

Town of Warrenton, Virginia

Water & Sewer Discussion Materials



May 9, 2023



- Davenport & Company LLC (“Davenport”) serves as Financial Advisor to the Town of Warrenton (the “Town”).
- In Spring of 2022, 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 2024 Operating and Capital Budget for the self-supporting Utility System.
 - This would represent the second year of rate increases previously introduced to Town Council.
- Key underlying assumptions related to the Utility System’s financial planning have shifted over the past year.
- Davenport was asked to assist NewGen in the development of an updated plan with a specific focus on capital funding and financial “best-practices”.

Goals & Objectives



1. Present the historical financial results of the Utility System;
2. Present the Utility System's current debt profile;
3. Review the previously presented multi-year rate plan and underlying assumptions;
4. Outline key changes in assumptions for the current update of the multi-year rate plan; and
5. Introduce an updated multi-year rate plan that maintains the self-supporting nature of the Utility System and projects financial metrics at or above industry-wide "best-practice" levels.

Utility System Observations

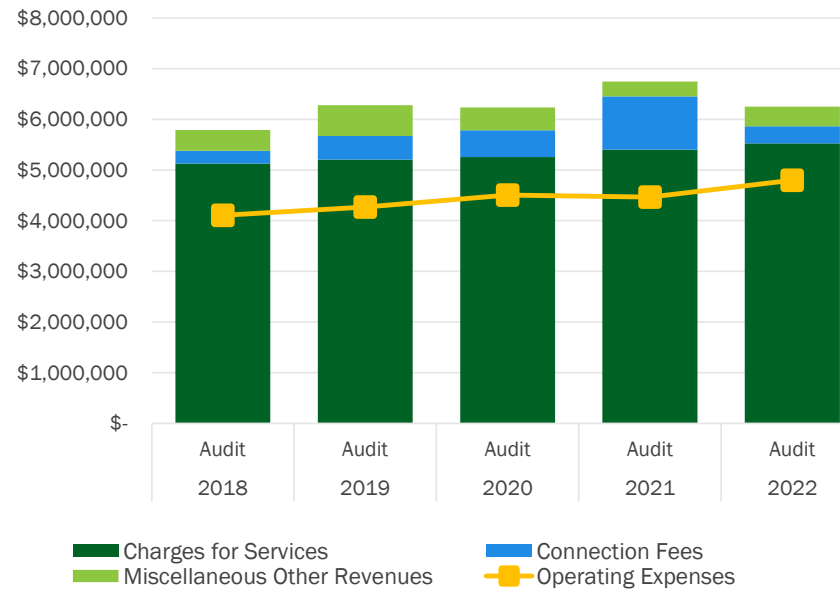


- The Town's Utility System has historically generated solid cash flows (i.e., debt service coverage) and maintained healthy reserves (i.e., days cash on hand).
- Charges for Service (i.e., Operating Revenues) have grown annually by roughly 1.5% over the last five years.
- Operating Expenditures have grown annually by roughly 3.2% 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 2022, the Utility System's Debt Service Coverage Ratio was 2.20x, the lowest level of the prior five years. (Note: Typically, 1.50x is considered a "best-practice", and 1.20x should be considered a 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



Historical Revenues & Expenditures

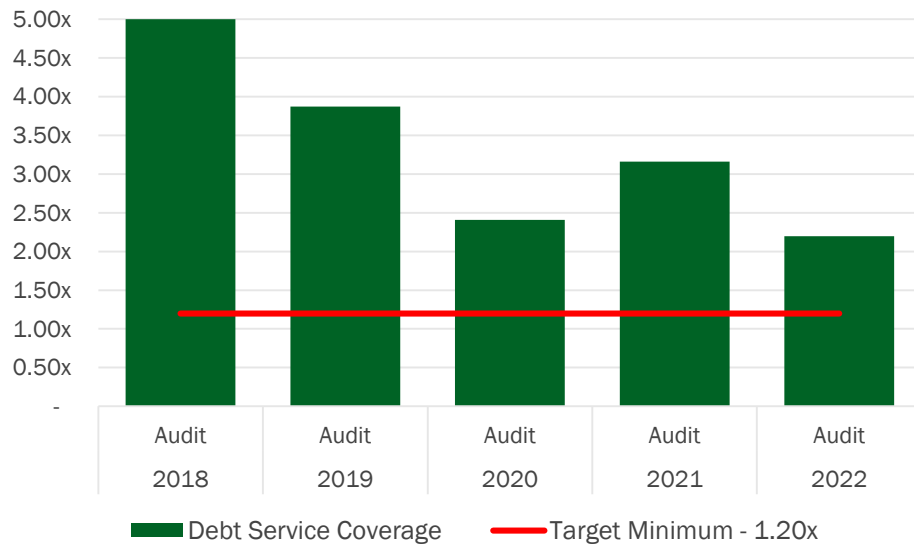


| Town of Warrenton, Virginia | | 2018 | 2019 | 2020 | 2021 | 2022 | |
|--|---|---------------------|---------------------|---------------------|---------------------|---------------------|-------------|
| Utility System Revenues & Operating Exp. | | Audit | Audit | Audit | Audit | Audit | |
| 1 | Revenues | | | | | | |
| 2 | Charges for Services | \$ 5,125,028 | \$ 5,205,517 | \$ 5,257,620 | \$ 5,401,565 | \$ 5,524,892 | |
| 3 | Connection Fees | 252,975 | 467,187 | 526,725 | 1,050,300 | 336,545 | |
| 4 | Miscellaneous Other Revenues | 410,571 | 605,718 | 450,362 | 294,821 | 388,072 | 5-Yr Avg. |
| 5 | Total Revenues | \$ 5,788,574 | \$ 6,278,422 | \$ 6,234,707 | \$ 6,746,686 | \$ 6,249,509 | 1.5% |
| 6 | <i>Growth</i> | <i>N/A</i> | <i>8.5%</i> | <i>-0.7%</i> | <i>8.2%</i> | <i>-7.4%</i> | |
| 7 | Operating Expenses | \$ 4,107,605 | \$ 4,266,934 | \$ 4,504,090 | \$ 4,467,687 | \$ 4,798,238 | 3.2% |
| 8 | <i>Growth</i> | <i>N/A</i> | <i>3.9%</i> | <i>5.6%</i> | <i>-0.8%</i> | <i>7.4%</i> | |
| 9 | Net Revenue Available for Debt Service | \$ 1,680,969 | \$ 2,011,488 | \$ 1,730,617 | \$ 2,278,999 | \$ 1,451,271 | |

