4.8%
2025	767,000	428,999	1,195,999	9.8%
2026	790,000	403,510	1,193,510	15.0%
2027	816,000	377,130	1,193,130	20.3%
2028	845,000	349,773	1,194,773	25.9%
2029	869,000	321,497	1,190,497	31.5%
2030	899,000	292,303	1,191,303	37.4%
2031	927,000	262,033	1,189,033	43.5%
2032	963,000	230,602	1,193,602	49.8%
2033	994,000	199,539	1,193,539	56.3%
2034	1,024,000	169,822	1,193,822	63.0%
2035	1,052,000	141,308	1,193,308	69.8%
2036	1,080,000	113,252	1,193,252	76.9%
2037	1,108,000	84,558	1,192,558	84.1%
2038	1,137,000	55,225	1,192,225	91.6%
2039	637,000	24,996	661,996	95.7%
2040	653,000	8,403	661,403	100.0%
Total	\$ 15,301,000	\$3,916,576	\$ 19,217,576	



Summary of Outstanding Utility-Supported Debt

Series	Original Par		Par Outstanding		Interest Rate	Final Maturity
G.O. Refunding Bond, Series 2021A	\$	6,935,000	\$	6,436,000	2.750%	1/15/2038
G.O. Refunding Bond, Series 2021B		3,975,000		3,715,000	5.125% - 2.215%	10/1/2039
G.O. Bond, Water & Sewer Financing 2022		5,150,000		5,150,000	2.900%	10/1/2039
Total		\$	15,301,000			



Multi-Year Financial Plan - Observations

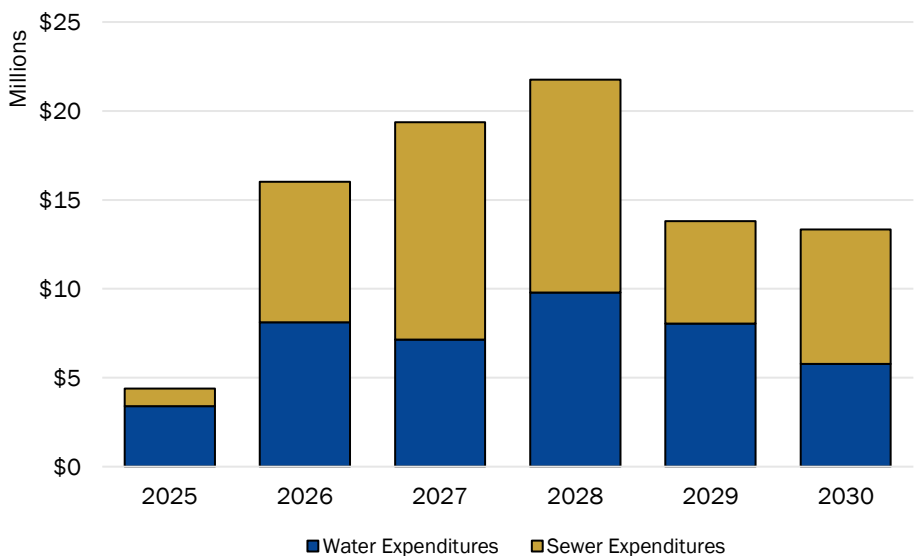
- Over the last several years, inflation has caused the prices of most goods and services to increase materially.
- Chemicals, energy, and other natural resource costs have seen significant price increases due to global pressures.
- This creates further increasing pressures on the Utility System's Operating Expenditures.
 - Operating Expenditure growth was 14% in FY 2023 vs. FY 2022 Actuals.
 - Budgeted Operating Expenditure growth is approximately 23% in FY 2025 vs the FY 2024 Budget.
- Capital projects undertaken by local governments have also experienced significant cost increases due to supply chain issues and the significant amount of federal monies injected into the economy.
- A combination of the factors above as well as a back log of replacement and renewal projects within the CIP present a financial challenge for the upcoming series of budgets.

