

CONTINUING BUSINESS

ITEM 1

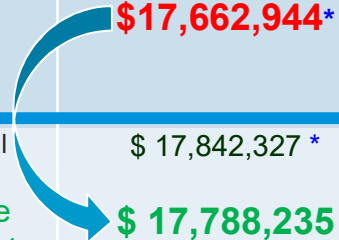
DRAFT FY 2023 OPERATING BUDGET WORKSESSION

March 24, 2022



Recall from 3-10-2022: FY 2023 Draft Operating Budget

| FY22 Approved Budget Expenses | | \$ 16,169,024 | |
|--|--------------------------------|----------------------|-----------------------------|
| Essential Cost Changes (ECC) | \$ 250,000 | \$ 16,419,024 | 1.55% |
| Impact of chemical cost increases | \$ 150,000 | \$ 16,569,024 | 2.49% |
| Pension & Hospitalization increases | \$ 225,000 | \$ 16,794,024 | 3.87% |
| New DOL reqmts for CDL & PFAS Testing | \$ 34,000 | \$ 16,828,024 | 4.10% |
| New Initiatives: Outsourcing Phone Stand-By | (\$ 30,000) | \$ 16,798,024 | 3.89% |
| Realignment: Server replacement in FY 22 | (\$ 25,000) | \$ 16,773,024 | 3.74% |
| Hospitalization Negotiated to 2.5% | (\$ 60,000) | \$ 16,713,024 | 3.36% |
| Eliminate the Paid Internship Program | (\$ 50,000) | \$ 16,663,024 | 3.01% |
| Compensation Study One-time Cost | (\$ 85,000) | \$ 16,578,024 | 2.53% |
| Other Incremental Increases including overtime | \$ 215,920 | \$ 16,793,944 | |
| Working Subtotal: | | \$ 16,793,944 | 3.86% |
| Working Subtotal w/SMECO rate increases | \$ 300,000 | \$ 17,093,944 | 5.72% |
| Compensation & Classification Study | \$ 365,000 | \$ 17,458,944 | 7.97% |
| Merit Increase on new scale | \$ 204,000 | \$ 17,662,944 | 9.23% |
| FY 23 Draft Baseline Expenses | Based on actual expense trends | \$ 16,977,324 | Above trend estimate |
| FY 23 Draft Expenses | | \$17,662,944* | |
| FY 23 Draft Baseline Revenues | Based on actual revenue trends | \$ 17,842,327 * | < 1% Public Hearing reserve |
| FY 23 Draft Revenues | Rate increase same as FY 21 | \$ 17,788,235 | * 1% Budget Surplus |



< 1% Public Hearing reserve

* 1% Budget Surplus



BOARD DIRECTION FROM 3-10-2022

FISCAL MOTION

FY 2023 BUDGET DIRECTION

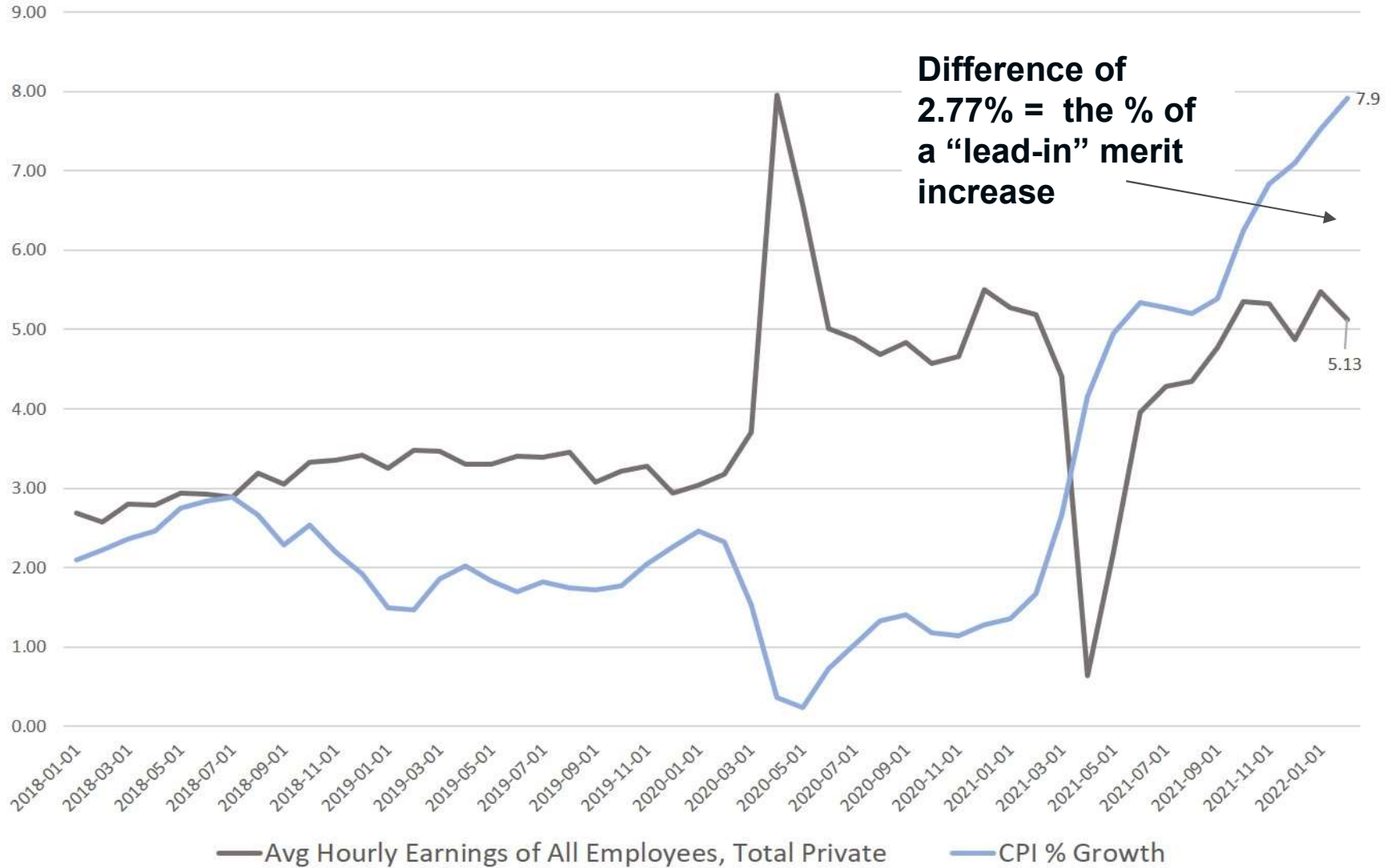
MOVE that the Commission direct staff to include the fiscal impacts of the compensation classification study followed by a one-step merit in the FY 2023 Operating Budget.

FURTHER, MOVE that the Commission direct staff to proceed with drafting options for the FY 2023 Operating Budget that will address commodity inflation and provide a 5% budget surplus, and return on March 24, 2022, with a Recommended Budget for Public Hearing.