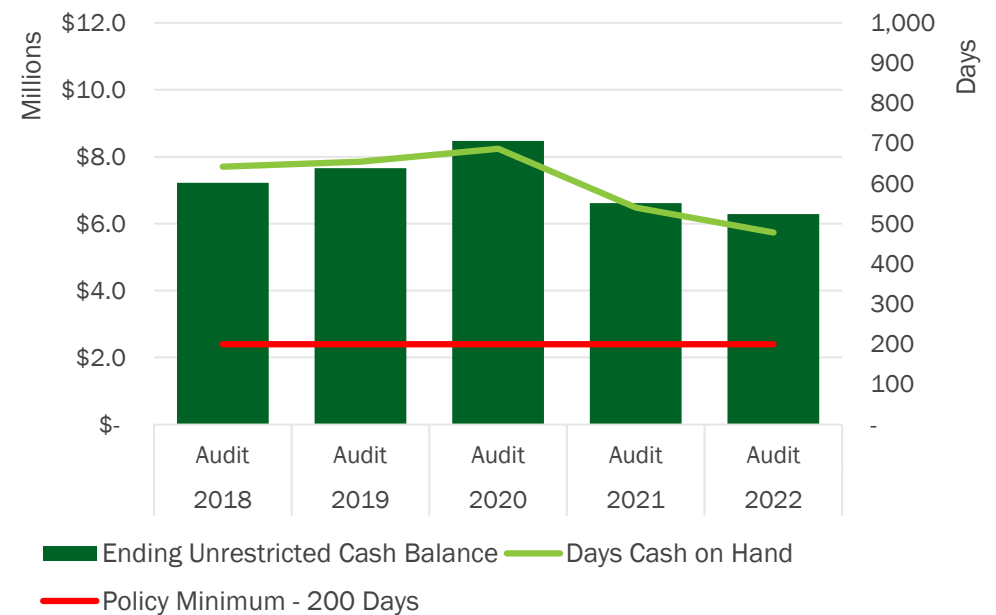
Selected Historical Financial Metrics



Debt Service Coverage

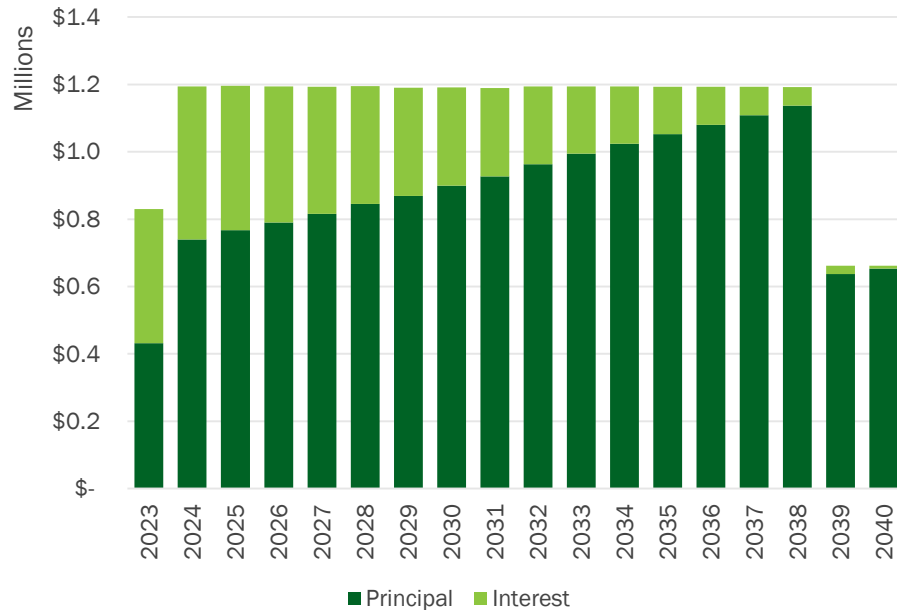


Cash Balance



| Select Water & Sewer Utility System Financial Metrics | | 2018 Audit | 2019 Audit | 2020 Audit | 2021 Audit | 2022 Audit |
|---|----------------------------------|--------------|--------------|--------------|--------------|--------------|
| 1 | Debt Service Coverage | 11.65x | 3.87x | 2.41x | 3.16x | 2.20x |
| 2 | Target Minimum - 1.20x | 1.20x | 1.20x | 1.20x | 1.20x | 1.20x |
| 3 | | | | | | |
| 4 | Ending Unrestricted Cash Balance | \$ 7,220,020 | \$ 7,653,103 | \$ 8,473,309 | \$ 6,612,579 | \$ 6,287,203 |
| 5 | Days Cash on Hand | 642 | 655 | 687 | 540 | 478 |
| 6 | Policy Minimum - 200 Days | 200 | 200 | 200 | 200 | 200 |

Existing Utility System Debt Profile



- The Town issued the 2022 G.O. New Money Bond in the Fall of 2022 in the amount of \$5,150,000.
- The Interest Rate on the bond is fixed for the term of the bond at **2.90%**.
- The Town's debt service will increase in FY 2024 as full principal and interest payments begin on the 2022 G.O. New Money Bond.

Total Debt Service

| Fiscal Year | Principal | Interest | Total |
|--------------|---------------------|--------------------|---------------------|
| Total | \$15,733,000 | \$4,314,855 | \$20,047,855 |
| 2023 | 432,000 | 398,279 | 830,279 |
| 2024 | 740,000 | 453,627 | 1,193,627 |
| 2025 | 767,000 | 428,999 | 1,195,999 |
| 2026 | 790,000 | 403,510 | 1,193,510 |
| 2027 | 816,000 | 377,130 | 1,193,130 |
| 2028 | 845,000 | 349,773 | 1,194,773 |
| 2029 | 869,000 | 321,497 | 1,190,497 |
| 2030 | 899,000 | 292,303 | 1,191,303 |
| 2031 | 927,000 | 262,033 | 1,189,033 |
| 2032 | 963,000 | 230,602 | 1,193,602 |
| 2033 | 994,000 | 199,539 | 1,193,539 |
| 2034 | 1,024,000 | 169,822 | 1,193,822 |
| 2035 | 1,052,000 | 141,308 | 1,193,308 |
| 2036 | 1,080,000 | 113,252 | 1,193,252 |
| 2037 | 1,108,000 | 84,558 | 1,192,558 |
| 2038 | 1,137,000 | 55,225 | 1,192,225 |
| 2039 | 637,000 | 24,996 | 661,996 |
| 2040 | 653,000 | 8,403 | 661,403 |

Principal Outstanding as of 6/30/2022

| | |
|------------------------------------|---------------------|
| 2021 VRA Refunding | \$3,855,000 |
| 2021A GO Refunding | 6,728,000 |
| 2022 G.O. New Money | 5,150,000 |
| Total Principal Outstanding | \$15,733,000 |



