

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



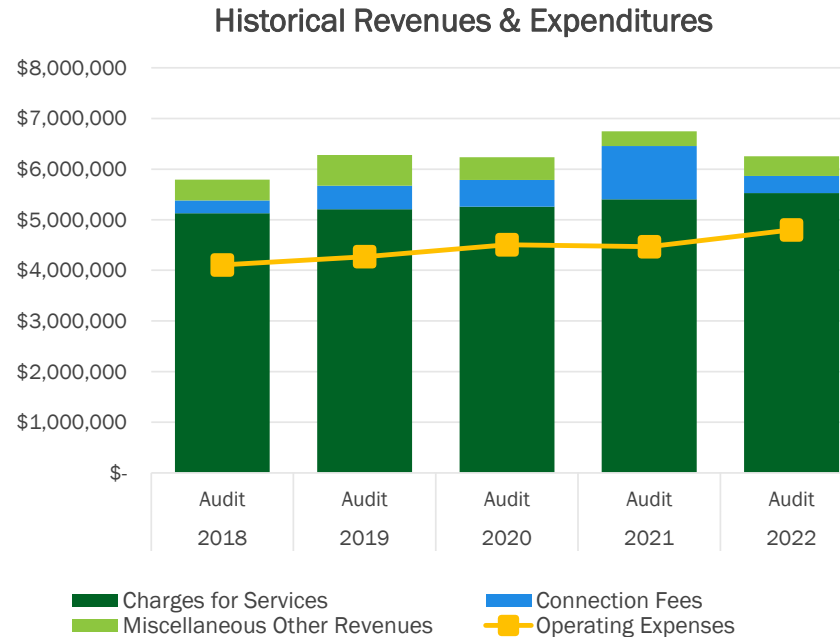
1. Present the historical financial results of the Utility System;
2. Present the Utility System's current debt profile;
3. Review the previously presented multi-year rate plan and underlying assumptions;
4. Outline key changes in assumptions for the current update of the multi-year rate plan; and
5. 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

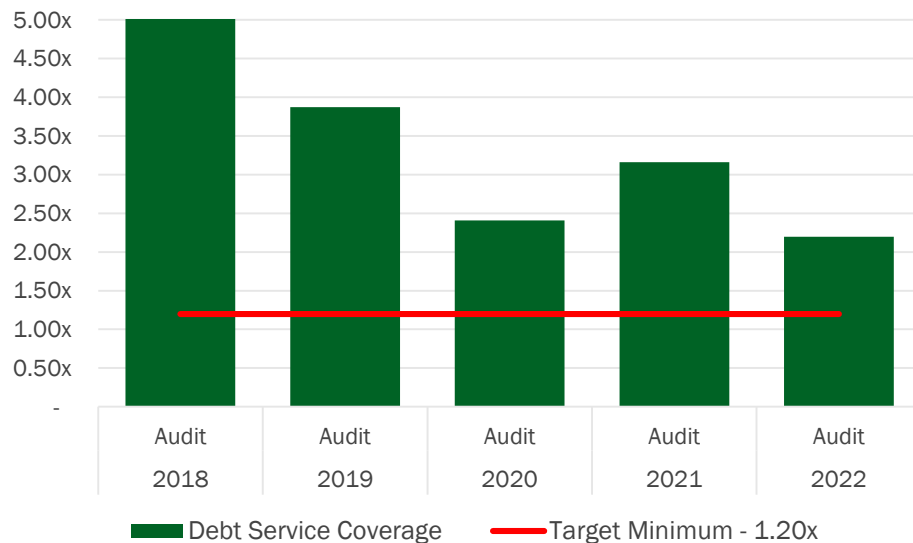


Town of Warrenton, Virginia		2018	2019	2020	2021	2022	
Utility System Revenues & Operating Exp.		Audit	Audit	Audit	Audit	Audit	
1	Revenues						
2	Charges for Services	\$ 5,125,028	\$ 5,205,517	\$ 5,257,620	\$ 5,401,565	\$ 5,524,892	
3	Connection Fees	252,975	467,187	526,725	1,050,300	336,545	
4	Miscellaneous 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	