INFLATION vs WAGE GROWTH

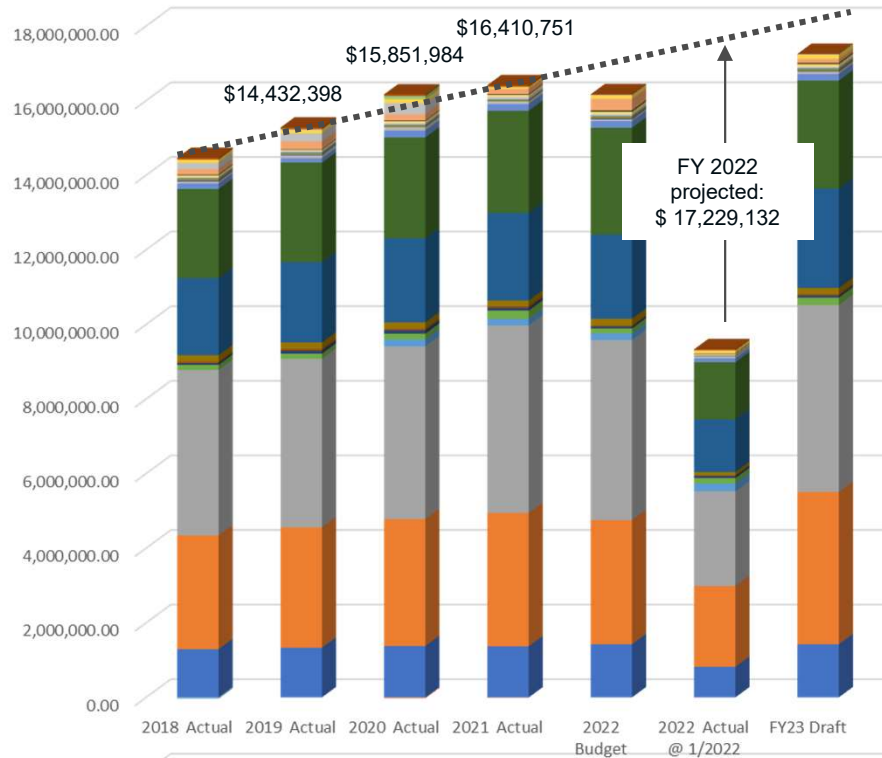
Inflation is Outpacing Wage Growth





REVENUE ACCOUNT BREAKDOWN

Revenue Account Breakdown



Recall from 3-10-2022, in FY 2021, actual revenues associated with water and sewer connections accounted for \$15,499,323 (94%) of the \$16,410,751 total revenues

Of the 24 revenue sources, the majority of operating revenue is generated from water / sewer metered service and usage

Sewer metered service and usage is approximately 70% greater than water metered service and usage

Short of other revenue enhancements (ie. flat maintenance surcharge), rates for services would be the logical source for addressing inflationary impacts and programming a modest budget surplus



| | 2018 Actual | 2019 Actual | 2020 Actual | 2021 Actual |
|--|--------------|--------------|--------------|--------------|
| WATER OPERATIONS / METERED WATER REVENUE | 2,066,616.68 | 2,153,884.33 | 2,255,501.93 | 2,347,257.31 |
| WATER OPERATIONS / WATER USAGE | 2,389,957.17 | 2,669,798.45 | 2,703,132.00 | 2,739,151.99 |
| SEWER OPERATIONS / METERED SEWER REVENUE | 3,051,105.15 | 3,225,441.94 | 3,404,998.13 | 3,576,045.20 |
| SEWER OPERATIONS / USAGE | 4,435,035.93 | 4,523,976.22 | 4,630,960.68 | 5,021,508.74 |



TIERED RATES: USAGE AND REVENUE

Irrigation Months

| Calendar Year 2017 Consumption and Charges | | | | | | | | |
|--|----------------|-----------------------|----------------------|----------------------|----------------------|-----------------------|---------------------|---------------------|
| 2017 | Customer Count | Consumption (gallons) | Tier 1 Con (gallons) | Tier 2 Con (gallons) | Tier 3 Con (gallons) | Tier 1 \$ | Tier 2 \$ | Tier 3 \$ |
| January | 14299 | 81,132,141 | 58,588,603 | 18,288,924 | 4,254,614 | \$91,417.82 | \$56,934.20 | \$26,683.06 |
| February | 14373 | 83,033,205 | 59,348,969 | 18,825,856 | 4,858,380 | \$92,609.08 | \$58,605.25 | \$30,446.93 |
| March | 14380 | 83,781,791 | 59,791,318 | 19,327,244 | 4,663,229 | \$93,297.14 | \$60,170.38 | \$29,259.13 |
| April | 14405 | 88,199,484 | 61,376,045 | 21,963,958 | 4,859,480 | \$95,766.16 | \$68,361.90 | \$30,499.48 |
| May | 14583 | 93,256,955 | 62,168,267 | 25,421,465 | 5,667,223 | \$97,018.24 | \$79,126.00 | \$35,516.26 |
| June | 14520 | 101,456,360 | 63,378,192 | 30,935,825 | 7,142,343 | \$98,904.31 | \$96,278.97 | \$44,686.93 |
| July | 14517 | 109,539,655 | 63,573,345 | 35,772,647 | 10,193,663 | \$99,201.89 | \$111,317.88 | \$63,704.31 |
| August | 14508 | 99,124,864 | 77,491,430 | 18,189,562 | 3,443,872 | \$122,897.08 | \$57,424.32 | \$21,734.15 |
| September | 14563 | 94,135,035 | 61,234,061 | 25,938,890 | 6,962,085 | \$98,586.84 | \$83,004.45 | \$44,696.59 |
| October | 14630 | 105,454,377 | 63,466,343 | 32,307,316 | 9,680,719 | \$102,180.81 | \$103,383.41 | \$62,150.22 |
| November | 14593 | 88,722,898 | 61,006,980 | 22,315,526 | 5,400,392 | \$98,221.24 | \$71,409.68 | \$34,670.52 |
| December | 14608 | 73,630,016 | 56,405,218 | 14,479,950 | 2,744,848 | \$90,812.40 | \$46,335.84 | \$17,621.92 |
| TOTAL | | 1,101,466,781 | 747,828,771 | 283,767,162 | 69,870,848 | \$1,180,913.00 | \$892,352.28 | \$441,669.49 |
| % of Total | | | 67.89 | 25.76 | 6.34 | 46.96 | 35.48 | 17.56 |

Approximately 68% of the water used is by customers are paying the Tier 1 rate (up to 5,000 gallons), which generates almost 50% of the revenue associated with water use charges.



INTERMEDIATE TIER CONSIDERATION

HISTORY: MetCom implemented a three(3) tier rate structure on July 1, 2015. Two changes were made to the rate structure in FY17 to accommodate residential customers that use large volumes of irrigation water. Sewer usage was capped, effective 7-1-2016, at a maximum of 10,000 gallons per month for residential customers with a 5/8" meter. The cap was set at 10,000 gallons per month in order to help capture the typical indoor domestic water profiles of both average and larger size families (*defined as twice the average household size of 2.7 persons*) based on the U.S census household occupation statistics and per capita consumption estimates of indoor water usage per the United States Environmental Protection Agency to account for irrigation and larger residential family households.

INTRODUCTION: An intermediate Tier rate would enhance revenues, align with the 10,000 gallon sewer cap, and lessen the fiscal impact to MetCom when customers request reduction in their bills due to unforeseen circumstances.

USE: The average use for ALL customers is about 6,000 gallons during irrigation (Apr-Oct) and 5,000 gallons per month during non-irrigation (Nov-Mar) months. **Those customers that used over 10,000 gallons per month, generally crossed into the Tier 3 > 20,000 gallon use rates.**

EVALUATION OF INTERMEDIATE TIER:

Tier 1: Current \$1.78 / 1,000 gallons for consumption of 0-5,000 gallons. Essential domestic requirements for typical residence (lowest rate). Note: Approximately 66% of customers use between 0-5,000 gallons per month.

Tier 2: Current \$3.54 / 1,000 gallons for consumption of 5,001-20,000 gallons. Reasonable amount of irrigation for typical residence (higher rate). **Adjust Tier for consumption of 5,001-10,000 gallons.** Note: Approximately 89% of customers use 10,000 gallons or less.

