

# Town of Warrenton, Virginia

## Water & Sewer Discussion Materials



May 9, 2023

# Overview



- 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

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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.



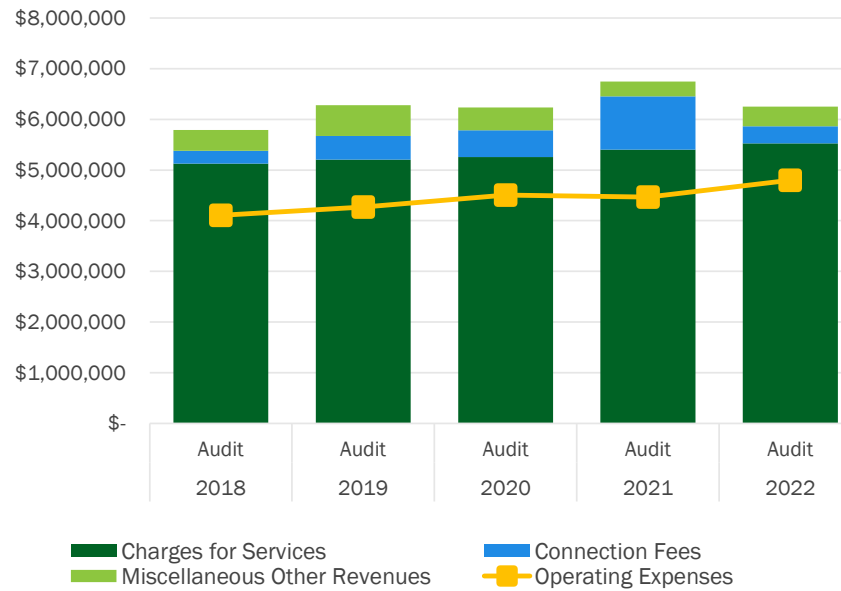
# Utility System Observations

- 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

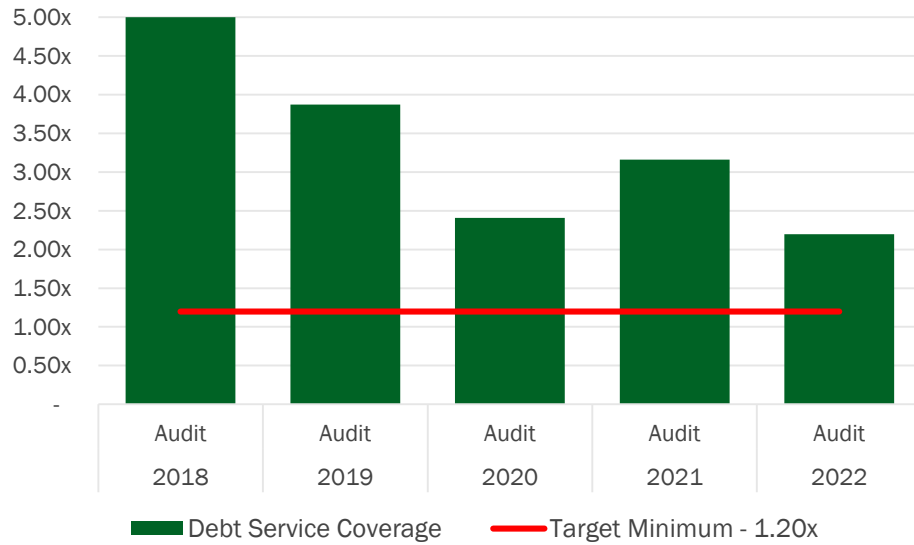


| Town of Warrenton, Virginia                     | 2018                | 2019                | 2020                | 2021                | 2022                |             |
|---|---------------------|---------------------|---------------------|---------------------|---------------------|-------------|
| Utility System Revenues & Operating Exp.        | Audit               | Audit               | Audit               | Audit               | Audit               |             |
| <b>1 Revenues</b>                               |                     |                     |                     |                     |                     |             |
| 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.   |
| <b>5 Total Revenues</b>                         | <b>\$ 5,788,574</b> | <b>\$ 6,278,422</b> | <b>\$ 6,234,707</b> | <b>\$ 6,746,686</b> | <b>\$ 6,249,509</b> | <b>1.5%</b> |
| 6 <i>Growth</i>                                 | <i>N/A</i>          | <i>8.5%</i>         | <i>-0.7%</i>        | <i>8.2%</i>         | <i>-7.4%</i>        |             |
| <b>7 Operating Expenses</b>                     | <b>\$ 4,107,605</b> | <b>\$ 4,266,934</b> | <b>\$ 4,504,090</b> | <b>\$ 4,467,687</b> | <b>\$ 4,798,238</b> | <b>3.2%</b> |
| 8 <i>Growth</i>                                 | <i>N/A</i>          | <i>3.9%</i>         | <i>5.6%</i>         | <i>-0.8%</i>        | <i>7.4%</i>         |             |
| <b>9 Net Revenue Available for Debt Service</b> | <b>\$ 1,680,969</b> | <b>\$ 2,011,488</b> | <b>\$ 1,730,617</b> | <b>\$ 2,278,999</b> | <b>\$ 1,451,271</b> |             |