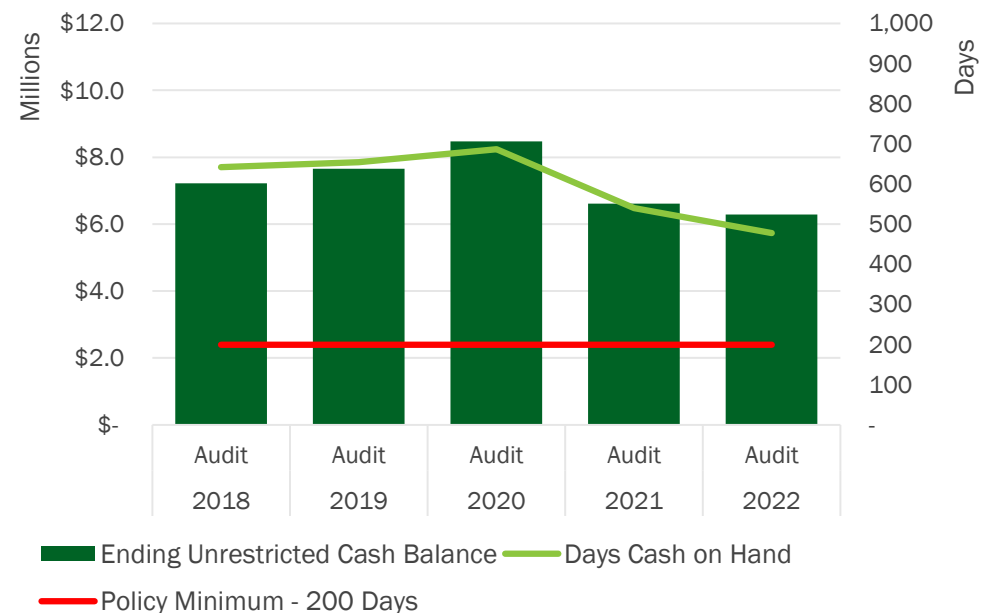
Selected Historical Financial Metrics



Debt Service Coverage



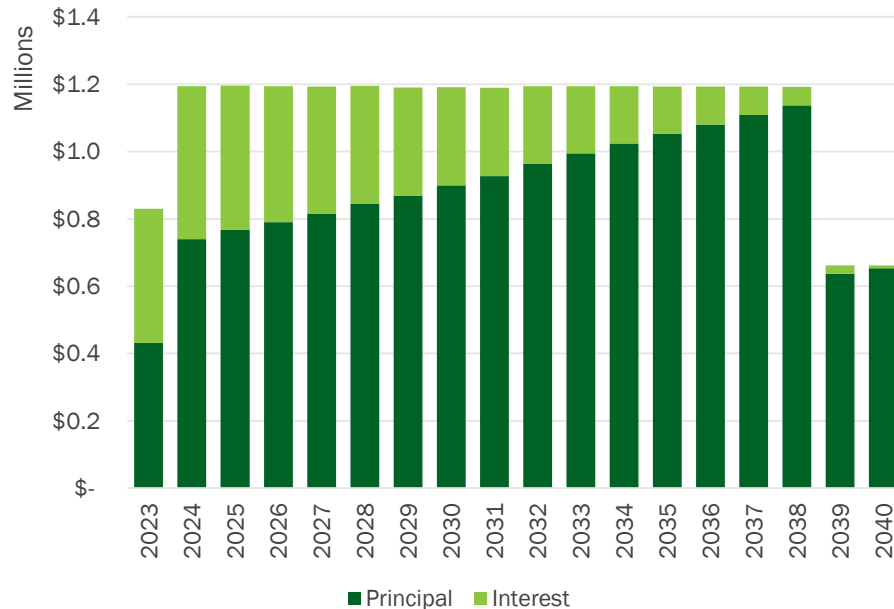
Cash Balance



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

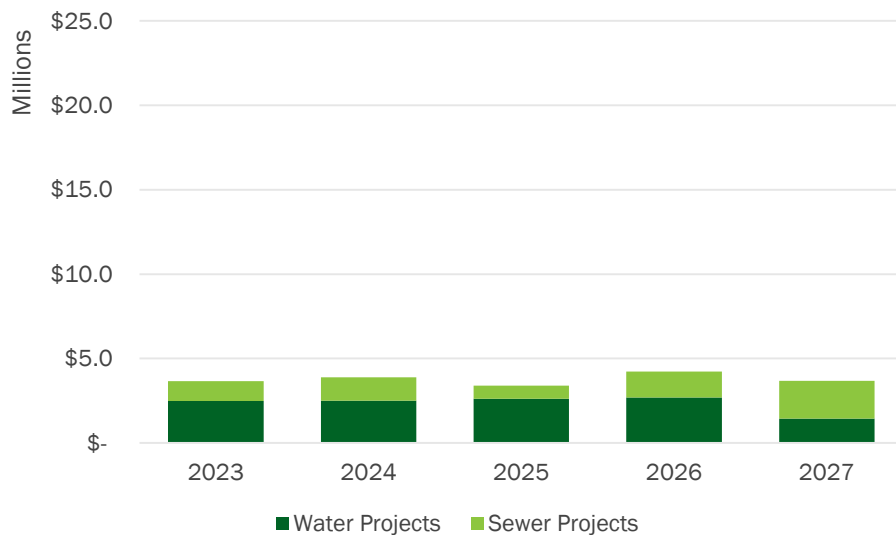
- Over the last year, inflation has caused the prices of most goods and services to increase materially.
- Energy and other natural resource costs have seen significant price increases due to global pressures.
- This creates further increasing pressures on the Utility System's Operating Expenditures.
 - 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)

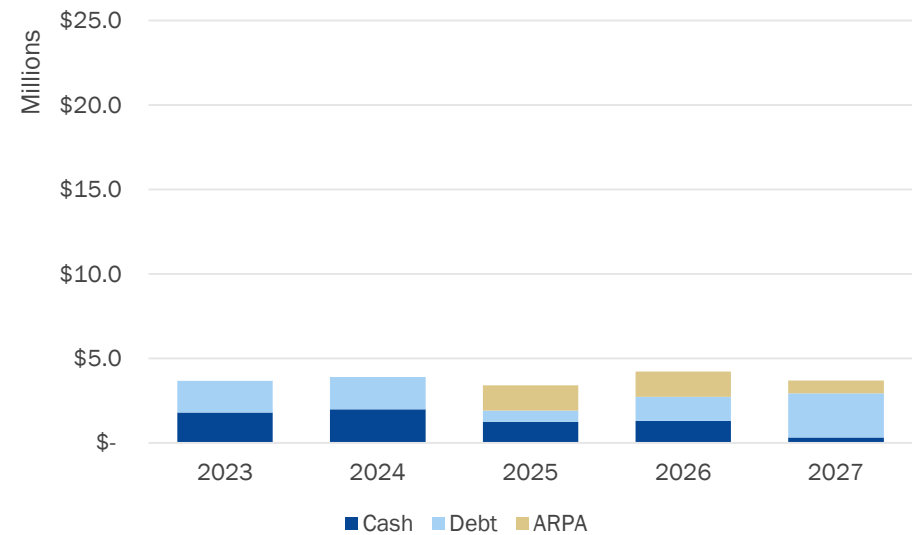


- The Town is contemplating funding a Capital Improvement Plan of approximately \$18-19 Million over the next 5 years, as reflected below.
 - Approximately 45% is anticipated to be funded with debt (\$8.5 Million), 35% from cash (\$6.6 Million), and 20% from ARPA (\$3.8 Million).

