

**TOWN OF SELMA
SPECIAL COUNCIL MEETING
SEPTEMBER 14, 2015**

PRESENT:

Mayor Cheryl Oliver, Mayor Pro-Tem Jackie Lacy, Councilmembers Tommy Holmes, and William Overby, Town Manager Jon Barlow, and Town Clerk Cynthia Richardson.

Mayor Oliver called the meeting to order at 4:01 p.m.

Councilmember Eric Sellers entered the meeting at 4:02 p.m.

OTHER STAFF PRESENT:

Planning Director Julie Maybee, Electric Utility Director Donald Baker, and Deputy Clerk Brenda Thorne.

**CALLED MEETING FOR
THE PURPOSE OF A
COST OF SERVICE
PRESENTATION BY
UTILITY FINANCIAL
SOLUTIONS:**

Town Manager Jon Barlow introduced Ms. Dawn Lund of Utility Financial Solutions. He said that she would be presenting the information regarding the cost of service study.

Ms. Dawn Lund stated that Town Council recently approved a 10% electric decrease to their customers. She said that based on the information provided by the Finance Department, she would recommend an increase of at least 7% based on the Town's current financial status of its the electric fund. Ms. Lund reviewed the following information with Town Council.

**Town of Selma
Electric Department
Electric Rate Study Results**

September 14, 2015



Dawn Lund
Vice President
Utility Financial Solutions, LLC
231.218-9664

Utility Financial Solutions, LLC

- ▶ International consulting firm providing cost of service and financial plans and services to utilities across the country, Canada, Guam and the Caribbean
- ▶ Instructors for cost of service and financial planning for APPA, speakers for organizations across the country, including AWWA.



Objectives

- ▶ Review Electric Department
 - Financial Projections & Targets
 - Debt Coverage Ratios
 - Minimum Cash Reserves
 - Target Operating Income
- ▶ Review Cost of service results
 - Cost to service each class of customers
 - Monthly Customer Charges
- ▶ Obtain Guidance prior to design of rates
 - Rate Adjustment
 - Movement toward cost of service



Assumptions

- ▶ Board Approved 10% Rate Decrease August 2015
- ▶ Projected Purchase Power
 - 2016 16% decrease
 - 2017 2.7% increase
 - 2018 3.1% increase
 - 2019 2.6% increase
 - 2020 1.7% increase
 - 2021 0.7% increase
- ▶ Annual Inflation 2.5%
- ▶ Annual Growth 0.5%
- ▶ Capital Plan
 - 2017 – \$130k
 - 2018 – \$180k
 - 2019 – \$180k
 - 2020 – \$50k
 - 2021 – \$350k



Three Main Factors to Assessing the Health of the Utility

- ▶ Debt Coverage Ratio
- ▶ Level of Cash Reserves
- ▶ Target Operating Income



Projection Without Rate Change

Fiscal Year	Projected Rate Adjustments	Projected Expenses	Projected Revenues	Adjusted Operating Income	Target Operating Income	Debt Coverage Ratio	Recommended Minimum Debt Coverage	Projected Cash Balances	Recommended Minimum Cash
2016	-10%	\$ 6,753,649	\$ 7,295,500	\$ 72,855	\$ 294,307	1.33	1.40	\$ 1,220,616	\$ 1,740,309
2017	0.0%	\$ 7,052,830	\$ 7,201,513	\$ (320,313)	\$ 268,463	0.78	1.40	\$ 914,834	\$ 1,872,835
2018	0.0%	7,087,815	7,270,989	(285,822)	265,815	0.54	1.40	371,871	1,946,396
2019	0.0%	7,112,941	7,333,204	(248,732)	269,887	0.32	1.40	(350,630)	2,011,666
2020	0.0%	7,306,260	7,407,002	(368,254)	269,979	0.16	1.40	(1,067,192)	2,070,331
2021	0.0%	7,417,513	7,449,908	(436,601)	279,401	0.07	1.40	(2,154,176)	2,147,803

The Board initiated and approved 10% rate decrease in August 2015 and is reflected in the projection



Debt Service Coverage (No Rate Change)