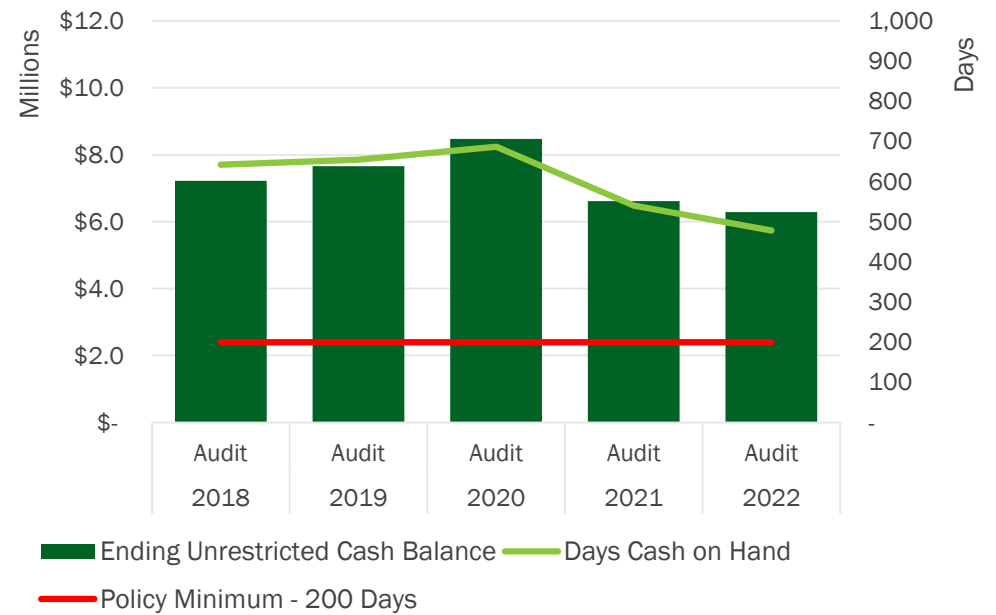
# Selected Historical Financial Metrics



### 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               |
|--------------|---------------------|--------------------|---------------------|
| <b>Total</b> | <b>\$15,733,000</b> | <b>\$4,314,855</b> | <b>\$20,047,855</b> |
| 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           |
| <b>Total Principal Outstanding</b> | <b>\$15,733,000</b> |



# Multi-Year Financial Plan - Observations

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- 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.

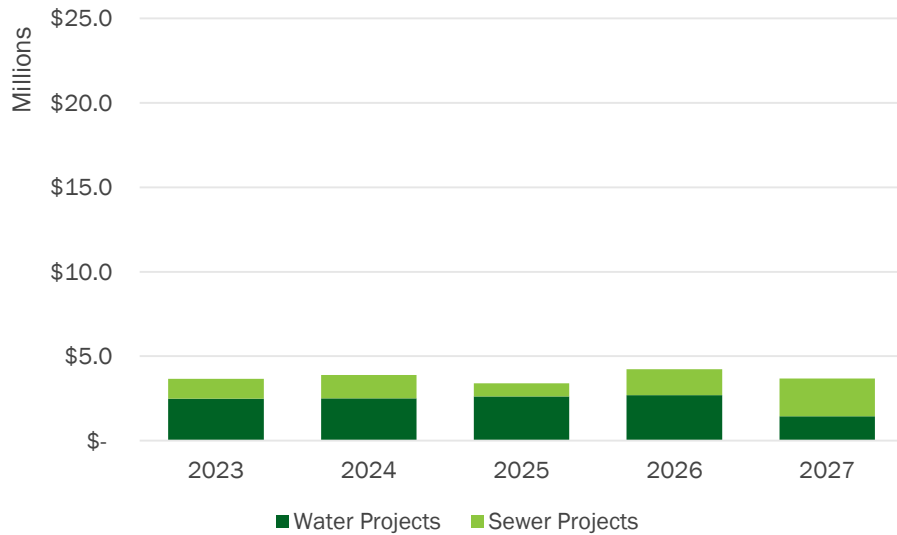


# Projected Capital Needs (Presented April, 2022)

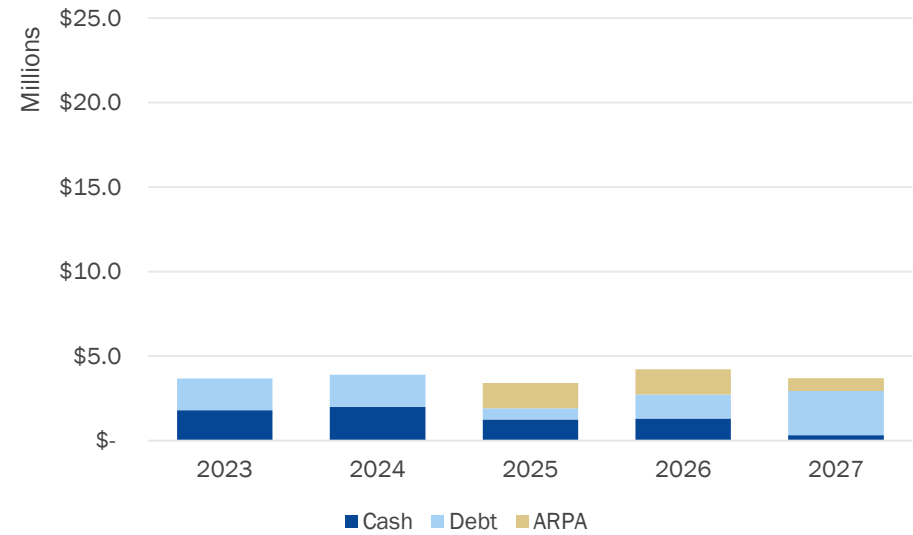


- The Town is contemplating funding a Capital Improvement Plan of approximately \$18-19 Million over the next 5 years, as reflected below.
  - Approximately 45% is anticipated to be funded with debt (\$8.5 Million), 35% from cash (\$6.6 Million), and 20% from ARPA (\$3.8 Million).

