

Mt. Olympus Improvement District



Wastewater Rate Study





Contents

Contents.....	1
Chapter 1 – Executive Summary.....	2
Chapter 2 – Wastewater Revenue Sufficiency Analysis.....	3
Background and Approach.....	3
Growth Projections.....	3
Operating Expenses.....	3
Outstanding Debt.....	4
Capital Projects.....	4
Cash Balances.....	4
Current Rates.....	5
Chapter 3 – Wastewater Rate Analysis.....	6
Proposed Rates.....	6
Chapter 4 – Comparative Analysis.....	8

Chapter 1 – Executive Summary

Mt. Olympus Improvement District (“MOID” or the “District”) is experiencing increasing operating costs due to inflationary pressures, as well as significant costs for the District’s proportionate share of the rebuild of the Central Valley Water Reclamation Facility (“CVWRF”) treatment plant. Therefore, the District has completed a rate study to evaluate what changes need to be made to its rate structure in order to ensure fiscal sustainability for the next 10 years.

Analysis indicates that maintaining current rates, with no property tax increases and no bonding, is not sustainable. Therefore, the report recommends the following rate changes:

- No property tax rate increase for the present time
- Increase base rate to \$21 per month in 2022 (from the current rate of \$19 per Equivalent Residential Connection – “ERU”)
- Increase base rate to \$22 per month in 2024
- Increase base rate to \$23 per month in 2026
- No new bonds issued

These changes would ensure that the District maintains sufficient debt coverage ratios so that, in the event the District should ever have to bond directly,¹ it would have the capacity to do so. It would also ensure a minimum of 180 days cash on hand which is considered good operating procedures.

The District has considerable upcoming expenses, including a \$8.7 million plant project expense in 2021. It will also have significant payments to CVWRF for recently-issued bonds. These payments will reach about \$2.7 million per year. Payments of about \$972,000 are also required on a State loan to the CVWRF. CVWRF also requires a contribution for pay-as-you-go capital; the District’s share will be \$1.7 million in 2021 and is expected to increase by 5 percent annually thereafter.

¹ Current bond obligations are due to CVWRF which is the issuing entity on the bonds.

Chapter 2 – Wastewater Revenue Sufficiency Analysis

Background and Approach

The District is experiencing increasing costs from several sources. We are in a period of rapid inflation which is impacting the District’s operating costs in terms of supplies, fuel, vehicle costs, etc. In addition, CVWRF is planning a significant rebuild of its treatment plant. Finally, the District must keep up with repair and replacement of its infrastructure, including deteriorating pipelines.

The District currently charges both a base rate per ERU and a property tax levy based on taxable value. Primary residences are taxed on 55% of market value, based on Utah law. At the beginning of this process, the District indicated that it would prefer not to adjust property taxes, but rather adjust rates as necessary at this point in time. Therefore, no property tax increases are considered as part of this study. However, the study does include a detailed evaluation of growth in taxable value and projects future tax rates that will be certified due to appreciation and growth in the District. This is necessary in order to project future revenues to the District.

The approach used in this analysis is commonly referred to as a “revenue sufficiency model.” All expenses (operating and capital) are first calculated, and then rates are structured to cover annual expenses, maintain sufficient debt service coverage ratios, and to keep at least 180 days cash on hand in the wastewater utility fund.

Growth Projections

Growth in equivalent residential units (ERUs) is based on information provided in the Wastewater Master Plan and Impact Fee Facilities Plan (“IFFP”) prepared by Hansen Allen Luce Engineers (HAL) and dated July 2021. The IFFP states that the District has 52,257 ERUs in 2021. By 2030, the District anticipates 57,277 ERUs.

TABLE 2-1: PROJECTED ERU GROWTH

Water Growth	ERUs
2021	52,257
2030	57,277
Growth in ERUs, 2021-2030	5,020

Operating Expenses

Operating expenses are projected to grow at an average annual rate of five percent per year. Incremental growth in operational expenses include inflationary expenses of existing operations as well as new costs attributed to new development.

TABLE 2-2: PROJECTED OPERATING EXPENSES

	2021	2022	2024	2026	2028	2030
Sewer Lines (Schedule)	(\$2,706,839)	(\$2,842,181)	(\$3,133,505)	(\$3,454,689)	(\$3,808,794)	(\$4,199,196)
Info Lines (Schedule)	(\$383,393)	(\$402,562)	(\$443,825)	(\$489,317)	(\$539,472)	(\$594,768)

	2021	2022	2024	2026	2028	2030
CVWR Facility (Schedule)	(\$5,228,671)	(\$5,490,105)	(\$6,052,841)	(\$6,673,257)	(\$7,357,266)	(\$8,111,385)
Administration (Schedule)	(\$1,688,831)	(\$1,773,272)	(\$1,955,032)	(\$2,155,423)	(\$2,376,354)	(\$2,619,930)
Eng/Inspection (Schedule)	(\$740,242)	(\$777,254)	(\$856,922)	(\$944,757)	(\$1,041,594)	(\$1,148,358)
TOTAL OPERATING EXPENSES	(\$10,747,975)	(\$11,285,374)	(\$12,442,125)	(\$13,717,443)	(\$15,123,481)	(\$16,673,637)

In addition, the District has non-operating expenses for trust and paying agent fees, as well as for URS pension and benefits.

Outstanding Debt

The District is obligated to pay its fair share on two outstanding bonds issued by CVWRF, as well as on a State Loan. The bonds include 2021 Series A and 2021 Series B/C. Annual payments on the 2021 Series B and C bond will be about \$2.34 million per year, again based on the District's proportionate share of representation in the CVWRF. The State Loan payments are anticipated at about \$972,000 per year and are proportionately shared among the entities of CVWRF as well.

