

FY 2012 BUDGET POSITION PAPER

APRIL 2011

PUBLIC UTILITIES (WATERWORKS)

Overview

As discussed at several City Council work sessions throughout the year, Waterworks' goals the FY 2012 budget development process was to:

1. Identify potential budget expenditure reductions
2. Provide a more flexible rate and fee structure
3. Shift the revenue stream from volume driven sources to more fixed sources
4. Replace the Summer Consumption Rate (SCR) with an alternative
5. Adjust the residential "Lifeline" rate to an adequate level (unchanged since July 1, 2006)
6. Improve rate equity through adjustment of large industrial user rates closer to the actual cost of service
7. Decrease and/or eliminate unsustainable use of reserves as a revenue source

To assist in these endeavors, Raftelis Financial Consultants, Inc. (RFC) was engaged to undertake a cost of service analysis and water rate study. (RFC is a full service water and wastewater financial consulting firm specializing in water/wastewater rate studies, cost of service studies, revenue bond feasibility studies, conservation pricing studies, and strategic financial planning studies.) The last cost of service and rate study of this nature completed by an entity outside of Waterworks was 25 years ago. Based on investigation, it was determined that residential customers pay less than their cost of service, and meter service fees billed to all customers were not recovering their relevant cost share. The executive summary to RFC's report is attached.

Waterworks' FY 2012 proposed budget is (\$754,800), (0.9%) lower than the FY 2011 budget. To meet the need for increased revenue to support core operations due to declining water demand, an innovative water rate and fee structure is proposed. Waterworks is recommending, based on the RFC Study, elimination of SCR billings (in place since 1987), a modest increase to the "Lifeline" rate, and increasing monthly/bimonthly meter fees to reflect American Water Works Association (AWWA) hydraulic capacity ratios and include an adequate "readiness to serve" component. In addition, implementing a conservation rate third block for single family residential customers and adding a declining second block rate for industrial customers to reflect

service economies of scale is recommended. This will provide desired rate flexibility moving forward for both residential and industrial customers.

This proposed rate structure, associated fee increases, and reductions in the recommended operating budget allow Waterworks to meet all seven goals for FY 2012. It continues the past practice of regular, modest incremental increases that are highly favored by financial, bond rating agencies, and are considered to be the key to long-term sustainability of an effective municipal water utility. This, combined with a number of other robust financial practices, has enabled Standard & Poor's Ratings Services to elevate its rating of Waterworks revenue-secured bonds outstanding to 'AAA' from 'AA' in March of this year.

Issues

For the current fiscal year, Waterworks expects a revenue shortfall of \$4.1 million from its \$83.6 million budget. The revenue shortfall results from reduced water sales, forecasted to only average 40.2 million gallons per day (mgd) in FY 2011 as compared to the originally budgeted 42.0 mgd. This is due to demand reductions by a few large system customers, increased water conservation by most customers, and the economic downturn. To off-set this revenue shortfall, expenses are expected to fall \$4.0 million below budget. Expenses for the current year were reduced by \$4.0 million. Reduced customer demands and lower unit costs resulted in chemical and power costs savings of \$1.3 million. Hire lag and reductions in cash capital equipment purchases saved another \$1.9 million. When the projected revenue shortfall is combined with the expenditure reductions, a (\$0.1) million unfavorable-to-budget year-end result is projected for FY 2011. Waterworks' operating reserves are used to meet such shortfalls when they occur, and are increased when favorable operations produce positive results (which are more typically the case).

Waterworks' operating budget for FY 2012 is proposed to decrease from \$83,597,800 for FY 2011 to \$82,843,000, a (\$754,800) or (0.9%) reduction. Budgeted water sales for FY 2012 are 41.8 mgd, a 0.2 mgd reduction from budgeted sales for FY 2011, but 1.8 mgd above actual sales expected for the current year. Waterworks' actual sales hit over 42.0 mgd three of the last five years. Although some demand reductions from conservation and the continued economic downturn have occurred, it is expected that this will not continue through FY 2012.