Uses of Funds



Sources of Funds

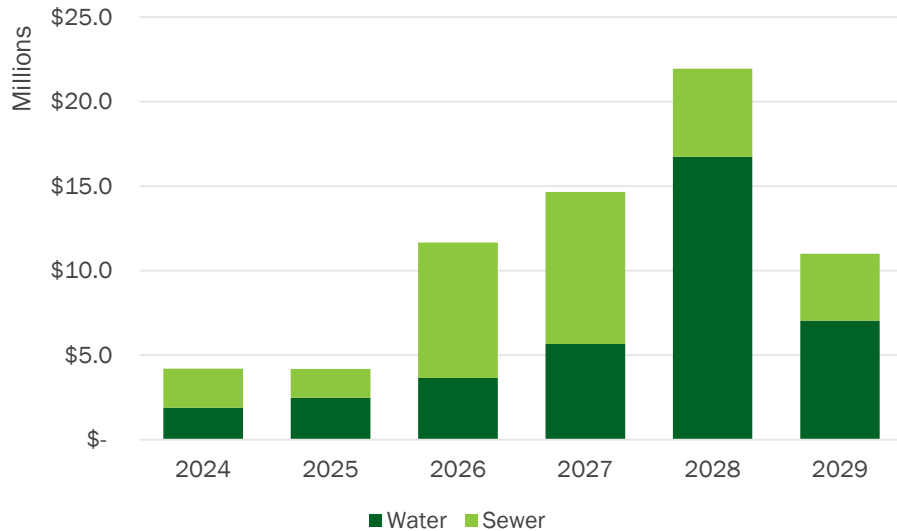




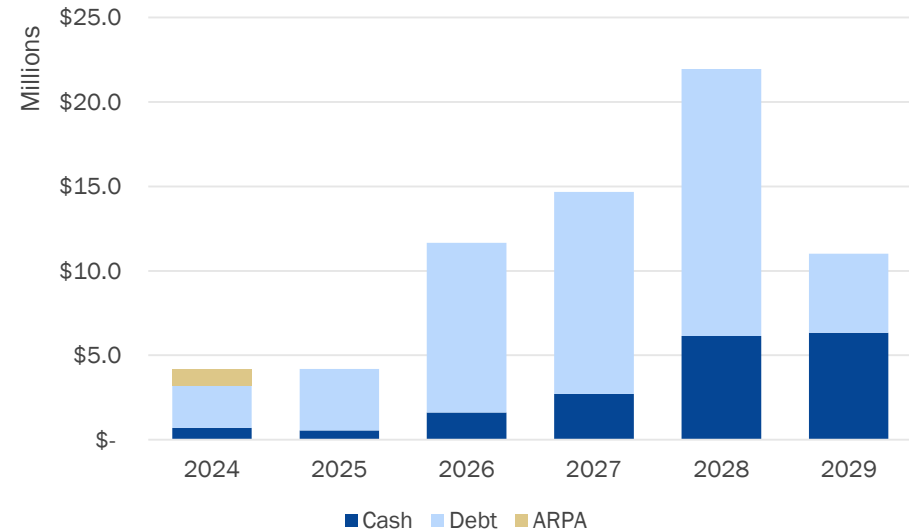
# Projected Capital Needs (As of May, 2023)

- 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).

Uses of Funds



Sources of Funds





# Multi-Year Plan of Finance

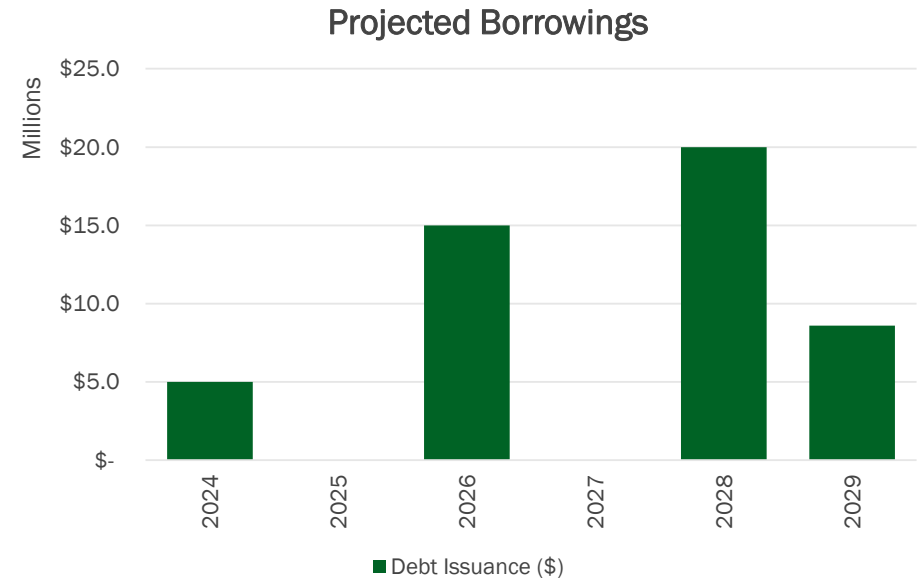
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- Davenport recommends that the Town pursue a “just-in-time” funding strategy utilizing a combination of Cash, ARPA, and Debt.
  
