HAMMOND WATER UTILITY WSP RATE STUDY

SEPTEMBER 2024

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Introduction

Waggoner Engineering, Inc. (Waggoner) is working with HDR Engineering, Inc. (HDR), as a subconsultant to Waggoner, as part of a team to conduct rate studies as needed for the Office of Community Development for the State of Louisiana. These rate studies are being performed for public water system and community sewerage systems that have been awarded Water Sector Program (WSP) grants by the State of Louisiana for project funding. Having a rate study in place is a prerequisite for the applicant to meet the WSP grant requirements and receive an award of funds. The City of Hammond was awarded a grant in the amount of $5,000,000 for sewer system improvement work.

Specifically, the goal of each study is to achieve the objectives of the WSP and determine if rates charged by the water/wastewater system will produce a fair and reasonable revenue stream currently, and in the future, allowing for the current operations, maintenance, debt service and the changes as a result of the improvements to be funded under Act 410 of the 2021 Regular Session of the Louisiana Legislature.

If a community water system has had a rate study completed on or before July 1, 2021 then a new rate study is not required; Poland has not completed a rate study within that time frame so is now obligated to have this rate study completed. Therefore, a rate model has been developed and a high-level rate study completed to determine if the Utility is financially sound and to prepare a financial plan for a 10-year period. This report summarizes the results of that rate study and the available data provided for each requirement contained in Act 410 in order to receive grant funding.

Review existing revenues, compare to expenses, and determine if there are any deficiencies in the rate current rate structure. Determine the required rates to meet expenses, capital, and funding costs for future needs of the system with a minimum sustainability factor of 1.15.

Background of the Financial Plan

As part of the financial review, a financial plan for the utility was developed. This plan is intended to show future cash flows (both revenue and expenses) and to provide guidance on needed rate increases to fund both operation and maintenance expenses as well as future capital needs of the Utility. The Utility provided historical revenue and expense data for Fiscal Year (FY) 2023/2024 and 2024/2025. All future expenses use the FY 2024/2025 budget as the starting point. The expense data provided included a detailed budget for the wastewater and water model for the utility. This model forecasts future revenue and expenditures of the Utility under varying assumptions including customer growth rates and varying levels and timing of capital improvement spending. The model provides projections for a 10-year period, or until 2034.

To develop a projection of revenues, the current wastewater utility rates were entered, and the number of customers and volume billed in each customer class were used to calculate the revenue generated for each year of the 10-year period. The Utility combines revenues from water and wastewater into their utility fund. The Utility fund has been supplemented from sales tax in the past. This revenue stream is used to pay for both operational expenses as well as capital expenses of the Utility. The total customer count can be adjusted each year to reflect population growth and the collection rates can also be adjusted. It should be noted that the customer growth rate was set at 1% annually for residential and commercial customers based on the billing data provided and the revenue generation was based on an assumed collection rate of 97%.

On the expenditures side, a 3% rate of inflation was assumed on all expenditures, including personnel, maintenance and supply costs. It is important to understand that neither HDR or Waggoner are acting as the Utility's municipal financial advisor, and all assumptions described above were for estimated rate impacts only.

Current Utility Assessment

As summarized above, data contained within the rate model to determine revenues and expenses was derived from data provided by the Utility. This section will provide a more detailed discussion and summary of that data.

The current rates for water and sewer customers are provided below. The City of Hammond has 5,702 residential customers and 1,391 commercial customers. Also, there are 286 residential customers outside the City limits.

SEC. 32-151. - WATER CHARGE. (EXISTING)

The charge for water service by the city is based upon the following monthly rates, all minimums are based on three thousand (3,000) gallons:

Description	Rate Basis
Water, inside, standard	$1.50 per 1,000 gallons
Water, school, unmetered	1.26 per student
Water, outside, standard	3.00 per 1,000 gallons

The rate for utility customers located outside of the corporate limits will be double the rate outlined above for "inside" customers. There will be a three thousand gallons (3,000) per month minimum charge.