Uses of Funds



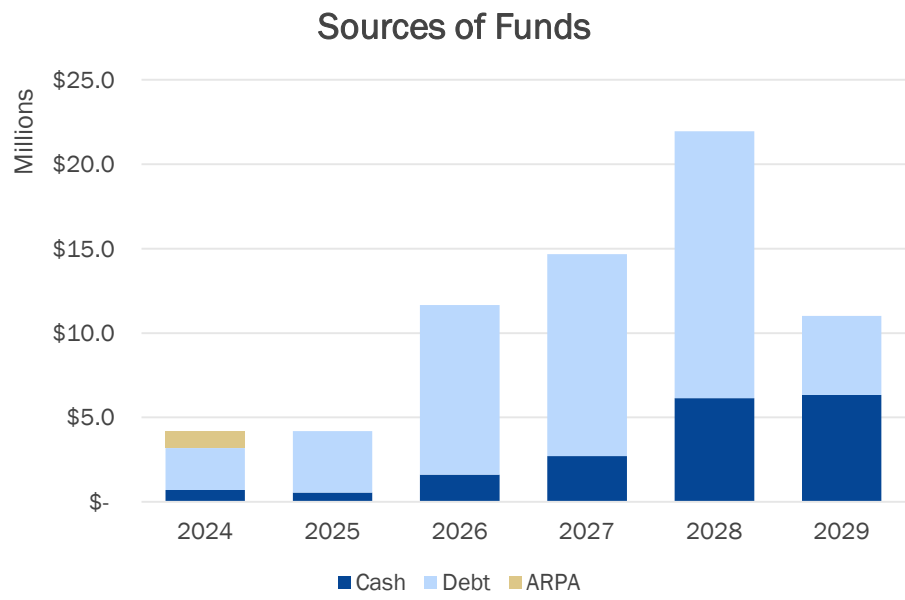
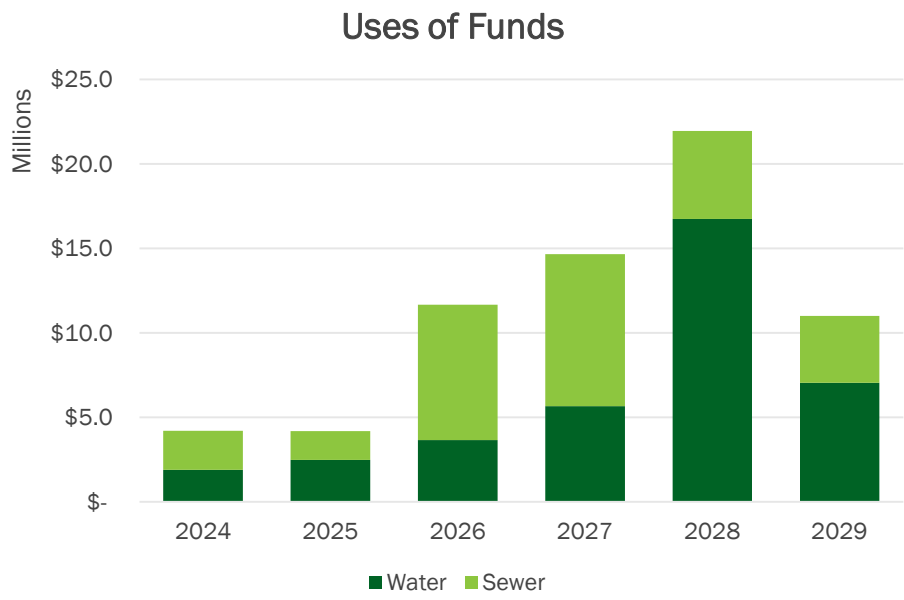
Sources of Funds



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.

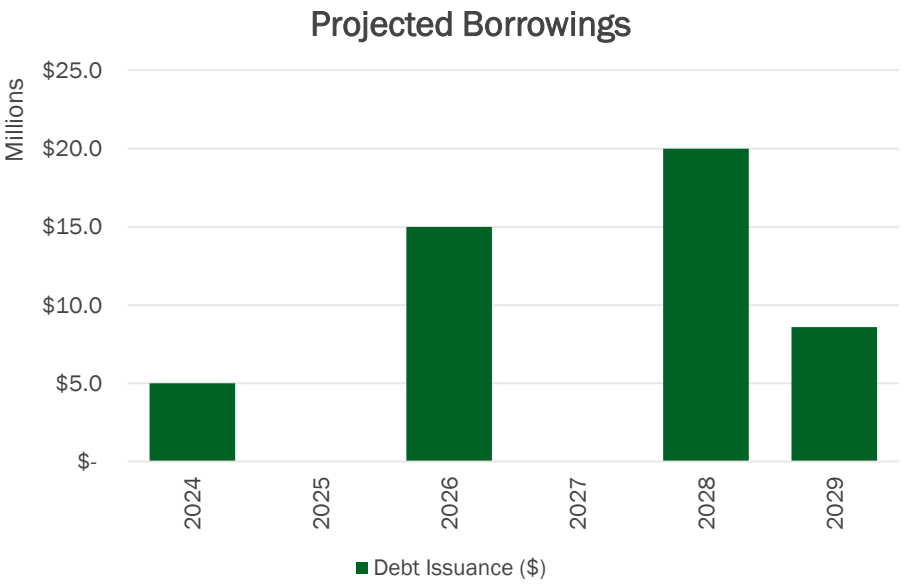
- Key aspects of the Debt component include:
 - Paying interest-only for 2+ years to incrementally ramp up debt service and relieve pressure on rate increases;
 - 28 years of principal amortization in order to spread out the cost of borrowing over roughly 30 years;
 - The interest rate for the borrowing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