Tier 2: Possible intermediate Tier rate of \$5.32 / 1,000 gallons of use for consumption of 10,001-20,000 gallons. Note: Approximately 8% of customers use 10,001 - 20,000 gallons with the average customer using about 13,000 gallons per month. Those affected, would pay an additional \$1.78 per \$1,000 gallons x 3,000 gallons = \$5.34 per month. With an estimated 1,200 customers impacted, only a modest overall increase in revenue of \$75,000-80,000 per year would be realized. Not recommended at this time.

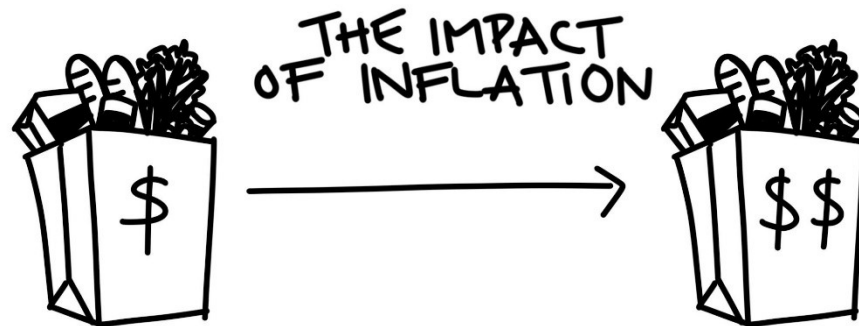
Tier 3: Current \$7.10 / 1,000 gallons for consumption of >20,000 gallons. All remaining usage (highest rate). Note: Approximately 3% of customers use over 20,000 gallons per month.



IMPACTS OF ESCALATION & INFLATION

According to new data released by the Bureau of Labor Statistics, price inflation in February 2022 rose to the highest level recorded in more than forty years.

Since April 2021, inflation has accelerated with year-over-year growth nearly doubling over the past 11 months from 4.2 percent to 7.9 percent.





CHEMICAL COSTS (recall from 2-10-2022)

| Chemical Costs | FY19 Unit Cost | FY20 Unit Cost | Percent Increase | FY21 Unit Cost | Percent Increase | FY22 Unit Cost | Percent Increase | Overall Increase | Estimated Quantity |
|--------------------------------------|----------------|----------------|------------------|----------------|------------------|----------------|------------------|------------------|--------------------|
| Magnetite - Per Tote | 7/1/2018 | 7/1/2019 | 0% | 7/1/2020 | 6% | 7/1/2021 | 14% | 20% | 25 tons |
| | \$ 615.00 | \$ 615.00 | | \$ 649.50 | | \$ 741.00 | | | |
| Bicarb DN - Per Gallon | 12/1/2019 | 12/1/2020 | -10% | 12/1/2021 | 86% | 1/1/2022 | 21% | 104% | 42,040 |
| | \$ 1.69 | \$ 1.53 | | \$ 2.85 | | \$ 3.45 | | | |
| Sulfur Dioxide - 150 lb Cylinder | 4/16/2018 | 4/16/2019 | 0% | 4/16/2020 | 0% | 4/16/2021 | 0% | 0% | 90 |
| | \$ 136.65 | \$ 136.65 | | \$ 136.65 | | \$ 136.65 | | | |
| Sodium Hypochlorite - Per Gallon | 12/1/2018 | 12/1/2019 | 0% | 12/1/2020 | -3% | 12/1/2021 | 2% | -1% | 40,000 |
| | \$ 2.26 | \$ 2.26 | | \$ 2.19 | | \$ 2.23 | | | |
| Polymer - Per lb | 11/1/2017 | 3/18/2019 | 37% | 3/18/2020 | 3% | 3/18/2021 | 3% | 44% | 28,531 |
| | \$ 0.82 | \$ 1.12 | | \$ 1.15 | | \$ 1.18 | | | |
| Ferric Chloride - Per Ton | 2/14/2019 | 2/14/2020 | 7% | 2/14/2021 | 10% | 2/14/2022 | 17% | 37% | 220 |
| | \$ 588.00 | \$ 629.00 | | \$ 691.00 | | \$ 806.60 | | | |
| Chlorine Cylinders - 150 lb Cylinder | 1/1/2019 | 1/1/2020 | 0% | 1/1/2021 | 0% | 1/1/2022 | 179% | 184% | 100 |
| | \$ 96.98 | \$ 98.53 | | \$ 98.50 | | \$ 275.00 | | | |
| Free Chlorine Reagent Sets* | 1/1/2019 | 8/1/2019 | 9% | 8/1/2020 | 3% | 8/1/2021 | 3% | 18% | 465 |
| | \$ 36.67 | \$ 40.35 | | \$ 41.76 | | \$ 43.22 | | | |

* facing a 12 percent increase effective 01/01/2022 - not finalized.

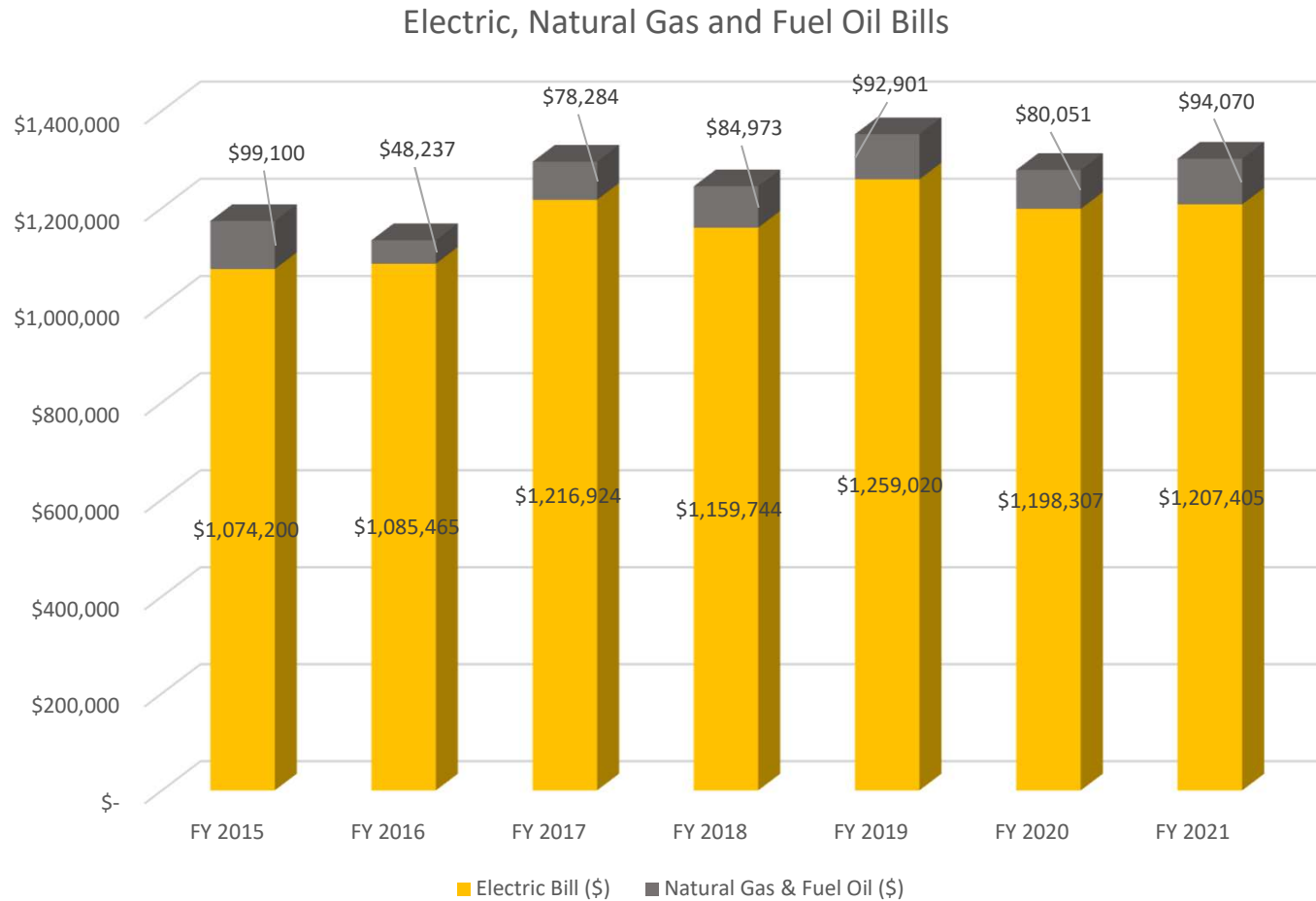
| | |
|----------------------------|---------------|
| FY21 Total Estimated Spend | \$ 450,049.05 |
| FY22 Total Estimated Spend | \$ 523,777.38 |
| Price Increase | 16% |

| | |
|----------------------------|-----------------------|
| FY23 Total Estimated Spend | \$607,000 - \$654,000 |
|----------------------------|-----------------------|