EC. 32-152. - SEWER CHARGE. (EXISTING)

The charge for sewer disposal furnished by the city is based upon water consumption and the following monthly rates, all minimums are based on three thousand (3,000) gallons:

Expand

Description	Rate Basis
Sewer, inside, standard	$3.00 per 1,000 gallons
Sewer, school, unmetered	2.52 per student
Sewer, outside	6.00 per 1,000 gallons

(1) Maximum sewer charge on inside single unit residential customers forty dollars ($40.00) per month.

(2) Maximum sewer charge on all other customers shall not exceed one hundred twenty (120) per cent of the previous average (minimum twelve (12) months).

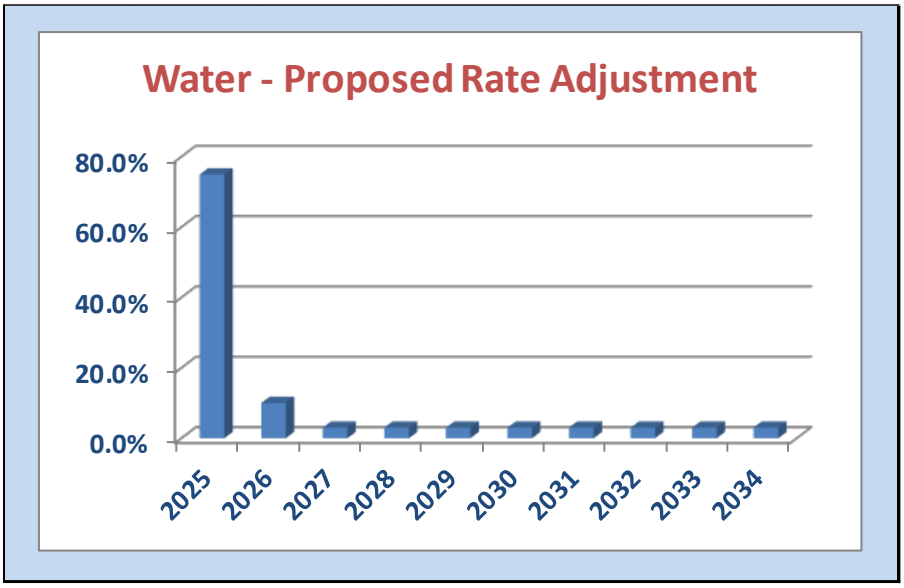
(3) Water only meters will not be billed for sewer charges.

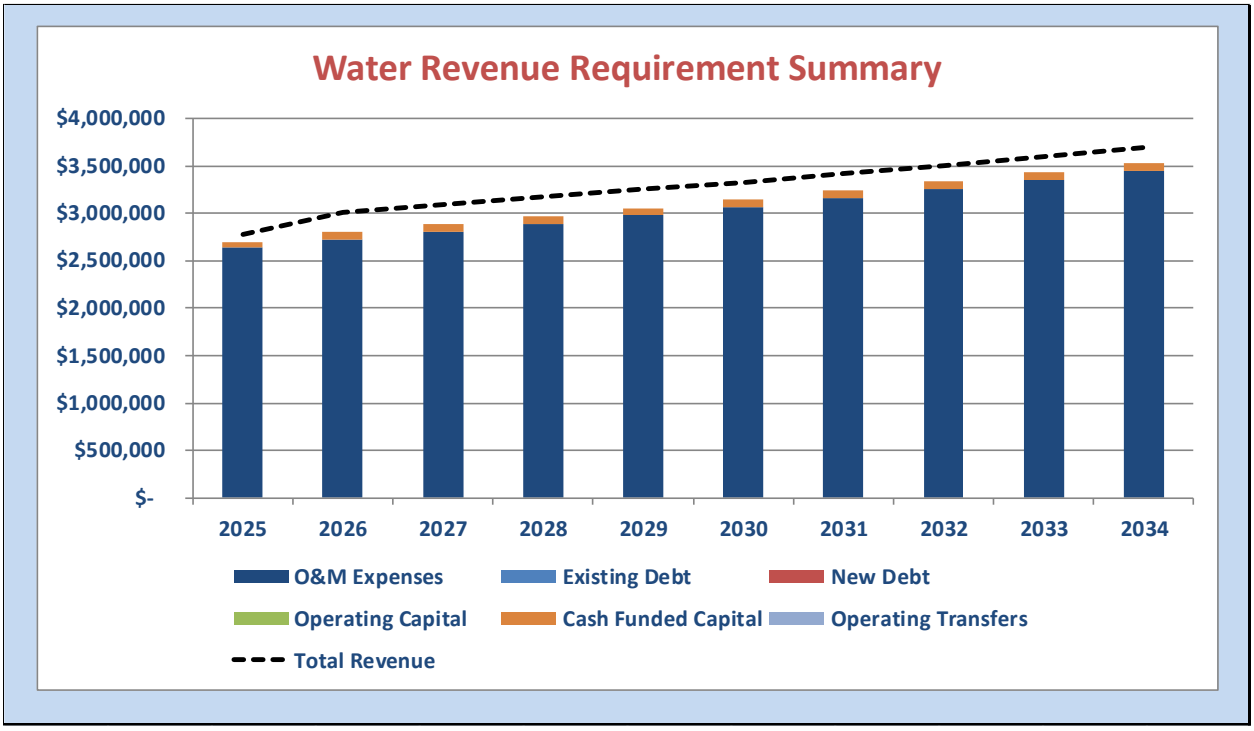
The rate for utility customers located outside of the corporate limits will be double the rate outlined above for "inside" customers.

