



City of Watertown, WI

2024 Water Long-Range Cash Flow Analysis

October 8, 2024 Public Works Meeting

Why are we here?

- Water Utility completing future capital investment & have upcoming 2025 SDWFL to close
- Ehlers to identify fiscal sustainability
- Our Process
 - ✓ Historical Rate Implementation & Performance
 - ✓ Future Projections
 - O&M, Debt Service, Cash Funded Capital
 - Funding Project(s): Debt vs. Cash
 - ✓ Rate Impact analysis

PSC Windows of Opportunity to Adjust Rates

Simplified Rate Case ("SRC")

- Once a year and only if eligible
- Eligibility based on time and finances
 - Time: Once a year and w/in 5 years since last CRC
 - Finances: if PSC report indicates that year's SRC rate would not take utility over benchmark ROR

Conventional Rate Case ("CRC")

- Eligible whenever
- PSC will generally want their math

Water: Historical Rate Implementation

- Rates were last adjusted in
 - ✓ April 15, 2017 through a CRC
 - ✓ July 16, 2016 through a SRC
- Ineligible for SRC
 - ✓ Only opportunity to adjust rates will be a CRC until that is completed and then another 5 year window would be opened for SRCs

PSC Math Review

How much revenue should we generate from user rates?



Cash Basis

- + Op. and Maint. Expenses
- + Taxes/Transfer Payments
- + Debt Service (P&I)
- + Capital funded from rates
- Less Non-rate Revenue
- = Total Revenue Requirements

Utility Basis - PSC

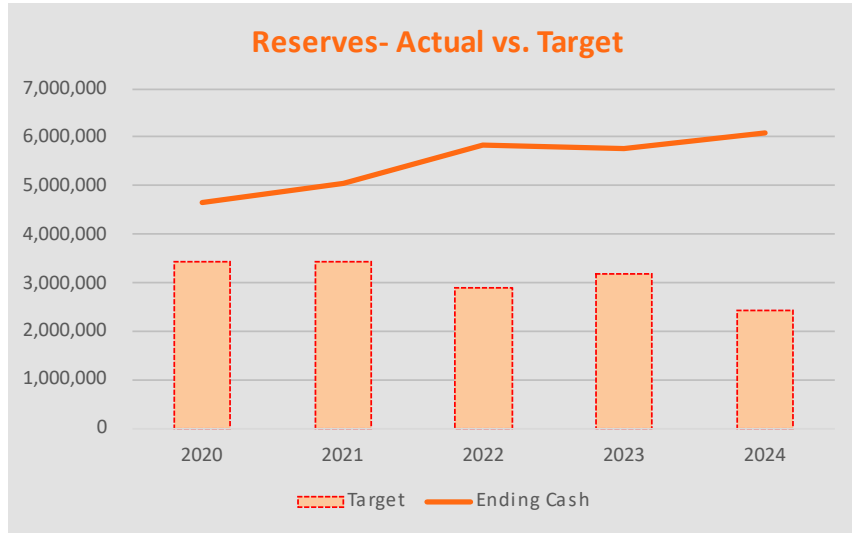
- + Op. and Maint. Expenses
- + Taxes/Transfer Payments
- + Depreciation
- + Rate of Return on Rate Base
- Less Non-Rate Revenue
- = Total Revenue Requirements