Capital Projects

Projected capital costs, in addition to bond payments, are for nearly \$8.7 million in 2021 for the plant project. The District will also need to pay \$1.7 million in 2021 for pay-as-you-go capital. It is estimated that this amount will increase by 5 percent annually. This represents MOID's fair share of these costs incurred by CVWRF.

Cash Balances

The beginning cash balance in the Wastewater Fund is \$17,160,121.²

TABLE 2-3: CURRENT CASH BALANCE

	Amount
Cash in Bank	\$1,271,940
PTIF Reserve	\$3,421,947
Mt. Olympus/CVWRF Reserve	\$7,055,600
CVWRF CIP Reserve	\$5,410,633
TOTAL	\$17,160,121

² Source: MOID

Current Rates

Current rates are as follows:

TABLE 2-4: CURRENT RATES

	2020	2021
Property Tax	0.000248	0.000234
Monthly Fee	\$17.00	\$19.00

Chapter 3 – Wastewater Rate Analysis

The current rate structure, with no projected rate increases and no new bonds issued, is not sustainable. The table below shows several key indicators, two of which are highlighted in various colors. For debt coverage ratios, most bond covenants will require at least a 1.25 coverage ratio. If ratios dip below this amount, the ratio is shown in red in the table below. For ratios between 1.25 and 1.5, the table shows a yellow color indicating that it is time to watch that ratio carefully. Finally, the green shading shows debt coverage ratios above 1.5, indicating that there is plenty of coverage.

Days cash on hand works in much the same way. If cash on hand dips below 150 days, the table will show the days in red; if there are between 150 and 180 days cash on hand, then the model shows a yellow color, and if days cash on hand rises above 180 days, then the model portrays a green color.

TABLE 3-1: CURRENT RATE KEY RATIOS

	2021	2022	2024	2026	2028	2030
Revenues	\$16,387,436	\$16,605,339	\$17,053,144	\$17,517,575	\$17,999,425	\$18,499,530
Operating Expenses	(\$10,747,975)	(\$11,285,374)	(\$12,442,125)	(\$13,717,443)	(\$15,123,481)	(\$16,673,637)
Debt Service	(\$752,194)	(\$3,042,230)	(\$3,697,400)	(\$3,697,460)	(\$3,698,150)	(\$3,697,688)
Net Revenues After Debt Service	\$6,102,384	\$5,785,771	\$5,082,649	\$4,277,646	\$3,359,376	\$2,315,244
Capital Costs	(\$10,367,298)	(\$1,788,631)	(\$1,971,966)	(\$2,174,092)	(\$2,396,936)	(\$2,642,622)
Ending Cash Balance	\$12,143,013	\$13,097,923	\$12,381,931	\$9,713,598	\$4,829,977	(\$2,556,562)
Debt Coverage Ratio	8.11	1.90	1.37	1.16	0.91	0.63
Days Cash on Hand -Ending	412	424	363	258	117	(56)

The debt coverage ratio is a bit different in this analysis than in some rate studies, as CVWRF carries the debt and therefore must maintain the debt service coverage ratio. However, it is important for MOID to maintain healthy ratios in the event that it should ever need to issue its own debt.

Proposed Rates

The proposed scenario is to increase rates as follows:

- No property tax rate increase for the present time
- Increase base rate to \$21 per month in 2022
- Increase base rate to \$22 per month in 2024
- Increase base rate to \$23 per month in 2026
- No new bonds issued

TABLE 3-2: PROPOSED RATE STRUCTURE KEY RATIOS

	2021	2022	2024	2026	2028	2030
Revenues	\$16,387,436	\$17,983,921	\$19,174,733	\$20,420,721	\$20,979,805	\$21,560,164
Operating Expenses	(\$10,747,975)	(\$11,285,374)	(\$12,442,125)	(\$13,717,443)	(\$15,123,481)	(\$16,673,637)
Debt Service	(\$752,194)	(\$3,042,230)	(\$3,697,400)	(\$3,697,460)	(\$3,698,150)	(\$3,697,688)
Net Revenues After Debt Service	\$6,102,384	\$7,164,352	\$7,204,238	\$7,180,792	\$6,339,756	\$5,375,877
Capital Costs	(\$10,367,298)	(\$1,788,631)	(\$1,971,966)	(\$2,174,092)	(\$2,396,936)	(\$2,642,622)
Ending Cash Balance	\$12,143,013	\$14,476,504	\$17,278,422	\$19,662,446	\$20,700,600	\$19,394,814
Debt Coverage Ratio	8.11	2.35	1.95	1.94	1.71	1.45
Days Cash on Hand - Ending	412	468	507	523	500	425

Chapter 4 – Comparative Analysis

Overall wastewater fees currently paid by customers of the MOID are relatively low when compared to neighboring districts. The table below shows the comparative annual wastewater costs on a \$500,000 primary residence. If the proposed rate structure is enacted, residential customers would see an increase of \$2 per month in 2022, or the equivalent of \$24 per year.

TABLE 4-1: COMPARATIVE ANNUAL WASTEWATER COSTS ON A \$500,000 PRIMARY RESIDENCE

Comparative Districts	Fee per Month	Property Tax Rate	Base Fee Revenue	Property Tax Revenue	TOTAL
Mt. Olympus	\$19.00	0.000234	\$228	\$64	\$292
Cottonwood	\$20.00	0.000161	\$240	\$44	\$284
Sandy Suburban	\$15.04	0.000603	\$180	\$166	\$346
Midvalley	\$23.20	0.000619	\$278	\$170	\$449
Granger-Hunter	\$26.50	0.000450	\$318	\$124	\$442