

RESOLUTION NO. 2014-57

A RESOLUTION OF THE BOARD OF MAYOR AND ALDERMEN FOR THE CITY OF FRANKLIN ADOPTING A FIVE YEAR RATE PLAN FOR THE WATER AND SANITARY SEWER UTILITY FUNDS, FISCAL YEAR 2015 THROUGH FISCAL YEAR 2019; PROVIDING AN EFFECTIVE DATE

WHEREAS, the City of Franklin owns and operates a water and sanitary sewer utility system under authorization of the Municipal Charter, and

WHEREAS, this Utility Fund is an enterprise fund of the City in accordance with generally accepted accounting principles, and

WHEREAS, it is deemed to be in the public interest to provide for the long range fiscal health of the system,

WHEREAS, a five year rate plan would be beneficial in establishing levels of revenue estimates based on projected expenditures beyond a single fiscal period, and

WHEREAS, a five year plan would reflect the results of the current financial trends if continued without significant changes, and

WHEREAS, a five year plan would demonstrate the capability of current and proposed rates to adequately cover the operating expenses of the system, and

WHEREAS, a five year plan would incorporate the long term effect of capital projects and upgrades of facilities, and operational costs including projected increases in personnel, utilities, and other expenses that scale with changes in system size or customer base, and

WHEREAS, a five year plan would incorporate the estimated effects of inflation and customer growth on revenues and expenses, and allow the Board and staff to better plan for future system needs.

NOW THEREFORE, BE IT RESOLVED BY THE BOARD OF MAYOR AND ALDERMEN OF THE CITY OF FRANKLIN, TENNESSEE THAT:

SECTION 1. The Five Year Rate Plan for the Water and Sanitary Sewer Utility Fund, for Fiscal Year 2015 through Fiscal Year 2019, as set forth more fully in **Attachment A**, is herewith approved and adopted.

SECTION 2: That this Resolution shall be effective upon adoption.

ADOPTED THIS ____ DAY OF _____ 2014.

ATTEST:

CITY OF FRANKLIN, TENNESSEE

By: _____
Eric S. Stuckey
City Administrator/Recorder

By: _____
Dr. Ken Moore
Mayor

Approved as to Form:

By: _____
Shauna R. Billingsley
City Attorney



Water Management Five Year Rate Plan

FY 2015 - FY 2019

City of Franklin Water Management
August 12, 2014

Table of Contents

Water Management Revenue Requiriements - Looking Back: FY 2010 - FY 2014 2

Water Management Revenue Requiriements - Looking Ahead: FY 2015 - FY 2019..... 3

Cost of Service Analyses: FY 2015 – FY 2019 4

Cost of Service Approach 5

Four Year Approach..... 6

Five Year Approach..... 7

Rate Survey..... 8

WATER MANAGEMENT REVENUE REQUIREMENTS – LOOKING BACK FY 2010 – FY 2014

In Fiscal Year 2010, the Board of Mayor and Aldermen (BOMA) adopted a five-year financial plan for the Water Management Department in part to adequately fund the cost of operations and capital investments anticipated during that period. At the time, the Water Management Department was able to remain self-supporting, however it lacked the necessary mix of revenue streams to provide for ongoing capital investments associated with replacement of aging infrastructure.

To achieve the appropriate revenue streams, the BOMA elected to take measured incremental steps over a five year period which equated to an annual rate adjustment of approximately 4% for water and approximately 7% for sanitary sewer. In 2014, a cost of service analysis was completed to evaluate the performance of the five year plan and to establish direction related to future rate adjustments necessary for ongoing operations and maintenance, continued rehabilitation and replacement of infrastructure, and implementation of the Integrated Water Resources Plan (IWRP).

In summary, the five year plan established by the BOMA in 2010 has placed Franklin in a position to take on the challenges of the future. Figures 1 and 2 below present the FY 2013 percent recovery (inclusive of projected FY 2014 rate adjustment) by rate class for water and sanitary sewer respectively.