Fiscal Year 2011 Waterworks Revenues Budget To Actual Comparison

<u>Description</u>	<u>Budget</u>	<u>%</u>	<u>Projected</u>	<u>Variance</u>	<u>%</u>
Customer Demand:					
Million Gallons Per Day	42.0		40.2	-1.8	-4.3%
Hundred Cubic Feet (HCF)	20,494,652		19,616,310	-878,342	
Water Rates:					
First 6 HCF - Single Family Residential	\$2.78				
All Other Consumption	\$3.19				
Water Sales Based On Consumption:					
Water Sales	\$ 63,776,481	76.3%	\$ 60,980,823	\$ (2,795,658)	-4.4%
Summer Consumption Rate	1,301,662	1.6%	1,900,000	598,338	46.0%
Wholesale Treated Water Sales	150,750	0.2%	-	(150,750)	-100.0%
Subtotal Water Sales	\$ 65,228,893	78.0%	\$ 62,880,823	\$ (2,348,070)	-3.6%
Ancillary Revenues:					
Water Meter Fees	\$ 5,427,000	6.5%	\$ 5,321,045	\$ (105,955)	-2.0%
Retained Earnings	3,392,405	4.1%	3,392,405	-	0.0%
Hydrant Rental Fees	2,361,750	2.8%	2,394,741	32,991	1.4%
Interest-Operating Cash	2,100,000	2.5%	500,000	(1,600,000)	-76.2%
System Development Fees	1,300,000	1.6%	855,150	(444,850)	-34.2%
Late Payment Fees	552,750	0.7%	782,354	229,604	41.5%
Billing For Others Fees	400,000	0.5%	462,315	62,315	15.6%
New Account Fee	402,000	0.5%	332,253	(69,747)	-17.4%
Meter/Service Connect Fees	500,000	0.6%	500,000	-	0.0%
Reconnection Fees	301,500	0.4%	327,750	26,250	8.7%
Miscellaneous-Utilities	1,631,502	2.0%	1,760,165	128,663	7.9%
Subtotal Ancillary Revenues:	\$ 18,368,907	22.0%	\$ 16,628,177	\$ (1,740,730)	-9.5%
Total Waterworks Revenues	\$ 83,597,800	100.0%	\$ 79,509,000	\$ (4,088,800)	-4.9%

Fiscal Year 2011 Waterworks Operating Budget To Actual Forecast

<u>Description</u>	<u>Budget</u>	<u>%</u>	<u>Actuals</u>	<u>Variance</u>	<u>%</u>
Payroll Costs:					
Salaries (Full/Part Time/Temps/Standby, Etc.)	\$ 15,159,780	18.1%	\$ 15,220,072	\$ 60,292	0.4%
Fringes (FICA, Retirement, Health, Ect.)	7,853,561	9.4%	6,983,803	(869,758)	-11.1%
Subtotal Payroll Costs	\$ 23,013,341	27.5%	\$ 22,203,875	\$ (809,466)	-3.5%
Additional Expenses:					
Debt Service	\$ 21,829,056	26.1%	\$ 21,829,056	\$ -	0.0%
City Payments (ROI, IC, IT, PILOT)	13,346,880	16.0%	13,346,880	-	0.0%
Contractual Services	4,974,806	6.0%	4,614,463	(360,343)	-7.2%
Chemicals	3,814,280	4.6%	2,671,273	(1,143,007)	-30.0%
Utilities	3,219,200	3.9%	3,035,727	(183,473)	-5.7%
Cash Capital (Rolling Stock, Equipment, Etc.)	6,065,000	7.3%	5,020,141	(1,044,859)	-17.2%
Outside Taxes	1,900,000	2.3%	1,895,000	(5,000)	-0.3%
Other Expenses	5,435,237	6.5%	4,983,585	(451,652)	-8.3%
Subtotal Additional Expenses	\$ 60,584,459	72.5%	\$ 57,396,125	\$ (3,188,334)	-5.3%
Total Waterworks Operational Expenses	\$ 83,597,800	100.0%	\$ 79,600,000	\$ (3,997,800)	-4.8%

Strategy

Waterworks has eliminated 16 positions over the past three years reducing its total personnel count from 381 to 365. Waterworks' budgeted manpower has not been this low for more than 20 years. In addition, Waterworks has budgeted for continuation of the hiring freeze (approximately 30 equivalent full time positions held vacant) through the coming year and will closely monitor vacancies and budget progress throughout the

year prior to filling any positions. Similar to other City departments, Waterworks' recommended FY 2012 budget includes funding a two percent, across-the-board salary increase. Even with this funding, Waterworks salary expenses remain relatively unchanged due to the full-time position reductions and lower salaries for new hires.

