



VILLAGE OF DARIEN

Rebecca Houseman LeMire, Village Administrator/Clerk-Treasurer

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MEMORANDUM

DATE: July 7, 2020

TO: Village of Darien Public Works, Streets, Water and Sewer System Committee

FROM: Rebecca Houseman LeMire, Village Administrator/Clerk-Treasurer

RE: Review and possible recommendation to the Village Board relating to a Simplified Rate Case for the Darien Water Utility

The Darien Water Works and Sewer System ("Utility") received a Financial Outreach Letter from the Public Service Commission (PSC) in July 2017. The letter required the Utility to request an application for a Conventional Rate Case ("CRC") within 45 days. Staff applied for the CRC and engaged Ehlers to assist with the water rate study and the CRC. This resulted in a 23.29% water rate increase.

As part of the engagement with Ehlers, the Village's goal was to obtain a Long-Range Cash Flow Analysis that would project revenues and identify user rate increases to meet the financial obligation of the Utility for many years to come.

The Water Utility Cash Flow Analysis is included in the attached Final Report from Ehlers on page 3. This document shows the estimated and projected total revenues and expenditures for the Utility through 2027 and includes 3% Simplified Rate Cases ("SRC") in 2020, 2022, 2024, and 2026. These regular small increases are necessary to fund the increases in expenditures associated with the Utility in the future. Some of these expenses, which increase annually, include electricity for pumping, infrastructure repairs and maintenance, water treatment chemicals, staff wages and benefits, and software costs. Without these small increases at regular intervals, the Utility would again be forced to submit rate case study and CRC at the expense of the rate payers.

The following tables show the impact of the proposed 3% rate increase on the monthly base rates (Table 1), the water volume charges (Table 2), the sewer volume charges (Table 3), and the average monthly bills (Table 4).

TABLE 1: Impact on Minimum Monthly Base Rates

Minimum Monthly Base Rates:						
Meter Size	Current Water Rate	Proposed Water Rate (3%)	Current Public Fire Protection (FP)	Proposed FP (3%)	Current Sewer	Proposed Sewer*
3/4"	\$12.00	\$12.36	\$17.30	\$17.82	\$29.32	\$29.32
1"	\$15.00	\$15.45	\$43.00	\$44.29	\$34.70	\$34.70
1 1/2"	\$23.00	\$23.69	\$87.00	\$89.61	\$43.68	\$43.68
2"	\$28.00	\$28.84	\$138.00	\$142.14	\$54.45	\$54.45

*No change proposed

TABLE 2: Impact on Water Volume Charges

Water Volume Charges:		
Gallons Used	Current Monthly Charge per 1,000 Gallons	Proposed Charge per 1,000 (3%)
1,000-8,334	\$7.63	\$7.86
8,335-33,334	\$6.30	\$6.49
Over 33,335	\$4.30	\$4.43

TABLE 3: Impact on Sewer Volume Charge

Sewer Volume Charge:	
Monthly Charge per 1,000 Gallons*:	\$9.90

*No change proposed

TABLE 4: Impact on Average Monthly Utility Bills

Impact on Monthly Bills:		Current	Proposed	Difference	Percentage Increase
Average Residential		\$128.74	\$130.53	\$1.79	1.39%
Average Commercial		\$128.74	\$130.53	\$1.79	1.39%
Large-scale Commercial		\$285.42	\$288.95	\$3.53	1.24%
Average Industrial		\$301.62	\$305.33	\$3.71	1.23%
Large-scale Industrial		\$1,573.68	\$1,589.88	\$16.20	1.03%

The data in Table 4 makes the following assumptions:

- Average residential bill includes a 3/4" meter and 4,000 gallons of water used per month
- Average commercial bill includes a 3/4" meter and 4,000 gallons of water used per month
- Large commercial bill includes a 3/4" meter and 14,000 gallons of water used per month
- Average industrial bill includes a 3/4" meter and 15,000 gallons of water used per month
- Large industrial bill includes a 1 1/2" meter and 100,000 gallons of water used per month

Using the data and assumptions in Table 4, **the average monthly residential and commercial bills would increase by \$1.79, which is a 1.39% increase over the current bill.** If approved, the effective date of this increase will be October 21, 2020. Per the PSC analysis of the case (see attached application), the Village can expect to see an increase in revenue of roughly \$12,916 in the first 12 months.