- Key aspects of the Debt component include:
  - Paying interest-only for 2+ years to incrementally ramp up debt service 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

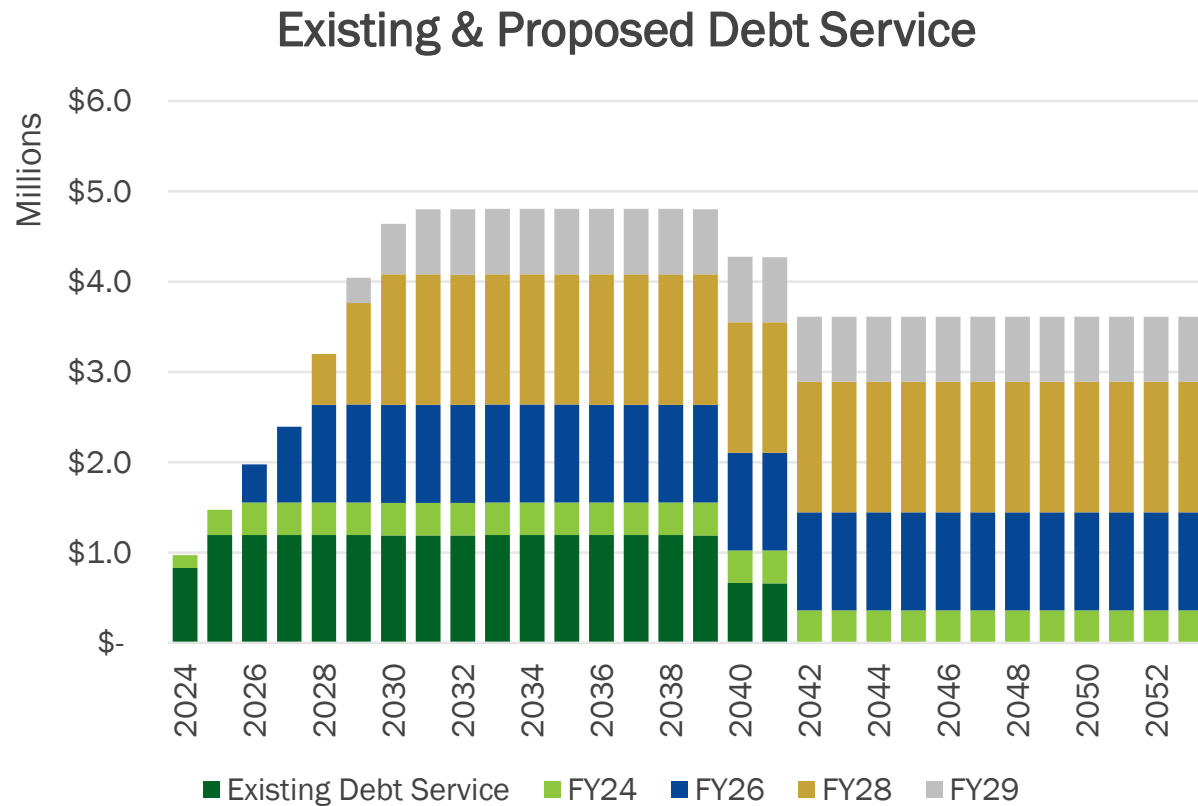


| Sources of Funds |                      | Total                |
|------------------|----------------------|----------------------|
| 1                | Cash                 | \$ 18,081,942        |
| 2                | ARPA                 | 1,000,000            |
| 3                | Debt       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



| 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.

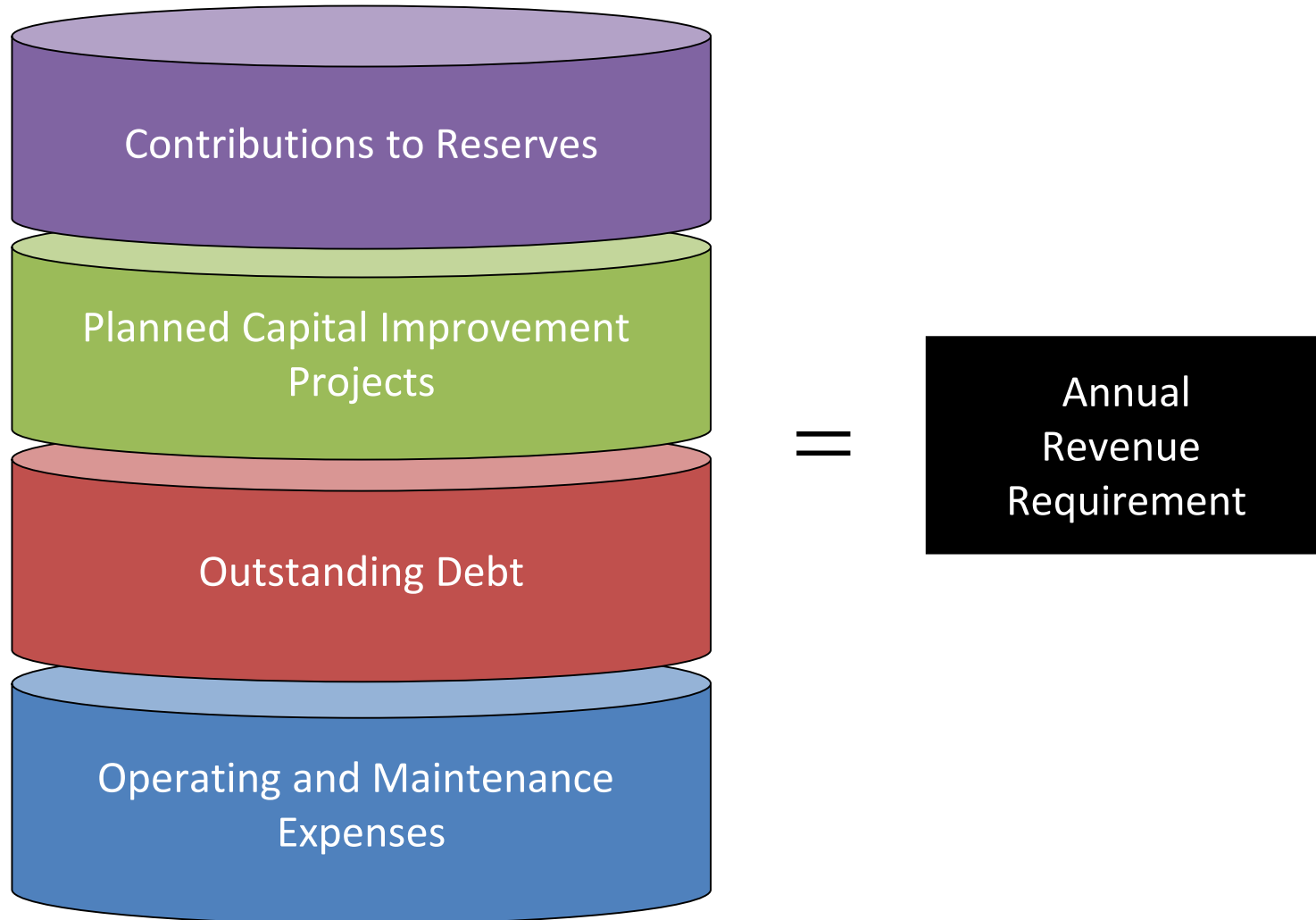
# Interest Rate Environment | Tax-Exempt