Draft budget increased chemical costs by \$150,000. From \$510,000 to \$660,000. Suggest inflationary impact of 16% = \$150,000. Total impact = \$300,000.



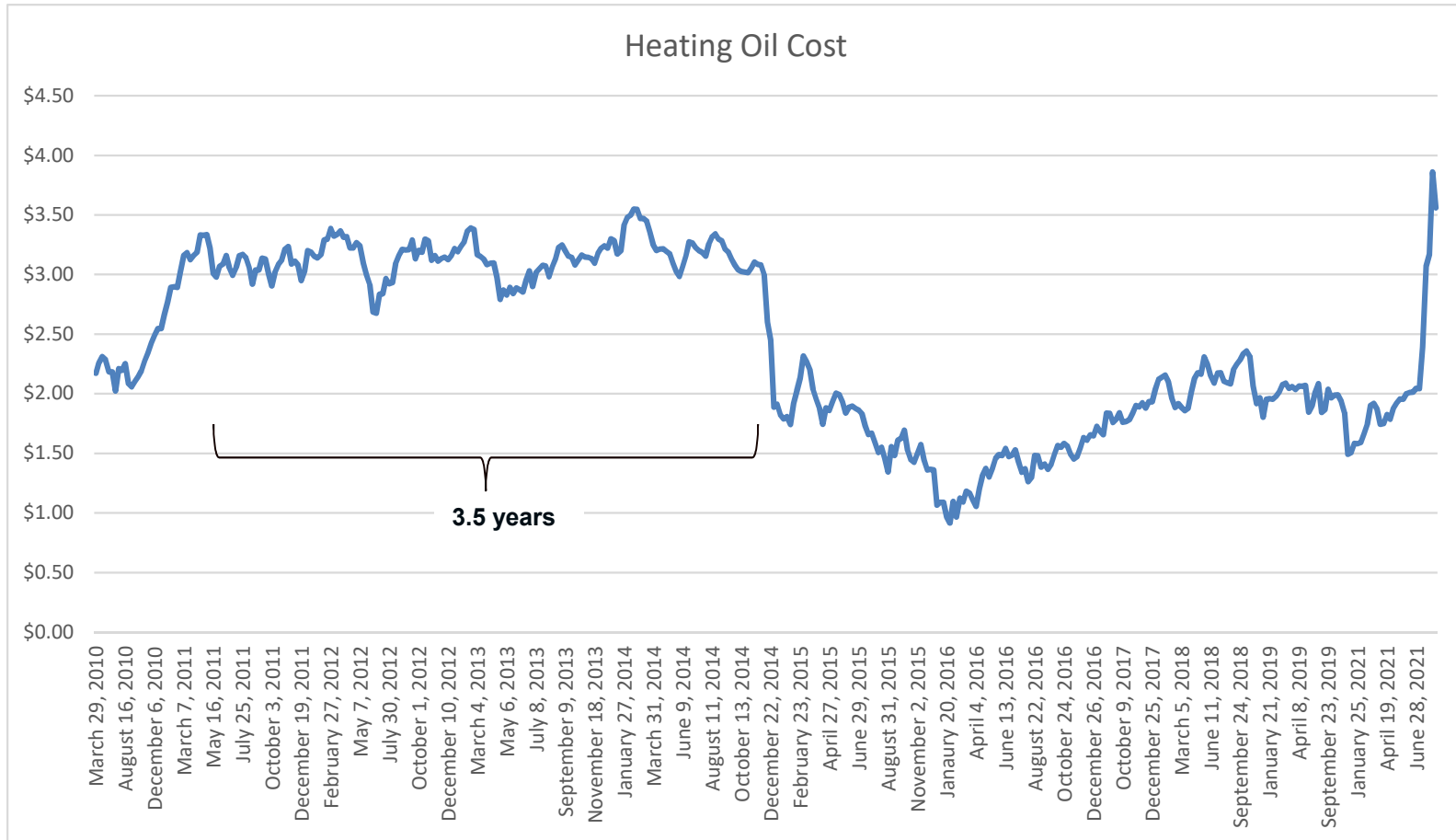
UTILITY COSTS (recall from 2-10-2022)



Draft budget increased electric by 25% (\$300,000). No additional change, despite rumors .



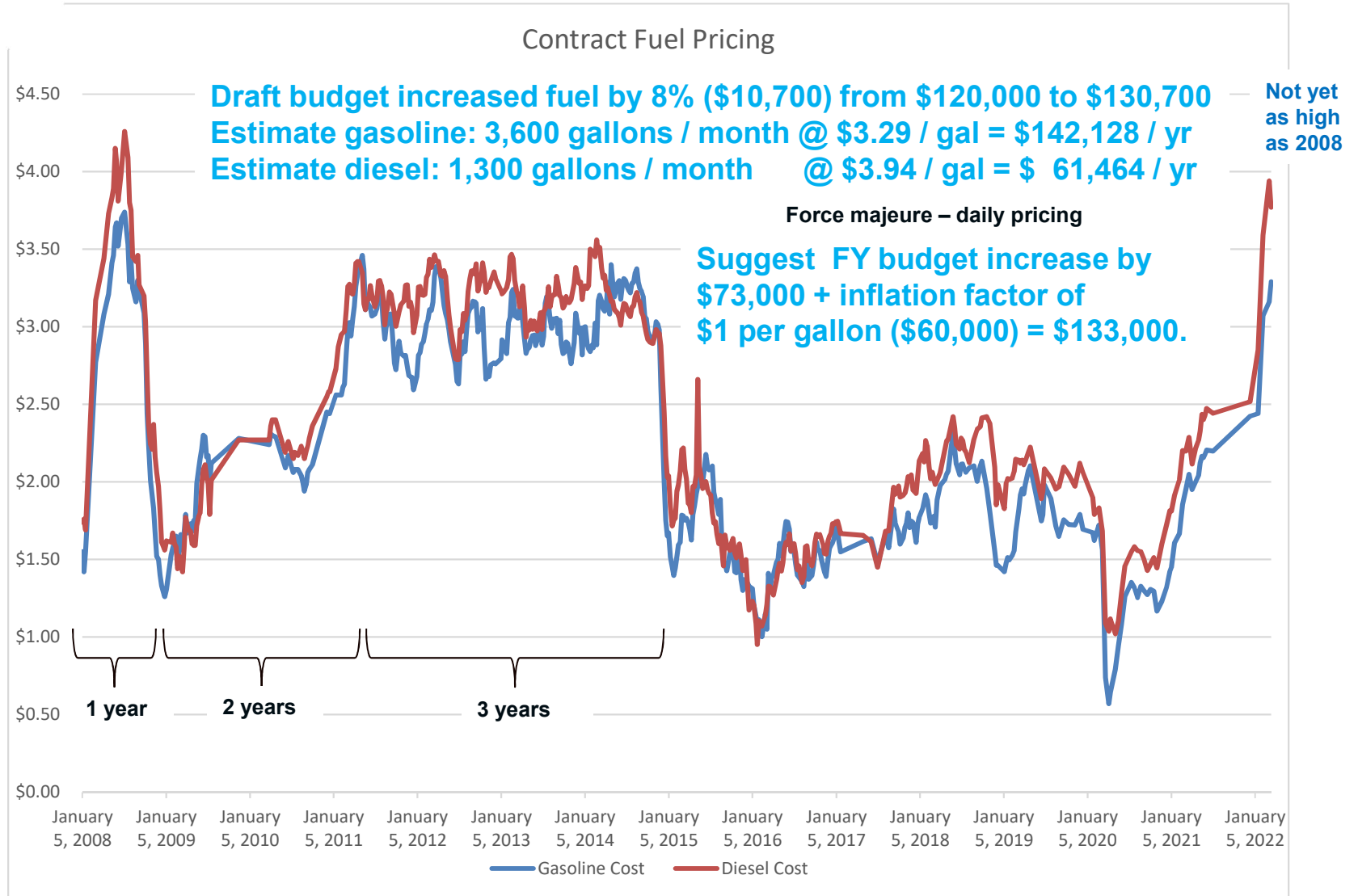
HEATING OIL (Graph reflects County contract pricing)



