



Lewes Board of Public Works Stormwater Report

March 3, 2022





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Mr. Austin Calaman
General Manager
Lewes Board of Public Works

Dear Mr. Calaman:

We are pleased to present this executive summary report for a financial projection completed for the Lewes Board of Public Works Stormwater Department. This report was prepared to provide the utility with a comprehensive examination of its existing financials by an outside party.

The specific purposes of this long-term financial projection and rate study are:

- 1) Determine stormwater utility's revenue requirements for fiscal year 2023,
- 2) Project rate adjustments needed to meet targeted revenue requirements,

This report includes results of the financial projection and identifies the future rate adjustments of the Stormwater Department. Specific findings included in this report are:

- 1) Proposed rate adjustments are based on the utilities ability to meet or work toward three factors listed below:
 - a. Debt Coverage Ratio
 - b. Minimum Cash Reserves
 - c. Optimal Net Income

This report is intended for information and use by management and the Board of Directors for purposes stated above and is not intended to be used by anyone except the specified parties.

Sincerely,

A handwritten signature in black ink, appearing to read "Dawn Lund", is written over a light blue horizontal line.

Utility Financial Solutions, LLC
Dawn Lund
Vice President

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Utility Revenue Requirements

To determine revenue requirements, the revenues and expenses for Fiscal Year 2021, Budget 2022, and draft Budget 2023 were analyzed, with adjustments made to reflect projected operating characteristics.

Table One is the projected financial summary for the Stormwater Department from 2023-2027 without rate adjustments and with a projected \$1.18 million bond issue in 2023. Operating income for 2023 is a projected operating loss of (\$40,126) and losses continue throughout the projection period. The cash generated from operations is not sufficient to support the long-term projected maintenance and capital improvement program. The cash balance is projected at \$1.1 million in 2023 and decreases to (\$388,588) in 2027. Debt coverage ratios are not sufficient to meet the minimum targets throughout the projection period.

Table One – Projected Financial Summary (Without Rate Adjustments and With Bond Issue)

Fiscal Year	Projected Rate Adjustments	Projected Revenues	Projected Expenses	Operating Income	Projected Cash Balance	Capital Improvements	Bond Issues	Debt Coverage Ratio
2023	0.0%	196,170	236,296	(40,126)	1,120,987	75,000	1,180,000	(0.24)
2024	0.0%	196,170	244,662	(48,492)	742,491	275,000	-	(0.14)
2025	0.0%	196,170	256,154	(59,984)	280,444	375,000	-	0.04
2026	0.0%	196,170	268,076	(71,906)	(124,295)	305,000	-	(0.10)
2027	0.0%	196,170	277,881	(81,711)	(388,529)	150,000	-	(0.26)
Targeted in 2023				\$ 53,954				
Targeted in 2027				\$ 117,914				
MINIMUM/CRITICAL Reserves 2023					\$ 138,790	1.25/1.45		
MINIMUM/CRITICAL Reserves 2027					\$ 152,329	1.25/1.45		

Projected Cash Flow

Table Two is the projected cash flow for 2023-2027, including projections of capital improvements as provided by the Utility. The projection includes a bond issue in 2023 of \$1.18 million. Changes in the capital improvement plan can greatly affect the cash balance and minimum cash reserve target. Cash balances for 2023 are projected at \$1.1 million and (\$388,529) by 2027. Cash balances decrease with the current capital improvement program throughout the projection period.