Table 2. Income Statement Summary

INCOME STATEMENT COMBINED OPERATING FUND CITY OF HAMMOND Item	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
BEGINNING FUND BALANCE	$ -	$ -	$ 684,024	$ 845,094	$ 1,333,803	$ 2,049,046	$ 2,780,514	$ 3,419,992	$ 3,964,170	$ 4,415,520	$ 4,765,467	$ 5,012,299
REVENUES												
Operating Revenues	$ 4,702,696	$ 4,701,489	$ 5,934,522	$ 6,469,801	$ 6,858,650	$ 7,041,011	$ 7,121,129	$ 7,202,052	$ 7,289,726	$ 7,378,253	$ 7,467,660	$ 7,563,894
Operating Transfers In	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Total Revenues	$ 4,702,696	$ 4,701,489	$ 5,934,522	$ 6,469,801	$ 6,858,650	$ 7,041,011	$ 7,121,129	$ 7,202,052	$ 7,289,726	$ 7,378,253	$ 7,467,660	$ 7,563,894
EXPENDITURES												
O&M Expenses (less capital)	$ 4,865,365	$ 4,916,947	$ 5,239,100	$ 5,396,273	$ 5,558,161	$ 5,724,906	$ 5,896,653	$ 6,073,553	$ 6,255,759	$ 6,443,432	$ 6,636,735	$ 6,835,837
Operating Capital	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Debt Service Requirements												
Debt Service - Existing Debt	$ 407,767	$ 416,168	$ 415,662	$ 416,128	$ 416,556	$ 415,946	$ 416,308	$ 415,631	$ 413,926	$ 416,183	$ 415,402	$ 415,593
Debt Service - Proposed New Debt	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Total Debt Service	$ 407,767	$ 416,168	$ 415,662	$ 416,128	$ 416,556	$ 415,946	$ 416,308	$ 415,631	$ 413,926	$ 416,183	$ 415,402	$ 415,593
Transfers												
Operating Transfers	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Cash CIP/ Other Capital Transfers	$ -	$ -	$ 118,690	$ 168,690	$ 168,690	$ 168,690	$ 168,690	$ 168,690	$ 168,690	$ 168,690	$ 168,690	$ 168,690
Total Transfers	$ -	$ -	$ 118,690	$ 168,690	$ 168,690	$ 168,690	$ 168,690	$ 168,690	$ 168,690	$ 168,690	$ 168,690	$ 168,690
Total Expenditures	$ 5,273,132	$ 5,333,115	$ 5,773,452	$ 5,981,091	$ 6,143,408	$ 6,309,542	$ 6,481,651	$ 6,657,874	$ 6,838,376	$ 7,028,306	$ 7,220,828	$ 7,420,120
NET REVENUE	(570,436)	(631,625)	161,070	488,710	715,242	731,468	639,478	544,178	451,350	349,948	246,832	143,774
ENDING FUND BALANCE		$ 684,024	$ 845,094	$ 1,333,803	$ 2,049,046	$ 2,780,514	$ 3,419,992	$ 3,964,170	$ 4,415,520	$ 4,765,467	$ 5,012,299	$ 5,156,073
Financial Indicators												
Change in Ending Balance	$ -	$ 684,024	$ 161,070	$ 488,710	$ 715,242	$ 731,468	$ 639,478	$ 544,178	$ 451,350	$ 349,948	$ 246,832	$ 143,774
Overall Reserve (End Balance/Total Exps)	0.0%	12.8%	14.6%	22.3%	33.4%	44.1%	52.8%	59.5%	64.6%	67.8%	69.4%	69.5%
Percent Total Reserves - Actual	0%	13%	15%	22%	33%	44%	53%	60%	65%	68%	69%	69%
Percent Total Reserves - Target	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%
Difference	-50%	-37%	-35%	-28%	-17%	-6%	3%	10%	15%	18%	19%	19%
Net Revenue Available for Debt Service	$ (162,669)	$ (215,458)	$ 695,422	$ 1,073,528	$ 1,300,489	$ 1,316,105	$ 1,224,476	$ 1,128,499	$ 1,033,966	$ 934,821	$ 830,924	$ 728,057
Coverage Ratio - Actual	(0.40)	(0.52)	1.67	2.58	3.12	3.16	2.94	2.72	2.50	2.25	2.00	1.75
Coverage Ratio - Target	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25
Difference	(1.65)	(1.77)	0.42	1.33	1.87	1.91	1.69	1.47	1.25	1.00	0.75	0.50