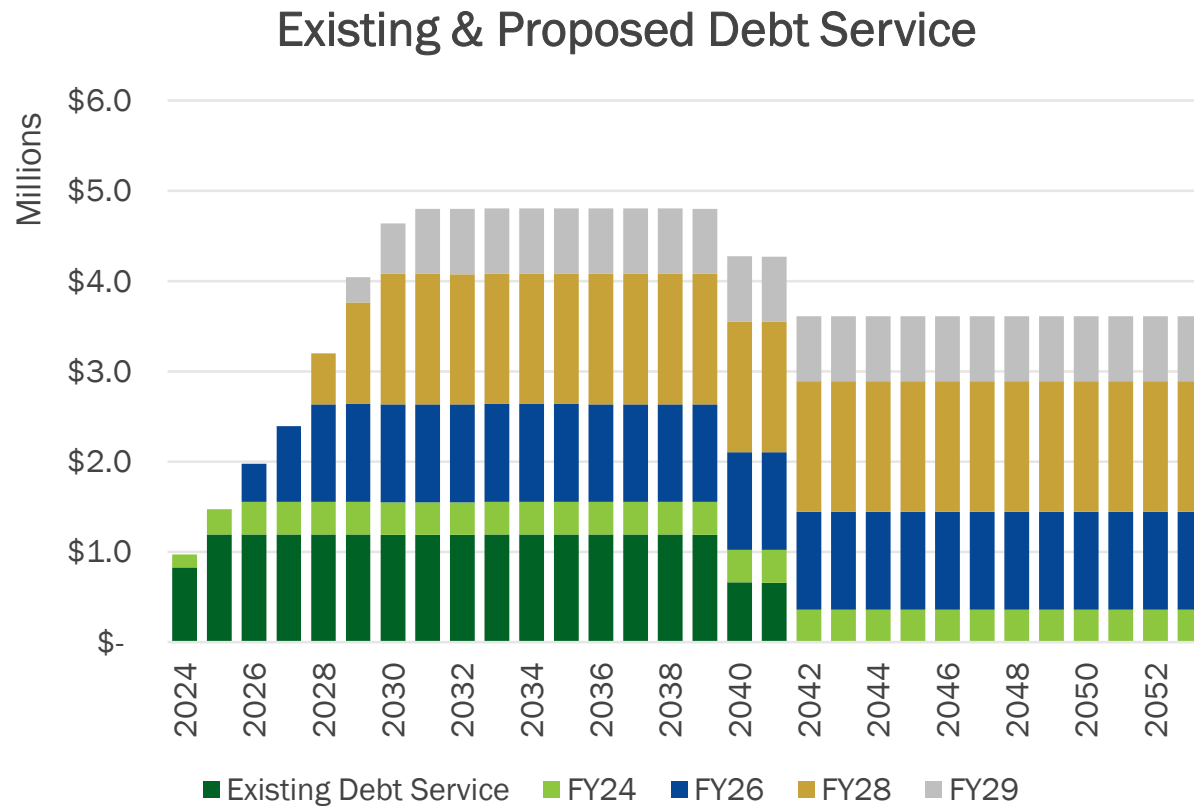


Sources of Funds		Total
1	Cash	\$ 18,081,942
2	ARPA	1,000,000
3	Debt	48,587,699
4	Total Sources	\$ 67,669,641



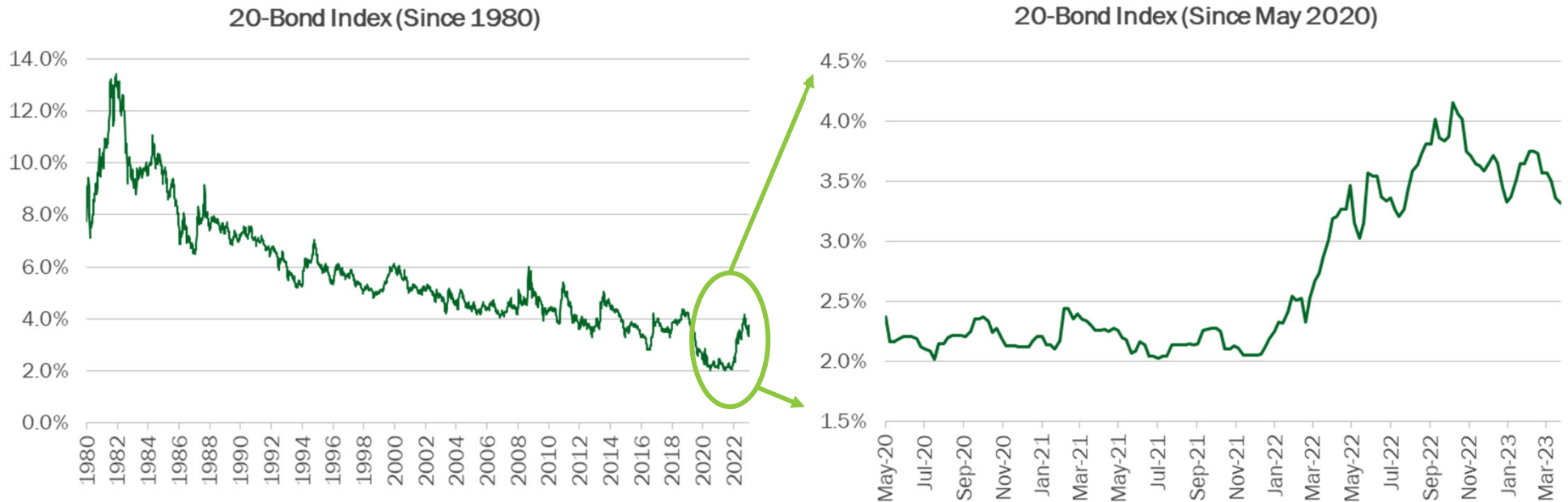
FY	2024	2025	2026	2027	2028	2029
Debt Issuance (\$)	\$ 5,000,000	\$ -	\$ 15,000,000	\$ -	\$ 20,000,000	\$ 8,587,699

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.