Figure 1: Water Recovery By Class – FY2013

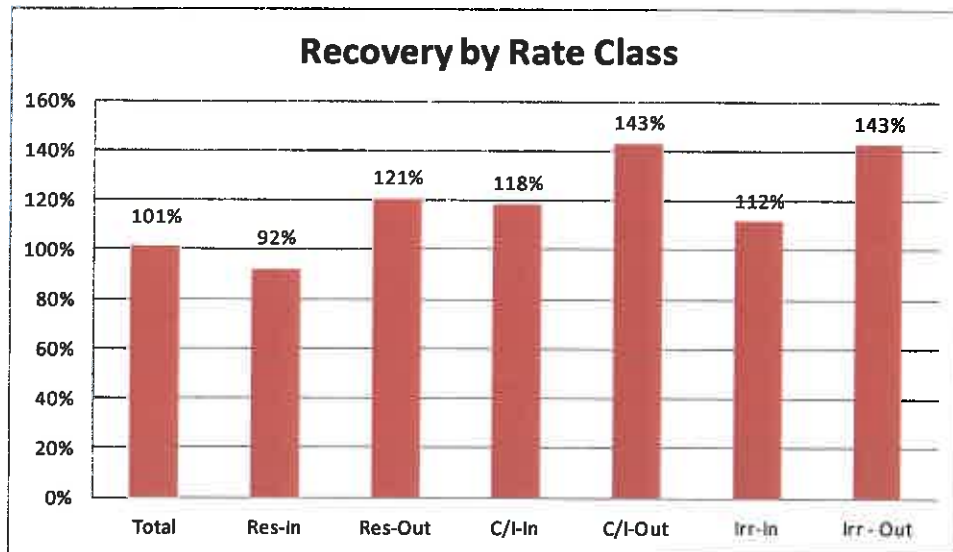
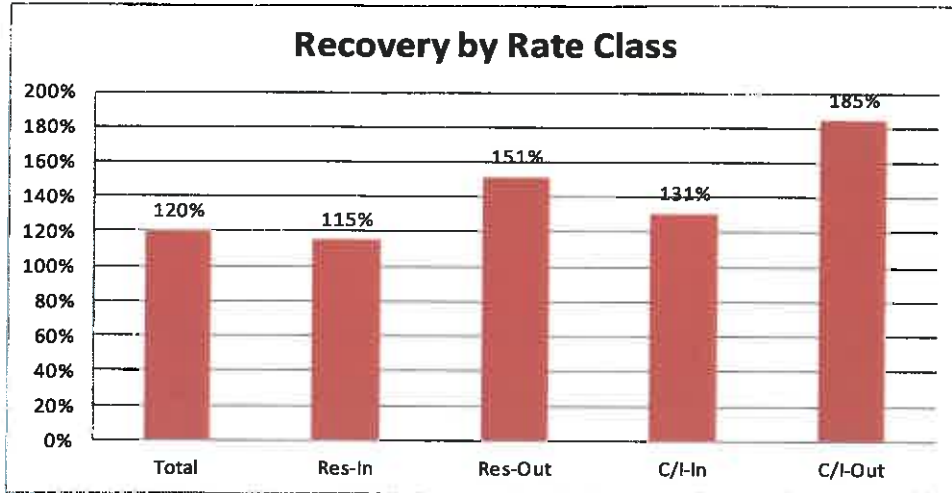


Figure 2: Sanitary Sewer Recovery By Class – FY2013



As illustrated in the charts above, the City has achieved the goals of the previous five year financial plan. The City, in making the decision to take the measured steps of the five year plan is now able to looking forward and face the challenges related to implementation of the IWRP.

WATER MANAGEMENT REVENUE REQUIREMENTS – LOOKING AHEAD FY 2015 – FY 2019

Planning for system revenues is a fundamental necessity of the Water Management Department and the City of Franklin. There are numerous factors that affect the way the City establishes rates. Some of these factors include cost of operations and maintenance, capital investments related to renewal of the systems, and water and sanitary sewer demand projections. Currently the City is working through design of upgrades and expansion of the Water Reclamation Facility and upgrades to the Water Treatment Plant and components of the water distribution system. Table 1 summarizes the debt service impacts associated with these projects.

Table 1: Debt Service Impacts Associated with IWPR Projects

<i>Project</i>	Project Cost	Water Rates / System Development Fees	Water Access Fees	Annual Debt Service Impact
<i>Water Distribution Projects</i>	\$1,950,000	100%	0%	Start: 2018 Term: 20 Years \$130,000
<i>Water Treatment Plant</i>	\$13,300,698	85%	15%	Start: 2017 Term: 20 Years \$752,410
<i>Water Reclamation Facility Upgrade and Expansion</i>	\$95,000,000	75%	25%	Start: 2018 Term: 20 Years \$4,741,810

These debt service impacts have been folded into the cost of service analyses performed in 2014. The projected revenue requirements for water and sanitary sewer during the planning period of FY 2015 through FY 2019 are presented in Tables 2 and 3 respectively.

