

Pine Strawberry Water Improvement District

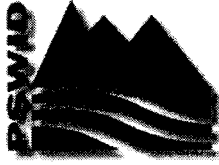
Long-Term Rate and Financial Plan

Board Presentation

economists.com

October 15 2009

Introduction and Engagement Background



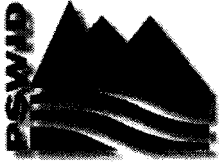
- o Economists.com – District’s rate and financial consultant since 2003

- o Have provided assistance to District in the following areas:
 - o Assessed the value of Pine and Strawberry Water Companies

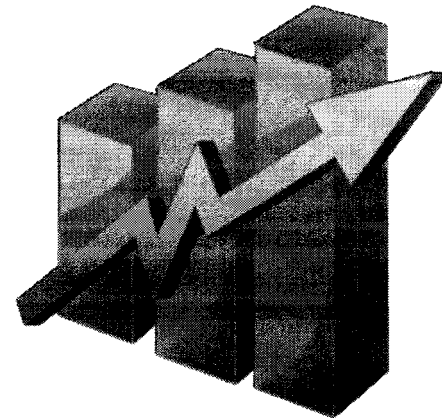
 - o Financial forecast of operation of system under District ownership

 - o Impact on ratepayer monthly charges of acquisition and operation by District

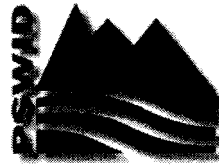
Facts about Water Rates in the 21st Century



- o Average utility increasing rates 5-6% per year; trend expected to continue
- o Utilities are experiencing cost increases for reasons mostly beyond their control
- o Municipalities have the ability to subsidize rates from other operations; Districts like PSWID do not
- o 30-40% of utilities charge rates that do not cover costs
- o Conclusion: higher rates for all utilities are unfortunate but inevitable



October 2008 Analysis



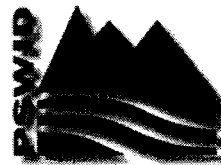
- o In October 2008 we prepared a preliminary analysis of the financial impact of acquiring Pine and Strawberry Water Companies on the District and ratepayers

- o Principal findings:
 - o **District forecast to acquire and operate system without changing current rates for first two years**

 - o Beginning in third year, a series of annual rate adjustments would be required to fund increasing operating expenses and system improvements

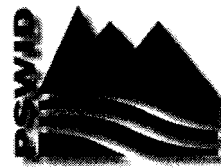
- o Analysis was highly preliminary and based on a combination of assumptions and very general data

Developments Since October 2008



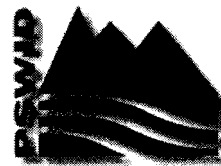
- u Agreement was reached with Brooke Utilities for District to acquire Pine and Strawberry water wystems
- u Initial debt offering finalized; included additional funding for capital improvements and working capital
- u Brooke Utilities turned over more detailed system and financial data
- u District representatives prepared plans for system operations, receivables collection and capital improvements
- u Acquisition closed on September 30 2009

October 2009 District Initial Budget



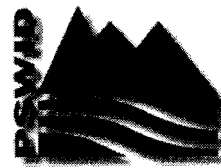
- u District's initial budget contains many expenses that are lower than 2008 forecast:
 - o Purchased power, supplies, rental, water testing
- u A few expenses are higher than 2008 forecast
- u Debt higher than 2008 forecast but no annual reserve requirement; therefore debt service is lower in first year but higher in subsequent years
- u Bottom line: total cost of service in first full year of operation is lower than 2008 forecast

Comparison with 2008 Forecast First Full Year of Operation (FY 10-11)



	FY 2011 Budget	Oct 14 2008 Forecast	Difference
Operating Expenses	\$ 841,201	\$ 882,000	\$ (40,799)
Debt Service	<u>290,712</u>	<u>268,459</u>	<u>22,253</u>
Total Cost of Service	1,131,913	1,150,459	(18,546)
Non-Rate Revenues	<u>234,000</u>	<u>30,000</u>	<u>204,000</u>
Net Revenue to be Raised from Rates	897,913	1,120,459	(222,546)

