

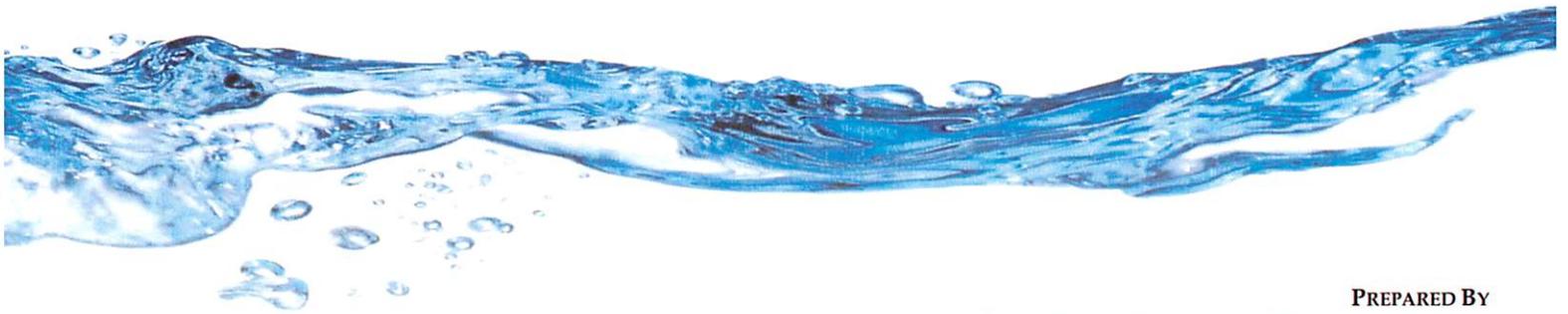


STORM WATER USER RATE STUDY

STORM WATER UTILITY
OREM CITY, UTAH

JANUARY 2016

Executive Summary



PREPARED BY
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SECTION I: EXECUTIVE SUMMARY

The City of Orem ("City") commissioned Lewis Young Robertson & Burningham, Inc. ("LYRB") to review the existing storm water utility fees (or rates) and provide a recommended rate schedule based on changes in forecasted expenses, capital improvements and bonding needs. The primary objectives of the rate analysis were to ensure sufficient revenues to cover all operation and maintenance (O&M) expenses while maintaining bond covenants, ensuring the appropriate debt service coverage ratio, and providing sufficient revenue to fund the proposed projects identified in the Master Plan and Capital Improvement Plan ("CIP").

A review of projected revenues under the existing rate structure relative to proposed expenses illustrated that the City would not have sufficient revenues to fund the needed capital improvements without a rate increase. As a result, City staff, the City Council and consultants evaluated many potential rate scenarios during the study phase of this analysis, with the City ultimately focusing on three CIP scenarios:

- ☞ **Scenario 1** – Phasing the proposed CIP over a five (5) year period with no new debt;
- ☞ **Scenario 2** – Phasing the proposed CIP over a seven (7) year period with no new debt; and,
- ☞ **Scenario 3** – Phasing the proposed CIP over a ten (10) year period with no new debt.

The rate scenarios shown below are structured to produce a final rate of \$8.60 within ten years. The annual rate increase curve (See Figure 1.1) for each scenario is adjusted to reflect the changes in the CIP, with Scenarios 2 and 3 funding a reduced CIP in order to allow for a more moderate annual increase in the rates. Scenario 2 results in a decrease of \$713,088 in CIP funding, with Scenario 3 resulting in a decrease of \$857,955.

TABLE 1.1: ILLUSTRATION OF PROPOSED RATE INCREASE SCENARIOS

	Scenario 1: 5-Year			Scenario 2: 7-Year			Scenario 3: 10-Year		
	Base Rate	Annual Increase	Cumulative Increase	Base Rate	Annual Increase	Cumulative Increase	Base Rate	Annual Increase	Cumulative Increase
Current	\$5.25	0.0%	0.0%	\$5.25	0.0%	0.0%	\$5.25	0.0%	0.0%
Year 1	\$6.25	19.0%	19.0%	\$5.95	13.3%	13.3%	\$5.85	11.4%	11.4%
Year 2	\$6.75	8.0%	28.6%	\$6.40	7.6%	21.9%	\$6.25	6.8%	19.0%
Year 3	\$7.10	5.2%	35.2%	\$6.85	7.0%	30.5%	\$6.60	5.6%	25.7%
Year 4	\$7.35	3.5%	40.0%	\$7.15	4.4%	36.2%	\$6.90	4.5%	31.4%
Year 5	\$7.60	3.4%	44.8%	\$7.45	4.2%	41.9%	\$7.20	4.3%	37.1%
Year 6	\$7.80	2.6%	48.6%	\$7.75	4.0%	47.6%	\$7.50	4.2%	42.9%
Year 7	\$8.00	2.6%	52.4%	\$8.00	3.2%	52.4%	\$7.80	4.0%	48.6%
Year 8	\$8.20	2.5%	56.2%	\$8.20	2.5%	56.2%	\$8.10	3.8%	54.3%
Year 9	\$8.40	2.4%	60.0%	\$8.40	2.4%	60.0%	\$8.40	3.7%	60.0%
Year 10	\$8.60	2.4%	63.8%	\$8.60	2.4%	63.8%	\$8.60	2.4%	63.8%
Estimated 10 Yr CIP	\$22,684,321			\$21,980,673			\$21,109,743		

The adopted rates by year ten register at 1.15 percent of current median household incomes (MHI), including current annual water and sewer assessments. An affordability index of 1.5 percent of MHI is used as a benchmark in this analysis.