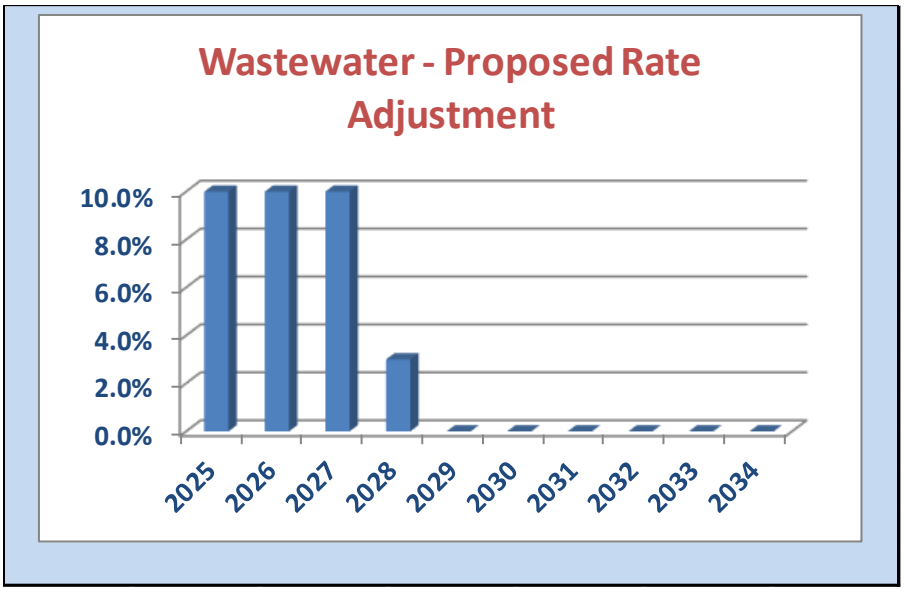
Figure 1. Recommended Water Rate Increase