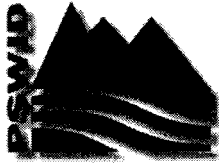
District Initial Budget Additional Revisions from 2008 Forecast



- o District saves hundreds of thousands of dollars in condemnation expenses; funds can be used to support operations
- o Initial loan includes working capital and receivables purchases; this is common in acquisitions and these cash balances are used to enhance District's financial position
- o District creates rate stabilization fund to provide rate relief and ensure future ratepayers fund greater share of startup costs



District Property Tax



- u It is common for utilities to use property taxes to fund capital improvements and support operations

- u Justification:
 - ⊖ Superior-quality water service contributes to economic development

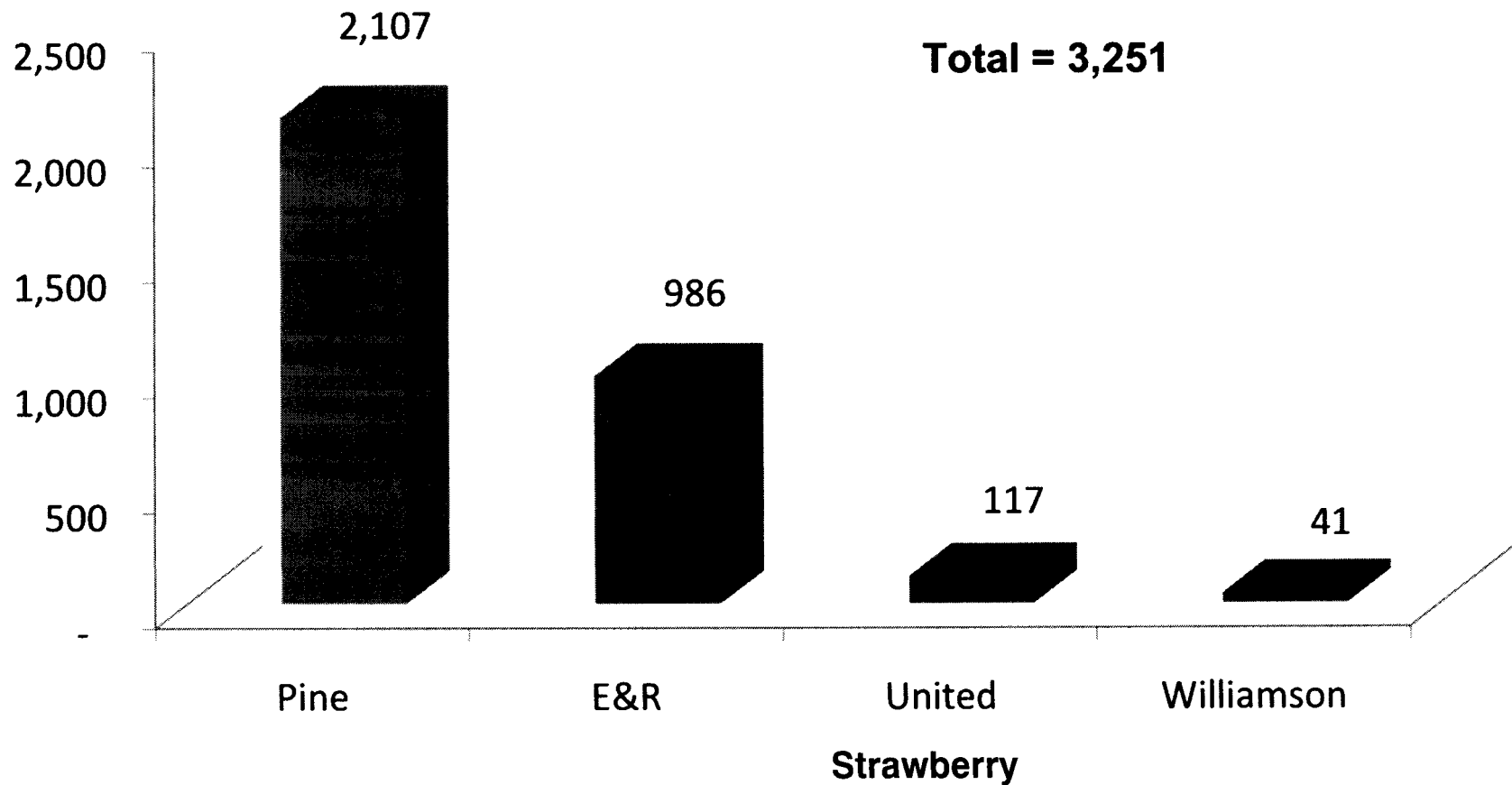
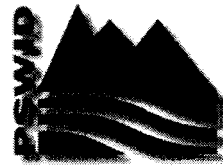
 - ⊖ Water service enhances the value of property in the service area