Table Two – Projected Cash Flows (Without Rate Adjustments and With Bond Issue)

Projected Cash Flows	Projected 2023	Projected 2024	Projected 2025	Projected 2026	Projected 2027
Add Net Income	\$ (72,492)	\$ (108,950)	\$ (97,307)	\$ (115,030)	\$ (132,228)
Add Back Depreciation Expense	39,567	43,067	49,567	56,367	60,917
Subtract Debt Principal	-	37,614	39,306	41,075	42,924
Add Bond Sale Proceeds	1,180,000	-	-	-	-
Cash Available from Operations	\$ 1,147,075	\$ (103,496)	\$ (87,047)	\$ (99,739)	\$ (114,235)
Estimated Annual Capital Additions	75,000	275,000	375,000	305,000	150,000
Net Cash From Operations	\$ 1,072,075	\$ (378,496)	\$ (462,047)	\$ (404,739)	\$ (264,235)
Beginning Cash Balance	48,912	1,120,987	742,491	280,444	(124,295)
Ending Cash Balance	\$ 1,120,987	\$ 742,491	\$ 280,444	\$ (124,295)	\$ (388,529)
Total Cash Available	\$ 1,120,987	\$ 742,491	\$ 280,444	\$ (124,295)	\$ (388,529)
Targeted Minimum	\$ 138,790	\$ 142,139	\$ 146,503	\$ 150,183	\$ 152,329

Projected Cash Balance do not meet targeted minimums starting in 2026.

Minimum Cash Reserve

Table Three is the minimum level of cash reserves required to help ensure timely replacement of assets and to provide financial stability of the stormwater utility. The methodology used in this study is based on certain assumptions related to a percentage of operating expense, historical investment, capital improvements, and debt service to be kept in cash reserves. Minimum cash reserve attempts to quantify the minimum amount of cash the utility should keep in reserve and is considered at critical levels if cash approaches this minimum. Actual cash reserves may vary substantially above the minimum and is dependent on the life cycle of assets that are currently in service. The stormwater utility should maintain a minimum of \$146,000 in cash reserves based on the adopted methodology.

Table Three – Minimum Cash Reserves for 2023 – 2027

	Percent Allocated	Projected 2023	Projected 2024	Projected 2025	Projected 2026	Projected 2027
Operation & Maintenance Less Depreciation Expense	12.3%	\$ 24,198	\$ 24,796	\$ 25,410	\$ 26,040	\$ 26,687
Risk Management - Historical Assets	1%	23,879	26,629	30,379	33,429	34,929
Current Portion of Debt Service Payment	100%	90,714	90,714	90,714	90,714	90,714
Minimum Cash Reserve Levels		\$ 138,790	\$ 142,139	\$ 146,503	\$ 150,183	\$ 152,329
Projected Cash Reserves		\$ 1,120,987	\$ 742,491	\$ 280,444	\$ (124,295)	\$ (388,529)

Projected Cash Balance do not meet targeted minimums starting in 2026. Cash balances include a bond of \$1.18 million in 2023.

Debt Coverage Ratio

The minimum targeted debt coverage ratio for prudent financial planning purposes is 1.45 for the outstanding revenue bonds on the stormwater system. Maintaining a 1.45 debt coverage ratio is good business practice and helps to achieve the following:

- a. Helps to ensure debt coverage ratios are met in years when sales are low due to cold or wet summers or loss of a major customer(s).
- b. Obtain higher bond rating, if revenue bonds are sold in the future, to lower interest cost.

Table Four is the current debt coverage ratios for the 2023-2027 projection period. The minimum debt coverage ratios are not met throughout the projection period.

Table Four - Current Debt Coverage Ratio – (Without Rate Adjustments and With Bond Issue)

Debt Coverage Ratio	Projected 2023	Projected 2024	Projected 2025	Projected 2026	Projected 2027
Add Net Income	\$ (72,492)	\$ (108,950)	\$ (97,307)	\$ (115,030)	\$ (132,228)
Add Depreciation Expense	39,567	43,067	49,567	56,367	60,917
Add Interest Expense	26,550	53,100	51,407	49,639	47,790
Cash Available for Debt Service	\$ (6,375)	\$ (12,783)	\$ 3,667	\$ (9,025)	\$ (23,521)
Debt Principal and Interest	\$ 26,550	\$ 90,714	\$ 90,714	\$ 90,714	\$ 90,714
Projected Debt Coverage Ratio (Covenants)	(0.24)	(0.14)	0.04	(0.10)	(0.26)
Minimum Debt Coverage Ratio	1.45	1.45	1.45	1.45	1.45

Debt Coverage Ratios do not meet targeted minimums throughout the projection period.