Description	Projected 2016	Projected 2017	Projected 2018	Projected 2019	Projected 2020	Projected 2021
Debt Coverage Ratio						
Net Income	\$ 486,629	\$ 103,211	\$ 146,811	\$ 190,891	\$ 79,559	\$ 21,618
Add Depreciation/Amortization Expense	477,227	471,634	245,970	32,057	29,377	27,302
Add Interest Expense	57,222	50,429	40,937	31,232	21,183	10,778
Cash Available for Debt Service	\$ 1,021,078	\$ 625,274	\$ 433,718	\$ 254,180	\$ 130,119	\$ 59,697
Debt Principal and Interest	\$ 767,887	\$ 801,055	\$ 796,681	\$ 796,681	\$ 796,681	\$ 796,681
Projected Debt Coverage Ratio (Covenants)	1.33	0.78	0.54	0.32	0.16	0.07
Minimum Debt Coverage Ratio	1.4	1.4	1.4	1.4	1.4	1.4



Minimum Cash Reserve (No Rate Change)

Description	Projected 2016	Projected 2017	Projected 2018	Projected 2019	Projected 2020	Projected 2021
Minimum Cash Reserve Levels Determinants						
Operation & Maintenance Less Depreciati	\$ 1,289,491	\$ 1,371,688	\$ 1,398,739	\$ 1,429,523	\$ 1,461,427	\$ 1,492,984
Purchase Power Expense	4,986,931	5,209,508	5,443,107	5,651,361	5,815,456	5,897,228
Historical Rate Base	8,581,613	8,239,979	8,419,979	8,599,979	8,649,979	8,999,979
Current Portion of Debt Service Payment	767,887	801,055	796,681	796,681	796,681	796,681
Five Year Capital Improvements - Net of bc	564,000	890,000	1,110,000	1,280,000	1,450,000	1,750,000
Minimum Cash Reserve Allocation						
Operation & Maintenance Less Depreciati	12.3%	12.3%	12.3%	12.3%	12.3%	12.3%
Purchase Power Expense	12.3%	12.3%	12.3%	12.3%	12.3%	12.3%
Historical Rate Base	1%	1%	1%	1%	1%	1%
Current Portion of Debt Service Payment	100%	100%	100%	100%	100%	100%
Five Year Capital Improvements - Net of bc	20%	20%	20%	20%	20%	20%
Calculated Minimum Cash Level						
Operation & Maintenance Less Depreciati	\$ 158,978	\$ 169,112	\$ 172,447	\$ 176,243	\$ 180,176	\$ 184,066
Purchase Power Expense	614,827	642,268	671,068	696,743	716,974	727,055
Historical Rate Base	85,816	82,400	84,200	86,000	86,500	90,000
Current Portion of Debt Service Reserve	767,887	801,055	796,681	796,681	796,681	796,681
Five Year Capital Improvements - Net of bc	112,800	178,000	222,000	256,000	290,000	350,000
Minimum Cash Reserve Levels	\$ 1,740,309	\$ 1,872,835	\$ 1,946,396	\$ 2,011,666	\$ 2,070,331	\$ 2,147,803
Projected Cash Reserves	\$ 1,220,616	\$ 914,834	\$ 371,871	\$ (350,630)	\$ (1,067,192)	\$ (2,154,176)



Target Operating Income (No Rate Change)

Description	Projected 2016	Projected 2017	Projected 2018	Projected 2019	Projected 2020	Projected 2021
Target Operating Income Determinants						
Plant	\$ 8,581,613	\$ 8,239,979	\$ 8,174,009	\$ 8,321,952	\$ 8,342,575	\$ 8,665,274
Outstanding Principal on Debt	1,488,240	1,206,610	919,862	623,409	316,907	-
System Equity	<u>\$ 7,093,373</u>	<u>\$ 7,033,369</u>	<u>\$ 7,254,148</u>	<u>\$ 7,698,543</u>	<u>\$ 8,025,668</u>	<u>\$ 8,665,274</u>
Target Operating Income Allocation						
Interest on Debt	5.00%	3.39%	3.39%	3.40%	3.40%	3.40%
System Equity	3.10%	3.10%	3.10%	3.10%	3.10%	3.10%
Target Operating Income						
Interest on Debt	74,412	\$ 50,429	\$ 40,937	\$ 31,232	\$ 21,183	\$ 10,778
System Equity	\$ 219,895	\$ 218,034	\$ 224,879	\$ 238,655	\$ 248,796	\$ 268,623
Target Operating Income	\$ 294,307	\$ 268,463	\$ 265,815	\$ 269,887	\$ 269,979	\$ 279,401
Projected Operating Income	\$ 72,855	\$ (320,313)	\$ (285,822)	\$ (248,732)	\$ (368,254)	\$ (436,601)
Rate of Return in %	3.4%	3.3%	3.3%	3.2%	3.2%	3.2%