Projected Capital Needs

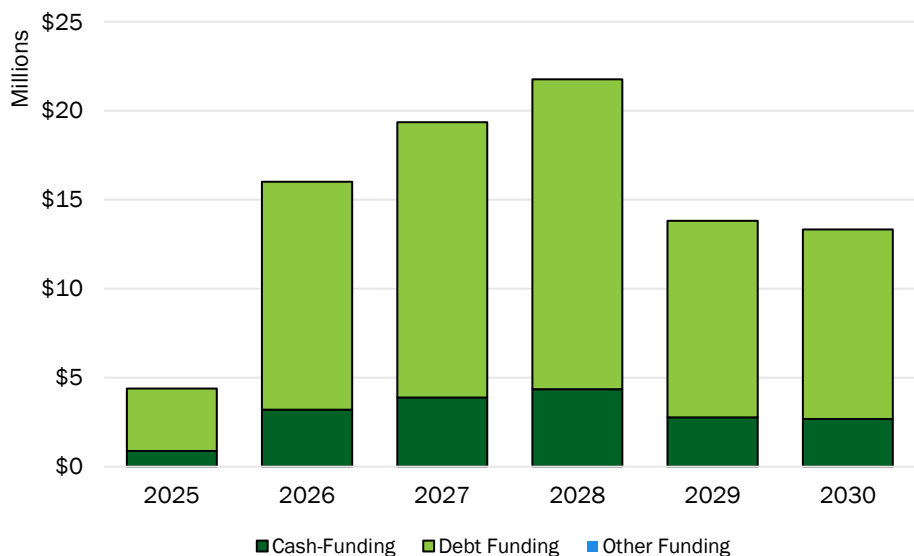


- The Town is contemplating funding a Capital Improvement Plan of approximately **\$88.7 Million** over the next 6 years, as reflected below.
 - Approximately 80% is anticipated to be funded with debt (\$70.9 Million) and 20% from cash (\$17.8 Million).

CIP Uses



CIP Sources





- Given the evolving nature of the Town's CIP along with uncertainties related to the ultimate cost of said projects, Davenport recommends the Town consider pursuing a “just-in-time” financing strategy.

- Key aspects of the “just-in-time” financing strategy include:
 - Securing a Line-of-Credit Facility in order for the Town to draw down funds for capital project costs as needed.
 - The Town would only pay debt service (i.e. interest) on the amounts that are drawn from the facility.
 - Permanently financing the drawn funds in the future once the final project costs are known.
 - The permanent financing could be amortized over a time period of roughly 30 years to spread the cost of the improvements over such time that users will benefit from said improvements.

- This strategy provides the Town with a preliminary core of dollars that can be spent down as projects occur.

- Future issuances can be reassessed annually to determine the magnitude / timing of additional funding.

Multi-Year Plan of Finance (cont.)

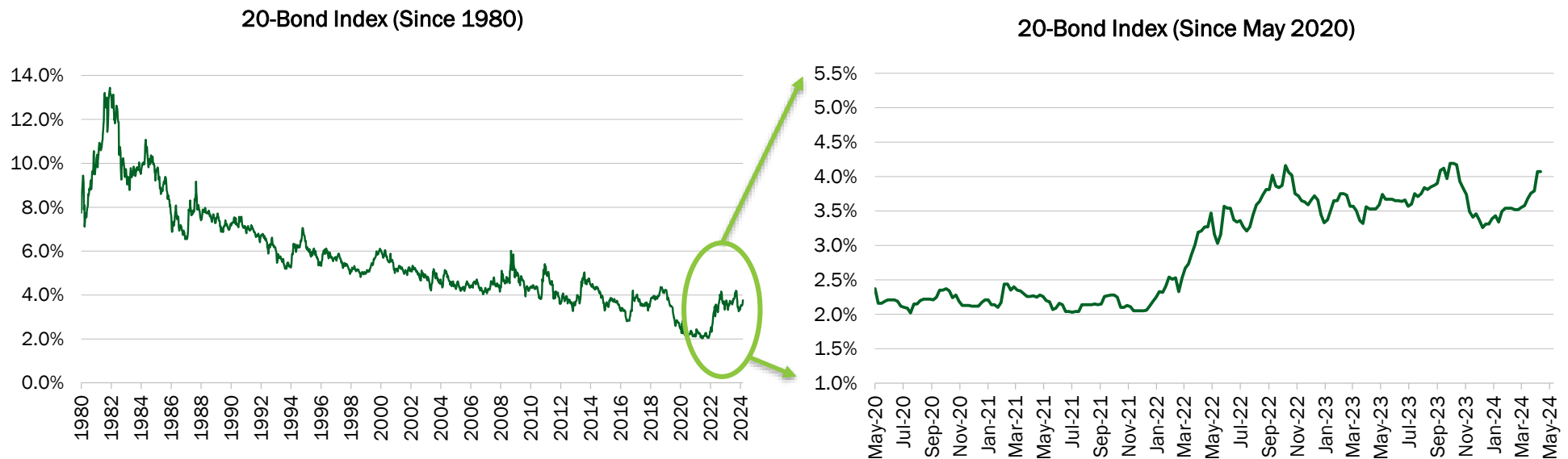


- In order to be conservative, Availability Fee revenues from new growth have not been factored into the projections contained herein.

- To the extent the Town realizes revenue from Availability Fees, it would be able to take these into account in future updates / iterations of the multi-year financial planning.
 - Availability Fee revenues would help reduce the need to borrow for capital projects and thus reduce pressures on User Rates.