RECOMMENDATION

Staff recommends that the Public Works Committee recommend approval of this application for a 3 percent simplified rate increase for the Utility’s base water, fire protection, and water volume rates to the Village Board.

ATTACHMENTS

June 15, 2018 Water Utility Rate Study – Final Report; Simplified Rate Case Application

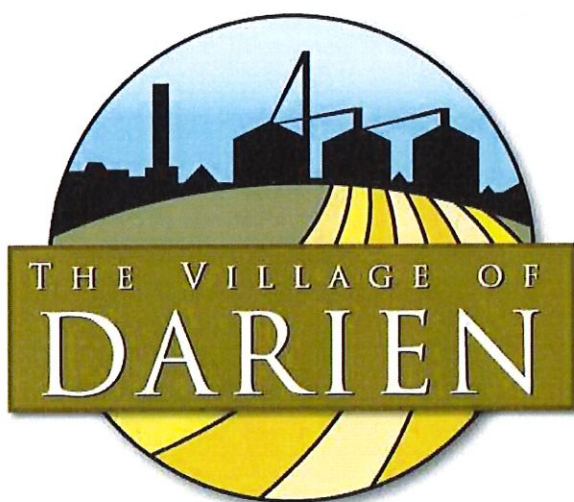


EHLERS
LEADERS IN PUBLIC FINANCE

June 15, 2018

Water Utility Rate Study — Final Report

Village of Darien, Wisconsin



Prepared by:

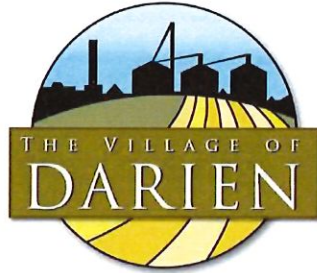
Jon Cameron, CIPMA
Municipal Advisor

And

Brian Roemer
Financial Specialist



Water Utility Rate Study — Final Report
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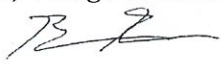


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Memo

To: The Village Board, Village of Darien, WI
From: Brian Roemer 
CC: Rebecca Houseman LeMire, Administrator/Clerk-Treasurer; Jon Cameron, Ehlers
Date: June 15, 2018
Subject: Village of Darien, WI – 2017-18 Water User Rate Study Completion

This memo is intended to inform the Village Board of the Village of Darien, Wisconsin (“the Village”) of results of the Water User Rate Study (“the Study”) completed by Ehlers & Associates. The Village engaged Ehlers in late summer of 2017 to prepare a Water Rate Study for its water utility. The application was submitted on November 6th, 2017 and accepted on November 7th, 2017. The Wisconsin Public Service Commission (“the PSC”) has submitted its Final Decision. The Rate Implementation Letter has been filed on the PSC Electronic Records Filing System (ERF) and rates will go into effect July 19th, 2018 closing the Conventional Rate Case.

Reviewing the Background and Objectives of the Study:

Darien Water Works and Sewer System (“the Utility”) received a Financial Outreach Letter from the PSC sent July 11th, 2017. Within the letter it is stated, “Commission staffs’ review of 2016 annual report data indicates that the utility continues to face financial difficulties and operated at a loss of \$49,209 over the last two years and as of December 31, 2016, had only 26 days cash available.” The letter also required the Utility to request an application for a Conventional Rate Case (“CRC”) within 45 days from receipt of the letter and to submit the application before November 15th, 2017. It was Village staffs’ in coordination with Ehlers objective to complete the application, review and aid the Village through the PSC proceedings, and provide a Long-Range Cash Flow Analysis that would project out revenues and identify projected user rate increases to meet all financial obligations of the utility in future years.