Table 2: Projected Revenue Requirements - Water

Revenue Requirement	2013	2015	2016	2017	2018	2019
O&M Expense	\$ 8,233,657	\$ 8,011,457	\$ 8,241,651	\$ 8,399,890	\$ 8,692,562	\$ 8,970,076
Debt Service	\$ 209,821	\$ 209,821	\$ 206,851	\$ 962,238	\$ 1,092,164	\$ 1,092,038
Rate Funded Capital	\$ 1,509,292	\$ 1,491,350	\$ 1,495,918	\$ 1,500,713	\$ 1,505,749	\$ 1,711,036
Total Revenue Requirement	\$ 9,952,770	\$ 9,712,628	\$ 9,944,419	\$ 10,862,842	\$ 11,290,475	\$ 11,773,151
Less: Other Revenue	\$ 752,431	\$ 752,431	\$ 752,431	\$ 752,431	\$ 752,431	\$ 752,431
Rate Requirement	\$ 9,200,339	\$ 8,960,197	\$ 9,191,988	\$ 10,110,411	\$ 10,538,044	\$ 11,020,720

Table 3: Projected Revenue Requirements – Sanitary Sewer

Revenue Requirement	2013	2015	2016	2017	2018	2019
O&M Expense	\$ 6,520,832	\$ 7,683,591	\$ 7,868,113	\$ 8,086,728	\$ 8,312,371	\$ 8,560,301
Debt Service	\$ 1,315,695	\$ 1,316,395	\$ 1,283,798	\$ 1,268,796	\$ 5,982,295	\$ 5,967,277
Rate Funded Capital	\$ 3,750,547	\$ 3,433,975	\$ 3,640,189	\$ 3,889,385	\$ 4,176,417	\$ 4,441,529
Total Revenue Requirement	\$ 11,587,074	\$ 12,433,961	\$ 12,792,100	\$ 13,244,909	\$ 18,471,083	\$ 18,969,107
Less: Other Revenue	\$ 386,226	\$ 386,226	\$ 386,226	\$ 386,226	\$ 386,226	\$ 386,226
Rate Requirement	\$ 11,200,848	\$ 12,047,735	\$ 12,405,874	\$ 12,858,683	\$ 18,084,857	\$ 18,582,881

As shown, a primary impact to the revenue requirements occurs in 2017 and 2018 for water and in 2018 for sanitary sewer based on debt service associated with the anticipated completion of IWRP projects.

COST OF SERVICE ANALYSES

FY 2015 – FY 2019

Franklin’s rate analyses has been developed using a cost of service approach. The water rate structure includes a component for conservation through inclining rates based on monthly consumption. The sanitary sewer rate structure includes a declining rate as service volumes increase to acknowledge the potential for irrigation water usage. Both structures include a higher rate for customers that have service outside of the city limits in recognition of the benefits to customers that do not pay city taxes. Staff recommends that in the long term, these structures be maintained with a focus on achieving cost recovery in the areas most affected by the anticipated debt service.

As the debt service for the IWRP projects come online, the primary area of under recovery will be in the customer charge. The customer charge helps to cover certain fixed costs, including debt service. Therefore, based on a cost of service approach, it is recommended that the City evaluate not only adjustments to the volumetric rates but also to the customer charges.