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Interest Rate Environment | Tax-Exempt



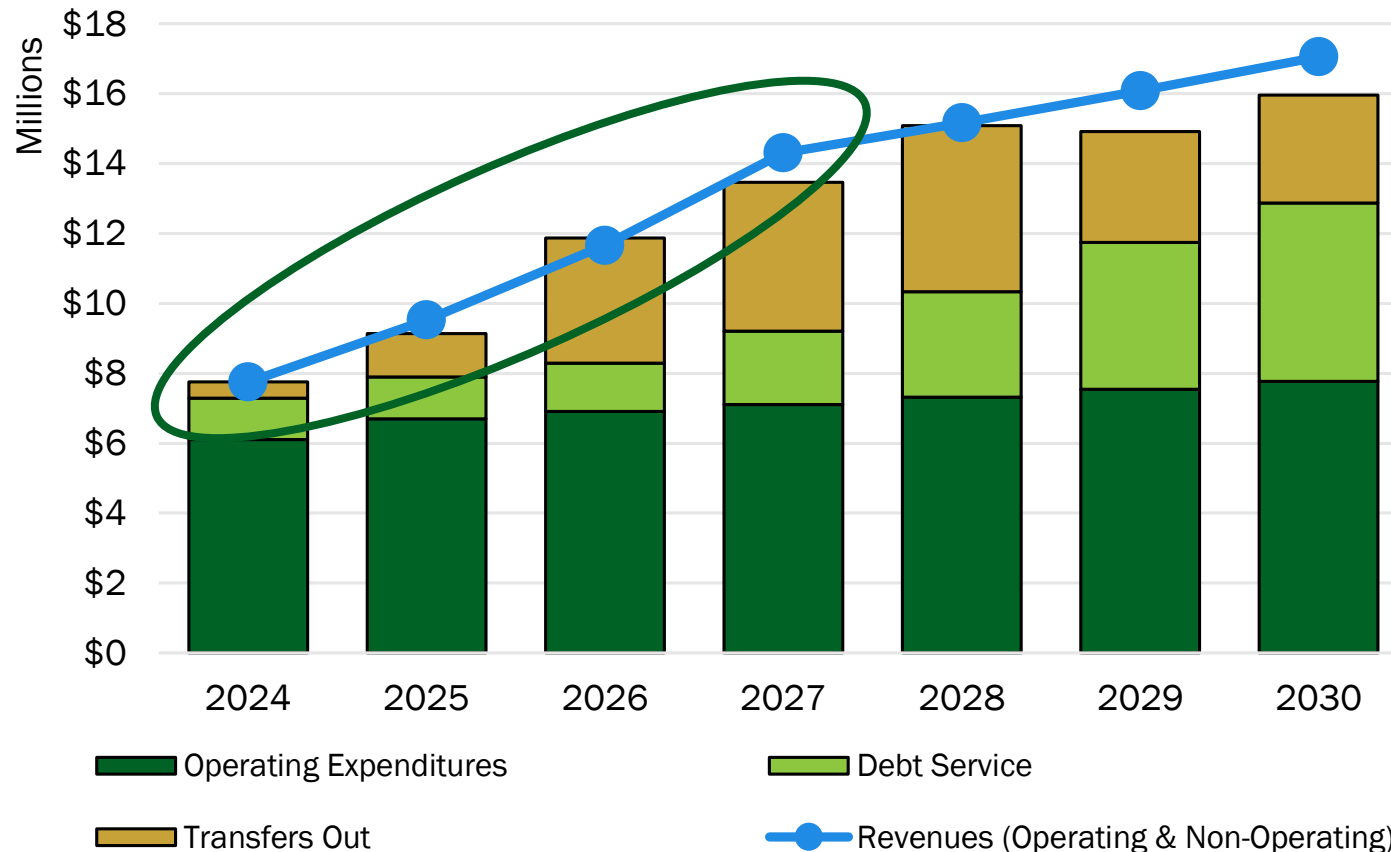
Interest rates increased during calendar year 2022, however, they still remain at historically favorable levels.

The 20-year interest rates above show the Bond Buyer's "20-Bond Index" which consists of 20 tax-exempt bonds with an average rating of 'Aa2'/'AA' (Moody's / S&P) that mature in 20 years. The 20-Bond Index serves as a general indicator of prevailing interest rates for tax-exempt borrowers. Updated as of 05/02/2024.