Water: Historical Rate Performance

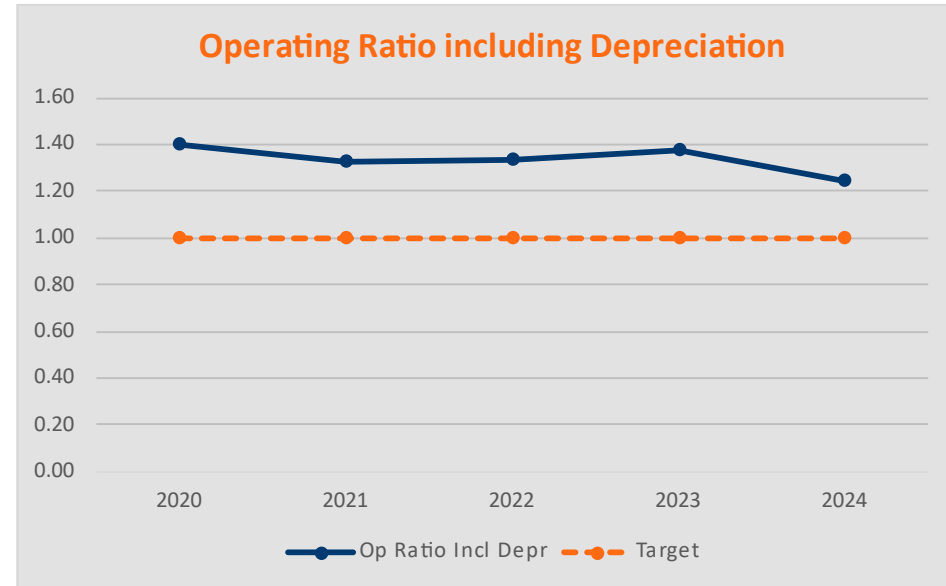
		Shown with no increase				Est	Budget
Component	Description	2020	2021	2022	2023	2024	2025
Cash Basis							
1	O&M and PILOT	\$2,601,384	\$2,928,980	\$2,930,493	\$2,852,645	\$3,579,894	\$3,649,805
2	Debt	\$1,331,794	\$1,328,941	\$1,330,123	\$868,016	\$874,420	\$878,183
3	Cash Funded Capital ^A	\$1,544,152	\$1,645,565	\$1,874,648	\$2,052,774	\$1,949,393	\$534,998
Less:							
	Other Revenue	\$164,204	\$211,209	\$207,029	\$228,103	\$182,500	\$182,500
	Interest Income	\$38,169	\$8,287	\$28,991	\$306,790	\$140,000	\$140,000
	Revenue Requirement (Costs less Other Income)	\$5,274,957	\$5,683,990	\$5,899,244	\$5,238,542	\$6,081,207	\$4,740,486
	User Rates Revenue	\$5,242,195	\$5,408,766	\$5,442,790	\$5,367,953	\$5,442,790	\$5,442,790
	Rate Adequacy	(\$32,762)	(\$275,224)	(\$456,454)	\$129,411	(\$638,417)	\$702,304
	Rate Adjustment Needed	0.62%	5.09%	8.39%	0.00%	11.73%	0.00%
Utility Basis (PSC)							
1	O&M and PILOT	\$2,601,384	\$2,928,980	\$2,930,493	\$2,852,645	\$3,579,894	\$3,649,805
2	Depreciation	\$1,034,416	\$1,070,670	\$1,070,083	\$989,522	\$1,009,317	\$1,063,944
	NIRB	\$30,473,640	\$30,311,734	\$30,123,906	\$30,764,399	\$31,503,420	\$32,077,468
	PSC Benchmark ROI %	4.90%	4.90%	4.90%	6.50%	6.30%	6.20%
3	PSC Calculated ROI	\$1,493,208	\$1,485,275	\$1,476,071	\$1,999,686	\$1,984,715	\$1,988,803
Less:							
	Other Revenue	\$164,204	\$211,209	\$207,029	\$228,103	\$182,500	\$182,500
	Revenue Requirement (Costs less Other Income)	\$4,964,804	\$5,273,716	\$5,269,618	\$5,613,750	\$6,391,427	\$6,520,051
	User Rates Revenue	\$5,242,195	\$5,408,766	\$5,442,790	\$5,367,953	\$5,442,790	\$5,442,790
	Rate Adequacy	\$277,391	\$135,050	\$173,172	(\$245,797)	(\$948,637)	(\$1,077,261)
	Rate Adjustment Needed	0.00%	0.00%	0.00%	4.58%	17.43%	19.79%