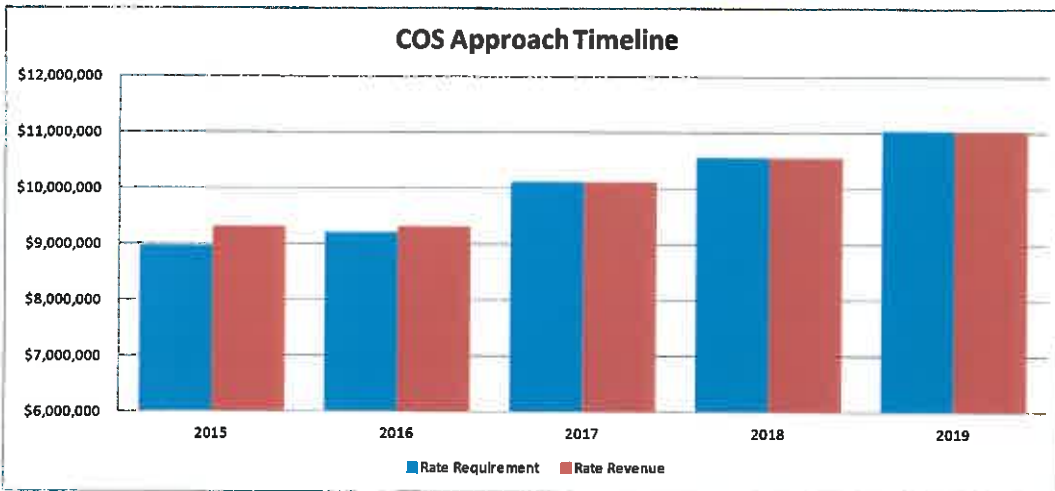
City staff and the cost of service consultant, Jackson Thornton, evaluated several approaches to meet the FY 2015 through FY 2019 revenue requirements.

Cost of Service Approach

The cost of service approach provides for rate adjustments at the time of the anticipated increased revenue requirements. The results of this approach are presented in the tables and graphs below for both water and sanitary sewer.

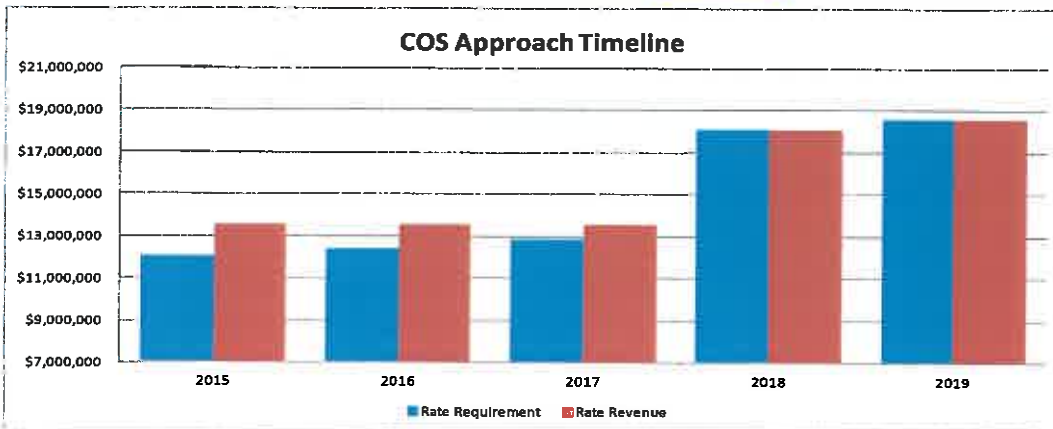
Water Cost of Service Approach

	Rate Requirement	% Change	\$ Change	Rate Revenue	Proposed Rate Change	Additional Revenue	Revenue Requirement
Actual 2013	\$ 9,200,339			\$ 9,319,189			
Budget 2015	\$ 8,960,197	-2.6%	\$ (240,142)	\$ 9,319,189	0.00%	\$ -	\$ 358,992
Budget 2016	\$ 9,191,988	2.6%	\$ 231,791	\$ 9,319,189	0.00%	\$ -	\$ 127,201
Budget 2017	\$ 10,110,411	10.0%	\$ 918,423	\$ 10,110,411	8.49%	\$ 791,222	\$ -
Budget 2018	\$ 10,538,044	4.2%	\$ 427,633	\$ 10,538,044	4.23%	\$ 427,633	\$ -
Budget 2019	\$ 11,020,720	4.6%	\$ 482,676	\$ 11,020,720	4.58%	\$ 482,676	\$ -



Sanitary Sewer Cost of Service Approach

	Rate Requirement	% Change	\$ Change	Rate Revenue	Proposed Rate Change	Additional Revenue	Revenue Requirement
Actual 2013	\$11,200,848			\$ 13,536,361			
Budget 2015	\$12,047,735	7.6%	\$ 846,887	\$ 13,536,361	0.00%	\$ -	\$ 1,488,626
Budget 2016	\$12,405,874	3.0%	\$ 358,139	\$ 13,536,361	0.00%	\$ -	\$ 1,130,487
Budget 2017	\$12,858,683	3.6%	\$ 452,809	\$ 13,536,361	0.00%	\$ -	\$ 677,678
Budget 2018	\$18,084,857	40.6%	\$ 5,226,174	\$ 18,084,857	33.60%	\$ 4,548,496	\$ -
Budget 2019	\$18,582,881	2.8%	\$ 498,024	\$ 18,582,881	2.75%	\$ 498,024	\$ -