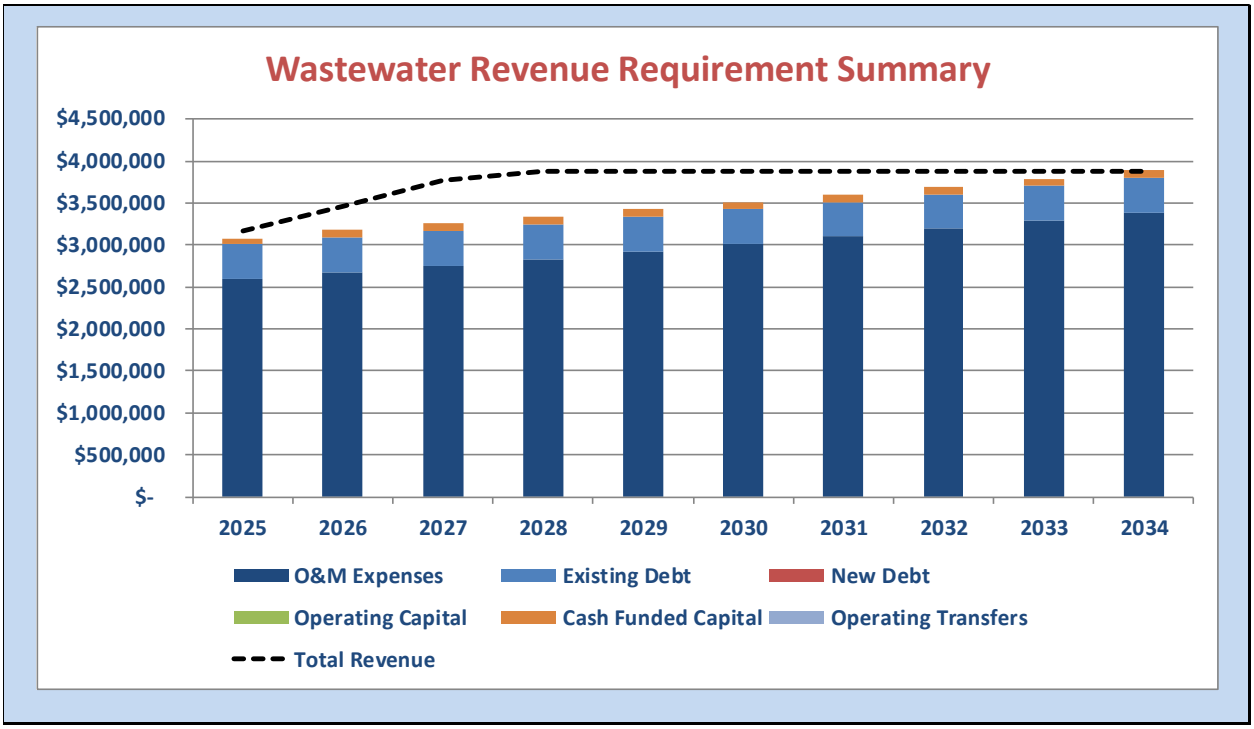




The water revenue generated by the utility is inadequate for the planning period therefor rate increases as shown above are required.

Figure 2. Recommended Sewer Rate Increase





The wastewater revenue generated by the utility is inadequate for the planning period therefor rate increases as shown above are required.

It is our opinion that based on the results of the rate modeling rate increases recently should be implemented to meet the planned expenses of the Utility (both operational and capital) with a

sustainability factor (Operating Revenue/Operating Costs) of at least 1.15 reached at the end of the planning period. In addition, the rate increase shows a debt coverage ratio of at least 1.25 throughout the planning period.

2.0 Project demands for the system created by population projections

The projected demands contained in the rate model are based on the projected growth rate in the number of water and wastewater connections for each rate class. The rate model uses a 0.0% growth rate for residential connections; therefore, the number of residential connections remains constant throughout the planning period, as the Utility expects very little to no residential growth. The model also used a 0.0% growth rate in the number of commercial connections based on the billing data provided. Total connections are projected to remain near constant at 7,384 through the projection period (5,988 residential connections and 1,397 commercial connections). Due to limited projected growth in the utility, the billed water use is expected to remain flat at approximately 928 million gallons per year.