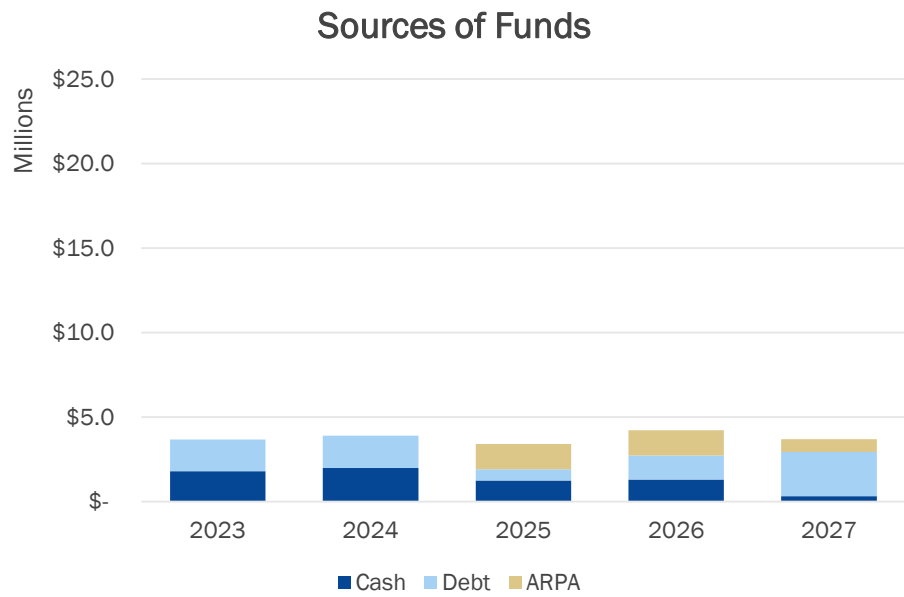
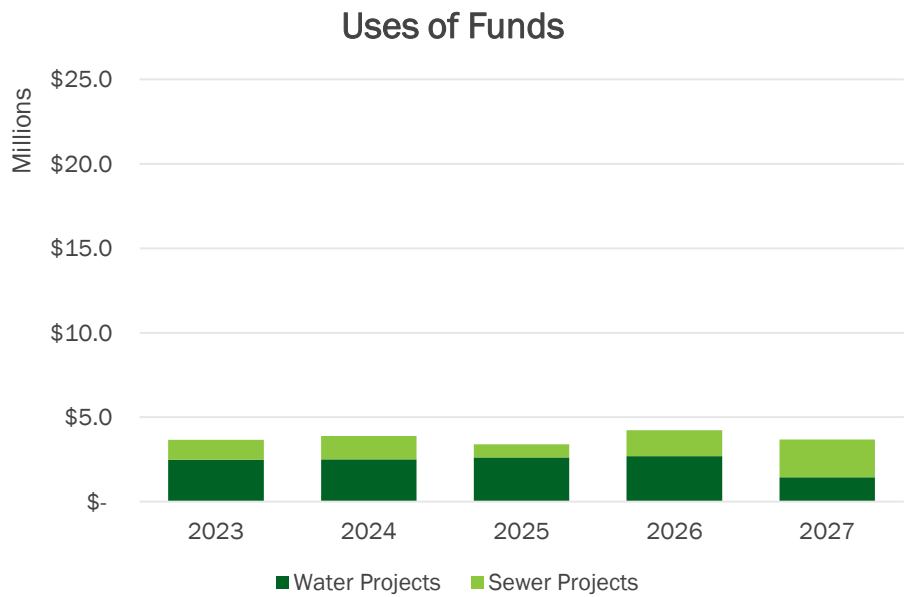
Multi-Year Financial Plan - Observations

- Over the last year, inflation has caused the prices of most goods and services to increase materially.
- 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.
 - Budgeted Operating Expenditure growth was 28% in FY 2023 vs. FY 2022 Actuals.
 - Budgeted Operating Expenditure growth is approximately 9% in FY 2024 vs the FY 2023 Budget.
- Capital projects undertaken by local governments have also experienced significant 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 have resulted in a CIP that is roughly three times the size of the CIP identified this time last year.

Projected Capital Needs (Presented April, 2022)



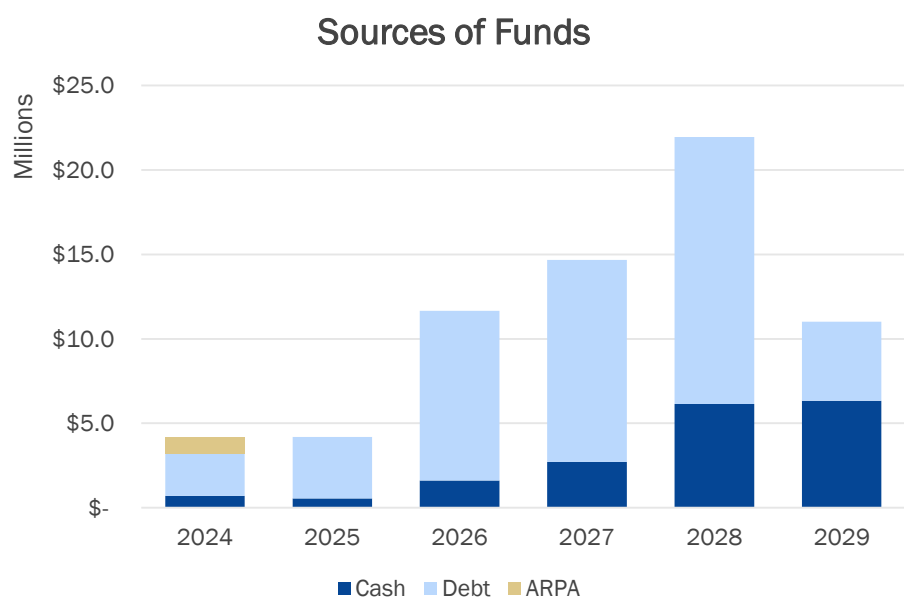
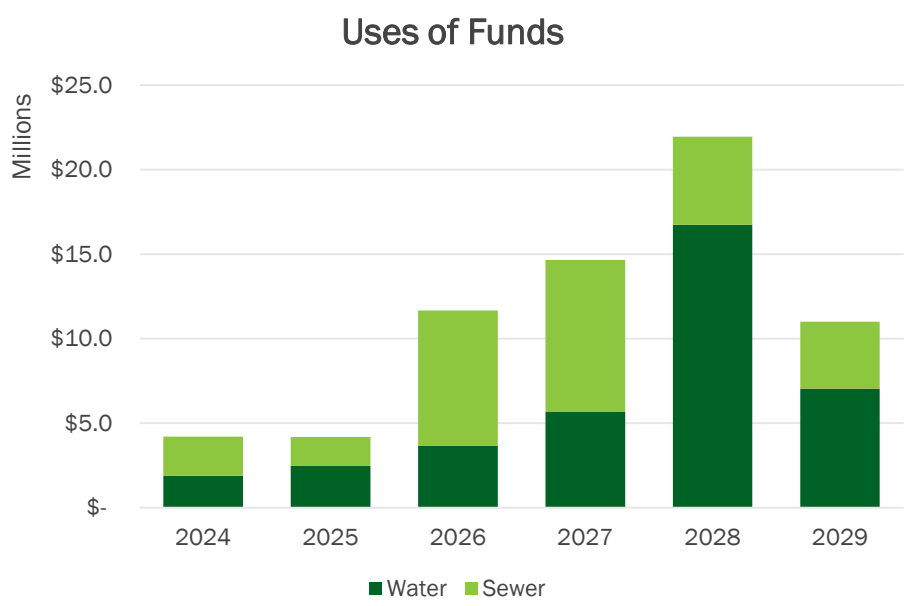
- The Town is contemplating funding a Capital Improvement Plan of approximately \$18-19 Million over the next 5 years, as reflected below.
- Approximately 45% is anticipated to be funded with debt (\$8.5 Million), 35% from cash (\$6.6 Million), and 20% from ARPA (\$3.8 Million).



Projected Capital Needs (As of May, 2023)



- The Town is contemplating funding a Capital Improvement Plan of approximately **\$67.7 Million** over the next 6 years, as reflected below.
 - Approximately 72% is anticipated to be funded with debt (\$48.6 Million), 27% from cash (\$18.1 Million), and 1% from ARPA (\$1.0 Million).



Multi-Year Plan of Finance



- Davenport recommends that the Town pursue a “just-in-time” funding strategy utilizing a combination of Cash, ARPA, and Debt.