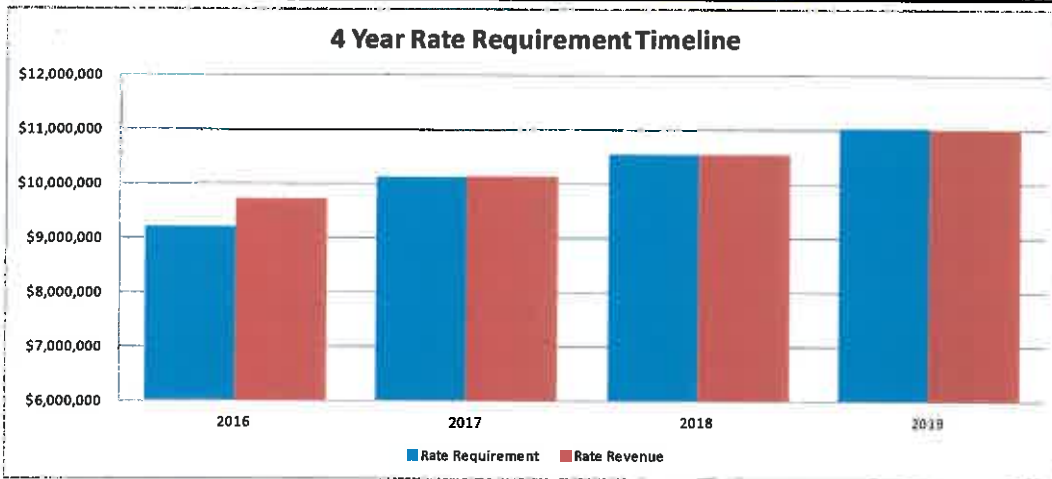


Four Year Approach

The four year approach provides for rate adjustments that are evenly distributed over a four year period and provide for steady consistent growth while allowing for a delay in rate adjustments prior to the anticipated increased revenue requirements. The results of this approach are presented in the tables and graphs below for both water and sanitary sewer.

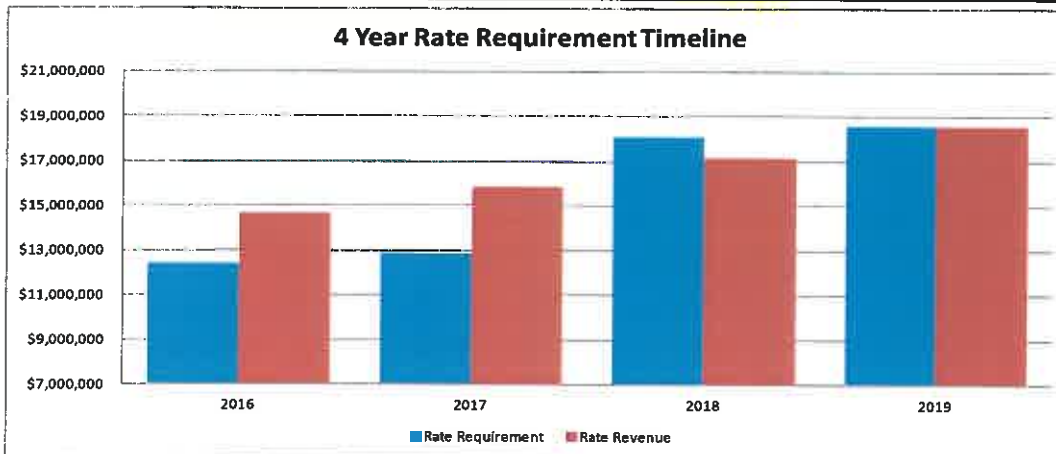
Water Four Year Approach

	Rate Requirement	% Change	\$ Change	Rate Revenue	Proposed Rate Change	Additional Revenue	Revenue Requirement
Actual 2013	\$ 9,200,339			\$ 9,319,189			
Budget 2016	\$ 9,191,988	2.6%	\$ 231,791	\$ 9,715,255	4.25%	\$ 396,066	\$ 523,266
Budget 2017	\$ 10,110,411	10.0%	\$ 918,423	\$ 10,128,153	4.25%	\$ 412,898	\$ 17,742
Budget 2018	\$ 10,538,044	4.2%	\$ 427,633	\$ 10,558,600	4.25%	\$ 430,447	\$ 20,556
Budget 2019	\$ 11,020,720	4.6%	\$ 482,676	\$ 11,007,340	4.25%	\$ 448,740	\$ (13,380)