Results of the Study:

The PSC through its Revenue Requirement has determined the Utility needs an \$83,354 (approximately 23%) increase to 2017 revenues. Through its Cost of Service Study and Rate Design they have determined the average Residential customer (using 3,000 gallons per month and including fire protection) to have a 22.54% increase to their monthly water bill. Further results of the Final Decision issued by the PSC can be found on the PSC website and have been provided to Village staff. Water rates authorized in this decision will result in an estimated net operating income of approximately \$90,545 which provides a 4.25 percent return on the water utility net investment rate base of \$2,130,464. In addition, with the new rates and a transfer from Impact Fee fund balance the Utility will be above the PSC threshold for Days Cash on Hand.





Next Steps:

As a part of its final decision the PSC has required the Utility take several actions. See table below.

1.	The rates approved in this docket shall take effect no later than 90 days (9/4/2018) from the service date (6/6/2018) of this Final Decision or as directed by the Commission or Commission staff. This has been completed	Completed
2.	No later than 180 days from the effective date of this Final Decision (12/4/2018; 180 days from June 7, 2018), the applicant shall use the most recent version of the AWWA Water Audit Spreadsheet to develop a non-revenue water control plan. The applicant shall provide a copy of the audit and plan to the Commission. Excel file attached.	Not Completed. We have provided this file to the Utility.
3.	The utility needs to make a copy of the new rates available to the public before the effective date (what you put in the Rate Implementation document) by placing a copy of the new rates at locations where customer payments are accepted, on the utility's Internet site, or in a form and place that is otherwise readily accessible to the public.	Completed

Outside of the rate case we recommend revenues, operating income, and days cash on hand be analyzed annually. Meanwhile, we recommend the Utility utilize the PSC Simplified Rate Case procedure when appropriate and a rate study comingled with a cash flow analysis done every three to five years. We have provided the updated (from prior versions presented) Long-Range Cash Flow Analysis as discussed in our scope of service to be provided to the Village. This does not include any capital outside of meter replacements (7,600 per year). It has been a pleasure to coordinate with Village staff and we thank you for the opportunity to work for your community on the Water Rate Study.





Table 1
Water Utility Cash Flow Analysis - Projected 2018-2027
Village of Darien, WI