Notes:
^AIncludes recommended debt coverage at 1.4x annual debt payment

Water: Historical Financial Indicators



- Reserve target = 6 months O&M and 1 year debt service



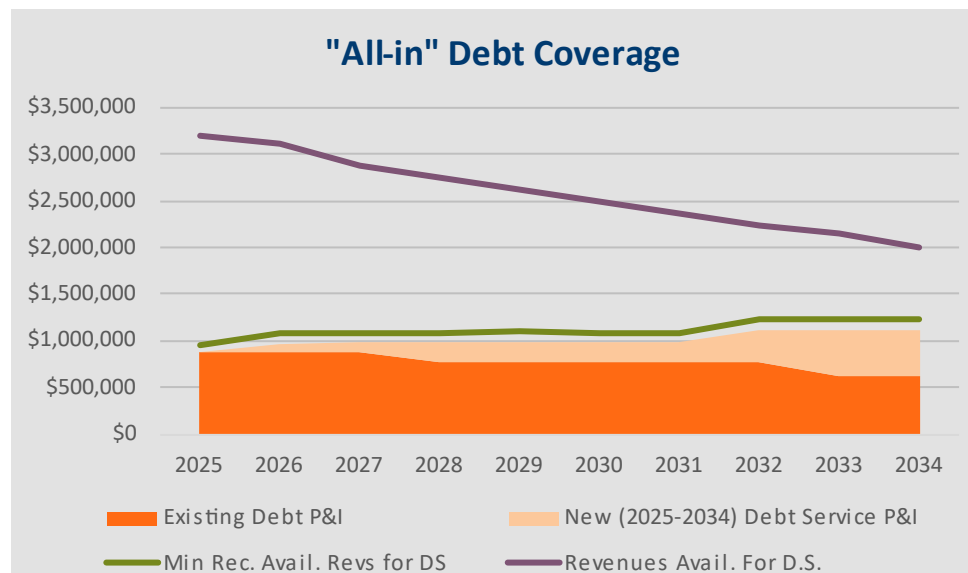
Water rate options

- Simplified: not eligible
- Conventional: even in a scenario with declining ROR, the adjustment needed increases

	Budget 2025	Projected		
		2026	2027	2028
<u>Rate of Return</u>				
Average Utility Plant in Service	48,745,391	50,127,791	51,600,516	53,373,341
Plus: Materials and Supplies	125,322	125,322	125,322	125,322
Less: Avg. Utility Plant Accum. Depreciation	16,793,244	17,688,088	18,460,915	19,217,105
Less: Regulatory Liability	0	0	0	0
Average Net Investment Rate Base (NIRB)	32,077,468	32,565,025	33,264,923	34,281,557
Net Operating Income	911,542	754,623	588,058	412,609
ROR	2.84%	2.32%	1.77%	1.20%
PSC Projected Benchmark	6.20%	6.00%	5.80%	5.60%
Rate Adj. to Benchmark	19.79%	22.03%	24.64%	27.69%

Water: Future Projection (Tables 6-12)

- Utility investing in 19M of added capital 2025-2034
- Can cash fund 9M remainder by debt or outside sources
- LSLs to be discussed later with more factors to be resolved
 - ✓ Left room in reserves to absorb