Combined Water & Sewer – Projected Financial Results

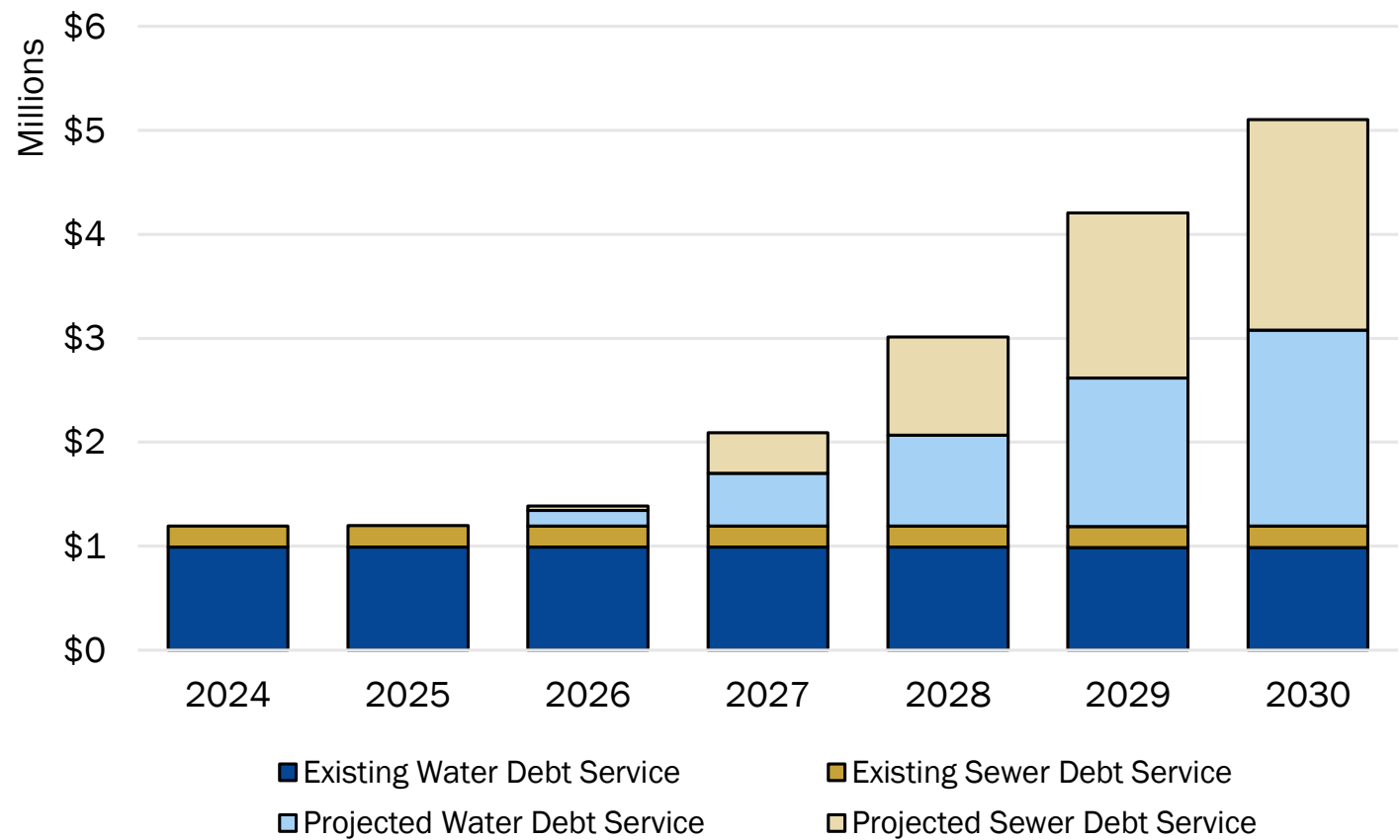


Projected Revenues and Expenditures



***Proposed Revenue reflects a 23% increase in rate revenue from FY 2025 through FY 2027
and 6% in FY 2028 and thereafter.***