	Actual		Estimated		Projected		2025		2026		2027	
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
1												
2												
3 Revenues												
4 Total Revenues from User Rates ¹	\$359,263	\$366,182	\$378,694	\$454,219	\$467,846	\$467,846	\$481,881	\$481,881	\$496,338	\$496,338	\$511,228	\$511,228
5												
6 Percent Increase to User Rates Required			23.29%	0.00%	3.00%	0.00%	3.00%	0.00%	3.00%	0.00%	3.00%	0.00%
8 Cumulative Percent Rate Increase			23.29%	23.29%	26.29%	26.29%	29.29%	29.29%	32.29%	32.29%	35.26%	35.26%
9 Dollar Amount Increase to Revenues Required			\$12,512	\$75,526	\$13,627	\$0	\$14,035	\$0	\$14,456	\$0	\$14,950	\$0
10												
11 Other Revenues												
12 Interest Income	\$765	\$765	\$767	\$769	\$773	\$777	\$780	\$784	\$788	\$792	\$800	\$808
13 Other Income	\$7,605	\$7,667	\$7,500	\$7,575	\$7,651	\$7,727	\$7,805	\$7,883	\$7,961	\$8,041	\$8,202	\$8,365
14 Total Other Revenues	\$8,370	\$8,432	\$8,267	\$8,344	\$8,423	\$8,504	\$8,585	\$8,667	\$8,750	\$8,832	\$9,002	\$9,174
15												
16 Total Revenues	\$367,633	\$374,614	\$386,960	\$462,563	\$476,269	\$476,350	\$490,466	\$490,548	\$505,097	\$505,171	\$520,230	\$520,402
17												
18 Expenses												
19 Operating and Maintenance	\$231,288	\$239,105	\$253,629	\$251,145	\$256,885	\$276,655	\$285,063	\$293,515	\$302,218	\$311,160	\$320,409	\$329,913
20 PILOT Payment	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
21												
22 Net Before Debt Service and Capital Expenditures	\$136,335	\$135,509	\$133,332	\$201,418	\$207,384	\$199,494	\$205,403	\$197,033	\$202,869	\$193,980	\$199,820	\$190,488
23												
24 Debt Service												
25 Existing Debt P&F	\$134,955	\$133,785	\$132,075	\$130,005	\$132,503	\$129,605	\$131,335	\$132,590	\$128,495	\$129,113	\$134,250	\$133,858
26 New (2018-2025) Debt Service P&F	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
27 Total Debt Service	\$134,955	\$133,785	\$132,075	\$130,005	\$132,503	\$129,605	\$131,335	\$132,590	\$128,495	\$129,113	\$134,250	\$133,858
28												
29 Transfer In (Out) ³	\$0	\$0	\$133,397	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
30												
31 Cash Funded Capital Improvements	\$166,234	\$0	\$7,800	\$7,800	\$7,800	\$7,800	\$7,800	\$7,800	\$7,800	\$7,800	\$7,800	\$7,800
32												
33												
34												
35 Net Annual Cash Flow	(\$164,854)	\$1,724	\$126,853	\$63,613	\$67,082	\$62,089	\$66,268	\$56,543	\$66,574	\$57,078	\$57,770	\$46,831
36												
37												
38 Restricted and Unrestricted Cash Balance:												
39 Balance at first of year	\$194,844	\$194,844	\$196,568	\$323,421	\$387,034	\$454,116	\$516,205	\$582,473	\$639,117	\$705,691	\$762,769	\$820,539
40 Net Annual Cash Flow Addition/(subtraction)	\$194,844	\$196,568	\$323,421	\$337,034	\$454,116	\$516,205	\$582,473	\$639,117	\$705,691	\$762,769	\$820,539	\$869,370
41 Balance at end of year	\$194,844	\$196,568	\$323,421	\$337,034	\$454,116	\$516,205	\$582,473	\$639,117	\$705,691	\$762,769	\$820,539	\$869,370
42 Less: Restricted Cash	\$19,778	\$19,778	\$19,778	\$19,778	\$19,778	\$19,778	\$19,778	\$19,778	\$19,778	\$19,778	\$19,778	\$19,778
43 Unrestricted Cash	\$175,066	\$176,790	\$303,643	\$317,256	\$434,338	\$506,427	\$562,695	\$619,339	\$685,913	\$742,991	\$800,761	\$849,592
44 Costs per Day	\$768	\$768	\$810	\$810	\$853	\$853	\$867	\$880	\$892	\$905	\$917	\$928
45 Days of Cash Available	26.00	26.00	185.00	257.00	332.00	400.00	470.00	527.00	595.00	649.00	704.00	745.00
46												
47 Average Net Investment Rate Base	\$2,204,513	\$2,204,135	\$2,097,774	\$1,964,925	\$1,852,146	\$1,739,344	\$1,626,566	\$1,513,799	\$1,401,021	\$1,288,243	\$1,175,465	\$1,062,687
48 Net Operating Income	14,867	16,615	13,765	71,482	77,229	69,120	74,810	70,501	76,191	81,882	87,573	93,264
49 Rate of Return	0.63%	0.75%	0.65%	3.64%	4.17%	3.97%	4.60%	4.60%	5.43%	5.43%	7.45%	8.80%

Notes:
(1) 2018 Revenues reflect one quarter of a year of new rate implementation
(2) 2013 Water and Sewer Revenue Bonds Water Portion
(3) 2018 Transfer in from Impact fee balance

Table 2

Village of Darien, WI

Water Utility - Statement of Projected Coverage



NOTE: Showing ONLY WATER COVERAGE
Pledged revenues from both Utilities

Year	Operating Revenues	Less: Operating Expenses	Amount Available for Debt Service	Total Existing Revenue		2018-2026 Revenue		Total Water Debt Service	Coverage
				Bond P&I	Bond P&I	Bond P&I	Bond P&I		
2017	374,614	(239,105)	135,509	133,341	-	133,341	133,341	1.02	
2018	386,960	(253,629)	133,332	131,190	-	131,190	131,190	1.02	
2019	462,563	(261,145)	201,418	135,158	-	135,158	135,158	1.49	
2020	476,269	(268,885)	207,384	133,785	-	133,785	133,785	1.55	
2021	476,350	(276,855)	199,494	132,075	-	132,075	132,075	1.51	
2022	490,466	(285,063)	205,403	130,005	-	130,005	130,005	1.58	
2023	490,548	(293,515)	197,033	132,503	-	132,503	132,503	1.49	
2024	505,087	(302,218)	202,869	129,605	-	129,605	129,605	1.57	
2025	505,171	(311,180)	193,990	131,335	-	131,335	131,335	1.48	
2026	520,230	(320,409)	199,820	132,590	-	132,590	132,590	1.51	
2027	520,402	(329,913)	190,488	128,495	-	128,495	128,495	1.48	