The proposed FY 2012 budget shows reductions occurring in retirement and health insurance benefits, cash capital system improvements, variable chemical expenses and Return on Equity to the General Fund (all of which total \$1.5 million). Other than the noted reductions above, all other expenses show a net increase of \$0.7 million.

Waterworks projects FY 2012 revenues at existing fees and budgeted demands will not provide revenues sufficient to finance operating expenses and a needed reduction in the application of reserves to subsidize rates. The proposed budget reduces the contribution from reserves from \$3.4 million in FY 2011 to \$1.0 million in FY2012. Increases are recommended in fixed bimonthly and monthly service fees for all customers to better reflect cost of service at AWWA hydraulic capacity ratios and to also include a "readiness to serve" component.

The "Lifeline" rate will be continued with a modest increase thus allowing low usage residential customers to see only a \$0.93 per month increase in their water portion of the bill. The meter fee and rate changes proposed limit the impact to average residential customers using 13 hundred cubic feet (hcf) to less than \$2.00 per month, and less than \$1.00 per month if they now incur Summer Consumption Rate charges. In addition, creating a third tier residential rate for those with "excessive" water use over 50 hcf - a threshold set high enough to not adversely affect average customers with nominal outdoor water use (as does James City Service Authority) is recommended.

Implementation of a new two tier, declining block industrial rate structure (to better balance the cost of service burden placed on industrial customers) is proposed with a Block 1 water rate increase from the previous year and instituting a slightly lower Block 2 rate. A general rate category is implemented (including all other customers - commercial, institutional, apartment buildings, etc.,) and will be billed at a uniform rate for all water used. The specific rate proposals for water consumption are as follows:

■ **FY 2012 Water Rate Structure**

– **Single Metered Residential Customers (Three Block Inclining)**

- **R1 - Lifeline Water Rate for the first 6 hcf of consumption bimonthly; increase rate from \$2.78 per hcf to \$2.89 (4.0%). The Lifeline Rate has not increased since July 1, 2006**
- **R2 - Normal Consumption from 6 to 50 hcf; rate increases from \$3.19 to \$3.32 per hcf (4.0%)**
- **R3 - Conservation Block for water use above 50 hcf bimonthly; set at \$6.64 per hcf**

- **Industrial Two Block Declining Rates**
 - o **I1 - Consumption from 0 to 40,000 hcf per month; rate increases from \$3.19 to \$3.32 (4.0%)**
 - o **I2 - Consumption over 40,000 hcf per month; set at \$2.89 per hcf**
 - **General Uniform Rate**
 - o **G - applies to all other customers, including commercial, institutional, governmental, apartments, etc., for all consumption; rate increases from \$3.19 per hcf to \$3.32 per hcf (4.0%)**
- **Summer Consumption Rate (SCR) - now \$0.61 per hcf; eliminated.**

Waterworks' single family residential customers use an average of 165 gallons per day at their residence. For a 60-day, bimonthly billing cycle this equals a billable consumption of 9,900 gallons or just over 13 hcf. Waterworks is keenly aware of the financial constraints facing its customers and continues to emphasize sustainable approaches to minimize rate increase impacts on residents while maintaining reasonable rates for business and industry. Despite the FY 2012 rate/fee increases discussed, Waterworks still remains one of the lower cost water utilities in Southeastern Virginia, and the proposed increases compare favorably to those of most other water and wastewater utilities in the region, state and nation.