Sanitary Sewer Four Year Approach

	Rate Requirement	% Change	\$ Change	Rate Revenue	Proposed Rate Change	Additional Revenue	Revenue Requirement
Actual 2013	\$ 11,200,848			\$ 13,536,361			
Budget 2016	\$ 12,405,874	3.0%	\$ 358,139	\$ 14,653,111	8.25%	\$ 1,116,750	\$ 2,247,237
Budget 2017	\$ 12,858,683	3.6%	\$ 452,809	\$ 15,861,993	8.25%	\$ 1,208,882	\$ 3,003,310
Budget 2018	\$ 18,084,857	40.6%	\$ 5,226,174	\$ 17,170,607	8.25%	\$ 1,308,614	\$ (914,250)
Budget 2019	\$ 18,582,881	2.8%	\$ 498,024	\$ 18,587,182	8.25%	\$ 1,416,575	\$ 4,301



Five Year Approach

Similar to the four year approach, the five year approach provides for rate adjustments that are evenly distributed, but over a five year period. This approach provides for steady consistent growth enabling slightly lower rate increases over time as compared to the four year approach.

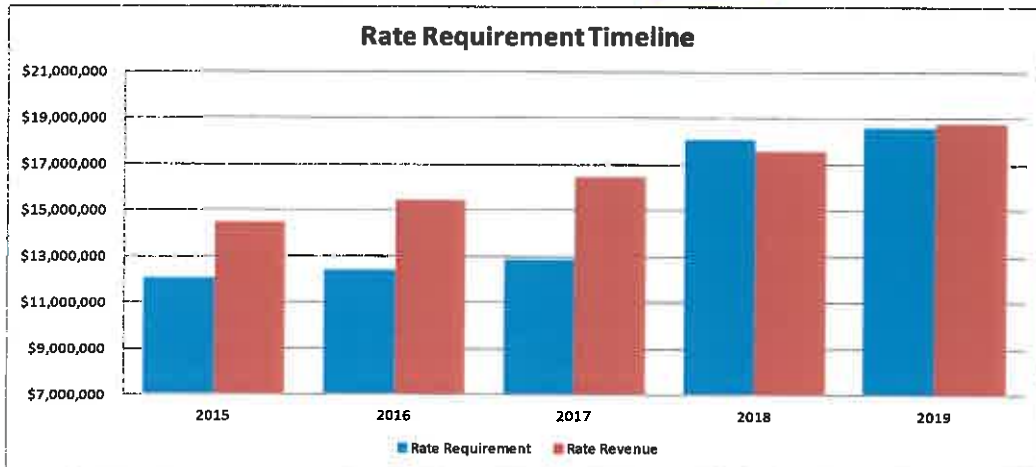
Water Five Year Approach

	Rate Requirement	% Change	\$ Change	Rate Revenue	Proposed Rate Change	Additional Revenue	Revenue Requirement
Actual 2013	\$ 9,200,339			\$ 9,319,189			
Budget 2015	\$ 8,960,197	-2.6%	\$ (240,142)	\$ 9,645,361	3.50%	\$ 326,172	\$ 685,164
Budget 2016	\$ 9,191,988	2.6%	\$ 231,791	\$ 9,982,948	3.50%	\$ 337,588	\$ 790,960
Budget 2017	\$ 10,110,411	10.0%	\$ 918,423	\$ 10,332,352	3.50%	\$ 349,403	\$ 221,941
Budget 2018	\$ 10,538,044	4.2%	\$ 427,633	\$ 10,693,984	3.50%	\$ 361,632	\$ 155,940
Budget 2019	\$ 11,020,720	4.6%	\$ 482,676	\$ 11,068,273	3.50%	\$ 374,289	\$ 47,553