Water: Future Projection

	Budget	Projected								
	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Revenues										
Total Revenues from User Rates ¹	\$6,520,051	\$6,520,051	\$6,520,051	\$6,520,051	\$6,520,051	\$6,520,051	\$6,520,051	\$6,520,051	\$6,520,051	\$6,520,051
Percent Increase to User Rates	19.79%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Cumulative Percent Rate Increase	19.79%	19.79%	19.79%	19.79%	19.79%	19.79%	19.79%	19.79%	19.79%	19.79%
Dollar Amount Increase to Revenues	\$1,077,261	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Other Revenues	\$322,500	\$347,402	\$228,857	\$238,452	\$237,183	\$233,467	\$239,711	\$243,581	\$290,247	\$292,759
Total Revenues	\$6,842,551	\$6,867,453	\$6,748,908	\$6,758,503	\$6,757,235	\$6,753,518	\$6,759,762	\$6,763,632	\$6,810,298	\$6,812,810
Less: Expenses										
Operating and Maintenance ²	\$2,774,305	\$2,857,534	\$2,943,260	\$3,031,557	\$3,122,504	\$3,216,179	\$3,312,665	\$3,412,045	\$3,514,406	\$3,619,838
PILOT Payment	\$875,500	\$906,143	\$937,857	\$970,682	\$1,004,656	\$1,039,819	\$1,076,213	\$1,113,880	\$1,152,866	\$1,193,217
Net Before Debt Service and Capital Expenditures	\$3,192,747	\$3,103,777	\$2,867,791	\$2,756,263	\$2,630,074	\$2,497,519	\$2,370,884	\$2,237,707	\$2,143,026	\$1,999,756
Debt Service										
Existing Debt P&I	\$878,183	\$876,721	\$870,182	\$764,998	\$766,087	\$766,855	\$767,297	\$767,562	\$630,100	\$629,999
New (2025-2034) Debt Service P&I	\$0	\$99,875	\$119,250	\$220,979	\$225,500	\$220,500	\$215,500	\$352,875	\$486,375	\$442,229
Total Debt Service	\$878,183	\$976,596	\$989,432	\$985,977	\$991,587	\$987,355	\$982,797	\$1,120,437	\$1,116,475	\$1,072,228
Transfer In (Out)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Less: Capital Improvements & COI	\$1,660,880	\$1,743,300	\$1,596,761	\$2,400,000	\$2,761,595	\$645,000	\$3,011,475	\$1,437,985	\$2,477,963	\$1,710,390
Debt Proceeds	\$1,410,000	\$0	\$1,265,000	\$0	\$0	\$0	\$2,010,000	\$0	\$1,505,000	\$0
Net Annual Cash Flow	\$2,063,684	\$383,881	\$1,546,598	(\$629,714)	(\$1,123,108)	\$865,164	\$386,612	(\$320,714)	\$53,589	(\$782,862)
Restricted and Unrestricted Cash Balance:										
Balance at first of year	\$6,090,172	\$8,153,856	\$8,537,737	\$10,084,334	\$9,454,620	\$8,331,513	\$9,196,677	\$9,583,289	\$9,262,575	\$9,316,164
Net Annual Cash Flow Addition/(subtraction)	\$2,063,684	\$383,881	\$1,546,598	-\$629,714	-\$1,123,108	\$865,164	\$386,612	-\$320,714	\$53,589	-\$782,862
Balance at end of year	\$8,153,856	\$8,537,737	\$10,084,334	\$9,454,620	\$8,331,513	\$9,196,677	\$9,583,289	\$9,262,575	\$9,316,164	\$8,533,302
"All-in" Debt Coverage	3.64	3.18	2.90	2.80	2.65	2.53	2.41	2.00	1.92	1.87
PSC Days Cash on Hand	864	912	1,079	953	816	888	907	817	813	697

Notes:

1) Assumes no changes in customer count or usage beyond Test Year.

2) Assumes 3.00% annual inflation beyond budget year.

Legend:

Simplified Rate Case (projected eligibility)