Fiscal Year 2011 vs. 2012 Waterworks Operating Budget

<u>Description</u>	<u>FY11 Budget</u>	<u>FY12 Budget</u>	<u>Variance</u>	<u>%</u>
Payroll Costs:				
Salaries (Full/Part Time/Temps/Standby, Etc.)	\$ 15,159,780	\$ 15,189,304	\$ 29,524	0.2%
Fringes (FICA, Retirement, Health, Ect.)	7,853,561	7,354,732	(498,829)	-6.4%
Subtotal Payroll Costs	\$ 23,013,341	\$ 22,544,036	\$ (469,305)	-2.0%
Additional Expenses:				
Debt Service	\$ 21,829,056	\$ 21,950,210	\$ 121,154	0.6%
City Payments (ROI, IC, IT, PILOT)	13,346,880	13,191,117	(155,763)	-1.2%
Contractual Services	4,974,806	5,382,220	407,414	8.2%
Chemicals	3,807,280	3,547,280	(260,000)	-6.8%
Utilities	3,219,200	3,242,349	23,149	0.7%
Cash Capital (Rolling Stock, Equipment, Etc.)	6,065,000	5,447,000	(618,000)	-10.2%
Outside Taxes	1,900,000	1,900,000	-	0.0%
Other Expenses	5,442,237	5,638,788	196,551	3.6%
Subtotal Additional Expenses	\$ 60,584,459	\$ 60,298,964	\$ (285,495)	-0.5%
Total Waterworks Operational Expenses	\$ 83,597,800	\$ 82,843,000	\$ (754,800)	-0.9%

Fiscal Year 2011 vs. 2012 Waterworks Revenues Budget

<u>Description</u>	<u>FY11 Budget</u>	<u>FY12 Budget</u>	<u>Variance</u>	<u>%</u>
Customer Demand:				
Million Gallons Per Day	42.00	41.8	-0.20	-0.5%
Hundred Cubic Feet (HCF)	20,494,652	20,397,059	-97,594	
Water Rates:				
Bimonthly Single Family Residential Customers:				
Lifeline Tier - First 0 - 6 HCF Bimonthly	\$2.78	\$2.89	\$0.11	4.0%
Normal Use Tier - Greater than 6 - 50 HCF	\$3.19	\$3.32	\$0.13	4.1%
Conservation Tier - Greater than 50 HCF	\$3.19	\$6.64	\$3.45	108.2%
Monthly Industrial Customers:				
Tier 1 - First 0 - 40,000 HCF	\$3.19	\$3.32	\$0.13	4.1%
Tier 2 - Greater than 40,000 HCF	\$3.19	\$2.89	(\$0.30)	-9.4%
General Customers (all other HCF consumption)	\$3.19	\$3.32	\$0.13	4.1%
Summer Consumption Rate HCF	\$0.61	Eliminated	(\$0.61)	-100.0%
Water Sales Based On Consumption:				
Water Sales	\$ 63,776,481	\$ 66,087,748	\$ 2,311,267	3.6%
Summer Consumption Rate	1,301,662	-	(1,301,662)	-100.0%
Wholesale Treated Water Sales	150,750	-	(150,750)	-100.0%
Subtotal Water Sales	\$ 65,228,893	\$ 66,087,748	\$ 858,855	1.3%
Ancillary Revenues:				
Water Meter Fees	\$ 5,427,000	\$ 7,130,000	\$ 1,703,000	31.4%
Retained Earnings	3,392,405	1,000,000	(2,392,405)	-70.5%
Hydrant Rental Fees	2,361,750	2,361,750	-	0.0%
Interest-Operating Cash	2,100,000	1,050,000	(1,050,000)	-50.0%
System Development Fees	1,300,000	1,300,000	-	0.0%
Late Payment Fees	552,750	600,000	47,250	8.5%
Billing For Others Fees	400,000	460,000	60,000	15.0%
New Account Fee	402,000	402,000	-	0.0%
Meter/Service Connect Fees	500,000	500,000	-	0.0%
Reconnection Fees	301,500	320,000	18,500	6.1%
Miscellaneous-Utilities	1,631,502	1,631,502	-	0.0%
Subtotal Ancillary Revenues:	\$ 18,368,907	\$ 16,755,252	\$ (1,613,655)	-8.8%
Total Waterworks Revenues	\$ 83,597,800	\$ 82,843,000	\$ (754,800)	-0.9%

NEWPORT NEWS WATERWORKS

COMPREHENSIVE COST OF SERVICE AND RATE DESIGN STUDY

Prepared by:

Raftelis Financial Consultants, Inc.