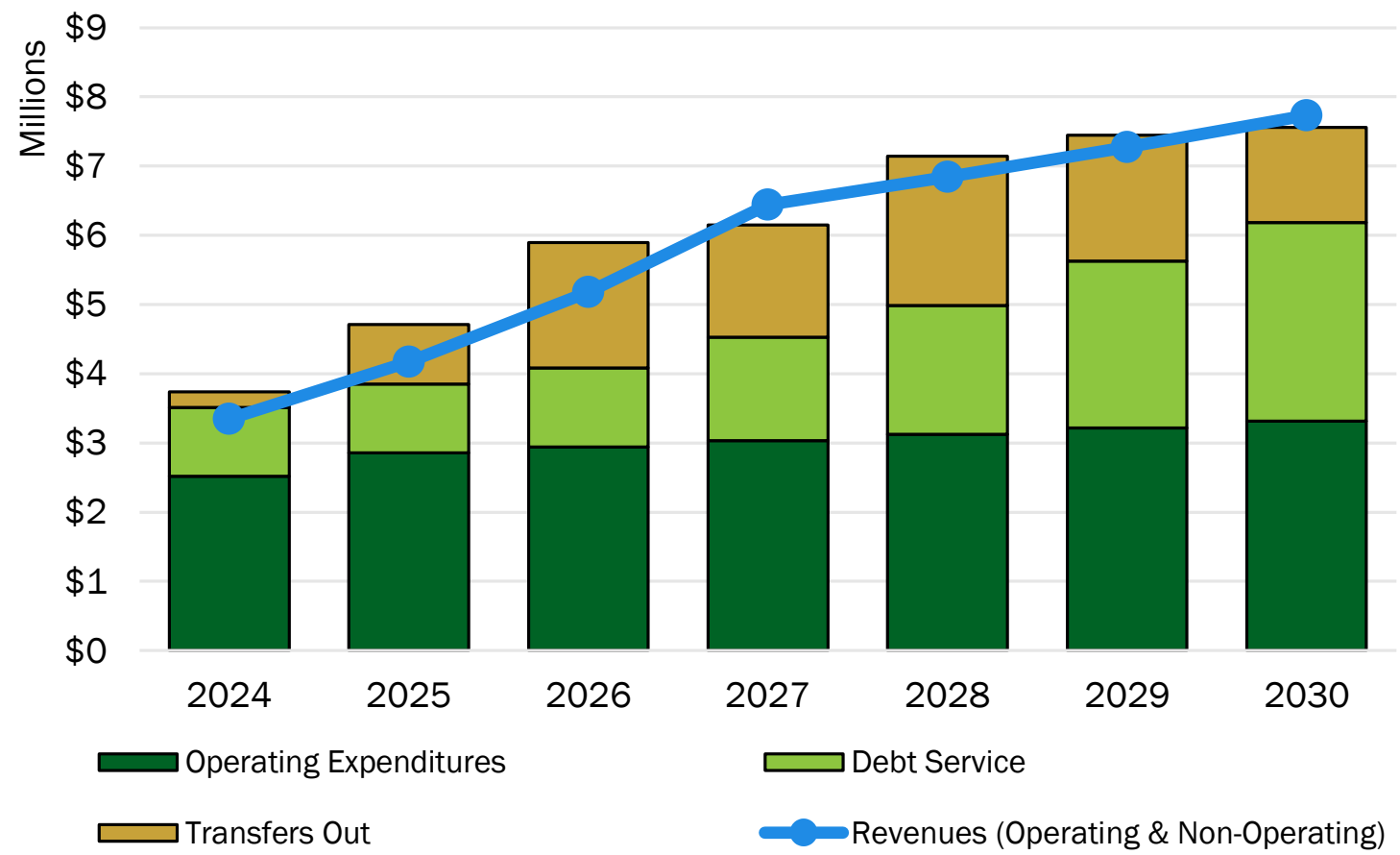
Existing & Proposed Debt Service



Water Only – Projected Financial Results



Projected Revenues and Expenditures

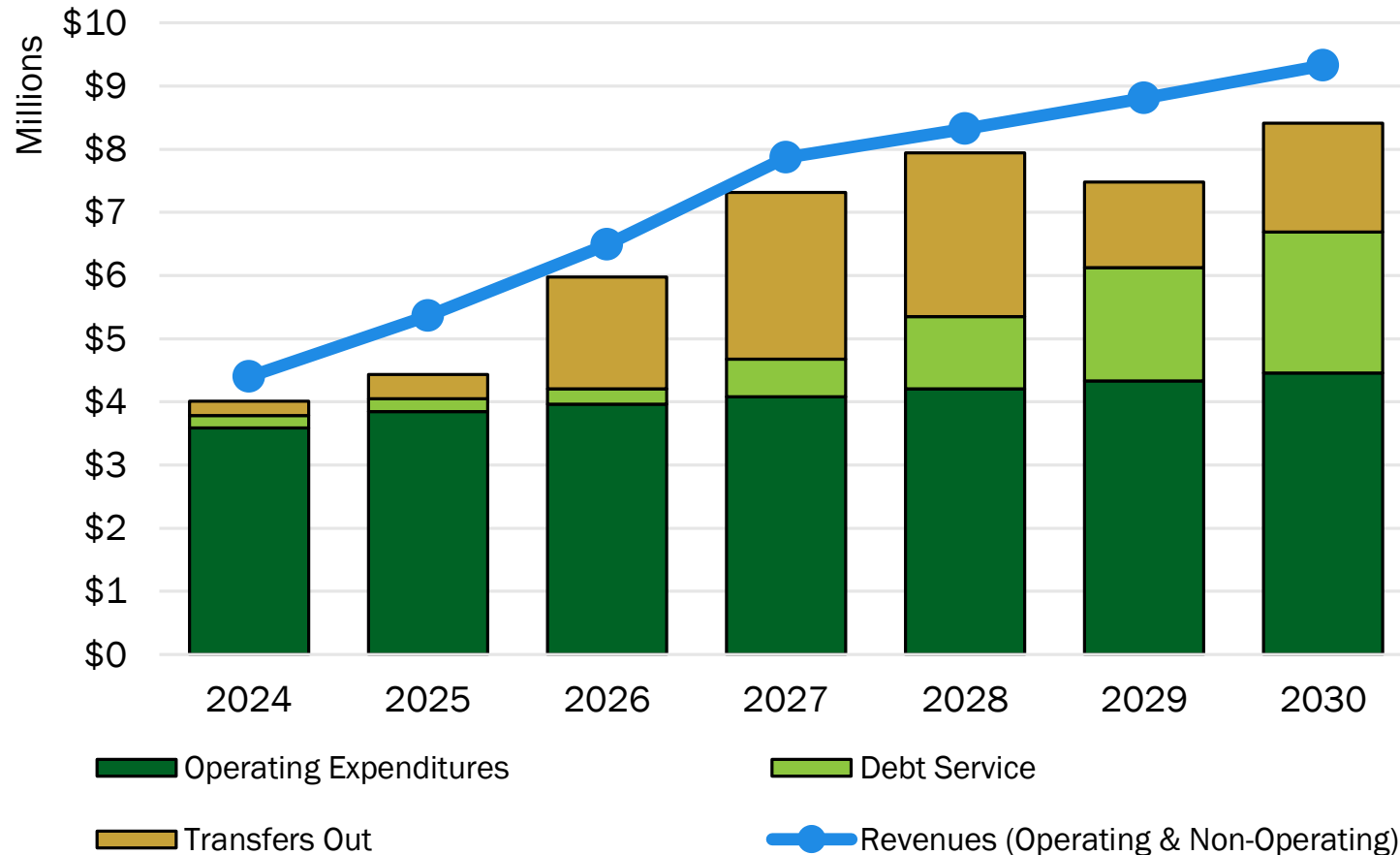


Proposed Revenue reflects a 25% increase in rate revenue from FY 2025 through FY 2027 and 6% in FY 2028 and thereafter.