Conventional (Full) Rate Case

Water: Impact on Avg. Res. Bill

Year	Water					Sewer					Stormwater				Utility Bill (Annual)	Change Over Prior Year	% of MHI (67,189)	Year
	Increase	Water Vol. Charge ¹	Water User Charge ²	Utility Bill (Monthly)	Change Over Prior Year	Increase	Sewer Vol. Charge ³	Sewer User Charge ³	Utility Bill (Monthly)	Change Over Prior Year	Increase	Storm User Charge ⁵	Utility Bill (Monthly)	Change Over Prior Year				
		<u>Tiered</u>	<u>Serv. + PFP</u>				<u>100CF</u>	<u>Gen Service</u>				<u>Per ERU</u>						
2024		3.80	17.00	\$ 37.33			3.51	21.78	\$ 40.56			10.39	\$ 10.39		\$ 1,059.34		1.58%	2024
2025	19.79%	4.55	20.36	\$ 44.72	\$ 7.39	0.00%	3.51	21.78	\$ 40.56	\$ -	0.00%	10.39	\$ 10.39	\$ -	\$ 1,148.00	\$ 88.66	1.71%	2025
2026	0.00%	4.55	20.36	\$ 44.72	\$ -	0.00%	3.51	21.78	\$ 40.56	\$ -	0.00%	10.39	\$ 10.39	\$ -	\$ 1,148.00	\$ -	1.71%	2026
2027	0.00%	4.55	20.36	\$ 44.72	\$ -	0.00%	3.51	21.78	\$ 40.56	\$ -	0.00%	10.39	\$ 10.39	\$ -	\$ 1,148.00	\$ -	1.71%	2027
2028	0.00%	4.55	20.36	\$ 44.72	\$ -	0.00%	3.51	21.78	\$ 40.56	\$ -	0.00%	10.39	\$ 10.39	\$ -	\$ 1,148.00	\$ -	1.71%	2028
2029	0.00%	4.55	20.36	\$ 44.72	\$ -	0.00%	3.51	21.78	\$ 40.56	\$ -	0.00%	10.39	\$ 10.39	\$ -	\$ 1,148.00	\$ -	1.71%	2029
2030	0.00%	4.55	20.36	\$ 44.72	\$ -	0.00%	3.51	21.78	\$ 40.56	\$ -	0.00%	10.39	\$ 10.39	\$ -	\$ 1,148.00	\$ -	1.71%	2030
2031	0.00%	4.55	20.36	\$ 44.72	\$ -	0.00%	3.51	21.78	\$ 40.56	\$ -	0.00%	10.39	\$ 10.39	\$ -	\$ 1,148.00	\$ -	1.71%	2031
2032	0.00%	4.55	20.36	\$ 44.72	\$ -	0.00%	3.51	21.78	\$ 40.56	\$ -	0.00%	10.39	\$ 10.39	\$ -	\$ 1,148.00	\$ -	1.71%	2032
2033	0.00%	4.55	20.36	\$ 44.72	\$ -	0.00%	3.51	21.78	\$ 40.56	\$ -	0.00%	10.39	\$ 10.39	\$ -	\$ 1,148.00	\$ -	1.71%	2033
2034	0.00%	4.55	20.36	\$ 44.72	\$ -	0.00%	3.51	21.78	\$ 40.56	\$ -	0.00%	10.39	\$ 10.39	\$ -	\$ 1,148.00	\$ -	1.71%	2034
Total Change over planning period					\$ 7.39										\$ 88.66			

Notes:

1. Current water volumetric rate is \$3.80 per 100 cubic feet for the first 1600 cubic feet monthly
2. The water user charges include a monthly service charge of \$8.40 plus a public fire protection charge of \$8.60 for a 5/8 inch meter.
3. The current Sewer volumetric rate is \$3.51 per 100 cubic feet and a service charge of \$21.78 for 5/8 inch meter.
4. The usage is assumed to be 535 CF per month.
5. The current stormwater rate is \$10.39 per ERU for a Single Family user (plus \$2.13 admin fee per customer)
6. No Sewer or Stormwater Analysis completed to date. Sewer Analysis planned for 2025.