FIGURE 1.1: PROPOSED CIP FUNDING





Each scenario assumes an annual growth of .5 percent in equivalent service units (ESUs). Annual Operation and Maintenance ("O&M") expenditures are assumed to increase by three percent annually. The comparison of revenues and expenditures under the adopted rate increase illustrates that the City will continue to maintain the necessary debt service coverage ratios, while providing necessary funding for capital improvement and replacement projects according to the proposed CIP scenarios. The fund balance is anticipated to decrease slightly over time under each scenario, but remain above the minimum set by the City of maintaining at least 50 percent of O&M expenses in reserve funds.

TABLE 1.2: SUMMARY PRO FORMA – SCENARIO 1

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 10
Usage Charge (per Month)	\$6.25	\$6.75	\$7.10	\$7.35	\$7.60	\$8.60
Calculated ESUs	50,342	50,594	50,847	51,101	51,357	52,653
Total Operating Revenue	3,806,815	4,129,568	4,363,930	4,539,212	4,716,139	5,467,904
Total Operating Expense	(1,676,599)	(1,747,381)	(1,810,480)	(1,868,861)	(1,928,633)	(2,233,926)
Total Non-Operating Revenue	15,168	15,320	15,473	15,627	15,784	16,589
Total DS	(454,429)	(455,011)	(479,606)	(463,029)	(454,577)	(455,074)
Total CIP	(1,550,000)	(1,800,000)	(2,000,000)	(2,150,000)	(2,307,660)	(2,751,470)
Net Income (Loss) Before Transfers	140,954	142,495	89,317	72,950	41,052	44,022
Change in Net Position after Transfers and Contributions	50,671	51,309	(2,781)	(20,070)	(52,897)	(54,720)
Beginning Fund Balance	2,178,932	2,229,603	2,280,912	2,278,131	2,258,062	1,985,940
Ending Fund Balance	\$2,229,603	\$2,280,912	\$2,278,131	\$2,258,062	\$2,205,164	\$1,931,220
Days of Working Capital	479	470	453	435	412	311
Coverage Ratio	4.69	5.24	5.32	5.77	6.13	7.11

TABLE 1.3: SUMMARY PRO FORMA – SCENARIO 2

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 10
Usage Charge (per Month)	\$5.95	\$6.40	\$6.85	\$7.15	\$7.45	\$8.60
Calculated ESUs	50,342	50,594	50,847	51,101	51,357	52,653
Total Operating Revenue	3,625,583	3,917,074	4,211,390	4,416,570	4,623,697	5,467,904
Total Operating Expense	(1,658,476)	(1,726,132)	(1,795,226)	(1,856,597)	(1,919,389)	(2,233,926)
Total Non-Operating Revenue	15,168	15,320	15,473	15,627	15,784	16,589
Total DS	(454,429)	(455,011)	(479,606)	(463,029)	(454,577)	(455,074)
Total CIP	(1,453,561)	(1,663,228)	(1,856,487)	(2,020,574)	(2,177,369)	(2,751,470)
Net Income (Loss) Before Transfers	74,285	88,022	95,544	91,997	88,145	44,022
Change in Net Position after Transfers and Contributions	(15,999)	(3,164)	3,445	(1,022)	(5,804)	(54,720)
Beginning Fund Balance	2,178,932	2,162,933	2,159,769	2,163,215	2,162,193	1,976,500
Ending Fund Balance	\$2,162,933	\$2,159,769	\$2,163,215	\$2,162,193	\$2,156,388	\$1,921,780
Days of Working Capital	470	450	434	419	404	310
Coverage Ratio	4.33	4.82	5.04	5.53	5.95	7.11

TABLE 1.4: SUMMARY PRO FORMA – SCENARIO 3

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 10
Usage Charge (per Month)	\$5.85	\$6.25	\$6.60	\$6.90	\$7.20	\$8.60
Calculated ESUs	50,342	50,594	50,847	51,101	51,357	52,653
Total Operating Revenue	3,565,172	3,826,005	4,058,849	4,263,266	4,469,627	5,467,904
Total Operating Expense	(1,652,435)	(1,717,025)	(1,779,972)	(1,841,266)	(1,903,982)	(2,233,926)
Total Non-Operating Revenue	15,168	15,320	15,473	15,627	15,784	16,589
Total DS	(454,429)	(455,011)	(479,606)	(463,029)	(454,577)	(455,074)
Total CIP	(1,403,625)	(1,580,771)	(1,751,754)	(1,907,334)	(2,058,293)	(2,751,470)
Net Income (Loss) Before Transfers	69,851	88,517	62,990	67,264	68,558	44,022
Change in Net Position after Transfers and Contributions	(20,433)	(2,669)	(29,108)	(25,755)	(25,391)	(54,720)
Beginning Fund Balance	2,178,932	2,158,500	2,155,831	2,126,722	2,100,967	1,989,476
Ending Fund Balance	\$2,158,500	\$2,155,831	\$2,126,722	\$2,100,967	\$2,075,576	\$1,934,755
Days of Working Capital	470	452	430	411	392	312
Coverage Ratio	4.21	4.64	4.75	5.23	5.64	7.11