Sewer Only – Projected Financial Results



Projected Revenues and Expenditures

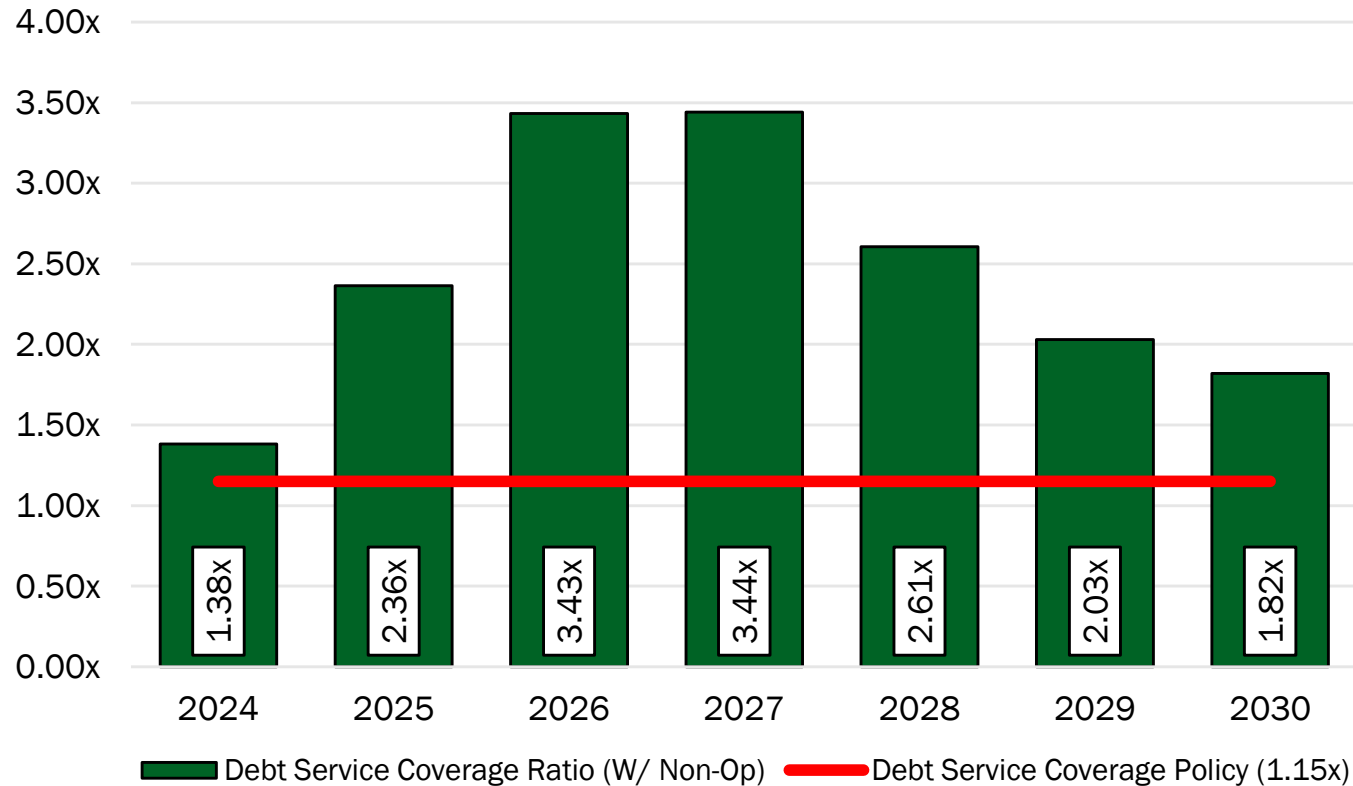


***Proposed Revenue reflects a 22% increase in rate revenue from FY 2025 through FY 2027
and 6% in FY 2028 and thereafter.***

Combined Water and Sewer – Debt Service Coverage Ratio



Projected Debt Service Coverage



Debt Service Coverage is projected to increase following planned rate increases. However, as the Town takes on additional debt, this ratio is projected to decrease.