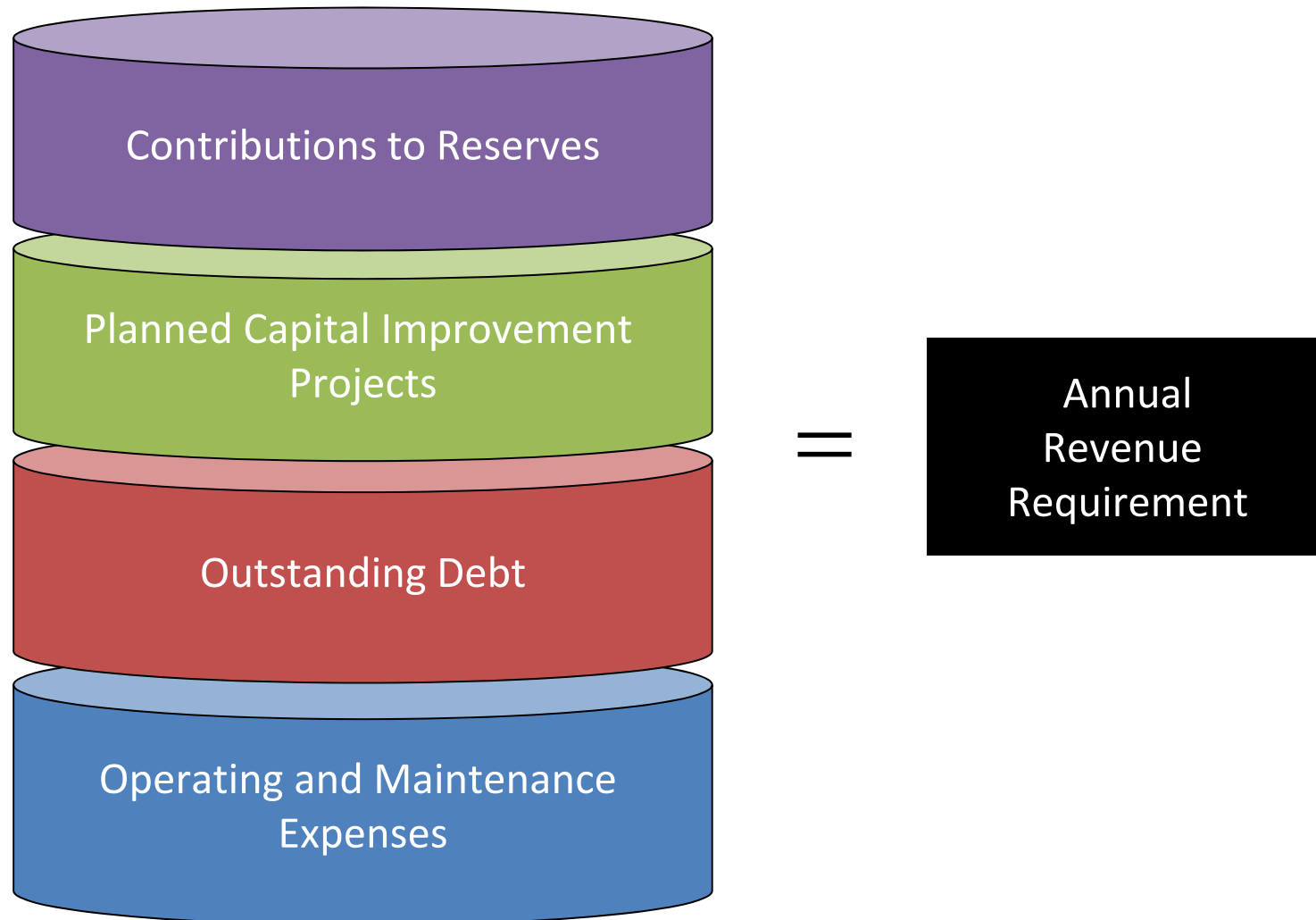
Interest Rate Environment | Tax-Exempt



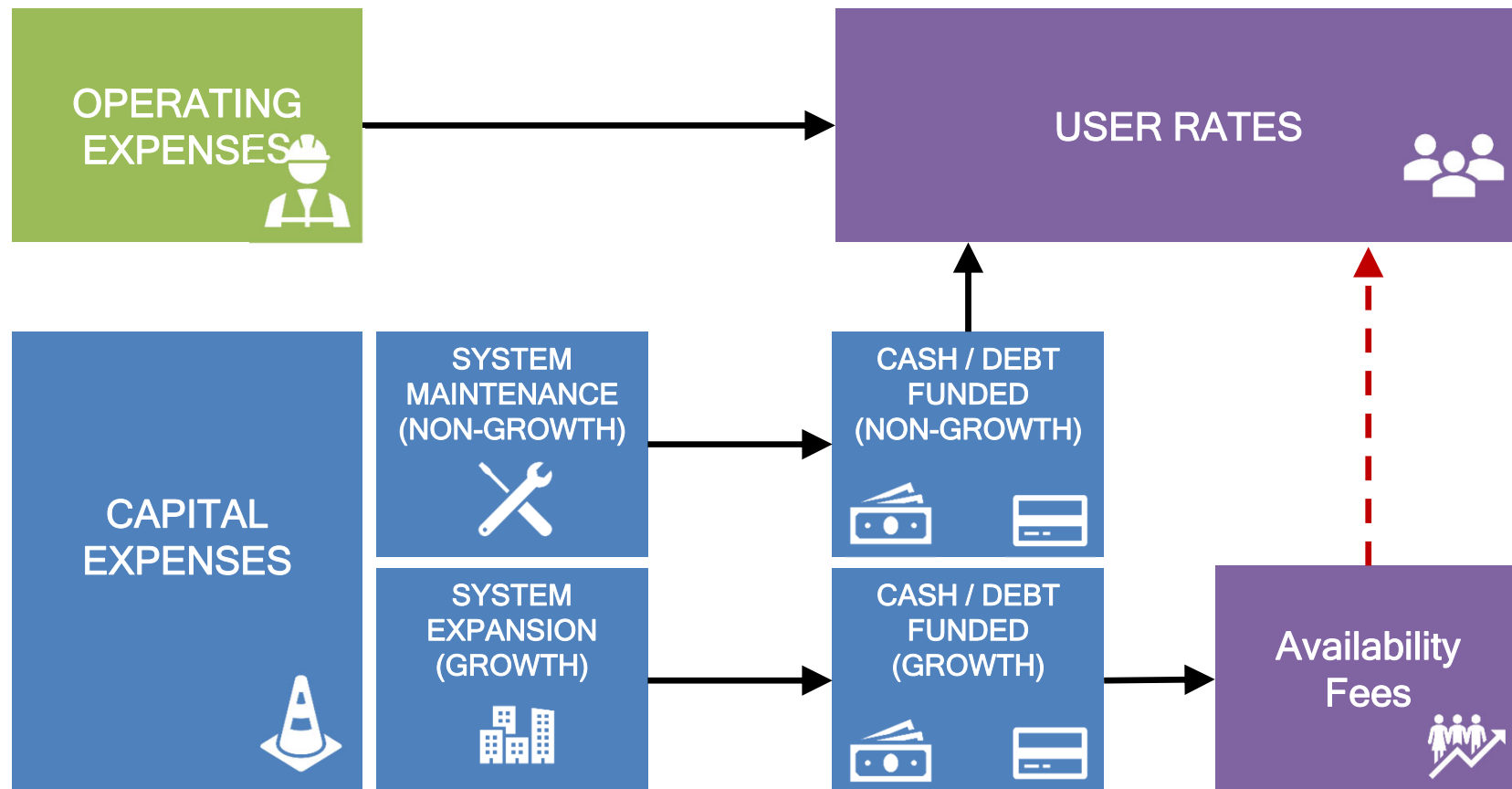
Interest rates increased during calendar year 2022, however, they still remain at historically favorable levels.