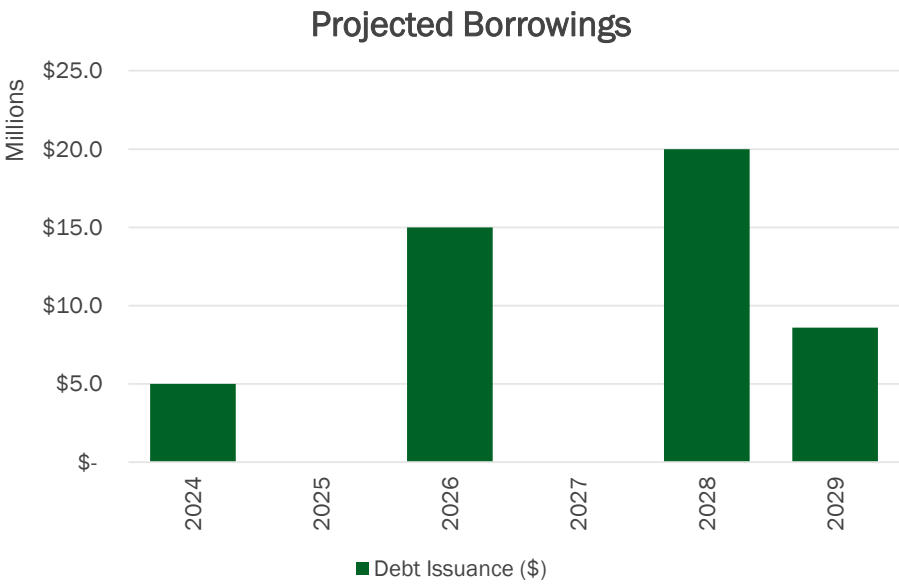
- Key aspects of the Debt component include:
 - Paying interest-only for 2+ years to incrementally ramp up debt service and relieve pressure on rate increases;
 - 28 years of principal amortization in order to spread out the cost of borrowing over roughly 30 years;
 - The interest rate for the borrowing is assumed at 5.50% for planning purposes; and
 - Providing 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.

Projected Utility System Borrowings

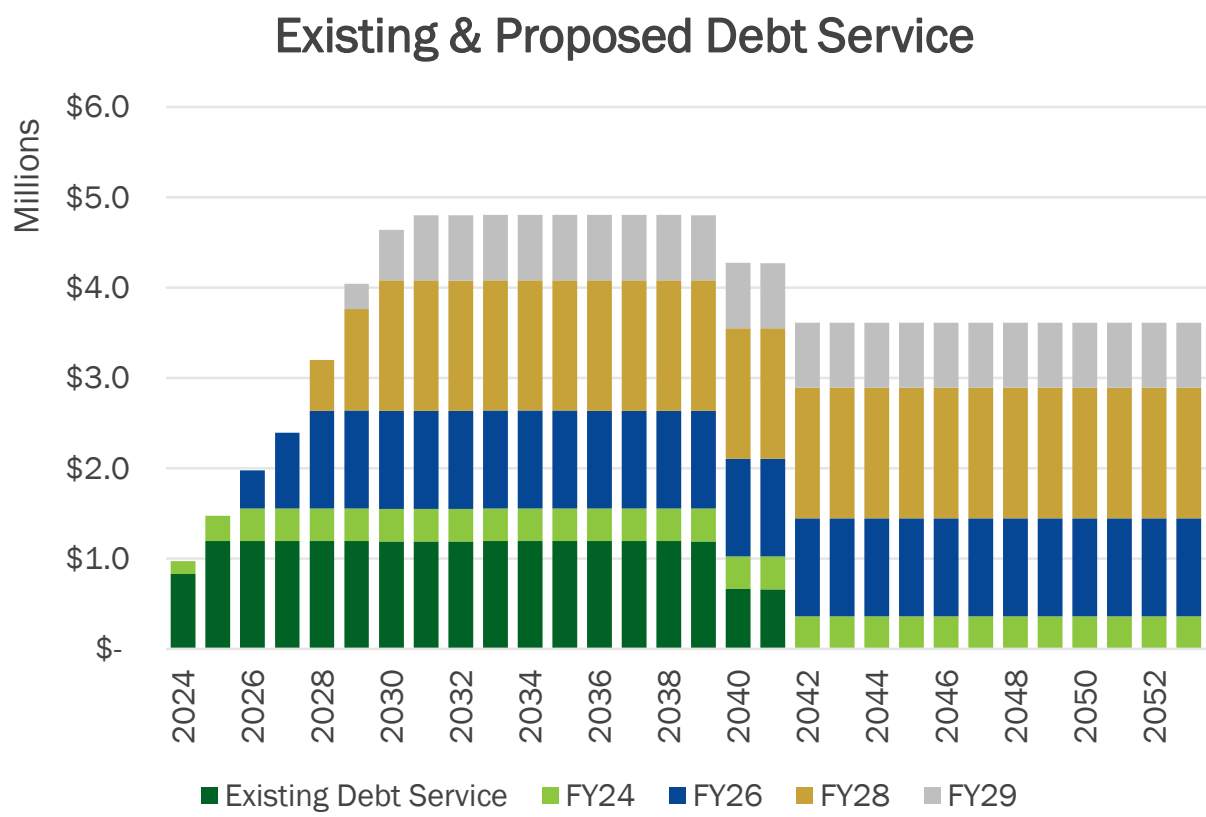


| Sources of Funds | | Total |
|------------------|---------------|---------------|
| 1 | Cash | \$ 18,081,942 |
| 2 | ARPA | 1,000,000 |
| 3 | Debt | 48,587,699 |
| 4 | Total Sources | \$ 67,669,641 |



| FY | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 |
|--------------------|--------------|------|---------------|------|---------------|--------------|
| Debt Issuance (\$) | \$ 5,000,000 | \$ - | \$ 15,000,000 | \$ - | \$ 20,000,000 | \$ 8,587,699 |

Existing & Proposed Debt Service



Note: Debt assumes 2 years of interest-only and 28 years of level principal and interest payments. Planning interest rate of 5.50%. Preliminary, and subject to change.