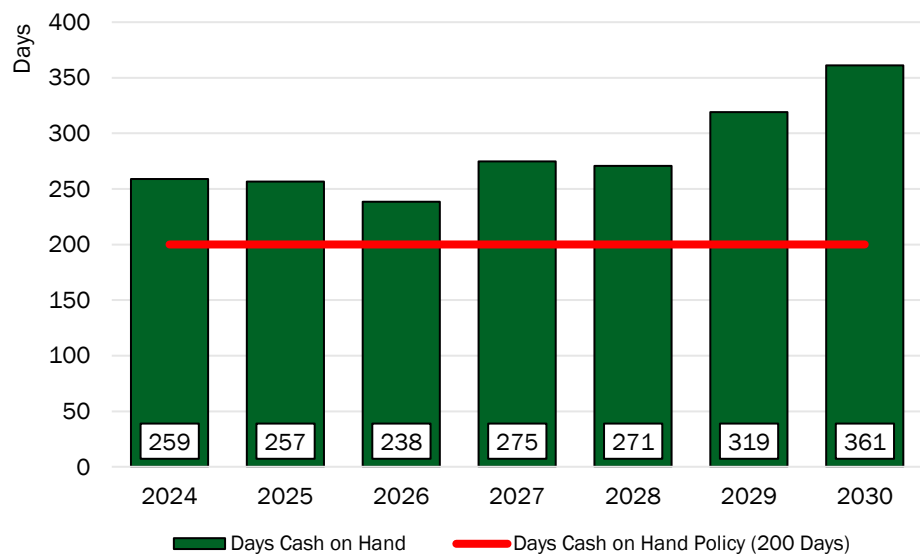
Combined Water and Sewer – Cash & Days Cash on Hand



Projected Cash Balance



Projected Days Cash on Hand



The Town’s Cash Balance is projected to remain stable.

Financial Ratio “Best-Practices”



- Utilizing the rate increases outlined herein, the Town is projected to maintain Financial Metrics within the range of what is expected of well-run Utilities by the National Credit Rating Agencies.
- Maintaining these metrics at / or above these levels helps ensure the Utility System remains self-supporting and has the financial flexibility to withstand potential emergencies, project cost overruns, etc.

	Debt Service Coverage	Days Cash on Hand
Most Recent Level (FY 2023)	1.60x	289
Aa Methodology Level	2.00x ≥ n > 1.70x	250 ≥ n > 150
Aa Median ⁽¹⁾	2.60	547
Currently Forecasted Minimum Level ⁽²⁾	1.82x	238

(1) Data sourced from Moody's MFRA as of 05/09/24. Median of nationally rated Aa1, Aa2, and Aa3 Water & Sewer Utilities.

(2) Preliminary, subject to change.

Current In Town Charges and Rates (FY 2024)



Monthly Minimum Base Charges (includes 2,000 gallons)

Meter Size	Water	Sewer
5/8"	\$ 8.04	\$ 15.32
3/4"	12.06	22.98
1"	20.10	38.30
1 1/2"	40.20	76.60
2"	64.32	122.56
3"	140.70	268.10
4"	253.26	482.58
6"	522.60	995.80
8"	643.20	1,225.60

Commodity Rate (per 1,000 gallons)

	Water	Sewer
Over 2,000 Gallons	\$ 8.91	\$ 12.29

Out of Town rates are 1.5 times In Town rates



Projected In Town Water Charges and Rates



Charge/Rate	Current	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030
Monthly Minimum Base Charges (includes 2,000)							
5/8"	\$ 8.04	\$ 10.05	\$ 12.56	\$ 15.70	\$ 16.65	\$ 17.64	\$ 18.70
3/4"	12.06	15.08	18.84	23.55	24.97	26.47	28.05
1"	20.10	25.13	31.41	39.26	41.61	44.11	46.76
1 1/2"	40.20	50.25	62.81	78.52	83.23	88.22	93.51
2"	64.32	80.40	100.50	125.63	133.16	141.15	149.62
3"	140.70	175.88	219.84	274.80	291.29	308.77	327.30
4"	253.26	316.58	395.72	494.65	524.33	555.79	589.13
6"	522.60	653.25	816.56	1,020.70	1,081.95	1,146.86	1,215.67
8"	643.20	804.00	1,005.00	1,256.25	1,331.63	1,411.52	1,496.21
Commodity Rate (per 1,000 gallons)							
Over 2,000 Gallons	8.91	11.14	13.93	17.41	18.45	19.56	20.73