Recommended Rate Track

Fiscal Year	Projected Rate Adjustments	Projected Expenses	Projected Revenues	Adjusted Operating Income	Target Operating Income	Debt Coverage Ratio	Recommended Minimum Debt Coverage	Projected Cash Balances	Recommended Minimum Cash
2016	-10%	\$ 6,753,649	\$ 7,295,500	\$ 72,855	\$ 294,307	1.33	1.40	\$ 1,220,616	\$ 1,740,309
2017	7.0%	\$ 7,052,830	\$ 7,697,918	\$ 176,093	\$ 268,463	1.40	1.40	\$ 1,411,240	\$ 1,872,835
2018	2.5%	7,112,061	7,965,705	382,648	265,815	1.39	1.40	1,539,229	1,949,385
2019	2.5%	7,144,323	8,229,831	616,512	269,887	1.41	1.40	1,687,810	2,015,535
2020	2.5%	7,345,132	8,517,624	703,496	269,979	1.52	1.40	2,051,437	2,075,123
2021	0.0%	7,456,609	8,566,948	641,343	279,401	1.44	1.40	2,052,654	2,152,623

The Board initiated and approved 10% rate decrease in August 2015 and is reflected in the projection



Electric Cost of Service Results

Customer Class	Cost of Service	Projected Revenues	% Change
Residential	3,273,508	3,052,407	7%
PrePay	257,509	230,626	12%
Small General Service	986,742	879,669	12%
Area Lighting	145,594	151,173	-4%
Medium General Service	1,181,776	1,067,977	11%
Large General Service	1,131,670	1,016,315	11%
Large General Service CP	421,588	402,682	5%
Large Industry CP	281,901	290,663	-3%
Total	7,680,289	7,091,513	8.3%



Cost of Service Rates

(Recommended rates will be designed after board approval)

Customer Class	Current Customer Charge	COS Customer Charge	Demand	Energy
Residential	\$ 6.53	\$ 11.21	\$ -	\$ 0.1124
PrePay	10.35	22.30	-	0.1132
Small General Service	14.45	29.01	-	0.1191
Medium General Service	19.29	55.71	22.37	0.0427
Large General Service	21.48	122.05	22.11	0.0423
Large General Service CP	108.88	456.35	9.56	0.0430
Large Industry CP	108.88	1,336.78	5.92	0.0404



RECOMMENDATIONS

- ▶ Rate track as recommended and reviewed annually with budget process
- ▶ Move toward cost of service rates with bandwidth
- ▶ Monitor capital plan to ensure adequacy



Questions?



After discussion by Council, it was recommended to schedule a special meeting with Ms. Lund by webinar to discuss possible options for potential electrical rate increases.

Town Council agreed to schedule a webinar meeting with Ms. Lund on Monday, October 5, 2015 at 6:00 p.m. in the Jernigan Building.

**REQUEST FOR
APPROVAL OF EXCERPT
OF MINUTES FROM
SEPTEMBER 8, 2015
REGULAR COUNCIL
MEETING:**

Mayor Oliver stated that part of the application process for CDBG Funding for the Wastewater Collection System Project for sewer line extension and pump station improvements in the Ricks Road area was the approval of an excerpt of minutes from the September 8, 2015 regular Council meeting.

A motion was made by Mayor Pro-Tem Jackie Lacy and seconded by Councilmember William Overby to approve the excerpt of the September 8, 2015 minutes. Motion carried unanimously.

ADJOURNMENT:

With no further business, a motion was made by Councilmember William Overby and seconded by Councilmember Tommy Holmes to adjourn. Motion carried unanimously.

The meeting adjourned at 4:53 p.m.