 - ⊖ Property taxes can be deducted from income taxes

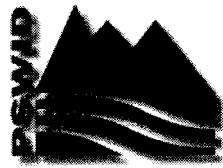
 - ⊖ System is similar to financing of public schools, libraries, etc.

- u As District ramps up operations and consolidates its financial position, it intends to phase out property tax over next three years

Total Accounts Acquired September 2009

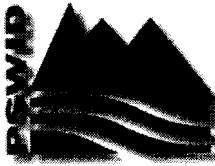


Debt Issue to Fund Acquisition

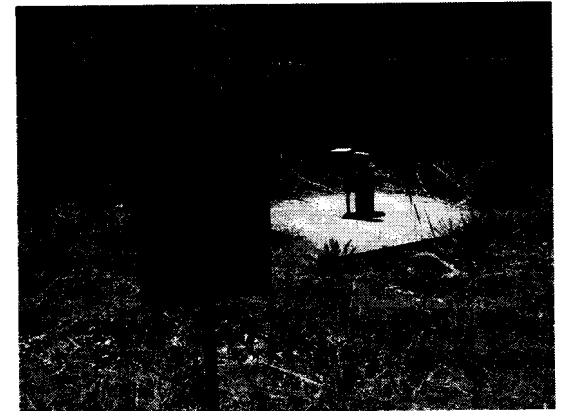


Acquisition	\$ 3,500,000
Capital Improvements	1,559,300
Debt Reserve	330,000
Working Capital/AR Acquisition	420,700
Rate Stabilization Fund	270,000
Proceeds/Closing	334,000
Total	6,414,000

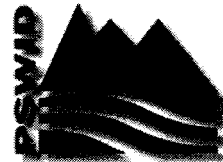
Oct 2009 Long-Term Financial Forecast Primary Assumptions