Sanitary Sewer Five Year Approach

	Rate Requirement	% Change	\$ Change	Rate Revenue	Proposed Rate Change	Additional Revenue	Revenue Requirement
Actual 2013	\$ 11,209,848			\$ 13,536,361			
Budget 2015	\$ 12,047,735	7.6%	\$ 846,887	\$ 14,450,065	6.75%	\$ 913,704	\$ 2,402,331
Budget 2016	\$ 12,405,874	3.0%	\$ 358,139	\$ 15,425,445	6.75%	\$ 975,379	\$ 3,019,571
Budget 2017	\$ 12,858,683	3.6%	\$ 452,809	\$ 16,466,662	6.75%	\$ 1,041,218	\$ 3,607,980
Budget 2018	\$ 18,084,857	40.6%	\$ 5,226,174	\$ 17,578,162	6.75%	\$ 1,111,500	\$ (506,695)
Budget 2019	\$ 18,582,881	2.8%	\$ 498,024	\$ 18,764,688	6.75%	\$ 1,186,526	\$ 181,807

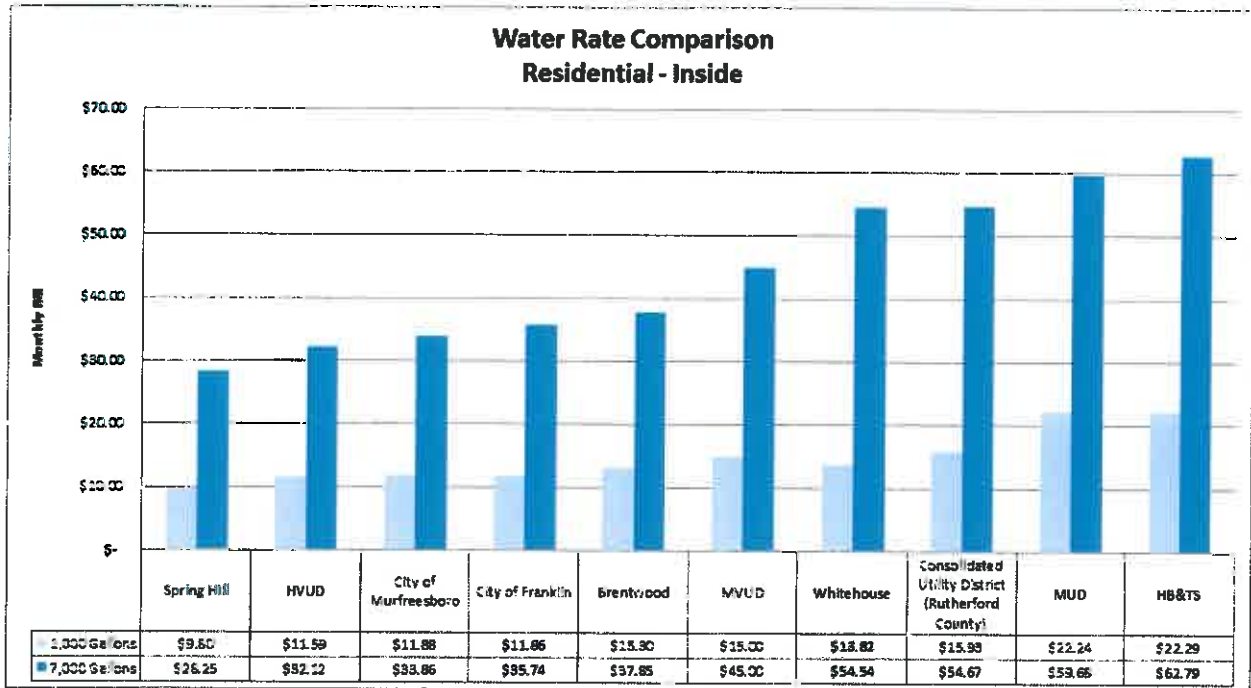


As discussed during the July 10, 2014 Budget and Finance Committee presentation, staff and the consultant team recommend that the City adopt the five year approach to achieve the appropriate revenues.

The City does have fund balances in both water and sanitary sewer that would help to offset rate increases proposed above. The proposed use of these funds and specific rate designs will be presented at a later time for consideration to the Board of Mayor and Aldermen

RATE SURVEY

Staff has conducted a rate survey of various Middle Tennessee municipalities and utility districts and has compiled the available information. While the City does not have the lowest rates in either water or sanitary sewer, it does remain very competitive. The results of this survey are presented below.



Sanitary Sewer Rate Comparison Residential - Inside