Rate of Return

The optimal target for setting rates is the establishment of a target operating income to help ensure the following:

- 1) Funding of Interest Expense on the outstanding principal on debt. Interest expense is below the operating income line and needs to be recouped through the operating income balance.
- 2) Funding of the inflationary increase on the assets invested in the system. The inflation on the replacement of assets invested in the utility should be recouped through the Operating Income
- 3) Adequate rate of return on investment to help ensure current customers are paying their fair share of the use of the infrastructure and not deferring the charge to future generations.

The target established for 2023 is \$53,954 and is \$117,914 in 2027. This equates to approximately a 4.1% rate of return.

Table Five - Rate of Return Calculation – (Without Rate Adjustments and With Bond Issue)

	Percent Allocated	Projected 2023	Projected 2024	Projected 2025	Projected 2026	Projected 2027
Outstanding Principal on Debt	2.3%	\$ 26,550	\$ 53,100	\$ 51,407	\$ 49,639	\$ 47,790
System Equity	4.2%	27,404	38,225	52,479	64,035	70,124
Target Operating Income		\$ 53,954	\$ 91,325	\$ 103,887	\$ 113,673	\$ 117,914
Projected Operating Income		\$ (40,126)	\$ (48,492)	\$ (59,984)	\$ (71,906)	\$ (81,711)

Rate of Return does not meets minimum targets throughout the projection period.

SUMMARY OF FINANCIAL POSITION

Proposed Rate Track

Increasing rates requires balancing the financial health of the utility with the financial impact on customers. Table Six below is the five-year financial projection with projected rate increases of 15.0% in 2023 – 2027. The projection includes a bond issue of \$1.18 million in 2023.

The rate track was developed to work toward healthy financial targets. The rate track should be reviewed with the budget process as changes in expenses and capital can impact the rate track.

Table Six – Projected Financial Summary (With Proposed Rate Adjustments and With Bond Issue)

Fiscal Year	Projected Rate Adjustments	Projected Revenues	Projected Expenses	Operating Income	Projected Cash Balance	Capital Improvements	Bond Issues	Debt Coverage Ratio
2023	15.0%	224,952	237,735	(12,783)	1,148,330	75,000	1,180,000	0.79
2024	15.0%	258,051	247,756	10,295	828,621	275,000	-	0.51
2025	15.0%	296,115	261,151	34,964	462,069	375,000	-	1.09
2026	15.0%	339,889	275,262	64,628	195,587	305,000	-	1.42
2027	15.0%	390,229	287,584	102,646	119,341	150,000	-	1.81
Targeted in 2023				\$ 53,954				
Targeted in 2027				\$ 117,914				
MINIMUM/CRITICAL Reserves 2023					\$ 138,967			1.25/1.45
MINIMUM/CRITICAL Reserves 2027					\$ 153,523			1.25/1.45

Table Six B – Projected Financial Summary (Board Chosen Rate Increase)

Fiscal Year	Projected Rate Adjustments	Projected Revenues	Projected Expenses	Operating Income	Projected Cash Balance	Capital Improvements	Bond Issues	Debt Coverage Ratio
2022	0.0%	196,170	230,054	(33,884)	48,912	75,000	-	-
2023	20.0%	234,546	238,215	(3,669)	1,157,444	75,000	1,180,000	1.13
2024	20.0%	280,597	248,883	31,714	859,154	275,000	-	0.74
2025	20.0%	335,859	263,138	72,720	530,540	375,000	-	1.51
2026	20.0%	402,172	278,376	123,797	323,837	305,000	-	2.08
2027	2.9%	413,711	288,758	124,953	271,269	150,000	-	2.07
Targeted in 2023				\$ 53,954				
Targeted in 2027				\$ 117,914				
MINIMUM/CRITICAL Reserves 2023					\$ 139,026			1.25/1.45
MINIMUM/CRITICAL Reserves 2027					\$ 153,667			1.25/1.45

SIGNIFICANT ASSUMPTIONS

This section outlines the procedures used to develop the financial projection study and the related significant assumptions.