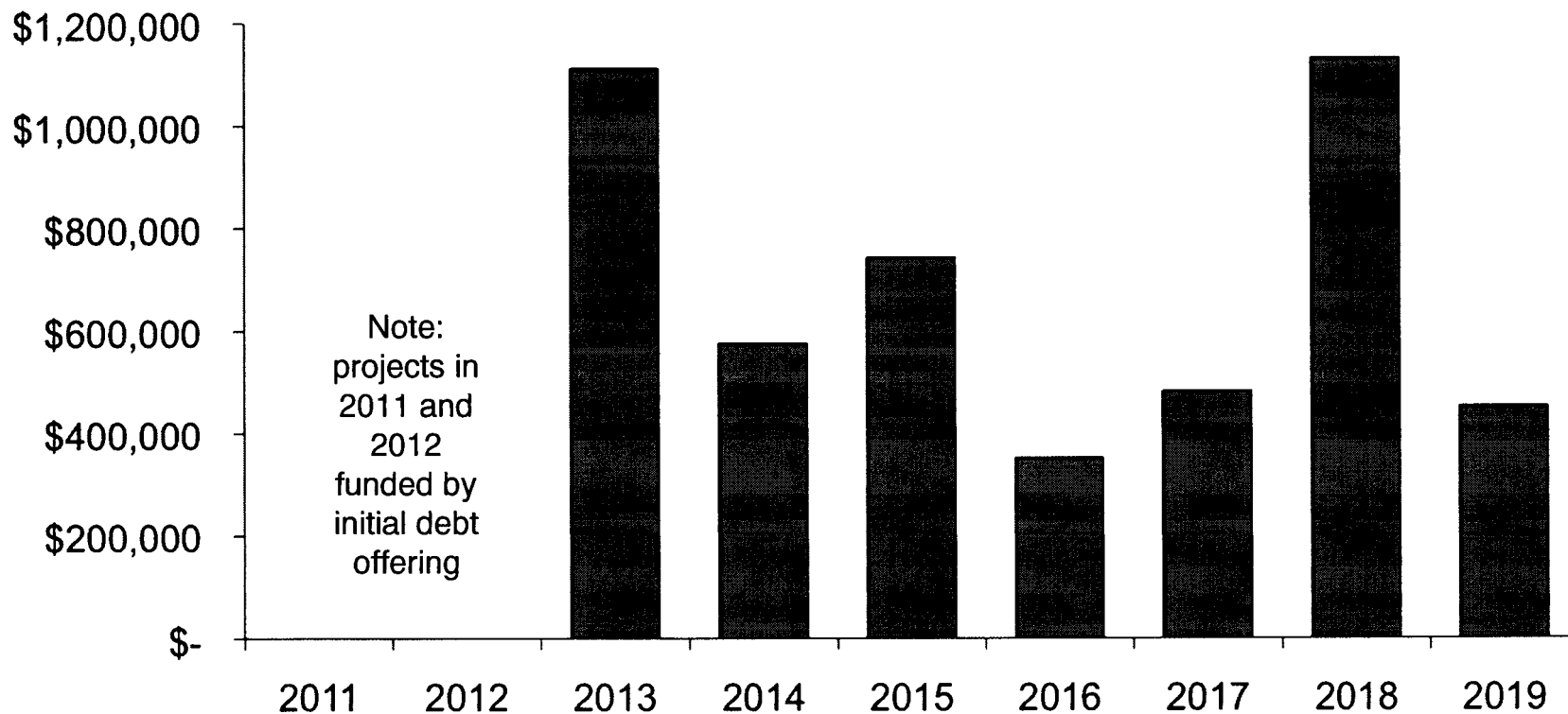
- Most operating expenses increase 3-5% per year
- Some limited growth returns to system
- PSWID implements aggressive capital improvement plan to repair and improve service; requiring additional long-term debt