Simplified Rate Case Application - Water Class D

1550 - Darien Water Works and Sewer System

Public Service Commission of Wisconsin
 PO Box 7854
 Madison WI 53707-7854

(filing this form out is in accordance with Wis.Stat196.193)
 3011(1/1/2020)

Preparer Name: **Rebecca Houseman LeMire**
 Preparer Phone Number: **(262)882-5055**
 Preparer Email Address: **rlemire@darienwi.com**
 Date Application will be filed with the PSC: **07/24/2020**
Notice Date to be Mailed/Published: **07/23/2020**
 Newspaper Name: **Delavan
 Enterprise**
 Rate Effective Date: **10/21/2020**

	Annual Report Information	Page	
1	Total Sales of Water	W-1	\$430,523
2	Rate Increase Factor		3.0%
3	Line 1 * Line 2		\$12,916
4	Net Operating Income (Operating Revenues - Operating Expenses)	W-1	\$35,589
5	Adjusted Total Operating Income (Line 3 + Line 4)		\$48,505
6	Average Net Rate Base - Water Utility	F-23	\$2,046,139
7	Line 5 / Line 6		2.4%
8	Test 1 - Financial Eligibility Qualifies *		Yes
9	Adjusted Operating Income (Line 5)		
10	Total Operation & Maintenance (O&M) expense (600 and 900 accounts only)		
11	Line 9 / Line 10		
12	Test 2 - Financial Eligibility Qualifies **		

* Eligible if line 7 <= 4.90%

** Eligible if line 11 <= 6.0%

History Check

Effective Date of the Last Full Rate Case: **07/19/2018**

Rates from last full rate case have been in effect for at least one full calendar year and the current annual report has been filed. **Yes**

If Class AB, it has been 5 years or less since the last full rate case. **NA**

Effective Date of the Last SRC: **10/01/2016**

Rates from the last SRC have been in effect for one year (12 months). **Yes**

Water Meter Rates

5/8" meter rate at the last full rate case: **12.00**

Current 5/8" meter rate: **12.00**

If Class C or D, current rate is less than 40% higher than the last full rate case. **Yes**

5/8" meter rate percent increase since last full rate case: **0.00%**

**Notice of Rate Increase
Water Customers of the Darien Water Works and Sewer System**

This is to give you notice that the Darien Water Works and Sewer System may file an application on July 24, 2020, with the Public Service Commission of Wisconsin (PSC), for authority to increase water rates. Rates for general service will increase 3.0 percent. The increase is necessary to reduce the existing deficiency in present rates. The request is being made under Wis. Stat. 196.193. Rate increases granted under this statute do not require a public hearing. The effect of the increase for some selected customers is shown below. Public Fire Protection and Wholesale rates (if applicable) will also increase 3.0 percent.

Customer Classification	Meter Size	Gallons	Existing Monthly Rate	Revised Monthly Rate
Average Residential	3/4	4,000	\$42.52	\$43.80
Commercial	1	19,300	\$147.67	\$152.12
Multifamily	1	30,500	\$218.23	\$224.81
Public Authority	1 1/2	51,700	\$323.05	\$332.79
Industrial	2	286,700	\$1,338.55	\$1,378.99

The Village Board will review and possibly take action to submit the application for the proposed rate increase at the regular meeting on Monday, July 20, 2020, at 7:00 p.m., or as soon thereafter as the matter may be heard.

This rate increase will go into effect on October 21, 2020.. If you have any questions about the rate increase request, call the Darien Water Works and Sewer System at (262) 882-5055.