Propane and heating oil use is approximately 47,000 gallons. Original draft budget was \$90,000: Suggest 75% increase (\$67,500) based on current pricing + plus inflation factor of \$1 / gallon (\$47,000) = \$114,500.



FUEL COSTS: DIESEL & GASOLINE





CONTRACT SERVICES

Consider 16% increase for all contracted services (materials, labor and fuel).

**Construction. Sewer Draft budget increased from \$ 49,000 to \$124,000 (\$75,000)
Water Draft budget increased from \$150,000 to \$225,000 (\$75,000)**

Operations (Sewer).

**Draft collect. budget increased from \$100,000 to \$150,000 (\$50,000)
Draft maint. budget increased from \$30,000 to \$50,000 (\$20,000)
Draft hauling budget increased from \$100,000 to \$150,000 (\$50,000)
Draft main. budget increased from \$25,000 to \$50,000 (\$25,000)**

Grounds Clearing.

Draft water budget remained flat at \$63,000 (budget unspent)

Sludge Removal.

Draft MTWRF budget remained flat at \$260,100

Generator Maintenance.

**Draft water budget increased from \$28,560 to \$35,000 (\$6,440)
Draft sewer budget increased from \$43,860 to \$50,000 (\$6,140)**

**Suggest draft FY 23 budget for essential cost changes of \$250,000
be increased by an inflation factor of 16% = \$175,000 up to \$425,000.**

Impact of Increased Expenses on 3-10-2022 draft Budget

| FY22 Approved Budget Expenses | | \$ 16,169,024 | |
|--|--|----------------------|---|
| Essential Cost Changes (ECC) | \$ 425,000 | \$ 16,594,024 | 2.63% |
| Impact of chemical cost increases | \$ 300,000 | \$ 16,894,024 | 4.48% |
| Pension & Hospitalization increases | \$ 225,000 | \$ 17,119,024 | 5.88% |
| New DOL reqmts for CDL & PFAS Testing | \$ 34,000 | \$ 17,153,024 | 6.09% |
| New Initiatives: Outsourcing Phone Stand-By | (\$ 30,000) | \$ 17,123,024 | |
| Realignment: Server replacement in FY 22 | (\$ 25,000) | \$ 17,098,024 | |
| Hospitalization Negotiated to 2.5% | (\$ 60,000) | \$ 17,038,024 | |
| Eliminate the Paid Internship Program | (\$ 50,000) | \$ 16,988,024 | |
| Compensation Study One-time Cost | (\$ 85,000) | \$ 16,903,024 | 4.54% |
| Other Incremental Increases including overtime | \$ 215,920 | \$ 17,118,944 | 5.87% |
| Working Subtotal w/SMECO / fuel oil increases | \$ 414,500 | \$ 17,533,444 | 8.44% |
| Fuel (gasoline and diesel) increases | \$ 133,000 | \$ 17,666,444 | 9.26% |
| Compensation & Classification Study | \$ 365,000 | \$ 18,031,444 | 11.52% |
| Merit Increase on new scale | \$ 204,000 | \$ 18,235,444 | 12.78% |
| FY 23 Draft Expenses | | \$ 18,235,444 | |
| FY 23 Draft Revenues (from 3-10-2022) | Rate of Increase remains the same as FY 2021 | \$ 17,788,235 | Budget deficit requires use of reserves |
| As expected, revenues <u>MUST</u> be increased to meet expenses and to consider programming a budget surplus (emergency reserve). | | | Use of reserves should not be recurring (see slides 15 & 27) |



CONSISTENCY WITH COMMISSION BYLAWS

ARTICLE 7.2.4 GENERAL RESERVE FUND

“It shall be a goal, but not a requirement, of the Commission, as part of the annual budget preparation and approval process, to set aside a sum of money equal to seven percent (7%) of the total operating budget, to be placed into a General Reserve Fund.” *(See slide 28 = \$9.085M in FY 21)*

“The balance of monies maintained in the General Reserve Fund may be utilized by the Commission to cover the costs of any unanticipated costs that the Commissioners determine must or should be incurred from time to time.” *(Not recurring)*

“This provision is intended only to establish a budgetary goal of the Commission and is not intended to create any obligation of the Commission to commit any minimum or maximum annual allocation of monies to the General Reserve Fund.”

OPTION 1: REVERT BACK TO FY 2020 RATES OF INCREASE

| FY22 Approved Budget Expenses | | \$ 16,169,024 | |
|---|-----------------------------|----------------------|-----------------------------|
| Essential Cost Changes (ECC) | \$ 425,000 | \$ 16,594,024 | 2.63% |
| Impact of chemical cost increases | \$ 300,000 | \$ 16,894,024 | 4.48% |
| Pension & Hospitalization increases | \$ 225,000 | \$ 17,119,024 | 5.88% |
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| New Initiatives: Outsourcing Phone Stand-By | (\$ 30,000) | \$ 17,123,024 | |
| Realignment: Server replacement in FY 22 | (\$ 25,000) | \$ 17,098,024 | |
| Hospitalization Negotiated to 2.5% | (\$ 60,000) | \$ 17,038,024 | |
| Eliminate the Paid Internship Program | (\$ 50,000) | \$ 16,988,024 | |
| Compensation Study One-time Cost | (\$ 85,000) | \$ 16,903,024 | 4.54% |
| Other Incremental Increases including overtime | \$ 215,920 | \$ 17,118,944 | 5.87% |
| Working Subtotal w/SMECO / fuel oil increases | \$ 414,500 | \$ 17,533,444 | 8.44% |
| Fuel (gasoline and diesel) increases | \$ 133,000 | \$ 17,666,444 | 9.26% |
| Compensation & Classification Study | \$ 365,000 | \$ 18,031,444 | 11.52% |
| Merit Increase on new scale | \$ 204,000 | \$ 18,235,444 | 12.78% |
| FY 23 Draft Expenses | \$ 685,967 = | \$ 18,235,444 | |
| FY 23 Draft Revenues | 3.8% Public Hearing Reserve | \$ 18,921,411 | 17.02% |
| Revenues meet expenses and are sufficient to program a public hearing reserve & budget surplus (emergency reserve) | | | Adjust expenses accordingly |

