

# CHOCTAW UTILITIES INC. RATE INCREASE EXPLANATION

August 27, 2018

## OVERVIEW

**At the July 30 Choctaw Utilities board meeting, a motion to increase rates unanimously passed by a 6-0 vote. This rate increase will be effective for the October 1<sup>st</sup>, 2018 billing cycle. The purpose and details of this rate increase are further explained below.**

### 1. Background

The plant that supplies water to the Choctaw Lake community experienced a failure of a filter in 2016. After an engineering study, the plant was deemed to be past its expected useful life. Over the past 18 months, the Choctaw Utilities Board of Directors have explored the various options available to remedy this situation. A new plant consisting of Vertical Pressure Filters, aeration tower, pumps, electrical safety improvements, and chemical feeds has been in design since January. Preliminary estimates to construct this plant range from \$1.5-2.0 million. The CU board of directors has secured an EPA loan at a fixed rate for 20 years to replace our plant. The estimated interest rate is 1.75%, however, interest rates have been steadily increasing.

A network of hydrants has been installed in the community, and more are planned. These hydrants have improved our ability to flush the distribution mains and are currently awaiting approval for fire suppression purposes with the ISO.

Finally, the Ohio Legislature has mandated that all utilities prepare and maintain an Asset Management Plan (AMP). Asset management is a process water and utilities can use to make sure that planned maintenance can be conducted and capital assets (pumps, motors, pipes, etc.) can be repaired, replaced, or upgraded on time and that there is enough money to pay for it. The biggest change asset management drove is beginning to save for eventual replacement of the main distribution system. We have 11 miles of distribution pipes and we were previously not escrowing funds for their replacement.

The new rate structure takes into account these three requirements.

### 2. New Rates

- Lot with Service - \$43/month
- Adjoining lot - \$10/month
- Lot without Service - \$12/month
- Split lot - \$5/month
- Commercial - \$43/month

### 3. How Your Money is Being Spent

#### Inventory (Asset) Replacement

Project	Estimated Replaced Cost	Useful Life	Annual Cost	Monthly Cost	Per PO per Month
Replace Distribution Lines	\$ 1,950,000.00	46	\$ 42,391.3	\$ 3,532.61	\$ 4.04
Replace Hydrants	\$ 100,000.00	30	\$ 3,333.3	\$ 277.78	\$ 0.32
Replace Detention Tank	\$ 180,000.00	30	\$ 6,000.0	\$ 500.00	\$ 0.57
Replace Aeration Tower	\$ 45,000.00	30	\$ 1,500.0	\$ 125.00	\$ 0.14
Replace Filters	\$ 200,000.00	30	\$ 6,666.7	\$ 555.56	\$ 0.64
Replace High Service Pumps	\$ 60,000.00	30	\$ 2,000.0	\$ 166.67	\$ 0.19
Replace Generator	\$ 50,000.00	30	\$ 1,666.7	\$ 138.89	\$ 0.16
Replace Well Pumps	\$ 45,000.00	8	\$ 5,625.0	\$ 468.75	\$ 0.54
Replace Chlorine Injection System	\$ 1,500.00	10	\$ 150.0	\$ 12.50	\$ 0.01
Replace Orthophosphate Injection System	\$ 1,500.00	10	\$ 150.0	\$ 12.50	\$ 0.01
Dredge Iron Lagoon	\$ 87,000.00	46	\$ 1,891.3	\$ 157.61	\$ 0.18
Tower Maintenance	\$ 140,000.00	10	\$ 14,000.0	\$ 1,166.67	\$ 1.33
<b>Subtotal</b>	<b>\$ 2,860,000.00</b>		<b>\$ 85,374.3</b>	<b>\$ 7,114.52</b>	<b>\$ 8.14</b>
Debt Service	\$ 1,900,000.00		\$ 112,497.31	\$ 9,374.78	\$ 10.73
<b>Subtotal</b>	<b>\$ 1,900,000.00</b>		<b>\$112,497.31</b>	<b>\$ 9,374.78</b>	<b>\$ 10.73</b>
<b>Total</b>	<b>\$ 4,760,000.00</b>		<b>\$ 197,871.59</b>	<b>\$16,489.30</b>	<b>\$ 18.87</b>

This spreadsheet depicts the estimated useful life of the new plant and distribution system. Assets are listed along with their estimated useful life and replacement cost. As we construct the new plant, we also will begin saving for its eventual replacement. The intent is to not borrow money in the future.