Water Bill Comparison

Utility Name	County	Utility Class	Min. Quarterly Bill (5/8 in. meter)	9,000 GAL	12,000 GAL	15,000 GAL	Effective Date
Cambridge Municipal Water Utility	Jefferson	D	66.00	189.75	231.00	272.25	5/1/2024
Hustisford Utilities	Dodge	D	68.10	145.95	171.90	197.85	1/1/2013
City of Waukesha Water Utility	Waukesha	AB	48.00	110.10	130.80	151.50	10/1/2023
Waupun Public Utilities	Dodge	C	41.46	105.54	126.90	148.26	5/1/2012
Columbus Water And Light Department	Dodge	C	43.74	104.82	125.18	145.54	2/1/2024
City of Waukesha Water Utility	Waukesha	AB	48.00	100.38	123.09	145.80	10/1/2023
Iron Ridge Municipal Water Utility	Dodge	D	48.00	103.35	121.80	140.25	2/3/2020
Fond Du Lac Water Utility	Fond du Lac	AB	44.00	100.88	119.84	138.80	1/6/2023
Brownsville Water Utility	Dodge	D	44.56	99.01	117.16	135.31	12/31/2021
Lowell Municipal Water And Sewer Utility	Dodge	D	30.00	92.10	112.80	133.50	7/1/2020
Lomira Municipal Water Utility	Dodge	D	30.00	89.85	109.80	129.75	3/22/2024
Lake Mills Light And Water Department	Jefferson	C	34.83	88.74	106.71	124.68	10/1/2023
Theresa Municipal Water And Sewer Utility	Dodge	D	42.00	90.06	106.08	122.10	8/2/2024
Watertown Water Department (TY25 CRC)	Two	AB	30.19	84.81	103.02	121.23	TBD
Waterloo Water And Light Commission	Jefferson	C	38.88	83.61	98.52	113.43	9/1/2023
City of Horicon Water Utility	Dodge	C	31.41	74.79	89.25	103.71	12/1/2023
City of Fox Lake Water Utility	Dodge	D	32.40	73.92	87.76	101.60	12/27/2023
Jefferson Water Utility	Jefferson	C	31.59	72.99	86.79	100.59	1/1/2024
Mayville Municipal Water Utility	Dodge	C	30.00	72.36	86.48	100.60	5/29/2024
Watertown Water Department (Current)	Two	AB	25.20	70.80	86.00	101.20	4/15/2017
Randolph Municipal Water Utility	Dodge	D	30.90	72.12	85.86	99.60	1/2/2020
Juneau Utility Commission	Dodge	D	30.00	68.25	81.00	93.75	7/1/2020
Leroy Sanitary District No 1	Dodge	D	23.55	66.48	80.79	95.10	12/1/2023
City of Oconomowoc Utilities	Waukesha	AB	27.00	64.80	77.40	90.00	9/1/2021
City of Fort Atkinson Water Utility	Jefferson	AB	21.71	62.99	76.75	90.51	7/1/2024
Reeseville Water Utility	Dodge	D	33.30	62.19	71.82	81.45	12/31/2018
Beaver Dam Water Utility	Dodge	AB	18.54	58.02	71.18	84.34	2/1/2020
Whitewater Municipal Water Utility	Jefferson	C	29.40	59.22	71.16	83.10	4/28/2023
Johnson Creek Water Utility	Jefferson	C	37.23	60.09	67.71	75.33	6/28/2024
Sun Prairie Utilities	Dane	AB	29.91	53.31	61.11	68.91	1/1/2024
Town of Portland Sanitary District #1	Dodge	D	29.58	52.62	60.30	67.98	1/15/2008
Village of Palmyra Water and Sewer Utility	Jefferson	D	18.54	46.53	55.86	65.19	12/17/2013
Stevens Point Municipal Water Utility	Portage	AB	29.66	46.94	52.70	58.46	12/1/2021
Clyman Utility Commission	Dodge	D	31.74	46.50	51.42	56.34	8/7/2024

*Sorted largest to smallest by 12,000 Gallons

LSL Replacement Considerations

- Partially or fully funded by EIF (State DNR Program)
- Private Side LSLs cannot be funded by user rates or special assessments
 - ✓ Generally, communities have used GO debt or available cash (outside of grants) and used a loan program to the property getting the work completed
 - ✓ EIF Loan program also has a special revenue pledge (customer loan repayments) for those with GO debt capacity concerns

Recommendations & Next Steps

- File a Conventional Rate Case Application for Test Year 2025, in preparation for 2025 SDWFL
- Consider inflationary increases as needed in future years
- Future considerations for Phase 2:
 - ✓ PILOT discussion
 - ✓ Mixed use of cash and debt (abated with revenues of the water utility) for future projects outlined in CIP

Questions?