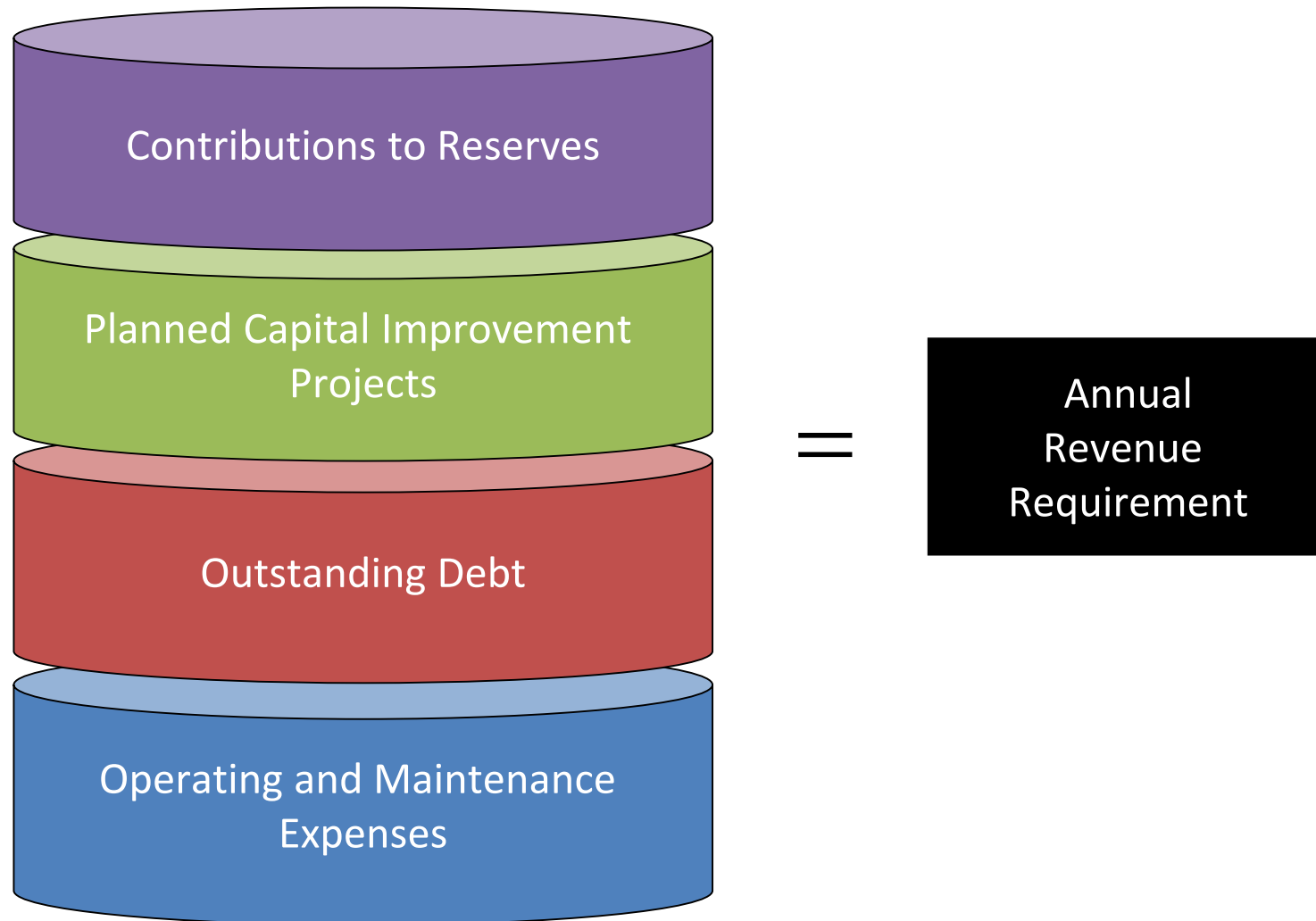
Interest Rate Environment | Tax-Exempt



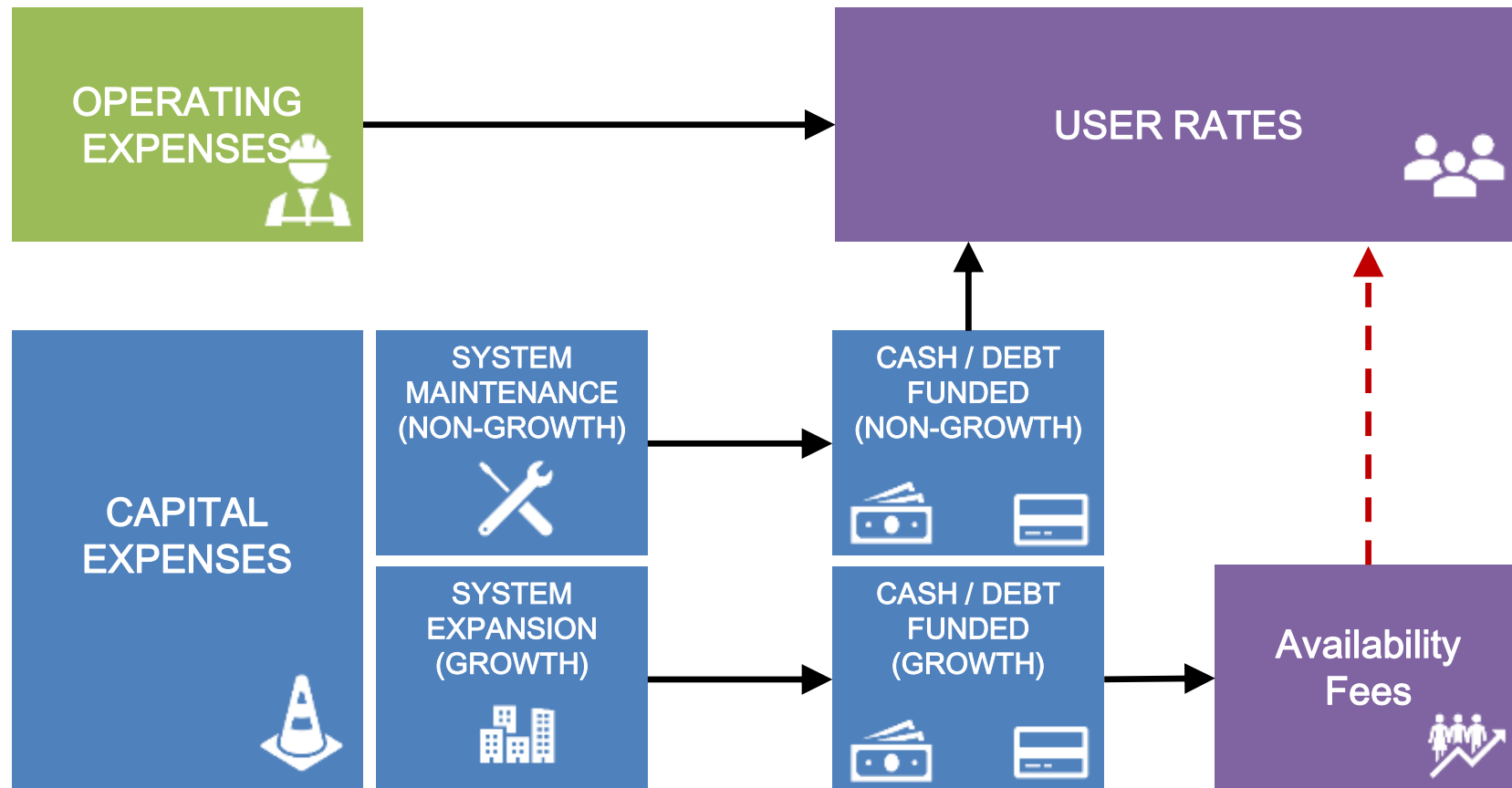
Interest rates increased during calendar year 2022, however, they still remain at historically favorable levels.

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 04/27/2023.