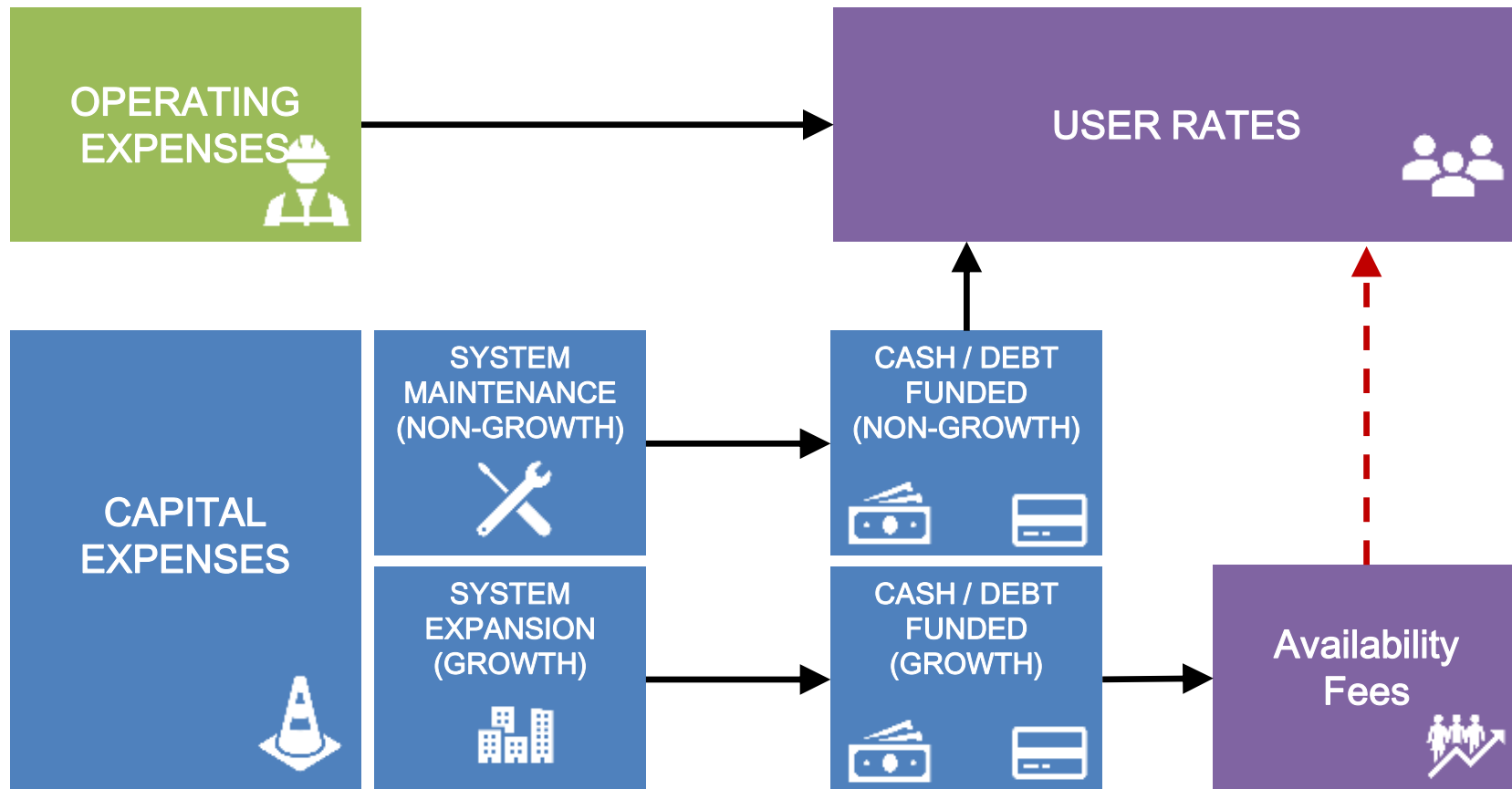
*Interest rates increased during calendar year 2022, however, they still remain at historically favorable levels.*