Out of Town rates are 1.5 times In Town rates

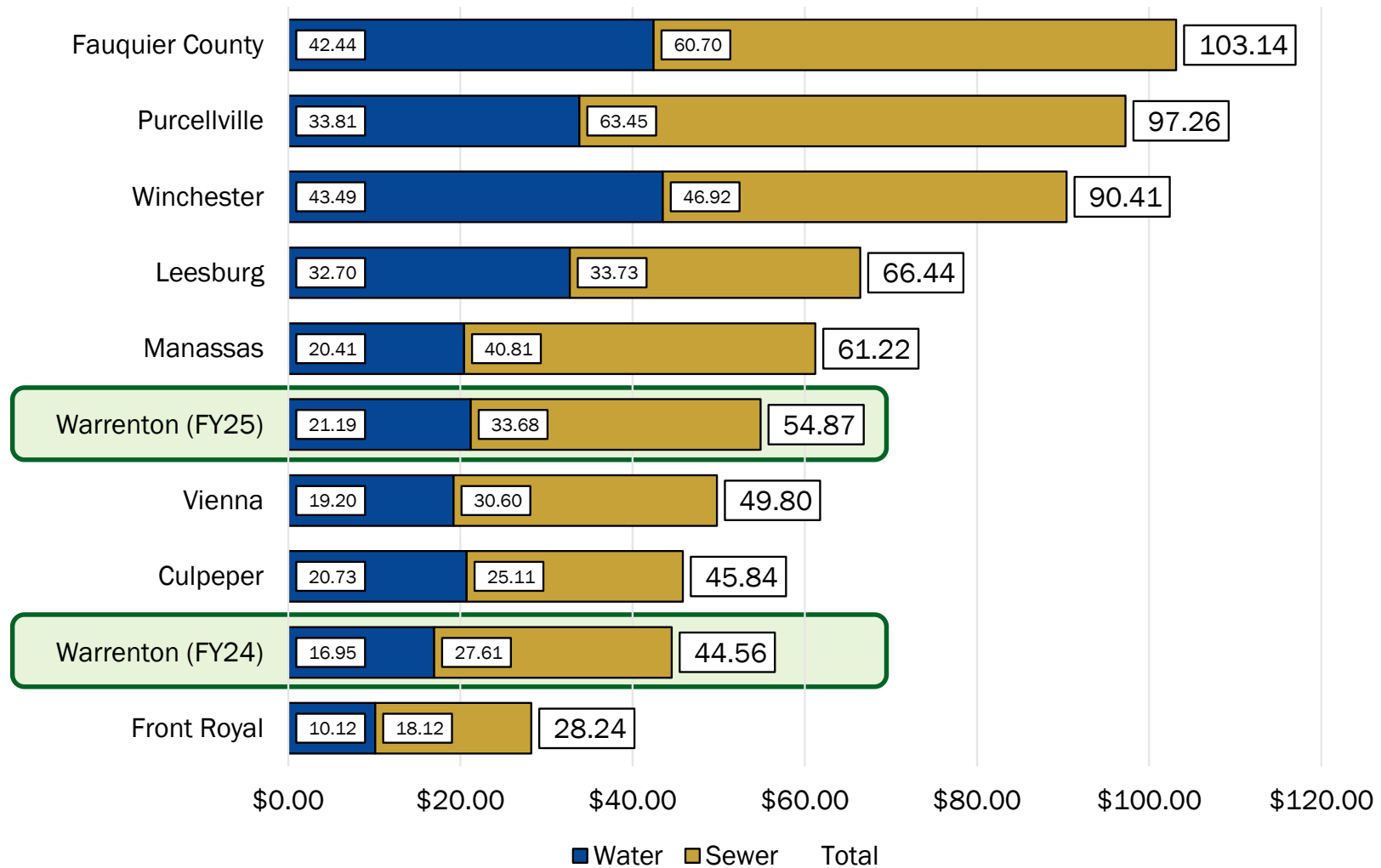
Projected In Town Sewer Charges and Rates



Charge/Rate	Current	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030
Monthly Minimum Base Charges (includes 2,000)							
5/8"	\$ 15.32	\$ 18.69	\$ 22.80	\$ 27.82	\$ 29.49	\$ 31.26	\$ 33.13
3/4"	22.98	28.04	34.20	41.73	44.23	46.88	49.70
1"	38.30	46.73	57.00	69.55	73.72	78.14	82.83
1 1/2"	76.60	93.45	114.01	139.09	147.44	156.28	165.66
2"	122.56	149.52	182.41	222.55	235.90	250.05	265.06
3"	268.10	327.08	399.03	486.82	516.03	546.99	579.81
4"	482.58	588.74	718.26	876.27	928.85	984.58	1,043.66
6"	995.80	1,214.85	1,482.12	1,808.18	1,916.67	2,031.67	2,153.57
8"	1,225.60	1,495.20	1,824.14	2,225.46	2,358.98	2,500.52	2,650.55
Commodity Rate (per 1,000 gallons)							
Over 2,000 Gallons	12.29	14.99	18.29	22.31	23.65	25.07	26.57

Out of Town rates are 1.5 times In Town rates

FY 2024 Combined Monthly Bill Comparison



Smallest meter size and 3,000 gallons of usage (median for Warrenton customers)

Recommendations



- Adopt the projected water and sewer rates for FY 2025.
- Continue to evaluate the Town's evolving operating and capital needs.
- Review rates, charges, and fees on an annual basis and revise as needed.
- Consider a full cost of service study for all rates, charges, and fees every three to five years.

Next Steps



- Balance of Spring 2024: Town adopts Operating and Capital Budget and corresponding user rates.
- Summer/Early Fall 2024: Implement next phase of capital plan via a self-supporting utility borrowing.
- Fall 2024 into Winter 2024/2025: Update multi-year plan based upon actual results for FY 2024 and updated capital costs.

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