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

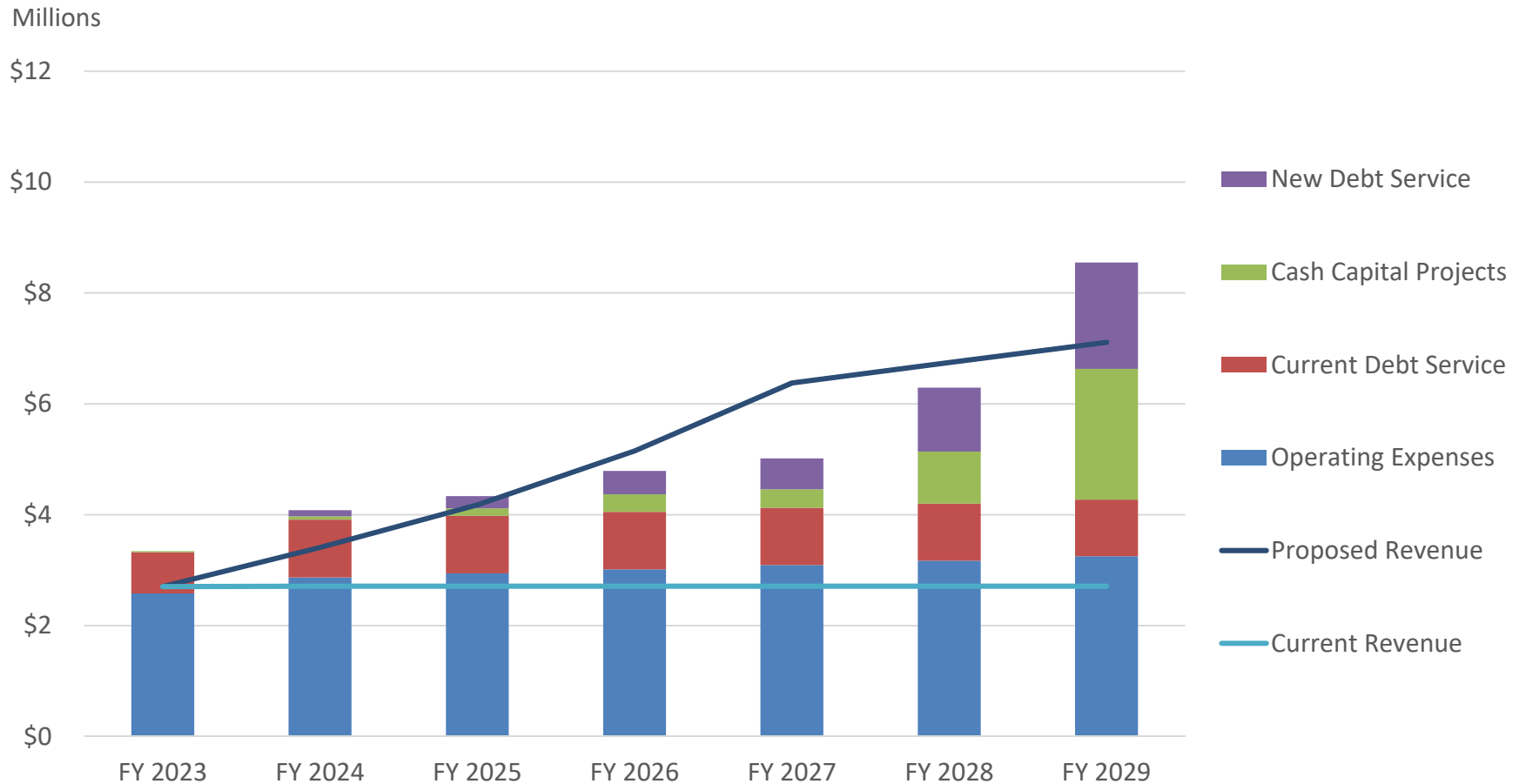


Relationship between User Rates and Availability Fees



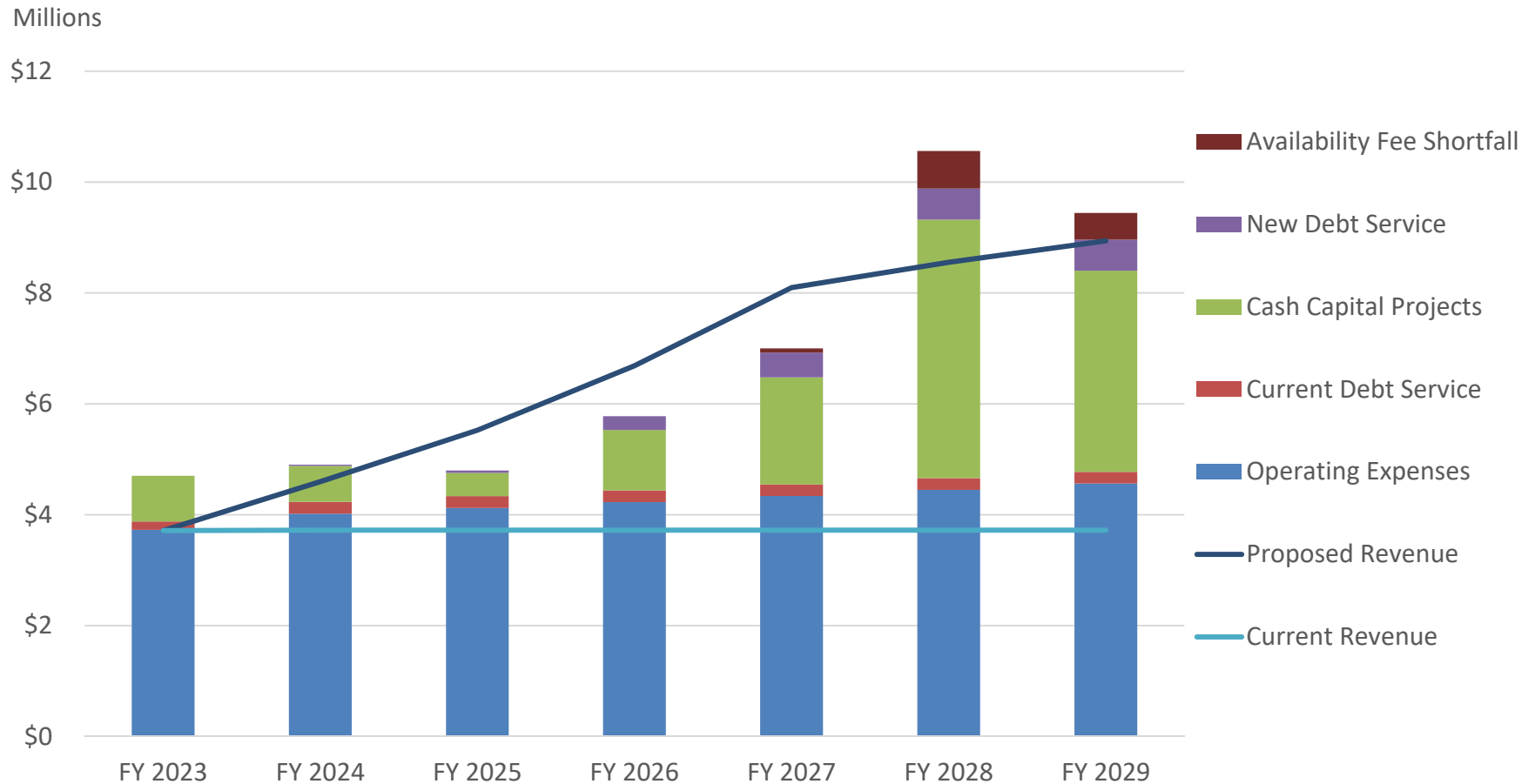
If availability fees are set at less than cost or anticipated growth does not occur, existing