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



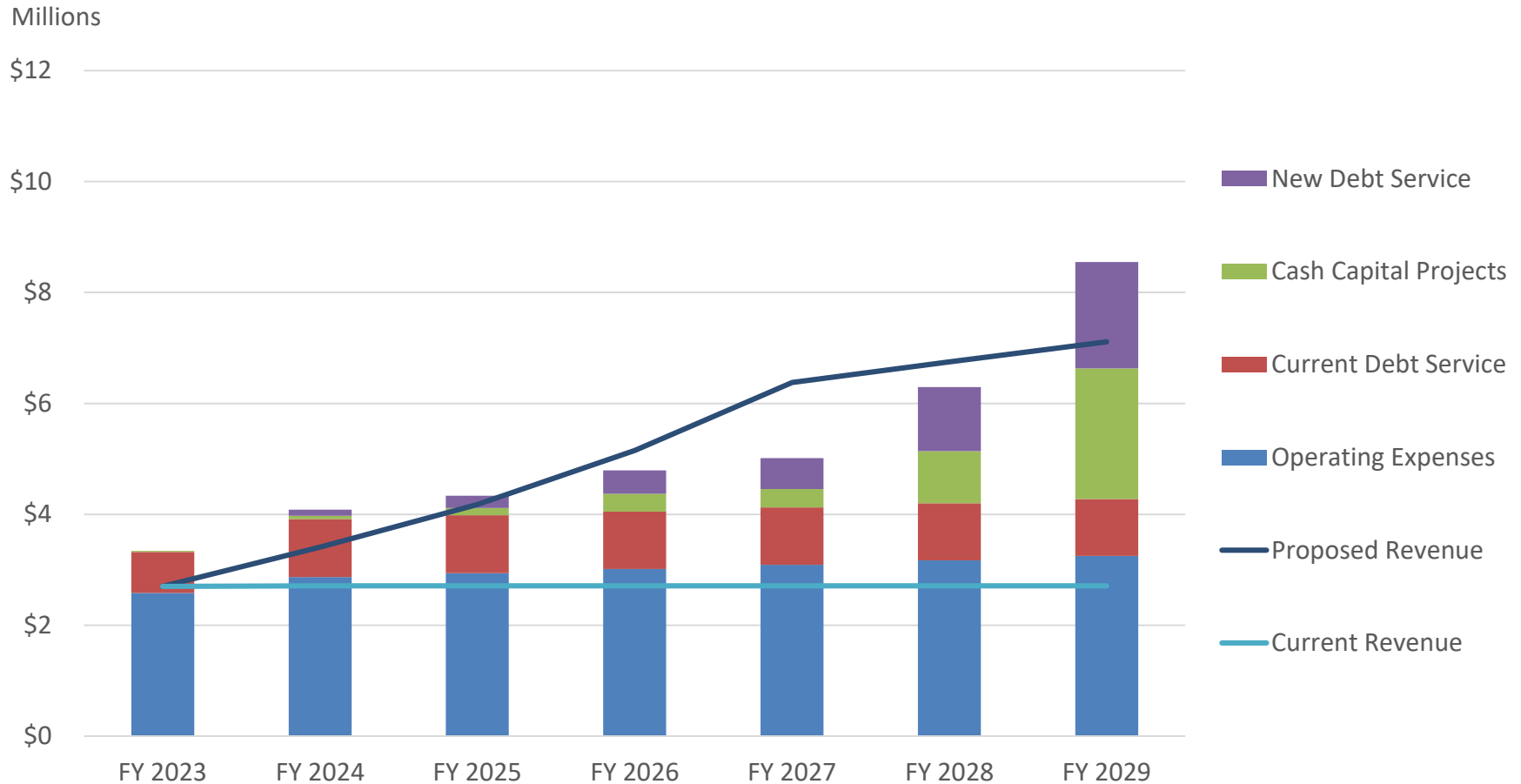
# Relationship between User Rates and Availability Fees