PSWID Forecast Unfunded Capital Improvement Plan

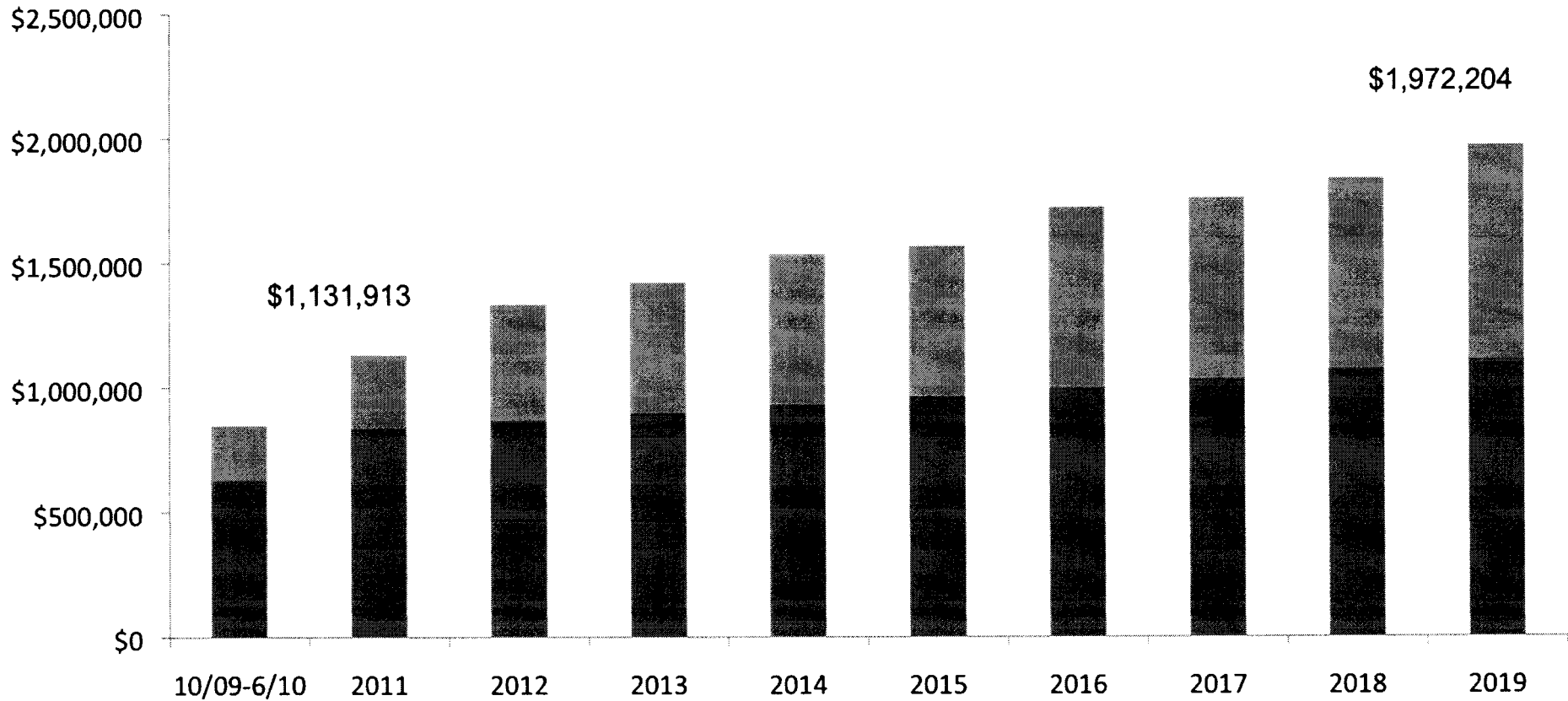
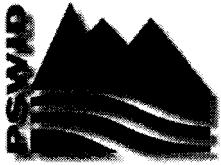