OPTION 2: FY 2021 RATES OF INCREASE & MAINT SURCHARGE

| FY22 Approved Budget Expenses | | \$ 16,169,024 | |
|--|----------------------|----------------------|-----------------------------|
| Essential Cost Changes (ECC) | \$ 425,000 | \$ 16,594,024 | 2.63% |
| Impact of chemical cost increases | \$ 300,000 | \$ 16,894,024 | 4.48% |
| Pension & Hospitalization increases | \$ 225,000 | \$ 17,119,024 | 5.88% |
| New DOL reqmts for CDL & PFAS Testing | \$ 34,000 | \$ 17,153,024 | 6.09% |
| New Initiatives: Outsourcing Phone Stand-By | (\$ 30,000) | \$ 17,123,024 | |
| Realignment: Server replacement in FY 22 | (\$ 25,000) | \$ 17,098,024 | |
| Hospitalization Negotiated to 2.5% | (\$ 60,000) | \$ 17,038,024 | |
| Eliminate the Paid Internship Program | (\$ 50,000) | \$ 16,988,024 | |
| Compensation Study One-time Cost | (\$ 85,000) | \$ 16,903,024 | 4.54% |
| Other Incremental Increases including overtime | \$ 215,920 | \$ 17,118,944 | 5.87% |
| Working Subtotal w/SMECO / fuel oil increases | \$ 414,500 | \$ 17,533,444 | 8.44% |
| Fuel (gasoline and diesel) increases | \$ 133,000 | \$ 17,666,444 | 9.26% |
| Compensation & Classification Study | \$ 365,000 | \$ 18,031,444 | 11.52% |
| Merit Increase on new scale | \$ 204,000 | \$ 18,235,444 | 12.78% |
| FY 23 Draft Expenses | \$109,375 = | \$ 18,235,444 | |
| FY 23 Draft Revenues | <1% hearing reserve | \$ 18,344,819 | 13.46% |
| with a Maintenance Surcharge | 2.5% reserve | \$ 18,695,459 | 15.63% |
| | +350,640 = \$460,015 | | |
| Revenues meet expenses, provides < 1% Public Hearing reserve, and insufficient to program a budget surplus (emergency reserve) | | | Adjust expenses accordingly |



MAINTENANCE SURCHARGE (recall from 10-28-2022)

- **OPTION 2: Consider a Maintenance Surcharge.** System-wide flat charge to all customers to recoup all or a portion of overtime costs (*see below*).
- Total Overtime: \$584,400 (*Unscheduled @ 60% = \$350,640*)
- Estimated Revenue. **\$350,640 / year** / 18,036 customers = \$19.44 / year
- Estimated Revenue. **\$584,400 / year** / 18,036 customers = \$32.40 / year
- Recommended Flat Fee: **\$1.62 - \$2.70 / month**

Approximately **60%** is for emergency **unscheduled** response and service callouts (*Option 2*):

- **4% for water customer calls**
- **6% for sewer service station calls / SCADA**
- **50% for 800-900 grinder pump service calls**
- **Water stations must also be checked 4-7 days a week, which we have reduced to just critical stations**

The balance of approximately **40%** is scheduled overtime for weekend coverage

Overtime percentage is the ratio between the \$ of overtime and the \$ of regular hours / payroll

Target KPI rate: $\leq 10\%$ of payroll (excluding benefits)

FY 23 Overtime draft budget (\$ overtime / \$ regular) percentage: $\$ 584,400 / \$ 6,705,478 = 8.7\%$

OPTION 3: RATES OF INCREASE BETWEEN FY 2020 & 2021

| FY22 Approved Budget Expenses | | \$ 16,169,024 | |
|--|--|----------------------|-----------------------------|
| Essential Cost Changes (ECC) | \$ 425,000 | \$ 16,594,024 | 2.63% |
| Impact of chemical cost increases | \$ 300,000 | \$ 16,894,024 | 4.48% |
| Pension & Hospitalization increases | \$ 225,000 | \$ 17,119,024 | 5.88% |
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| Realignment: Server replacement in FY 22 | (\$ 25,000) | \$ 17,098,024 | |
| Hospitalization Negotiated to 2.5% | (\$ 60,000) | \$ 17,038,024 | |
| Eliminate the Paid Internship Program | (\$ 50,000) | \$ 16,988,024 | |
| Compensation Study One-time Cost | (\$ 85,000) | \$ 16,903,024 | 4.54% |
| Other Incremental Increases including overtime | \$ 215,920 | \$ 17,118,944 | 5.87% |
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| Fuel (gasoline and diesel) increases | \$ 133,000 | \$ 17,666,444 | 9.26% |
| Compensation & Classification Study | \$ 365,000 | \$ 18,031,444 | 11.52% |
| Merit Increase on new scale | \$ 204,000 | \$ 18,235,444 | 12.78% |
| FY 23 Draft Expenses | | \$ 18,235,444 | |
| FY 23 Draft Revenues | \$ 512,746 = 2.8% Public Hearing Reserve | \$ 18,748,190 | 15.95% |
| Revenues meet expenses and are sufficient to program a public hearing reserve and a modest budget surplus (emergency reserve) | | | Adjust expenses accordingly |



SERVICE RATE COMPARISON - WATER

| | | | At FY 20 Rate of Increase | #1 | At FY 21 Rate of Increase | #2 | At a Rate between FY 20 & FY 21 | #3 | 5-Year Plan |
|-----------------------------------|---|--------------------|------------------------------|------------------|------------------------------|------------------|---------------------------------------|------------------|--------------|
| Water Service Rates | | 2.10% | 2.70% | Change | 2.40% | Change | 2.60% | Change | 1.80% |
| | | FY 22 Rates | | from FY22 | | from FY22 | | from FY22 | |
| Water | | | | | | | | | |
| Non-Metered per EDU/ | \$0.06 - \$0.09 more per month than the original 5-year Plan | \$ 18.73 | \$ 19.23 | \$ 0.50 | \$ 19.17 | \$ 0.45 | \$ 19.21 | \$ 0.48 | \$ 19.06 |
| Metered Rate 5/8" | | \$ 9.87 | \$ 10.14 | \$ 0.27 | \$ 10.11 | \$ 0.24 | \$ 10.13 | \$ 0.26 | \$ 10.05 |
| Metered Rate 1" | | \$ 24.67 | \$ 25.33 | \$ 0.66 | \$ 25.26 | \$ 0.59 | \$ 25.31 | \$ 0.64 | \$ 25.11 |
| Metered Rate 1-1/2" | | \$ 49.32 | \$ 50.65 | \$ 1.33 | \$ 50.50 | \$ 1.19 | \$ 50.60 | \$ 1.29 | \$ 50.20 |
| Metered Rate 2" | | \$ 78.90 | \$ 81.03 | \$ 2.13 | \$ 80.79 | \$ 1.89 | \$ 80.95 | \$ 2.05 | \$ 80.32 |
| Metered Rate 3" | | \$ 157.82 | \$ 162.08 | \$ 4.26 | \$ 161.61 | \$ 3.79 | \$ 161.92 | \$ 4.10 | \$ 160.66 |
| Metered Rate 4" | | \$ 246.58 | \$ 253.24 | \$ 6.66 | \$ 252.50 | \$ 5.92 | \$ 252.99 | \$ 6.41 | \$ 251.02 |
| Metered Rate 6" | | \$ 493.18 | \$ 506.50 | \$ 13.32 | \$ 505.02 | \$ 11.84 | \$ 506.00 | \$ 12.82 | \$ 502.06 |
| Metered Rate 8" | | \$ 789.07 | \$ 810.37 | \$ 21.30 | \$ 808.01 | \$ 18.94 | \$ 809.59 | \$ 20.52 | \$ 803.27 |
| Metered Rate 10" | | \$ 1,134.31 | \$ 1,164.94 | \$ 30.63 | \$ 1,161.53 | \$ 27.22 | \$ 1,163.80 | \$ 29.49 | \$ 1,154.73 |
| Water Usage Rate per 1,000 Gall | | Tiered | | | | | | | |
| Water Usage Rate - Tier 1 | \$0.01 more at Tier 1, \$0.03 - \$0.02 at Tier 2, and \$0.05 - \$0.07 more At Tier 3 per 1,000 gallons than original 5-year Plan | \$ 1.78 | \$ 1.82 | \$ 0.04 | \$ 1.82 | \$ 0.04 | \$ 1.82 | \$ 0.04 | \$ 1.81 |
| Water Usage Rate - Tier 2 | | \$ 3.54 | \$ 3.64 | \$ 0.10 | \$ 3.63 | \$ 0.09 | \$ 3.64 | \$ 0.10 | \$ 3.61 |
| Water Usage Rate - Tier 3 | | \$ 7.10 | \$ 7.29 | \$ 0.19 | \$ 7.27 | \$ 0.17 | \$ 7.28 | \$ 0.18 | \$ 7.22 |
| Irrigation Usage Rate per 1,000 G | | | Tiered | | | | | | |
| Water Usage Rate - Tier 1 | | \$ 3.54 | \$ 3.64 | \$ 0.10 | \$ 3.63 | \$ 0.09 | \$ 3.64 | \$ 0.10 | \$ 3.61 |
| Water Usage Rate - Tier 2 | | \$ 7.10 | \$ 7.29 | \$ 0.19 | \$ 7.27 | \$ 0.17 | \$ 7.28 | \$ 0.18 | \$ 7.22 |
| Hydrant Meter Rate per 1,000 Ga | | \$ 3.54 | \$ 3.64 | \$ 0.10 | \$ 3.63 | \$ 0.09 | \$ 3.64 | \$ 0.10 | \$ 3.61 |



