

City of Rehoboth Beach

Water and Wastewater
Financial and Rates Review

The Abrahams Group
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Study Objectives – Water and Wastewater

- Review recent financial results.
- Project revenues over the next five fiscal years (FY19-FY23).
- Project operating expenditures over the next five fiscal years (FY19-FY23).
- Understand the City's planned capital improvements, including those recommended by the City's engineering consultant.
- Include projected expenditures related to the capital improvements, if funded via borrowings and if funded via outlay.
- Determine rate changes needed to ensure the funds operate in surplus.

Water Fund Review – User Background

- The City has 5,950 users that are billed for their water usage, broken down as:
 - 2,850 in Rehoboth Beach
 - 200 in Breezewood
 - 2,900 outside of Rehoboth Beach
- The City also bills Dewey Beach for its water usage.
- User charges revenue using recent one-year actuals for each is broken down as:
 - Rehoboth Beach – \$680,000 (28%)
 - Breezewood – \$40,000 (2%)
 - Outside of Rehoboth Beach – \$1.1 million (45%)
 - Dewey Beach – \$610,000 (25%)

Water Fund Review – Financial Actuals

- Recent financial actuals:

	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Total Revenues	\$2,234,065	\$2,274,143	\$2,239,863	\$2,607,569	\$2,616,549	\$2,764,771
Total Expenditures	\$1,504,415	\$1,669,248	\$1,949,558	\$1,946,278	\$2,077,823	\$1,928,694
Surplus/(Deficit)	\$729,650	\$604,895	\$290,305	\$661,291	\$538,726	\$836,077

- The City has maintained a yearly surplus recently due, in part, to:
 - A rate increase in the recent past
 - Consumption up 45 million units since 2012 and an average of 2.6% yearly
 - Manageable debt of about \$347,000 per year (or about 18% of latest budget)

Water Fund Review – Capital Improvements

- The City plans to undertake a large capital improvement program that will, if funded, greatly increase annual expenditures.
- The capital plan includes equipment purchases, water main replacement and repairs, additional capital projects, and distribution system improvements.
- Completing the plan will require increased water rates to ensure sufficient water revenues to cover water expenditures.
- Two options are included in the analysis:
 1. Fund capital improvements through borrowings
 2. Fund capital improvements through capital outlay

Water Fund Review – Capital Improvements

- Items in the City’s Capital Improvement Plan (FY19 to FY23):
 - Replacement Vehicle (#36 Ford Transit) for \$6,540 in FY 2019
 - Replacement Vehicle (#32 Ford F350) for \$16,798 in FY 2019
 - SCADA Upgrades for \$25,000 in FY 2021
 - Backhoe Replacement for \$125,000 in FY 2022
 - Census Reading Equipment for \$70,000 in FY 2023
- Recommendations from City’s engineering consultant:

	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Repair and Rehab	\$68,364	\$34,343	\$228,527	\$144,318	\$81,527
Capital Projects		\$313,750	\$803,250	\$569,500	\$341,600
Distribution System	\$163,500	\$573,500	\$513,500	\$513,500	\$513,500
Total	\$231,864	\$921,593	\$1,545,277	\$1,227,318	\$936,627

Water Fund Review – Financial Projections, if Borrowed

- Projections for next five fiscal years, if capital funded via borrowings:

	FY 2019 Budgeted	FY 2019 Projected	FY 2020	FY 2021	FY 2022	FY 2023
Total Revenues	\$2,604,300	\$2,443,429	\$2,443,429	\$2,443,429	\$2,443,429	\$2,443,429
Total Expenditures	\$1,962,708	\$2,314,571	\$2,326,726	\$2,447,533	\$2,655,823	\$2,678,810
Surplus/(Deficit)	\$641,592	\$128,858	\$116,703	\$(4,104)	\$(212,394)	\$(235,381)

- Assumptions include five-year averages for revenues, no rate changes, steady increases in expenditures, indirect costs, and additional expenditures to fund engineer’s recommended capital improvements:

	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Additional Operating	\$181,864	\$207,843	\$200,658	\$184,486	\$154,037
Projected New Debt		\$14,275	\$70,543	\$146,740	\$205,311

Water Fund Review – Rate Changes, if Borrowed

- The following rate changes are needed in order for projections to show a small surplus:

	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Rate Change	0.00%	0.00%	5.00%	5.00%	5.00%

- The impact on the average users' yearly bills is:

	Current	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Breezewood	\$228	\$228	\$228	\$239	\$251	\$264
Rehoboth Beach	\$215	\$215	\$215	\$226	\$237	\$249
Outside of City	\$339	\$339	\$339	\$356	\$374	\$393

Water Fund Review – Financial Projections, if Outlay

- Projections for next five fiscal years, if capital funded via outlay:

	FY 2019 Budgeted	FY 2019 Projected	FY 2020	FY 2021	FY 2022	FY 2023
Total Revenues	\$2,604,300	\$2,443,429	\$2,443,429	\$2,443,429	\$2,443,429	\$2,443,429
Total Expenditures	\$1,962,708	\$2,314,571	\$3,026,201	\$3,721,609	\$3,551,916	\$3,256,089
Surplus/(Deficit)	\$641,592	\$128,858	\$(582,772)	\$(1,278,180)	\$(1,108,487)	\$(812,660)

- Assumptions include five-year averages for revenues, no rate changes, steady increases in expenditures, indirect costs, and additional expenditures to fund engineer’s recommended capital improvements:

	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Additional Operating	\$181,864	\$207,843	\$200,658	\$184,486	\$154,037
Capital Outlay		\$713,750	\$1,344,619	\$1,042,833	\$782,590

Water Fund Review – Rate Changes, if Outlay

- The following rate changes are needed in order for projections to show a small surplus:

	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Rate Change	0.00%	30.00%	22.50%	-5.00%	-7.50%

- The impact on the average users' yearly bills is:

	Current	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Breezewood	\$228	\$228	\$296	\$363	\$345	\$319
Rehoboth Beach	\$215	\$215	\$279	\$342	\$325	\$301
Outside of City	\$339	\$339	\$441	\$540	\$513	\$474

The average yearly bill is based on the average usage on peak bills and non-peak bills for all users with one-inch meters in each area listed.

Wastewater Fund Review – User/Allocations

Background

- The City has 2,800 Rehoboth Beach users that are billed for their wastewater flow. The bills contain a surcharge equal to 50% of the sewer charges on the bill.
- Based on the City's Agreed-Upon Procedures, the City's operating and capital items on the CIP are allocated to North Shores, Dewey Beach, Henlopen Acres, and, starting in FY 2021, Sussex County, based on each entity's flow share.
- Based on an agreement, the City's debt for the outfall and WWTP upgrades and expenditures for capital improvements recommended by the City's engineering consultant are allocated to Dewey Beach at 37.5% and to Henlopen Acres at 4.5%.
- User charges and allocations revenue using recent one-year actuals for each is broken down as:
 - Rehoboth Beach – \$1.7 million (54%)
 - North Shores – \$335,000 (11%)
 - Dewey Beach – \$970,000 (32%)
 - Henlopen Acres – \$100,000 (3%)

Wastewater Fund Review – Financial Actuals

- Recent financial actuals:

	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Total Revenues	\$2,876,154	\$2,594,812	\$2,607,208	\$2,788,466	\$3,234,454	\$3,828,123
Total Expenditures	\$1,920,135	\$1,918,183	\$2,497,251	\$2,262,116	\$2,703,034	\$2,899,647
Surplus/(Deficit)	\$956,019	\$676,629	\$109,957	\$526,350	\$531,420	\$928,475

- The City has maintained a yearly surplus recently due, in part, to:
 - A rate increase in the recent past
 - Steady flow from year to year
 - Little debt of about \$57,000 per year (or about 1% of latest budget)
 - Allocations to other entities providing consistent revenues relative to expenditures

Wastewater Fund Review – Capital Improvements

- The City plans to undertake a large capital improvement program that will, if funded, greatly increase annual expenditures.
- The capital plan includes equipment purchases, pump station and treatment plant repairs, collection system improvements, and pump station renewals.
- Completing the plan will require increased wastewater rates to ensure sufficient wastewater revenues to cover wastewater expenditures.
- Two options are included in the analysis:
 1. Fund capital improvements through borrowings
 2. Fund capital improvements through capital outlay

Wastewater Fund Review – Capital Improvements

- Items in the City’s Capital Improvement Plan (FY19 to FY23):
 - Replacement of Newbold Square Pump #1 for \$13,000 in FY 2019
 - Replacement of Return Activated Sludge Pump #2 for \$23,500 in FY 2019
 - Vehicle Replacement Truck (#42 F250) for \$11,519 in FY 2019
 - Bucket Truck Replacement (#55 F450) for \$38,526 in FY 2019
 - Sewer Vacuum Truck for \$390,000 in FY 2020
 - Hickman Street Pump #1 for \$15,000 in FY 2023
- Recommendations from City’s engineering consultant:

	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Pump Station and Treatment Plant	\$1,046,750	\$2,346,320	\$3,081,965	\$1,619,528	\$1,618,292
Collection System	\$108,470	\$570,645	\$494,803	\$907,208	\$445,033
Remaining Pump Station Renewals	\$7,986	\$2,289	\$83,299	\$60,938	
Total	\$1,163,206	\$2,919,254	\$3,660,067	\$2,587,674	\$2,063,325