Total = \$4,844,000

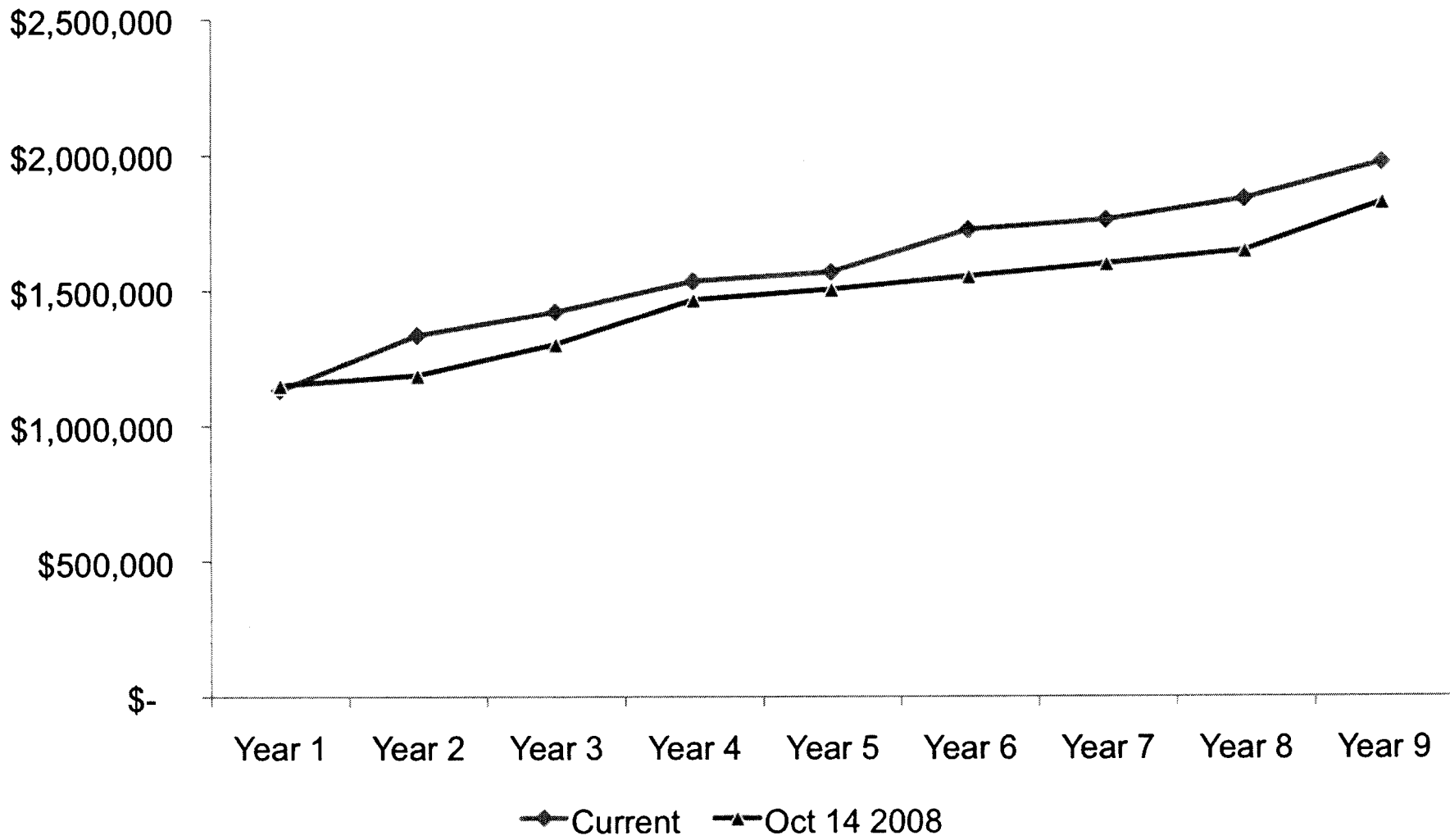
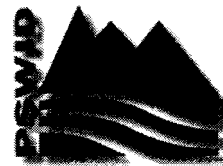


PSWID

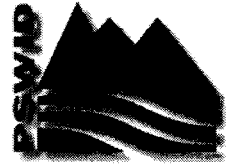
Forecast Cost of Service 2010-2019



Cost of Service Forecast Oct 2008 vs. Current



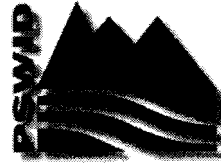
October 2009 Financial Forecast Summary of Findings



- o Because cost of service lower in early years, **rate adjustment still not forecast to be required for first two years**
- o Beginning in October 2011, annual rate adjustments will be required to fund operating increases and system repairs
- o NOTE: Brooke Utilities had filed for additional rate increases prior to District's acquisition of system



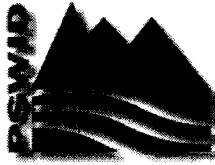
October 2009 Financial Forecast Long-Term Rate Plan



- o Many alternative rate plans are available and should be examined at the time decision is made to adjust rates
- o For purposes of this analysis, we will assume that District consolidates rates into uniform structure for all District ratepayers
- o Other potential alternatives:
 - o Continue disparate rates between Pine and Strawberry system; institute uniform percentage increases each year
 - o Increasingly aggressive conservation rate
 - o Implement monthly resource and repair/replacement fees
 - o Establishment of Impact Fee