MARCH 30, 2011

EXECUTIVE SUMMARY

Raftelis Financial Consultants, Inc. (RFC) was engaged by Newport News Waterworks (Waterworks) to conduct a Comprehensive Cost of Service and Rate Design Study (Study). The primary objective of the Study was to assist staff in: 1) determining the effectiveness of existing rate structures; 2) identifying opportunities for improvement; and 3) developing viable rate structure alternatives. To achieve these objectives, a multi-layer approach was used that included the following tasks:

1. Overview of the Rate Setting Process
2. Identification of Pricing Objectives
3. Identification of Revenue Requirements
4. Customer Demand Projections
5. Comprehensive Cost of Service Analyses
6. Water Rate Design and Calculation
7. Development of a Five-Year Financial Plan

Rate Setting Process & Pricing Objectives

At a meeting with Waterworks' staff to review the rate setting process and discuss pricing objectives, staff identified that the primary objectives for their pricing structure should be financial sufficiency, revenue stability, and customer understanding.

Revenue Requirements

The two foundational elements of any rate development and calculation are comprehensively identified costs, or revenue requirements, and projected customer demand information. Revenue requirements include all of the cash needs of a utility, including operating expenses, capital and debt related costs, and transfers to reserves or other funds. The Fiscal Year (FY) 2011 & FY 2012 operating budgets, approved five-year capital improvement plan (CIP), and existing debt amortization schedules were the primary source of information for building up the revenue requirements used in the cost of service analysis and the financial plan. The total budgeted system revenue requirements for FY 2011 are \$83,597,800.

Demand Projections

Waterworks provided RFC with detailed customer billing data from the past three years which was reviewed for usage patterns among customer classes and trends over time. Waterworks services approximately 122,000 customer accounts, most of which are single-family residential. Industrial and general (including commercial, military, and multi-unit residential) class accounts comprise approximately 57% of annual customer demand, but only account for 13% of the total accounts.

Cost of Service Analysis

A comprehensive cost of service analysis was completed that was based on the principles outlined in the American Water Works Association (AWWA) Manual M-1, Principles of Water Rates, Fees, and Charges (M-1 Manual). AWWA is the leading water industry organization and the M-1 Manual is the guiding document for determining rates within the industry. Costs were allocated between

customer classes based on their estimated demand requirements and recognizing the different costs associated with serving different customer classes. The cost of service analysis is based on the base-extra capacity methodology recommended in the M-1 Manual.

A comparison of the total allocated costs of service to recover from each customer class with the projected revenues under the existing rates is shown in Exhibit ES-1. These results indicated that overall, a 4.0% increase in revenue from user charges is needed. We also noticed that the single-family residential customer class is under-recovering relative to its cost of service. As a result, under the current rates, non-residential customer classes are slightly subsidizing the single-family residential customers.

Exhibit ES-1: Cost of Service Comparison with Revenues under Current Rates

<u>Customer Class Cost of Service Comparison</u>	<u>Calculated Cost of Service</u>	<u>Allocated Public Fire Protection</u>	<u>Total Cost of Service</u>	<u>Revenue Under Existing Rates</u>	<u>Indicated Percent Change Required</u>
Retail Customers					
General Class	\$ 26,229,450	\$ 1,047,750	\$ 27,277,200	\$ 28,316,163	-3.67%
Industrial	9,418,878	376,242	9,795,120	10,845,352	-9.68%
Single-Family Residential	34,504,556	1,378,304	35,882,859	30,990,140	15.79%
<i>Subtotal: Retail Customers</i>	\$ 70,152,884	\$ 2,802,296	\$ 72,955,180	\$ 70,151,655	4.00%

Rate Design and Calculation

Waterworks customers are currently charged for water service based on a rate structure with two components: a fixed service fee and a volumetric rate based on the quantity of water consumed. The fixed service fee is based on meter size (increasing charges for increasing meter sizes) and varies for monthly or bi-monthly billing cycles. The volumetric component has three separate rates: a lifeline rate for residential customers with low consumption levels, a uniform rate for consumption above the lifeline threshold, and a summer surcharge that applies to seasonal peaks.