Revenue Requirement

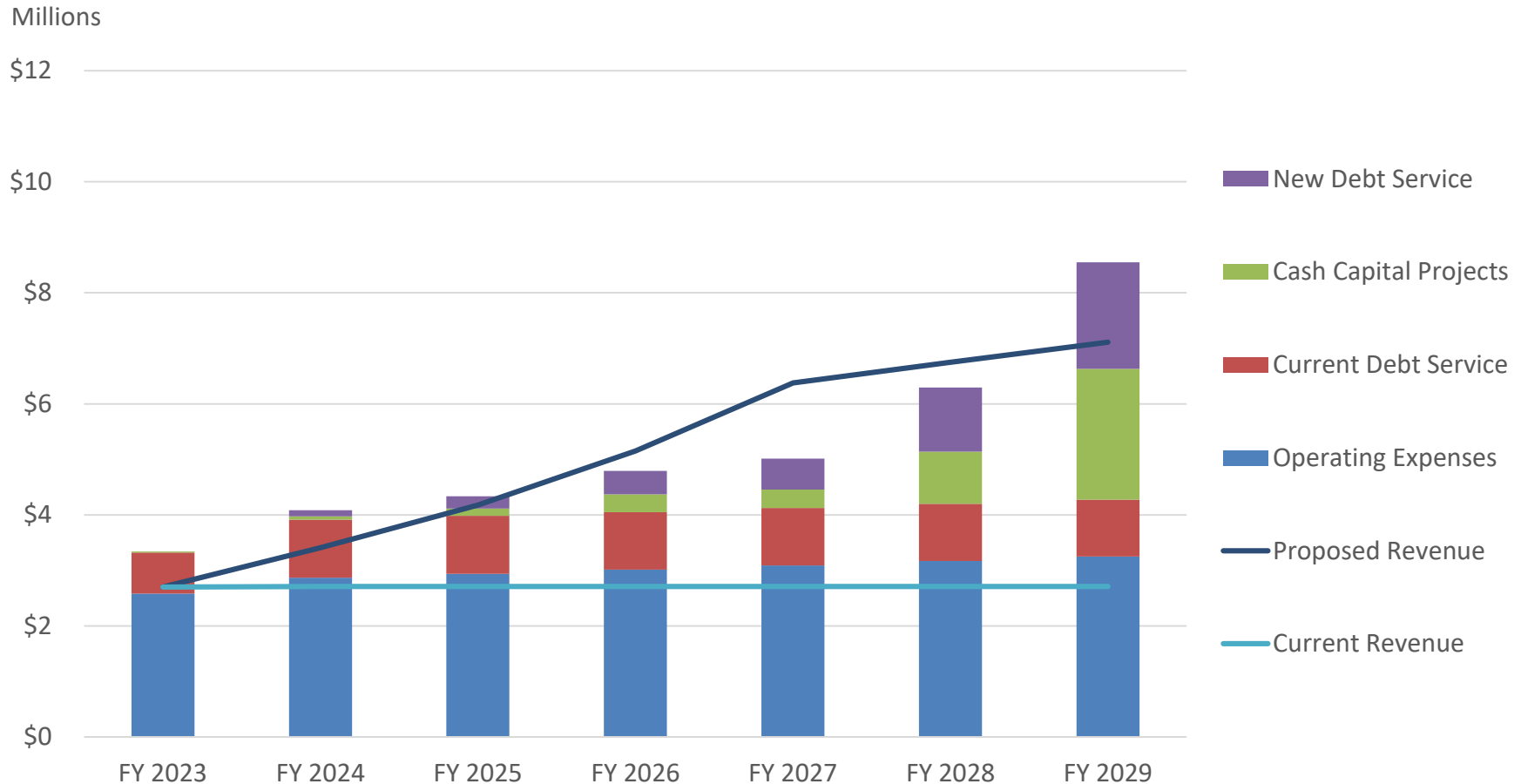


Relationship between User Rates and Availability Fees



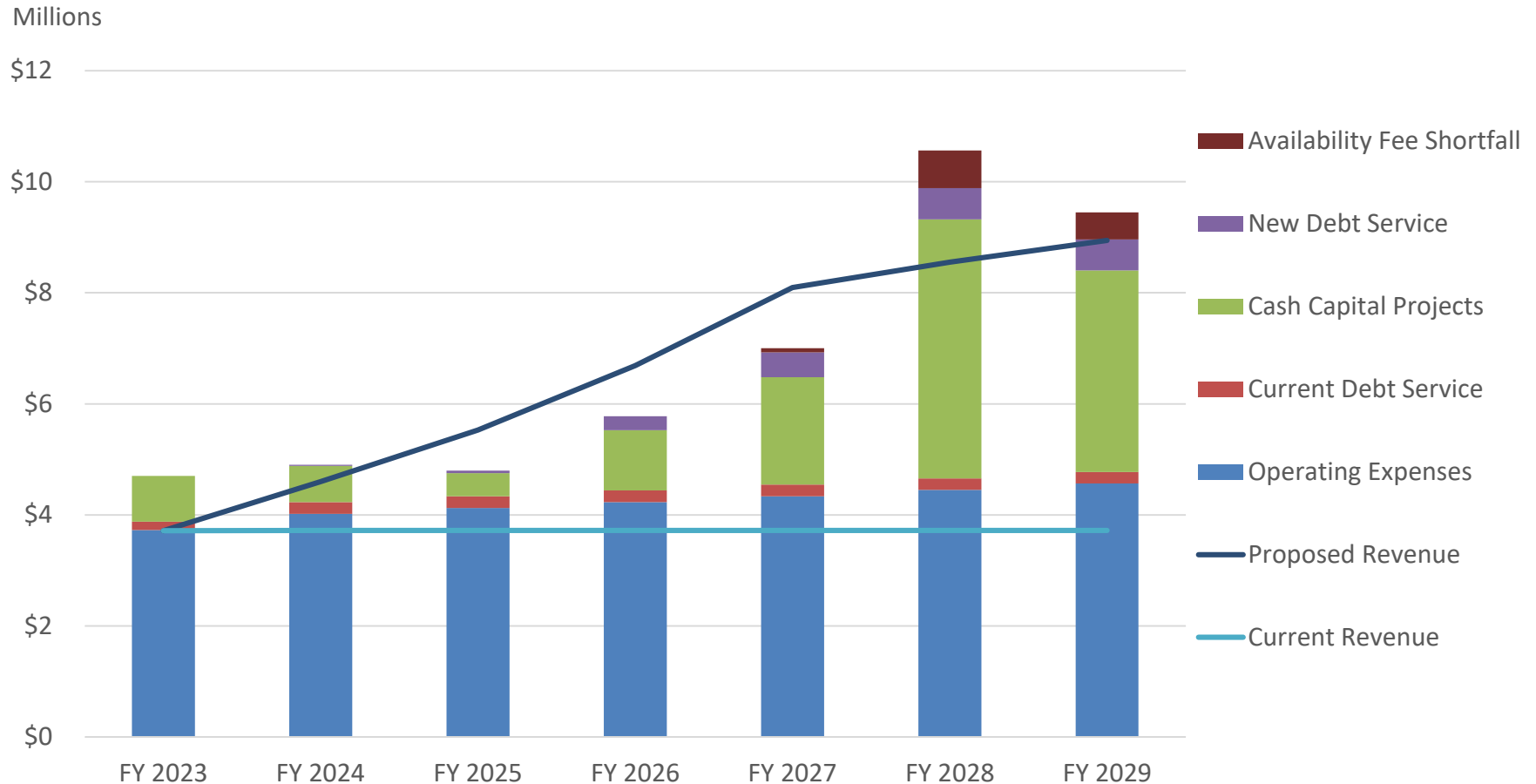
If availability fees are set at less than cost or anticipated growth does not occur, existing customers will have to make up the difference via higher user rates.