### Operating Funds and Totals

Description	Estimated Annual Cost	Annual Cost per Proper Owners	Monthly Cost Per Property Owners
Utility Manager - Contracted	\$ 62,500.00	\$ 71.51	\$ 5.96
Part Time Plant Operator (as required) - Contracted	\$ 3,600.00	\$ 4.12	\$ 0.34
Office Manager - Wages	\$ 40,000.00	\$ 45.77	\$ 3.81
Payroll Taxes - 12% of Wages	\$ 2,500.00	\$ 2.86	\$ 0.24
Lawn Care	\$ 8,000.00	\$ 9.15	\$ 0.76
Plant Expense-Electric (Ohio Edison)	\$ 20,000.00	\$ 22.88	\$ 1.91
Plant Expense-Heating (MECA)	\$ 2,500.00	\$ 2.86	\$ 0.24
Plant Exp-Chlorine (Chlorine Rm Eq., Meters, Supplies, Scales, Rpr Material)	\$ 6,000.00	\$ 6.86	\$ 0.57
Plant Exp-Supplies(Elect.parts,Cleaning Supplies)	\$ 4,000.00	\$ 4.58	\$ 0.38
Plant Exp-Generator	\$ 1,800.00	\$ 2.06	\$ 0.17
Plant Exp-Rep & Maint. Bldg.	\$ 3,200.00	\$ 3.66	\$ 0.31
Plant Exp-Maint Aerator	\$ 1,000.00	\$ 1.14	\$ 0.10
Wtr Treatment-Chlorine (Chlorine Gas)	\$ 5,000.00	\$ 5.72	\$ 0.48
Wtr Treatment-Phosphate	\$ 18,000.00	\$ 20.59	\$ 1.72
Wtr Treat-Testing (Masi,Aqua Tech, ODH)	\$ 8,500.00	\$ 9.73	\$ 0.81
Distrib-Labor (Main Repairs)	\$ 18,500.00	\$ 21.17	\$ 1.76
Distrib-Sup & Mat'l (For Breaks & Repairs)	\$ 5,000.00	\$ 5.72	\$ 0.48
Office Supplies (Fldrs., Envelopes, Misc.)	\$ 3,000.00	\$ 3.43	\$ 0.29
Postage	\$ 2,500.00	\$ 2.86	\$ 0.24
Prof. Fees-Attorney	\$ 12,000.00	\$ 13.73	\$ 1.14
Prof. Fees - Engineering	\$ 5,000.00	\$ 5.72	\$ 0.48
Insurance Officer Liability - (\$1,000,000 CLPOA Bd)	\$ 2,000.00	\$ 2.29	\$ 0.19
Insurance - Workers Comp.	\$ 1,000.00	\$ 1.14	\$ 0.10
Insurance - (Tower,Plant,Equip.&Supplies)	\$ 6,000.00	\$ 6.86	\$ 0.57
Auto & Truck (Mileage)	\$ 6,000.00	\$ 6.86	\$ 0.57
Bank Charges - Online Bill Pay	\$ 4,000.00	\$ 4.58	\$ 0.38
Credit & Collection Expense (Liens)	\$ 500.00	\$ 0.57	\$ 0.05
Uncollect Acct. (Bad debt write off)	\$ 1,000.00	\$ 1.14	\$ 0.10
<b>Operating Costs Subtotal (Not including replacement)</b>	<b>\$ 253,100.00</b>	<b>\$ 289.59</b>	<b>\$ 24.13</b>
	\$ -	\$ -	\$ -
<b>Total Operating and Contingency</b>	<b>\$ 253,100.00</b>	<b>\$ 289.59</b>	<b>\$ 24.13</b>
<b>Total Estimated Upgrade and Replacement Cost (See Inventory Replacement Spreadsheet)</b>	<b>\$4,760,000.00</b>	<b>\$ 226.40</b>	<b>\$ 18.87</b>
<b>Total Cost to Provide Water</b>	<b>\$5,013,100.00</b>	<b>\$ 515.99</b>	<b>\$ 43.00</b>

The Inventory replacement sheet is then added to the annual Operating budget to arrive at a new rate of \$43/month.

#### **4. Rate Increase Effective Date**

The rate increase will be effective on the 1 October utility billing.

#### **5. What Happens Next**

The new plant design has been at the EPA for engineering approval for several months. Feedback has been positive and we intend to send out the plant for construction estimates in September. As always, the community will be provided updates as we receive them.

Another batch of hydrants is planned for this fall/winter as well.

#### **6. Summary**

CU is working to ensure the water plant remains viable now and into the future. The steps we have taken, along with the rate increase, will ensure the water provided to the community is of high quality and meets all EPA standards.

Sincerely,

CU Board of Directors