The Utility is a small system with no planned large capital expenses. The rate model includes a contingency fund of $119,000/year in the Utility budget for repair and maintenance of the existing system.

It is our opinion that this requirement has been met.

3.0 Identify the system's most important asset and require a Contingency Fund that would fund the replacement of this asset in twenty years

The system's most critical assets are their water wells and UV disinfection system at the wastewater treatment plant. To satisfy the requirement for a contingency the model was constructed with a water contingency fund of $55,437 per year and a wastewater contingency fund of $63,254 per year. The recommended rate increases take the required contingency funds into account.

It is our recommendation that the Utility will establish a restricted contingency fund for the replacement of the critical asses mentioned above or other emergency projects over the next twenty years.

4.0 Review the funding requirements for capital equipment and other fixed asset replacement and recommend a prudent reserve policy for operations, capital replacement, and emergencies

The rate model for Hammond includes reserves for capital equipment replacement and a reserve to fund 3 months of O&M expenses.

The Utility is recommended to implement a written reserve policy for the operational fund of three-months' worth of reserves.

5.0 Review current water utilization and determine if a large water use rate is necessary

The Utility serves both residential and commercial users, with no large users or industrial users on their system. Therefore, a large water use rate is not necessary for this system.

It is our opinion that this requirement has been met.

6.0 Provide a recommended policy requiring an annual increase to the rate structure, if necessary, that will recover projected revenue requirements for a ten-year period. Components of the base rates and volume charges should be clearly identified.

The rate model is built around this requirement and once the rates are increased this requirement will be satisfied.

It is our opinion that this requirement has been met.

7.0 Review miscellaneous fees to assure they are reasonable and not outdated

1. Water Tap Fee
2. Meter Setting Fee
3. Reconnect Fee
4. Transfer Service Fee
5. Disconnect Fee
6. Sewer Impact Fee and Tap-In Fee

It is our opinion that the Utility's revenue generated from miscellaneous income is adequate.

8.0 Review impact fee levels and methodology to address growth needs

It is our opinion that the Utility's impact fees are adequate.

SEC. 32-160. - SEWER IMPACT FEE AND TAP-IN FEE.

A service connection (tap in fee/impact fee) shall be paid before any sewer connection work has been started. All sewer connections shall be installed at the expense of the property owner and that work shall be performed by a licensed plumber. All service lines shall meet city specifications, and shall include, in addition to required cleanouts on private property, a

cleanout within one (1) foot of the street right-of-way, affording access to the segment of service line located within a city street right-of-way for all new services installed under this provision. Maintenance and repairs of sewer service lines located on private property (upstream and including the right-of-way cleanout) shall be the responsibility of the property owner. The city shall not furnish any labor or services for the connection other than an inspection. All future construction in the City of Hammond will required separate sewer service lines to the sewer main for single family residential units. The tap in/impact fee will be based on the following rates:

Residential	Commercial
$50.00 per water closet	$50.00 per water closet
50.00 per house trailer	50.00 per urinal 50.00 per dishwasher 50.00 per clothes washer

Inspection fee—$15.00 per inspection

Cutting street—$ 1.00 per sq. foot

It is our opinion that this requirement has been met.

9.0 Provide a general discussion on current policies and trends related to payment options, deposit amounts, connections, disconnects, etc., in comparison to other Community Water Systems

Customer payments for sewer and water service charges are collected by the Utility either by mail, drop box and online through their online payment system. The utility does do disconnects for non-payment and collects late fees which are automatically incurred in their system.

It is our opinion that this requirement has been met.

10.0 The rate study should include an easy-to-use electronic model in Microsoft Excel to be used by applicants

The current rate study was completed in Microsoft Excel and will be provided to the Utility.

It is our opinion that this requirement has been met.

Summary

The Utility is well run and managed but is need of an adjustment to their rates to cover O&M and future capital expenditures.