Revenue Requirements vs. Current and Proposed Revenue – Water



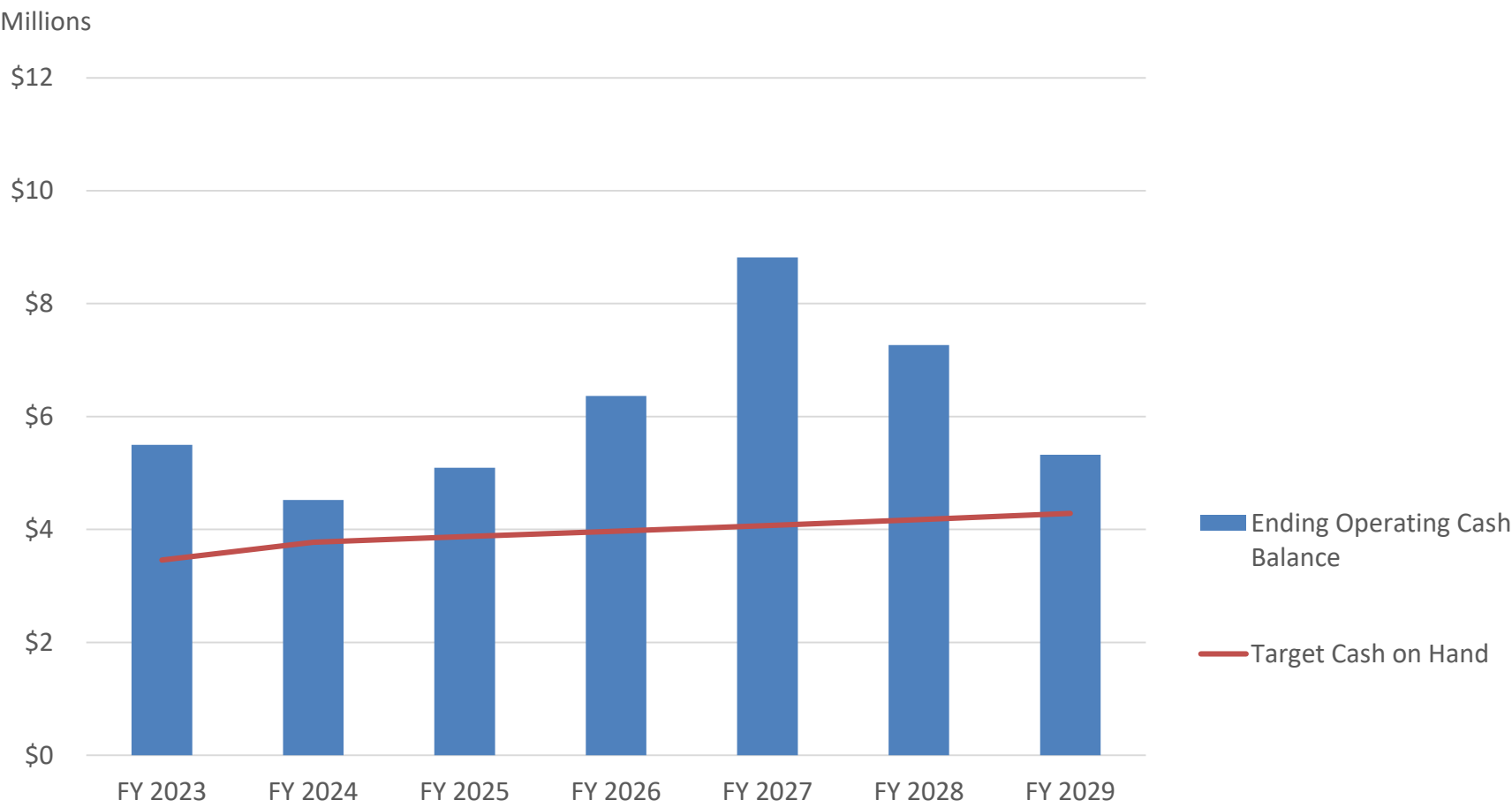
Proposed Revenue reflects a 25% increase in rate revenue from FY 2024 through FY 2027 and 6% in FY 2028 and FY 2029

Revenue Requirements vs. Current and Proposed Revenue – Sewer



Proposed Revenue reflects a 22% increase in rate revenue from FY 2024 through FY 2027 and 6% in FY 2028 and FY 2029

Operating Cash Balance – Combined Water and Sewer



The red line represents target equal to operating fund balance of 200 days of operating expenses. 1.2x debt service coverage is also met in all years after FY 2024.

Current In Town Charges and Rates (FY 2023)



Monthly Minimum Base Charges (includes 2,000 gallons)

| Meter Size | Water | Sewer |
|------------|----------|------------|
| 5/8 | \$6.43 | \$12.56 |
| 3/4 | \$9.65 | \$18.84 |
| 1 | \$16.08 | \$31.40 |
| 1 1/2 | \$32.15 | \$62.80 |
| 2 | \$51.44 | \$100.48 |
| 3 | \$112.53 | \$219.80 |
| 4 | \$202.55 | \$395.64 |
| 6 | \$417.95 | \$816.40 |
| 8 | \$514.40 | \$1,004.80 |

Commodity Rate (per 1,000 gallons)

| | Water | Sewer |
|--------------------|--------|---------|
| Over 2,000 gallons | \$7.13 | \$10.70 |

Out of Town rates are 1.5 times In Town rates

Projected In Town Water Charges and Rates



| Charge/Rate | Current | FY 2024 | FY 2025 | FY 2026 | FY 2027 | FY 2028 | FY 2029 |
|---|----------|----------|----------|------------|------------|------------|------------|
| Monthly Minimum Base Charges (includes 2,000 gallons) | | | | | | | |
| 5/8 | \$6.43 | \$8.04 | \$10.05 | \$12.56 | \$15.70 | \$16.64 | \$17.64 |
| 3/4 | \$9.65 | \$12.06 | \$15.08 | \$18.84 | \$23.55 | \$24.96 | \$26.46 |
| 1 | \$16.08 | \$20.10 | \$25.13 | \$31.40 | \$39.25 | \$41.60 | \$44.10 |
| 1 1/2 | \$32.15 | \$40.20 | \$50.25 | \$62.80 | \$78.50 | \$83.20 | \$88.20 |
| 2 | \$51.44 | \$64.32 | \$80.40 | \$100.48 | \$125.60 | \$133.12 | \$141.12 |
| 3 | \$112.53 | \$140.70 | \$175.88 | \$219.80 | \$274.75 | \$291.20 | \$308.70 |
| 4 | \$202.55 | \$253.26 | \$316.58 | \$395.64 | \$494.55 | \$524.16 | \$555.66 |
| 6 | \$417.95 | \$522.60 | \$653.25 | \$816.40 | \$1,020.50 | \$1,081.60 | \$1,146.60 |
| 8 | \$514.40 | \$643.20 | \$804.00 | \$1,004.80 | \$1,256.00 | \$1,331.20 | \$1,411.20 |
| Commodity Rate (per 1,000 gallons) | | | | | | | |
| Over 2,000 gallons | \$7.13 | \$8.91 | \$11.14 | \$13.93 | \$17.41 | \$18.45 | \$19.56 |