SERVICE RATE COMPARISON - SEWER

| | | | At FY 20 Rate of Increase | #1 | At FY 21 Rate of Increase | #2 | At a Rate between FY 20 & FY 21 | #3 | 5-Year Plan |
|---|-------|--------------------|------------------------------|------------------|------------------------------|------------------|---------------------------------------|------------------|-------------|
| Sewer Service Rates | | 2.70% | 3.40% | Change | 3.05% | Change | 3.30% | Change | 2.35% |
| | | FY 22 Rates | | from FY22 | | from FY22 | | from FY22 | |
| Sewer | | | | | | | | | |
| Non-metered per EDU | | \$ 44.37 | \$ 45.88 | \$ 1.51 | \$ 45.72 | \$ 1.35 | \$ 45.83 | \$ 1.46 | \$ 45.41 |
| Metered Rate 5/8" | | \$ 18.81 | \$ 19.45 | \$ 0.64 | \$ 19.38 | \$ 0.57 | \$ 19.43 | \$ 0.62 | \$ 19.25 |
| Metered Rate 1" | | \$ 47.03 | \$ 48.63 | \$ 1.60 | \$ 48.46 | \$ 1.43 | \$ 48.58 | \$ 1.55 | \$ 48.14 |
| Metered Rate 1-1/2" | | \$ 94.04 | \$ 97.24 | \$ 3.20 | \$ 96.91 | \$ 2.87 | \$ 97.14 | \$ 3.10 | \$ 96.25 |
| Metered Rate 2" | | \$ 150.48 | \$ 155.60 | \$ 5.12 | \$ 155.07 | \$ 4.59 | \$ 155.45 | \$ 4.97 | \$ 154.02 |
| Metered Rate 3" | | \$ 300.92 | \$ 311.15 | \$ 10.23 | \$ 310.10 | \$ 9.18 | \$ 310.85 | \$ 9.93 | \$ 307.99 |
| Metered Rate 4" | | \$ 470.20 | \$ 486.19 | \$ 15.99 | \$ 484.54 | \$ 14.34 | \$ 485.72 | \$ 15.52 | \$ 481.25 |
| Metered Rate 6" | | \$ 940.42 | \$ 972.39 | \$ 31.97 | \$ 969.10 | \$ 28.68 | \$ 971.45 | \$ 31.03 | \$ 962.52 |
| Metered Rate 8" | | \$ 1,504.64 | \$ 1,555.80 | \$ 51.16 | \$ 1,550.53 | \$ 45.89 | \$ 1,554.29 | \$ 49.65 | \$ 1,540.00 |
| Metered Rate 10" | | \$ 2,164.06 | \$ 2,237.64 | \$ 73.58 | \$ 2,230.06 | \$ 66.00 | \$ 2,235.47 | \$ 71.41 | \$ 2,214.92 |
| Usage Rate per 1,000 Gallons | | \$ 5.11 | \$ 5.29 | \$ 0.18 | \$ 5.27 | \$ 0.16 | \$ 5.28 | \$ 0.17 | \$ 5.23 |
| * 5/8" Meter Residential Use Capp | month | | | | | | | | |
| Navy (per 1,000 gallons) | | \$ 3.73 | \$ 3.85 | \$ 0.12 | \$ 3.84 | \$ 0.11 | \$ 3.85 | \$ 0.12 | \$ 3.82 |
| Septage Hauler Rates per 1,000 G | | | | | | | | | |
| Holding Tank Waste | | \$ 16.81 | \$ 17.38 | \$ 0.57 | \$ 17.32 | \$ 0.51 | \$ 17.37 | \$ 0.56 | \$ 17.21 |
| Septic Tank Waste | | \$ 71.80 | \$ 74.24 | \$ 2.44 | \$ 73.99 | \$ 2.19 | \$ 74.17 | \$ 2.37 | \$ 73.49 |
| Portable Toilet Waste | | \$ 90.49 | \$ 93.56 | \$ 3.08 | \$ 93.24 | \$ 2.76 | \$ 93.47 | \$ 2.99 | \$ 92.61 |
| Grease Trap Waste | | \$ 142.26 | \$ 147.09 | \$ 4.84 | \$ 146.59 | \$ 4.34 | \$ 146.95 | \$ 4.69 | \$ 145.60 |

**\$0.13 - \$0.20
more
per month
than the
original
5-year Plan**

**\$0.04 - \$0.06
more
per 1,000
gallons
than
original
5-year Plan**



MOTION FOR CONSIDERATION

FISCAL MOTION

FY 2023 BUDGET DIRECTION

FY 2023 OPERATING BUDGET AND FY 2023 TO FY 2028 CAPITAL IMPROVEMENT BUDGET AND PLAN

MOVE to authorize staff to prepare the St. Mary's County Metropolitan Commission FY 2023 Operating Budget, in the amount of **\$18,921,411**, the related service rates and charges, the FY 2023 to FY 2028 Capital Improvement Budget and Plan, for presentation at a duly authorized Public Hearing to be held on April 19, 2022, as required by Section 113-27(D) of the Code of St. Mary's County, Maryland, being part of Article 19 of the Code of Public Local Laws of Maryland.