customers will have to make up the difference via higher user rates.

Revenue Requirements vs. Current and Proposed Revenue – Water



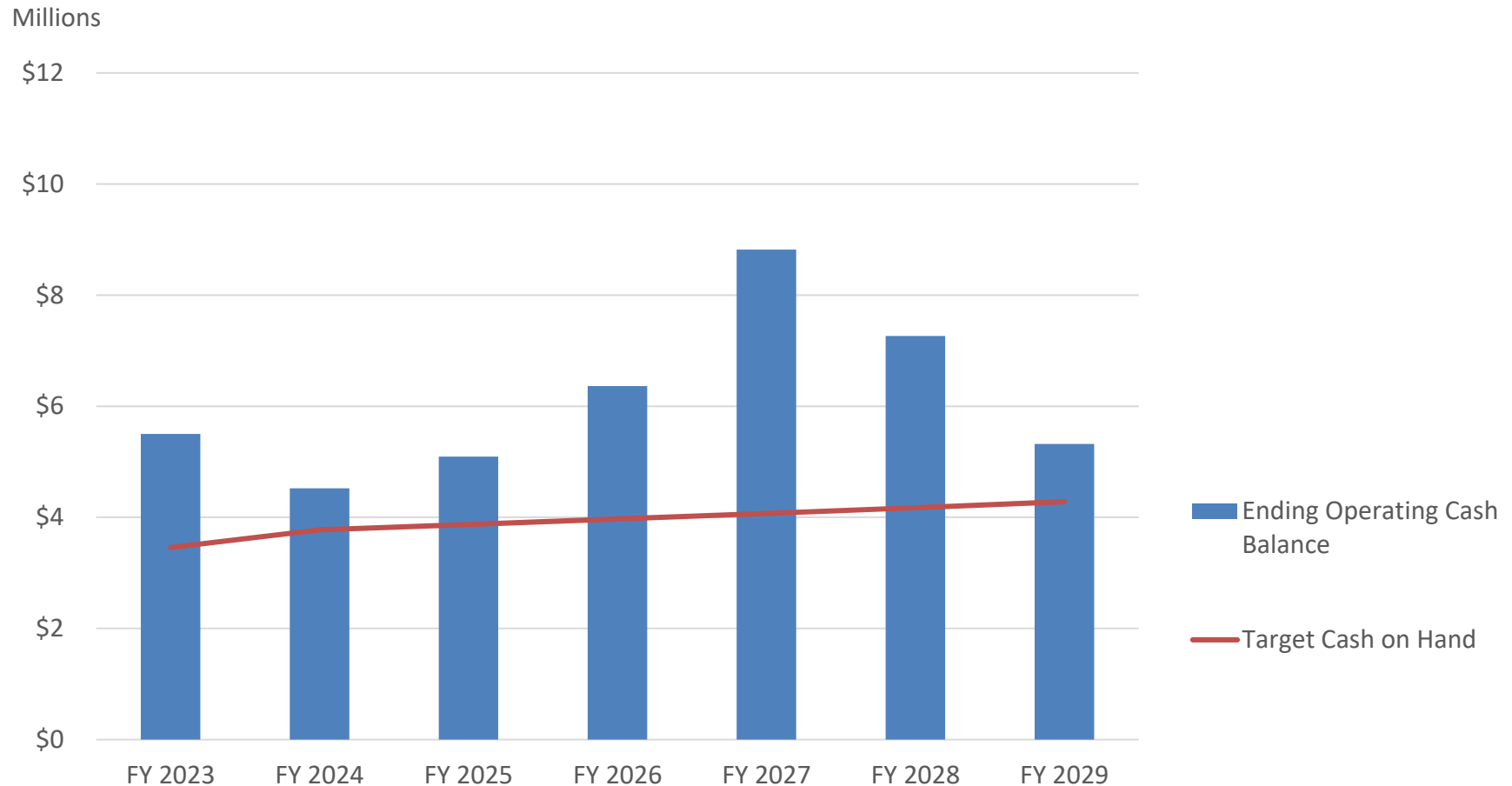
Proposed Revenue reflects a 25% increase in rate revenue from FY 2024 through FY 2027 and 6% in FY 2028 and FY 2029