Out of Town rates are 1.5 times In Town rates

Projected In Town Sewer Charges and Rates



| Charge/Rate | Current | FY 2024 | FY 2025 | FY 2026 | FY 2027 | FY 2028 | FY 2029 |
|---|------------|------------|------------|------------|------------|------------|------------|
| Monthly Minimum Base Charges (includes 2,000 gallons) | | | | | | | |
| 5/8 | \$12.56 | \$15.32 | \$18.69 | \$22.80 | \$27.82 | \$29.49 | \$31.26 |
| 3/4 | \$18.84 | \$22.98 | \$28.04 | \$34.20 | \$41.73 | \$44.24 | \$46.89 |
| 1 | \$31.40 | \$38.30 | \$46.73 | \$57.00 | \$69.55 | \$73.73 | \$78.15 |
| 1 1/2 | \$62.80 | \$76.60 | \$93.45 | \$114.00 | \$139.10 | \$147.45 | \$156.30 |
| 2 | \$100.48 | \$122.56 | \$149.52 | \$182.40 | \$222.56 | \$235.92 | \$250.08 |
| 3 | \$219.80 | \$268.10 | \$327.08 | \$399.00 | \$486.85 | \$516.08 | \$547.05 |
| 4 | \$395.64 | \$482.58 | \$588.74 | \$718.20 | \$876.33 | \$928.94 | \$984.69 |
| 6 | \$816.40 | \$995.80 | \$1,214.85 | \$1,482.00 | \$1,808.30 | \$1,916.85 | \$2,031.90 |
| 8 | \$1,004.80 | \$1,225.60 | \$1,495.20 | \$1,824.00 | \$2,225.60 | \$2,359.20 | \$2,500.80 |
| Commodity Rate (per 1,000 gallons) | | | | | | | |
| Over 2,000 gallons | \$10.07 | \$12.29 | \$14.99 | \$18.29 | \$22.31 | \$23.65 | \$25.07 |

Out of Town rates are 1.5 times In Town rates

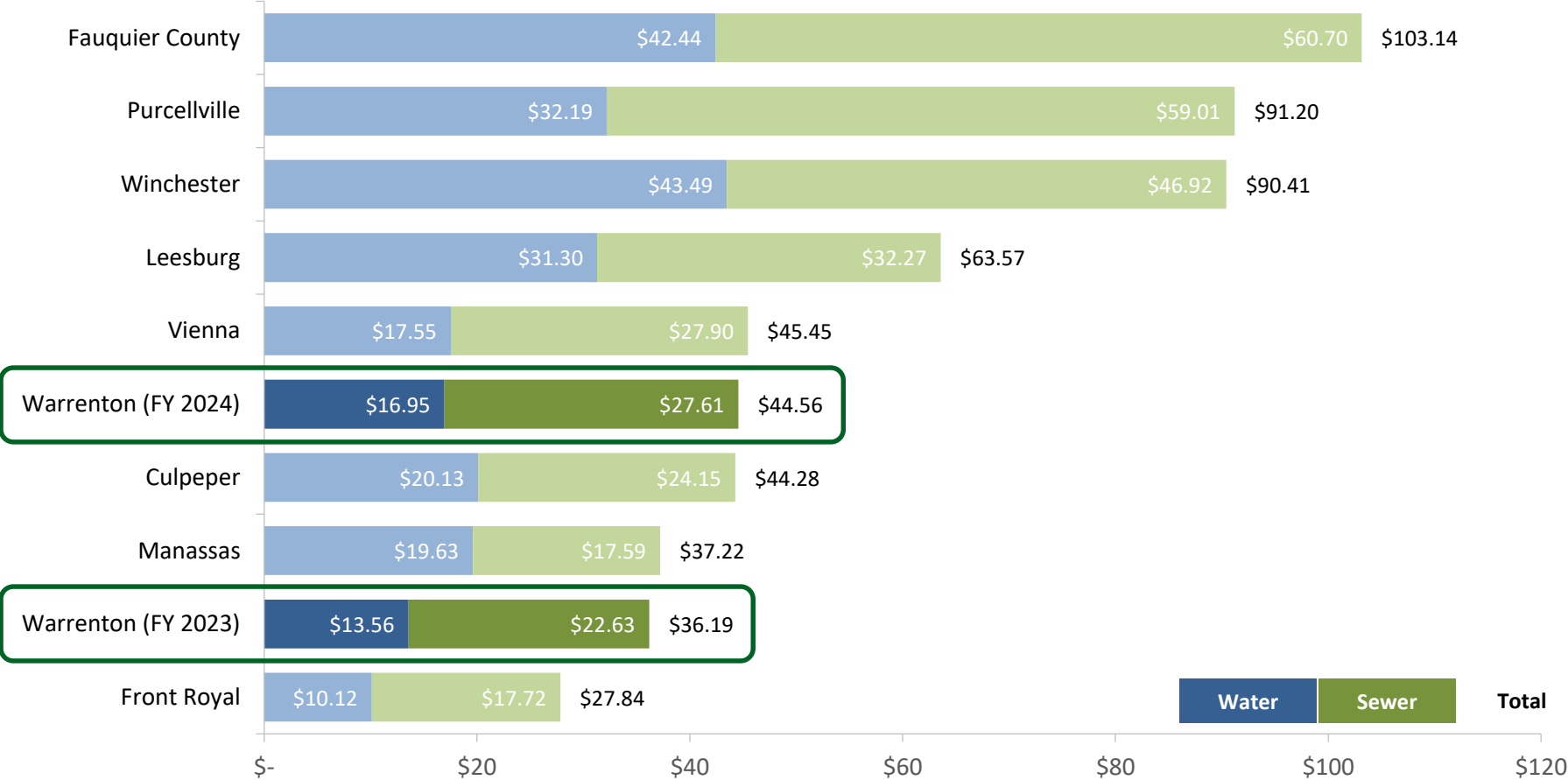
Combined Monthly Bill Impact



| User | Monthly Usage (gallons) | Monthly Bill | | | | | | |
|---|-------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| | | Current | FY 2024 | FY 2025 | FY 2026 | FY 2027 | FY 2028 | FY 2029 |
| Small User (25 th percentile) | 2,000 | \$18.99 | \$23.36 | \$28.74 | \$35.36 | \$43.52 | \$46.13 | \$48.90 |
| Median User (50th percentile) | 3,000 | \$36.19 | \$44.56 | \$54.87 | \$67.58 | \$83.24 | \$88.23 | \$93.53 |
| Large User (75 th percentile) | 5,000 | \$70.59 | \$86.96 | \$107.13 | \$132.02 | \$162.68 | \$172.43 | \$182.79 |
| \$ Increase for Median User | 3,000 | | \$8.37 | \$10.31 | \$12.71 | \$15.66 | \$4.99 | \$5.30 |
| % Increase for Median User | 3,000 | | 23.1% | 23.1% | 23.2% | 23.2% | 6.0% | 6.0% |

In Town Residential customers with 5/8 inch meters

FY 2024 Combined Monthly Bill Comparison



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

NewGen Recommendations



- Adopt the projected water and sewer rates for FY 2024.
- 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 2023: Town adopts Operating and Capital Budget and corresponding user rates.
- Summer/Early Fall 2023: Implement next phase of capital plan via a self-supporting utility borrowing.
- Fall 2023 into Winter 2023/2024: Update multi-year plan based upon actual results for FY 2023 and updated capital costs.

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