PSWID

Current Rate Schedule



PINE RATEPAYERS

Base Charge	5/8"	\$	18.45
Usage--Summer	-	2,000	6.00
Cost/1,000 Gal	2,001	4,000	7.00
May-September	4,001	6,000	7.00
	6,001	Above	8.00
Usage-- Winter	-	2,000	3.95
Cost/1,000 Gal	2,001	4,000	4.96
October-April	4,001	6,000	4.96
	6,001	Above	6.00

STRAWBERRY RATEPAYERS

Williamson

Base	5/8" \$	20.35
Cost/1,000 Gal	-	2,000 3.50
	2,001	4,000 3.50
	4,001	6,000 3.50
	6,001	Above 3.50

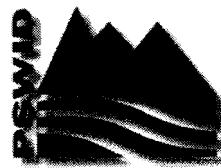
United

Base	5/8"	16.00
Cost/1,000 Gal	-	2,000 2.20
	2,001	4,000 2.20
	4,001	6,000 3.85
	6,001	Above 3.85

E&R

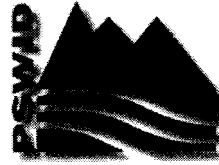
Base	5/8"	18.45
Cost/1,000 Gal	-	2,000 3.40
	2,001	4,000 3.40
	4,001	6,000 5.95
	6,001	Above 5.95

Alternative 1 Consolidated Long-Term Rate Plan



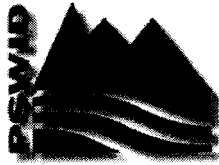
		Pine Summer Rate	All PSWID Ratepayers			
			Effective Oct-11	Effective Oct-12	Effective Oct-13	Effective Oct-14
Base Chg	5/8"	\$18.45	\$18.45	\$21.22	\$22.28	\$23.39
Usage Chg per 1,000 Gal:						
-	2,000	6.00	6.00	6.90	7.25	7.61
2,001	4,000	7.00	7.00	8.05	8.45	8.88
4,001	6,000	7.00	7.00	8.05	8.45	8.88
6,001	Above	8.00	8.00	9.20	9.66	10.14

Monthly Charges Under Forecast Rate Plan



		Brooke Rate	Effective Oct-11	Effective Oct-12	Effective Oct-13	Effective Oct-14
CHARGE SCHEDULE						
Pine	Total	\$37.45	\$37.45	\$43.07	\$45.22	\$47.48
(summer)	Increase		-	5.62	2.15	2.26
Strawberry -- Williamson						
	Total	30.85	37.45	43.07	45.22	47.48
	Increase		6.60	5.62	2.15	2.26
Strawberry -- United						
	Total	22.60	37.45	43.07	45.22	47.48
	Increase		14.85	5.62	2.15	2.26
Strawberry -- E&R						
	Total	28.65	37.45	43.07	45.22	47.48
	Increase		8.80	5.62	2.15	2.26

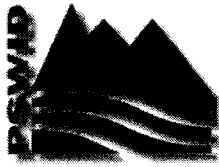
Notes on Rate Plan



- o Like any financial forecast, this rate plan depends on predictions of future events
- o Many of these events are beyond the control of the District
- o If circumstances change, District must retain the flexibility to adjust its plans accordingly
- o Changes can impact District favorably or unfavorably



Events that May Impact Long-Term Rate Plan



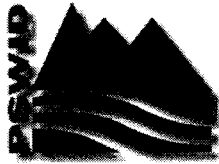
Favorable

- ∪ Higher per account water usage
- ∪ More connections than forecast
- ∪ Refunding of debt service
- ∪ Elimination of water hauling

Unfavorable

- ∪ Continued economic downturn
- ∪ Increase in inflation rate
- ∪ Greater need for capital repairs and improvements

Presentation Summary



- u Rate increases are inevitable for all systems – average water utility increases rates 5-6% per year
- u PSWID remains forecast to operate system for first two years with no increases in existing rates
- u Beginning in 2011, rate increases are forecast to be required to fund operations, repair of system and improvement of service quality