The existing rate structure does not optimally address the primary pricing objectives identified by Waterworks staff. Under the existing rate structure, approximately \$3.4 million from reserve funds was budgeted in FY 2011 to meet the cash needs of the utility which means the rates do not provide financially sufficient revenues to meet revenue requirements. In FY 2010, revenues from the fixed service fees accounted for approximately 6.7% of total system revenues, excluding revenue from fire protection services, and revenues from the volumetric rates accounted for approximately 74.8% of total system revenues. Although over 90% of Waterworks costs are fixed less than 7% of revenue is generated from fixed service fees (approximately 10% including fire protection fees), which indicates there is potential to shift a greater portion of Waterworks' revenues to stable, fixed service fees. Finally, the summer consumption rate adds a level of complexity that may be difficult for customers to understand.

To address these areas for improvement in the existing rate structure, RFC worked with staff to develop recommended rates, which are shown in Exhibit ES-2, that take the first step in creating a pricing structure that better meets these objectives and better aligns the utility's revenue recovery

with the costs to provide those services. Specifically, the recommended rates are designed to have the following characteristics:

- The rates developed for FY 2012 generate revenues that are sufficient to meet the cash needs of the system while reducing transfers from reserves from \$3,400,000 to \$1,000,000.
- The percent of revenue that is recovered from the fixed user charges increases from an estimated 7.4% under the current rates to 9.7% under the recommended rates (not including fire protection fees).
- The summer surcharge has been eliminated and replaced with a simple, three-tier rate structure for single family customers and a uniform rate for general customer accounts.
- The introduction of the industrial rate provides recognition of the economies of scale generated by the largest system users.

Exhibit ES-2: Recommended FY 2012 Rates and Fees

	Monthly Charge		Bi-Monthly Charge	
	FY 2011 <i>Current</i>	FY 2012 <i>Recommended</i>	FY 2011 <i>Current</i>	FY 2012 <i>Recommended</i>
Fixed Service Fees				
5/8"	\$ 5.60	\$ 6.00	\$ 6.30	\$ 7.50
3/4"	\$ 6.20	\$ 7.20	\$ 7.00	\$ 9.40
1"	\$ 7.90	\$ 9.70	\$ 9.00	\$ 13.40
1.5"	\$ 10.10	\$ 26.00	\$ 11.60	\$ 47.00
2"	\$ 16.30	\$ 39.00	\$ 18.30	\$ 72.00
3"	\$ 61.70	\$ 83.00	\$ 69.30	\$ 160.00
4"	\$ 78.40	\$ 120.00	\$ 88.20	\$ 235.00
6"	\$ 117.60	\$ 221.00	\$ 132.30	\$ 437.00
8"	\$ 162.40	\$ 342.00	\$ 182.70	\$ 679.00
10"	\$ 224.00	\$ 480.00	\$ 252.00	\$ 956.00
Volumetric Rates				
<u>General Class Demand</u>				
All Usage	\$ 3.19	\$ 3.32	\$ 3.19	\$ 3.32
<u>Industrial Demand</u>				
0 to 40,000 HCF monthly	\$ 3.19	\$ 3.32	\$ 3.19	\$ 3.32
> 40,000 HCF monthly	\$ 3.19	\$ 2.89	\$ 3.19	\$ 2.89
<u>Single-Family Residential Demand</u>				
0 to 6 HCF bi-monthly	\$ 2.78	\$ 2.89	\$ 2.78	\$ 2.89
6 to 50 HCF bi-monthly	\$ 3.19	\$ 3.32	\$ 3.19	\$ 3.32
> 50 HCF bi-monthly	\$ 3.19	\$ 6.64	\$ 3.19	\$ 6.64
Summer Surcharge	\$ 0.61	n/a	\$ 0.61	n/a
<i>Average Residential Bill (13 HCF bi-monthly)</i>			\$ 45.31	\$ 48.08