LOOKING AHEAD

- **Public Hearing April 19, 2022 at 6:00 pm**
- **Meeting April 28, 2022**
 - ✓ Address any Public Hearing Comments
 - ✓ Final Decision on Rates and Charges
 - ✓ Allocation of Public Hearing Reserve
 - ✓ Approve FY 23 Operating Budget
- **Joint meeting with CSMC in May 2022**
 - ✓ Approve Capital Improvement Budget and Plan



FY 2021 PERFORMANCE MEASURES

**The following slides are intended to be utilized
as reference materials and are included in the
Metropolitan Commission
FY 2021 Annual Report**

**The Commission, once again achieved all the
benchmarks identified in it's
Debt Management Policy**





PERFORMANCE MEASURES

| Debt Service Coverage Ratio = (Total Revenue - Total O&M) / Total Debt Service | FY21 | |
|---|------------------|----------|
| | Actual | |
| Operating Revenues* | | |
| Service Charges | \$ 15,860,880 | |
| Debt Service Charges | 11,983,148 | |
| Miscellaneous | 313,717 | |
| Total Operating Revenues | \$ 28,157,745 | |
| Operating Expenses** | | |
| Direct Operating Expenses | 9,259,713 | |
| Administrative Expenses | 6,170,193 | |
| Total Operating Expenses | \$ 15,429,906 | |
| Net Revenues | \$ 12,727,839 | |
| Debt Service | | |
| Principal | \$ 6,155,877 | |
| Interest | 2,898,921 | |
| Total Debt Service | \$ 9,054,798 | |
| Debt Service Coverage Ratio | 1.41 | X |
| Adopted Target Debt Service Coverage Ratio * | 1.25-1.50 | X |
| AWWA Benchmark Performance Indicator (median) | 1.30 | X |

Debt Service Coverage

This ratio measures MetCom's ability to meet its annual debt service requirements after all operational expenses.

MetCom is within the target range of between 1.25 – 1.50.

This means MetCom can fund its debt service requirement 1.41 times after all operational expenses.





PERFORMANCE MEASURES

| NOTE: Service Affordability provides a measure of the affordability of water and sewer service as a % of MHI. Approximately 66% of our customers use 0-5,000 gallons per month. Range: 1.27 (top quartile) - 1.59 (median) | | FY21 Approved |
|--|-----------------------|---------------------|
| | | 5,000 Gallons/Month |
| Water | | |
| Ready-To-Serve Charge | | \$ 9.67 |
| Water Usage | | 8.70 |
| System Improvement Charge | | 12.48 |
| Water - Estimated Monthly Service Charge | | \$ 30.85 |
| Sewer | | |
| Ready-To-Serve Charge | | \$ 18.31 |
| Sewer Usage | | 24.90 |
| System Improvement Charge | | 15.09 |
| Sewer - Estimated Monthly Service Charge | | \$ 58.30 |
| Bay Restoration Fee | | \$ 5.00 |
| Total Estimated Monthly Service Charge | | \$ 94.15 |
| <i>Bill at Prior Approved Fiscal Year Rates</i> | | <i>\$ 91.66</i> |
| St. Mary's County Median Household Income | | |
| 2011-2015 US Census Bureau | | |
| 2013-2017 US Census Bureau (no change from prior year) | \$ | 86,508 |
| MetCom Annual Bill % of Annual MHI | | 1.31% |
| Adopted Target Annual Bill % of Annual MHI | | |
| | | 1.50% |
| AWWA Benchmark Performance Indicator (median) | | |
| | | 1.59% |
| Lexington Park Median Household Income | | |
| 2011-2015 US Census Bureau | | |
| 2013-2017 US Census Bureau (reduction from prior year) | \$ | 67,097 |
| MetCom Annual Bill % of Annual MHI in Lexington Park | | 1.68% |
| Annual Combined Bill % of MHI: National Median, All Credits (1)* | | |
| | | 1.90% |
| | National 'A' Median | 2.90% |
| | National 'AA' Median | 2.00% |
| | National 'AAA' Median | 1.40% |

Annual combined Customer Bill vs. Median Household Income

This ratio indicates the annual burden for cost of service and bill affordability for ratepayers.

This indicator was used in the development of the rates for FY 2021.

The measurement is made on an average usage of 5,000 gallons of water per month for a typical customer.

The average bill is measuring less, at 1.31% for 5,000 gallons, which is below the 1.5% target benchmark of 1.50%.





PERFORMANCE MEASURES

| | FY21 Audit | |
|--|--------------------|---|
| Total Debt: | | |
| Total Debt All DHCD & Drawn MDE | \$ 89,770,649 | |
| Total Debt Undrawn MDE | | |
| Total Debt Drawn & Undrawn | \$ 89,770,649 | |
| Operating & Debt Service Revenue: | | |
| Service Charges | \$ 15,860,880 | |
| Debt Service Charges | 11,983,148 | |
| Miscellaneous | (438,896) | |
| Total Operating & Debt Service Revenues | \$ 27,405,132 | |
| Outstanding Debt (Drawn & Undrawn) to Operating & Debt Service Revenues * | 3.28 | X |
| Target - 5X or Below | 5X or Below | |

Sufficient Operational Reserves

This ratio is a measurement of liquidity that gauges flexibility to pay near term obligations.

Operational reserves should be maintained between 90 and 180 days.

FY 2021 measured at 281 days. Exceeding the target, allows for operational leeway in future budgeting.





PERFORMANCE MEASURES

| Days Cash on Hand = Undesignated Cash Reserves / Total O&M Costs | FY21 Actual |
|--|---------------|
| Unrestricted Reserves | |
| General Fund Reserves | |
| Capital Liquidity Reserves | \$ 3,500,000 |
| Remaining Operational Reserves | 5,585,795 |
| Total General Fund Reserves | \$ 9,085,795 |
| Other Unrestricted Reserves | 2,803,905 |
| Total Unrestricted Reserves | \$ 11,889,700 |
| Restricted Reserves | \$ 16,813,388 |
| Total Reserves | \$ 28,703,088 |
| Total Operating Expenses | \$15,429,906 |
| Operating Expenses Per Day | \$42,274 |
| Days Cash on Hand | |
| General Fund Capital Liquidity | 83 |
| General Fund Remaining Operational | 132 |
| Other Unrestricted | 66 |
| Total Unrestricted Reserves | 281 |
| Target Unrestricted Reserves - Days Cash On Hand | 90-180 |
| AWWA Benchmark Performance Indicator | 152-271 |

Outstanding Debt vs. Operating & Debt Service Revenues

This ratio provides an indication of a system's overall leverage and fixed costs.

MetCom's target is to not exceed 5 times the operating and debt service revenues in any given year.

FY 2021 has proven to be even less than the prior three fiscal years.





MOODY'S CREDIT RATING

MetCom Moody's Investor Service. Moody's assigns initial A1 Issuer Rating to St. Mary's County Metropolitan Commission.

The A1 issuer rating remains active and refers to an opinion regarding the creditworthiness of an entity.

It reflects the Commission's satisfactory financial operations, including adequate liquidity and healthy debt service coverage.

The rating is really a reflection of what MetCom's credit quality would be if you issued revenue bonds, instead of your debt being issued as a General Obligation of the County.

Moody's rating scale



Moody's ratings

- American firm
- Date of foundation : 1900
- Turnover: 4.2 billion USD
- Net income : 1 billion USD
- Total staff: 12 300 staff members worldwide
- Presence in 42 countries
- Market share: 40%



Moody's rating scale

Moody's rating scale, which ranges from a maximum Aaa to a minimum C, consists of 21 notches and two categories:

- Investment category for the financially sound companies.
- Speculative category for the companies with a higher risk of defaulting.

| Categories | Rating symbols | Rating notches | Comments |
|------------|----------------|----------------|---|
| Investment | Aaa | | Highest quality, subject to the lowest level of credit risk |
| | Aa | Aa1 | High quality, subject to very low credit risk |
| | | Aa2 | |
| | | Aa3 | |
| | A | A1 | Upper-medium grade, subject to low credit risk |
| | | A2 | |
| | | A3 | |
| | Baa | Baa1 | Medium-grade, subject to moderate credit risk and may possess certain speculative characteristics |
| | | Baa2 | |
| Baa3 | | | |

FISCAL MOTION
FY 2023 OPERATING BUDGET
AND
FY 2023-FY 2028 CAPITAL IMPROVEMENT BUDGET & PLAN

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