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East Central Special Utility District

Water Rate Analysis 2019

November 7, 2019

Rate Analysis for East Central Special Utility District

Introduction

East Central Special Utility District (East Central) retained B & D Environmental, Inc. to analyze its projected budget to determine a rate structure that will generate a sufficient revenue stream from its customer base to cover its projected expenses. All financial data used in this rate study were provided by the District. This study will examine the District's current budget to determine if is actually projecting revenues and expense based on actual current year's data. Next, this study will prepare a proposed a budget for next year. Finally, this study will examine rate structures that will provide revenues that will an adequately cover expected expenses. Based on this examination, the study will recommend an increase in customer rates that will be achieve an acceptable level of revenues to provide coverage for the projected expenses in next year's budget.

Current District Expenses and Projected Budget

Attached in **Table No. 1** are the District's current years expenses and proposed budget. Only nine months of actual financial data for 2019 was available at the time of this study. Column A of the table is the actual expenses and income for the District for the first nine months of 2019. The second column (B) is the annual expenses and income for the year prorated from the actual nine months of expenses and income in column A. Column C is the income and expense totals in the 2019 Budget provide by the District for this study. Actual versed budgeted totals for 2019 were calculated to determine if the current revenues were adequate to cover expenses and to compare with budgeted totals. Based on this comparison, the District should recover revenues more than adequate to cover its expenses in 2019. All financial data used to calculate the annual expenses and projected budgets for this study are provided in the Appendix.

Column D is proposed 2020 budget for the District. This budget was prepared based on District's 2019 budget in column C. An inflation factor of 3.2 percent was used to determine the increase in the expected incomes and expenses for this budget[1]. Some additional adjustments were made to this budget for this analysis. All impact fees were offset by an equal amount of transferred income. The use of impact fee funds is usually limited to capital expenditures and should not be included when determining the revenue required to be generated from future monthly rates. Removal of these funds from the determination of a revenue requirement allows the utility to maintain its reserve funds for debt coverage and credit worthiness. Three percent of the revenues collection for sewer service provided by another utility are retained as a processing fee. This amount was added to the income section for the proposed 2020 budget. Finally, the District will see a significant increase for the cost of water purchased from suppliers; San Antonio Water System and Canyon Regional Water Authority. The amount of these increases is also reflected in the 2020 Budget. Based on these modifications, especially the increase in purchased water, the District's revenue will not cover expenses in the following year if revenues generated from customer rates are not adjusted.

[1] Public Utility Commission of Texas Website, Historical Record of Annual Rate Adjustment Set by the Public Utility Commission of Texas, Texas Water Code § 13.1872.

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Projected Rate Increase and Recommended Revenue Requirement

East Central will need to increase its customer rates to generate enough revenue to cover the expected District expenses in 2020. The District has proposed to increase the monthly base fee for all classes of customers by $2.00 per connection per month with an increase in the gallonage rate paid in each tier of usage. **Table No. 2** shows the 2020 budget and the effect on the net income level of this budget based on a base fee increase of $2.00 per connection per month and three different percentage increases in the gallonage rate to customers. Columns B of this table show the effect on the net income level of the budget at a 10 percent increase in the gallonage rate. This level will increase the revenues generated. However, this will still leave the District with a short fall for next year based on the recommended 2020 budget. Column C of Table No. 2 shows the effect on proposed revenues based on a 15 percent increase in the gallonage rate. That this level of increase, the District will achieve enough revenue to cover the expenses in the 2020 budget. The final column (D) of this table shows the effect of a 20 percent increase in the gallonage rate. At this level, the District would experience a large increase in revenues more than antiquate to cover expenses in the 2020 budget. The calculation of the revenues generated by each increase level can be found in the appendix to this study.

Conclusions & Recommendations

This rate study determined a projected revenue level that will support the expenses in East Central’s proposed 2020 budget. This study first reviewed the current years expenses to determine if the current year’s projected budget has adequately covered actual expenses. From this review, the District should recover revenues more than adequate to cover its expenses in the current year. Next this study prepared a budget for next year, 2020. This budget was prepared based on the 2019 District provided budget with a few modifications. The main adjustment being an increase in the cost of purchased water. Based on the projected 2020 budget, East Central will experience a revenue shortage next year if customer rates remain at the current level. Finally, this study examined three rate structure options to determine if they will generate enough revenue for East Central to maintain an acceptable revenue level over the next year.

Three different rate structures were examined in this study that will generate enough revenues to support projected expenses next year. The proposed $2.00 per connection per month and a 15 percent increase in the gallonage rate for each tier of usage will generate enough revenues to produce a projected net income next year based on the 2020 budget. Based on this study, this rate structure should be approved as it will generate revenues to support expenses with an acceptable level of coverage for unexpected adjustments in expenses next year.

Should you have any questions regarding this study or require additional information please contact us. We look forward to working with you on future projects.

Sincerely,

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