Forecasted Operating Expenses

Forecasted expenses were based on actual 2021, 2022 Budget and 2023 draft Budget and adjusted for inflation.

Inflation

Inflation was assumed at 2.6% annually.

Growth

Growth on sales was projected at 0.0%.

Interest Income

Interest income was forecasted based on projected cash balances and an interest rate of 0.5%.

Capital Improvements

The capital improvement projections were provided by the Utility. Projections for 2023 – 2027 are listed below:

Year	Projected Capital Improvement
2023	75,000
2024	275,000
2025	375,000
2026	305,000
2027	150,000

Stormwater Department Findings

- For the Lewes Board of Public Works to maintain long-term financial targets of the stormwater utility, rate increases should be considered. Below is a summary of the financial projection with proposed rate increases of 15.0% in 2023-2027. The projection includes a projected bond issue of \$1.18 million in 2023. The rate track was developed to move toward minimum targets. Operating income and cash balances stabilized throughout the projection period. The debt coverage ratio meets the minimum targets at the end of the projection period. The rate track should be reviewed annually as changes in revenues, expenses and capital can affect the rate track and bonding requirements. The rate track should improve targeted operating income, debt coverage ratio and stabilize cash balances on hand to support the capital improvement program.

Fiscal Year	Projected Rate Adjustments	Projected Revenues	Projected Expenses	Operating Income	Projected Cash Balance	Capital Improvements	Bond Issues	Debt Coverage Ratio
2023	15.0%	224,952	237,735	(12,783)	1,148,330	75,000	1,180,000	0.79
2024	15.0%	258,051	247,756	10,295	828,621	275,000	-	0.51
2025	15.0%	296,115	261,151	34,964	462,069	375,000	-	1.09
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2027	15.0%	390,229	287,584	102,646	119,341	150,000	-	1.81
Targeted in 2023				\$ 53,954				
Targeted in 2027				\$ 117,914				
MINIMUM/CRITICAL Reserves 2023					\$ 138,967	1.25/1.45		
MINIMUM/CRITICAL Reserves 2027					\$ 153,523	1.25/1.45		

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2023	20.0%	234,546	238,215	(3,669)	1,157,444	75,000	1,180,000	1.13
2024	20.0%	280,597	248,883	31,714	859,154	275,000	-	0.74
2025	20.0%	335,859	263,138	72,720	530,540	375,000	-	1.51
2026	20.0%	402,172	278,376	123,797	323,837	305,000	-	2.08
2027	2.9%	413,711	288,758	124,953	271,269	150,000	-	2.07
Targeted in 2023				\$ 53,954				
Targeted in 2027				\$ 117,914				
MINIMUM/CRITICAL Reserves 2023					\$ 139,026	1.25/1.45		
MINIMUM/CRITICAL Reserves 2027					\$ 153,667	1.25/1.45		

Stormwater Rate Design 20% 2023-2026 and 2.9% in 2027

Rate Increase		20.0%	20.0%	20.0%	20.0%	2.9%
Description	Current Rate 2022	Current Rate 2023	Current Rate 2024	Current Rate 2025	Current Rate 2026	Current Rate 2027
Residential	\$ 5.00	\$ 6.00	\$ 7.25	\$ 8.75	\$ 10.50	\$ 10.75
Commercial	10.00	12.00	14.50	17.50	21.00	21.75
Industrial	20.00	24.00	29.00	35.00	42.00	43.25
Municipal	10.00	12.00	14.50	17.50	21.00	21.75