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

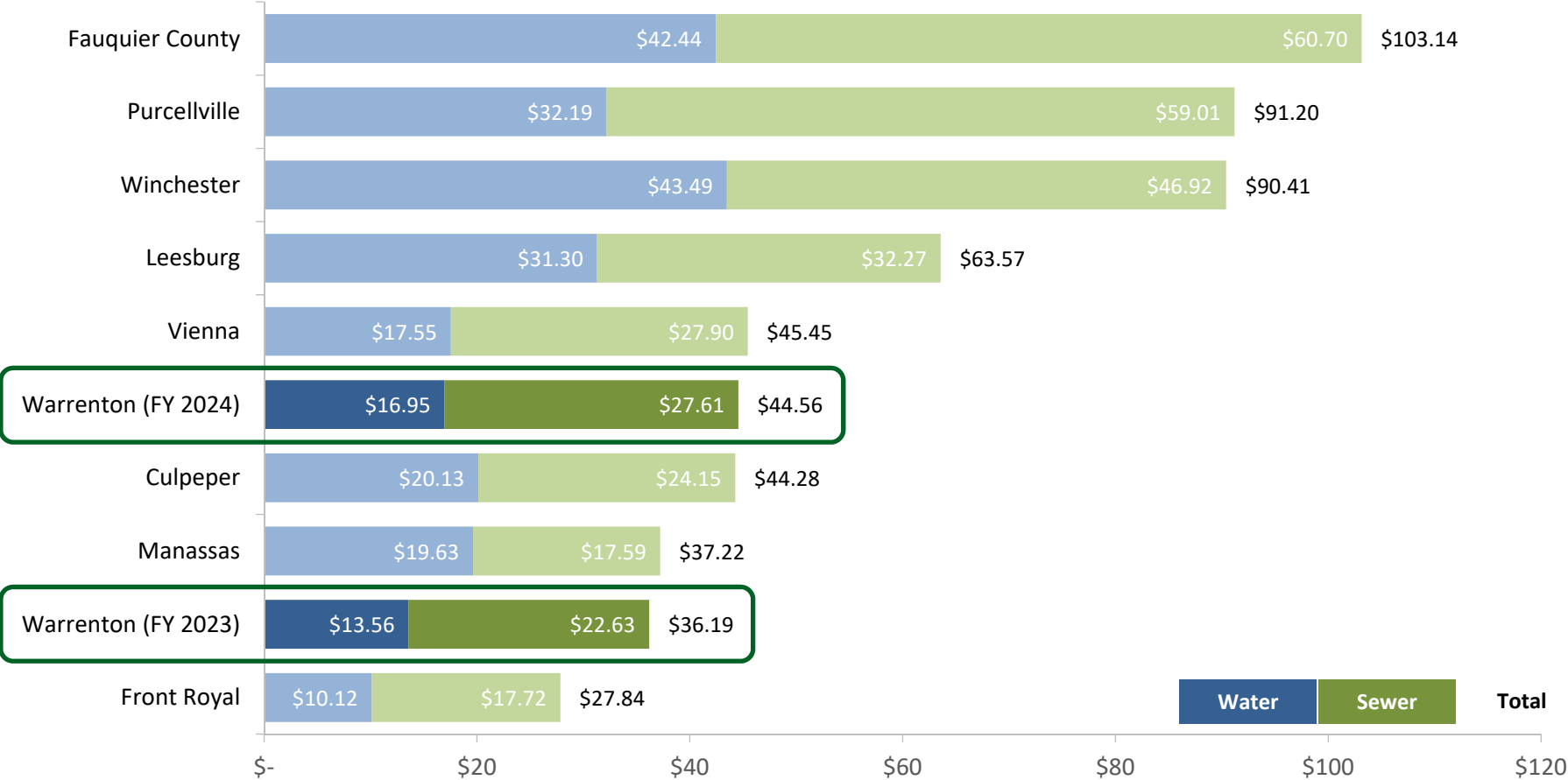
Combined Monthly Bill Impact



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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