**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.**

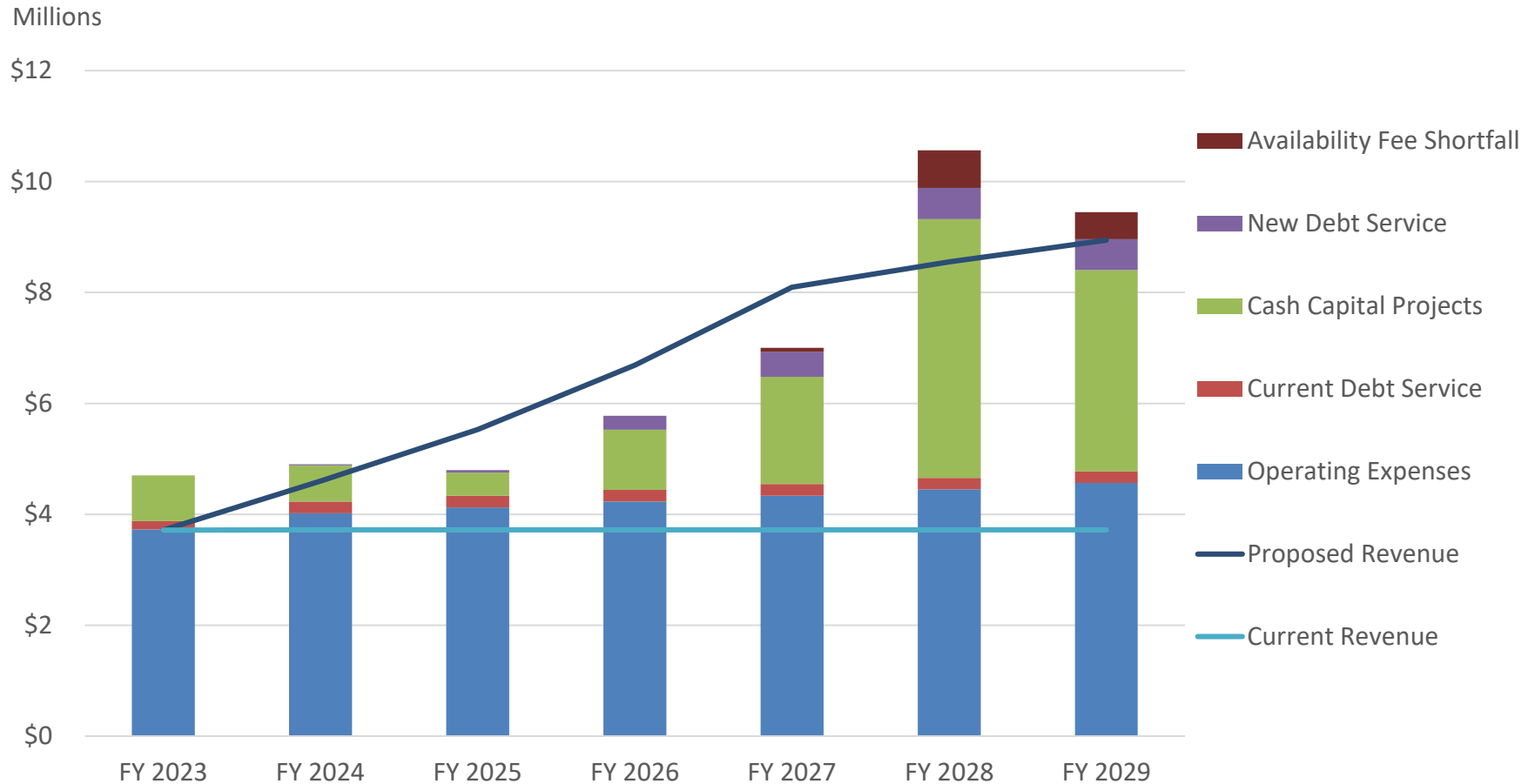


# Revenue Requirements vs. Current and Proposed Revenue – Water



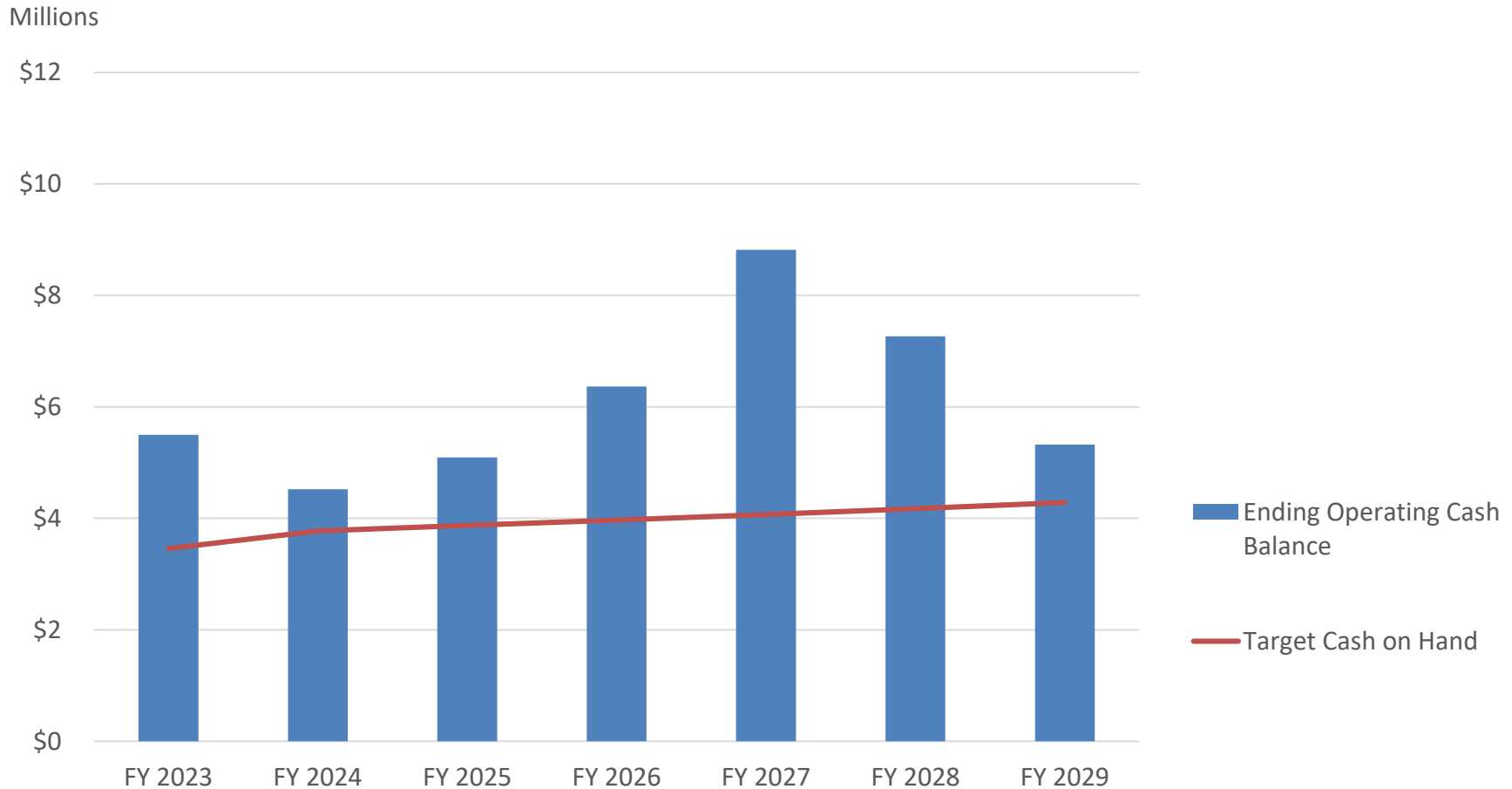
*Proposed Revenue reflects a 25% increase in rate revenue from FY 2024 through FY 2027 and 6% in FY 2028 and FY 2029*