Wastewater Fund Review – Financial Projections, if Borrowed

- Projections for next five fiscal years, if capital funded via borrowings:

	FY 2019 Budgeted	FY 2019 Projected	FY 2020	FY 2021	FY 2022	FY 2023
Total Revenues	\$3,502,904	\$3,981,076	\$4,252,793	\$4,077,664	\$4,163,879	\$4,273,026
Total Expenditures	\$4,125,451	\$4,522,088	\$5,180,471	\$4,902,421	\$5,039,708	\$5,209,360
Surplus/(Deficit)	\$(622,547)	\$(541,012)	\$(927,678)	\$(824,757)	\$(875,829)	\$(936,335)

- Assumptions include projected allocations, five-year averages for revenues, no rate changes, steady increases in expenditures, indirect costs, new debt for outfall and WWTP upgrades, and additional expenditures to fund engineer’s recommended capital improvements:

	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Additional Operating	\$116,456	\$110,759	\$115,927	\$93,566	\$32,628
Projected New Debt		\$9,244	\$52,221	\$151,402	\$294,665

Wastewater Fund Review – Rate Changes, if Borrowed

- The following rate changes, which impact one quarter of bills in FY 2019, are needed in order for projections to show a small surplus by FY 2020:

	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Rate Change	60.00%	0.00%	0.00%	0.00%	0.00%

- The impact on the average users’ yearly bills is:

	Current	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Rehoboth Beach	\$581	\$623	\$930	\$930	\$930	\$930

The average yearly bill is based on the average usage on peak bills and non-peak bills for all users with one-inch meters. The bill amounts include the sewer surcharge for infrastructure improvement, which is 50% of the sewer charges on the bill.

Wastewater Fund Review – Financial Projections, if Outlay

- Projections for next five fiscal years, if capital funded via outlay:

	FY 2019 Budgeted	FY 2019 Projected	FY 2020	FY 2021	FY 2022	FY 2023
Total Revenues	\$3,502,904	\$3,981,076	\$4,320,611	\$4,468,624	\$4,953,953	\$4,939,679
Total Expenditures	\$4,125,451	\$4,522,088	\$5,633,402	\$6,048,019	\$7,382,414	\$6,945,393
Surplus/(Deficit)	\$(622,547)	\$(541,012)	\$(1,312,792)	\$(1,579,395)	\$(2,428,461)	\$(2,005,714)

- Assumptions include projected allocations, five-year averages for revenues, no rate changes, steady increases in expenditures, indirect costs, new debt for outfall and WWTP upgrades, and additional expenditures to fund engineer’s recommended capital improvements:

	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Additional Operating	\$116,456	\$110,759	\$115,927	\$93,566	\$32,628
Capital Outlay		\$462,175	\$1,197,820	\$2,494,108	\$2,030,697

Wastewater Fund Review – Rate Changes, if Outlay

- The following rate changes, which impact one quarter of bills in FY 2019, are needed in order for projections to show a small surplus by FY 2020:

	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Rate Change	80.00%	0.00%	10.00%	25.00%	-10.00%

- The impact on the average users’ yearly bills is:

	Current	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Rehoboth Beach	\$581	\$637	\$1,046	\$1,151	\$1,438	\$1,294

The average yearly bill is based on the average usage on peak bills and non-peak bills for all users with one-inch meters. The bill amounts include the sewer surcharge for infrastructure improvement, which is 50% of the sewer charges on the bill.

Wastewater Fund Review – Treatment Plant Background

- Since FY 2010, the City has collected surcharges on customers' wastewater bills to help cover costs for infrastructure improvements.
- The City cannot reserve its unused treatment plant capacity due to physical location limits, but Sussex County has the ability to add additional users to tap into that unused capacity.
- If the County were to take over operations of the treatment plant:
 - The County can rely on staff readily available to maintain and operate plant.
 - The County can leverage its ability to hire contractors with technological advantages to help keep project costs down.
 - The County can leverage its higher debt capacity to keep annual costs down.
 - The County would assume the debt for the Outfall project and treatment plant upgrades.
 - The County can leverage its ability to bring on additional customers, spreading costs across a larger user base.
 - Customers in Dewey Beach, Henlopen Acres, North Shores, and the City would welcome a lower cost alternative.

Decision Points

- Expenditure projections provided include the complete funding of the engineer's recommended capital improvements. Is this the City's plan? If it is, will those improvements be funded via borrowing or via outlay? If it is not, the projections are overstated.
- Is the City interested in adopting a water rate change plan for the next few years to raise enough revenue to cover projected expenditures?
- Is the City interested in adopting a wastewater rate change plan, with an immediate rate change, to raise enough revenue to cover projected expenditures?
- Is the City interested in exploring other wastewater options, like not continuing to operate the treatment plant, to avoid large rate increases in the near future?

Thank You

- Questions and Answers