Financial Plan

The rates developed for FY 2012 are adequate to meet the revenue requirements of the system in FY 2012, however cost projections and reduced per capita customer demand will require that the system continue to review its rates and charges for revenue sufficiency. The Rate Model has been built with a ten-year forecast that allows Waterworks' staff the ability to plan for future capital and operating needs and maintain awareness of the impact these needs will have on the systems ratepayers. Assumptions used in the financial planning forecast include:

- Operating costs escalate by 3.0% annually.
- The CIP will be funded by a \$10 million revenue bond issue in FY 2013, a \$12 million issue in FY 2016, and the remainder will be funded with cash from rates and charges.
- Transfers will remain at FY 2012 levels.
- Miscellaneous revenue sources will be constant throughout the forecast.
- 5/8" Service fees will increase annually by \$0.60 and \$1.20 for monthly and bi-monthly service, respectively, until FY 2016. The 3/4" and 1" meters will maintain the same differential as well. The fee for meters 1.5" and larger will remain at the cost of service level.
- No retained earnings will be used to fund operations beyond FY 2012.
- Accounts will grow by 0.25% annually.
- Customer demand will decline by 0.50% annually.

Using these assumptions, it is not anticipated that an additional volumetric rate increase will be needed in FY 2013. If the meter service fees are adjusted according to the proposed five-year plan, it may be possible that volumetric rate increases be kept to nominal adjustments of 1%-2%. The projected operating results for the five-year forecast period are shown in Exhibit ES-3.

Exhibit ES-3: Financial Planning Forecast

	<u>FY2012</u>	<u>FY2013</u>	<u>FY2014</u>	<u>FY2015</u>	<u>FY2016</u>
	<i>Projected</i>	<i>Projected</i>	<i>Projected</i>	<i>Projected</i>	<i>Projected</i>
Revenue Under Proposed Rates					
<u>User Charge Revenue</u>					
Service Fee Revenues	\$ 7,149,517	\$ 8,041,254	\$ 8,939,645	\$ 9,840,253	\$ 10,745,799
Volume Charge Revenue	66,565,712	66,232,883	67,287,035	67,716,730	68,140,445
<i>Subtotal: User Charge Revenue</i>	\$ 73,715,229	\$ 74,274,137	\$ 76,226,680	\$ 77,556,983	\$ 78,886,244
<u>Miscellaneous Revenues</u>					
Miscellaneous Fees Revenue	\$ 5,583,750	\$ 5,583,750	\$ 5,583,750	\$ 5,583,750	\$ 5,583,750
Other Operating/Non-Operating Revenue	3,766,127	2,766,127	2,766,127	2,766,127	2,766,127
<i>Subtotal: Miscellaneous Revenues</i>	\$ 9,349,877	\$ 8,349,877	\$ 8,349,877	\$ 8,349,877	\$ 8,349,877
Total: System Revenues	\$ 83,065,106	\$ 82,624,014	\$ 84,576,557	\$ 85,906,860	\$ 87,236,121
Revenue Requirements					
Operating Expenses	\$ 42,804,790	\$ 44,088,934	\$ 45,411,602	\$ 46,773,950	\$ 48,177,168
Debt Service	21,950,208	19,815,296	20,017,950	20,058,951	19,825,399
Cash Funded Capital	5,447,000	5,998,000	6,219,000	5,780,000	6,338,000
Indirect Costs	1,100,000	1,100,000	1,100,000	1,100,000	1,100,000
Return on Investment to General Fund	9,891,000	9,891,000	9,891,000	9,891,000	9,891,000
PILOT	1,650,000	1,650,000	1,650,000	1,650,000	1,650,000
Total: Revenue Requirements	\$ 82,842,998	\$ 82,543,229	\$ 84,289,552	\$ 85,253,901	\$ 86,981,567
Annual Surplus / Deficit	\$ 222,109	\$ 80,785	\$ 287,005	\$ 652,959	\$ 254,554