# 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*

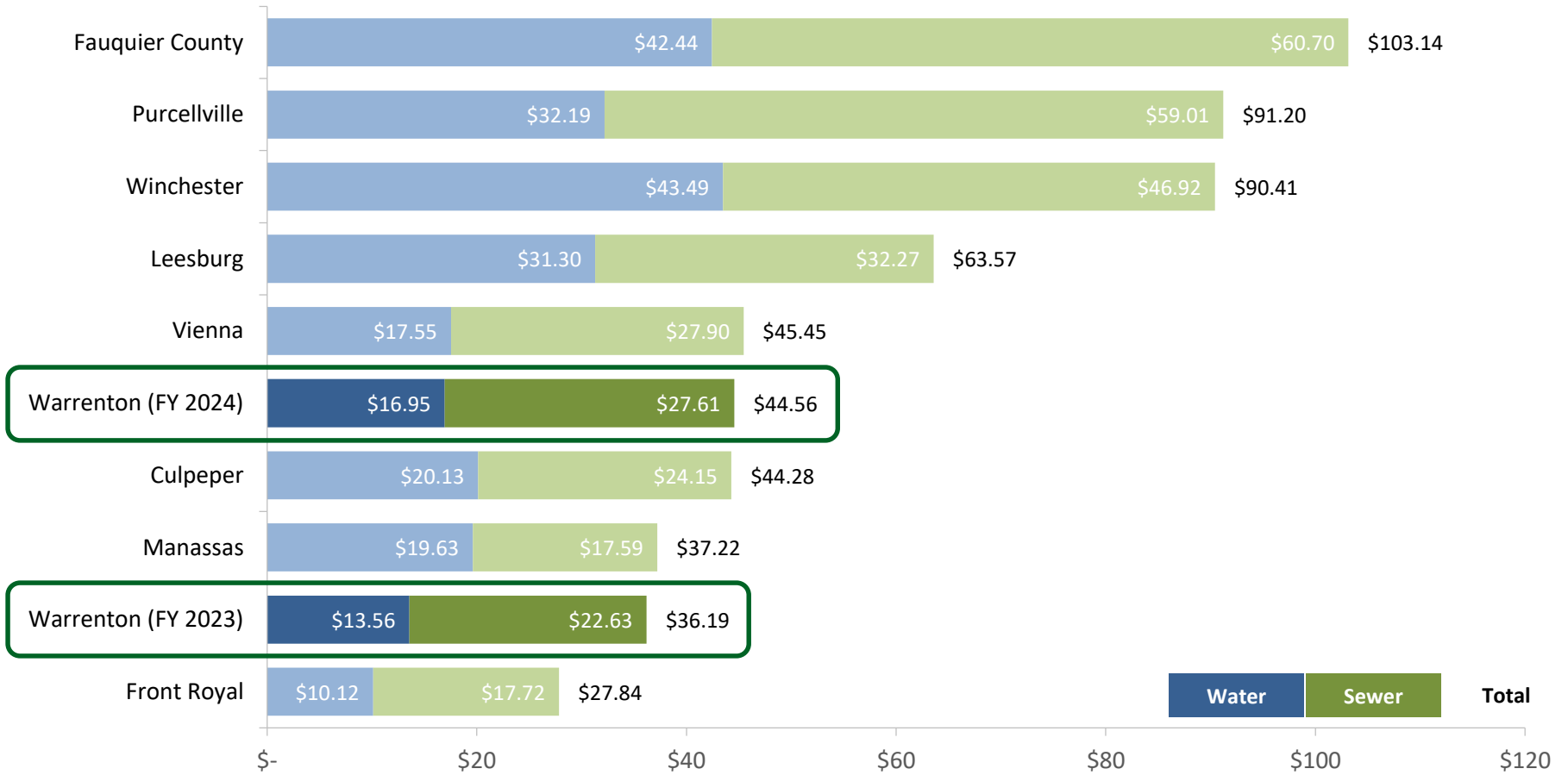
# Combined Monthly Bill Impact



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

*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

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- 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

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- 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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