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Barbara Mathis

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**City of Hiawassee**  
"ON BEAUTIFUL LAKE CHATUGE"

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To: Mayor Mathis, Hiawassee City Council, Locally Elected Officials, Towns County Water & Sewer Authority, Towns County Industrial Authority and Interested Parties.  
From: Rick Stancil, City Manager  
Re: City of Hiawassee Enterprise Funds, Rate analysis and GEFA Financial Report.  
Date: May 23, 2009.

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This memorandum is being provided to City Officials, Local Elected Officials and Interested Parties for informational purposes. The above referenced report was required as a part of the City GEFA CWSRF/ARRA Application Part 2. The report further documents the City's need for new revenue to offset losses for water and sewer services provided in Towns County.

The Rate Analysis and Financial Design Report prepared by Cybergov Consultants, LLC. The City of Hiawassee engaged Engineering Management Incorporated (EMI) to perform the engineering analysis and plan submittal. EMI contracted with Cybergov Consultants, LLC with City approval to perform the report that includes a water/sewer rates analysis. The attached report identifies negative financial trends that must be addressed immediately to receive state and federal funding.

The City has three critical projects reviewed in this report: 1) Sludge Press Building (Sewer Plant) and Sewer Lift Station Renovation (USDA Loan); 2) ARRA (Stimulus Project for Sewer Rehab); and 3) School Sewer Line Replacement (ARC). The total of committed projects costs are \$2,195,000.00. Approximately, \$674,500 in funding to the City will be forgiven. However, the City will still incur new Loans of \$1,520,500.00. This new long-term debt will be paid back over twenty years at low interest rates. The City's annual Debt Service will increase approximately \$86,219.00 for these three projects and the City Budget will need to be amended to reflect this debt service once the projects are completed.

**Report and Rate Analysis Methodology**

Per state and federal standards, this analysis does not consider non-operating revenue and/or city reserves or budget carry-over to support enterprise funds. Generally, the Analysis is based on

annual revenue (rate charges) verses annual expenditures. The Enterprise Funds are treated as private businesses that are expected to pay their own way from water and sewer charges.

Based on 2009 Estimates, the City does not now meet state or federal standards to fund the above awarded projects. Please see the annual minimum required Coverage Ratio (Report, Page 2). Based on the analysis performed, the Amount in new funding (increased rates) required to make the state minimum is \$97,871.00 (Report, Page 4).

The City has approached the Commissioner to assist with new Revenue Funding Sources for water & sewer provided within the County. The City has asked that the current Service Delivery Area Agreement that expires October 2010 be amended immediately to allow the City to collect water revenue where the City provides sewer service. The Towns County Water & Sewer Authority objects to this proposal. The City has also requested an additional allocation of sales tax revenue to the City's current allocation.

We have not received any response to any City proposal nor have we received any alternatives suggested by Towns County. New Revenue will have to be generated by January 1, 2010, in order for the City to receive the ARRA funding or we lose the opportunity. Due to the failure of the County to address these serious funding issues, the City must therefore raise water and sewer to qualify for ARRA.

The Rate Structure proposed would generate the required revenue to fund the three city projects now planed. The Rate Structure appears in the Report on page 4 and page 5. The Consultant, EMI, and City Staff are recommending the Proposed Rate Structure to the City Council for adoption. The Proposed Rate Structure anticipates the annual cost of living increase within the City of 2.5%. Due to the economy, all increases are being delayed until January 1, 2010.

Importantly, the Proposed Rate Structure will place most of the increase on service areas outside the City limits. These areas are the most expensive for the City to serve. The further away a customer is from the water plant or the sewer plant, the greater the costs to the City. A Performa regarding the new income generated shows that the Proposed Rate Structure will just meet state requirements (Report, Page 5).

The City Council has contracted for an additional cost analysis that will further document the costs of water production and further document costs for sewer treatment within and outside the City limits. This information will be available later this year and may be the bases for further adjustments to the City Rate Schedule.

Importantly, staff is recommending that the City Council consider this rate schedule in July and August with an effective date of January 1, 2010. This will demonstrate to the State that the City will meet rate coverage for final funding approval while allowing the City to continue to seek a more equitable manner of funding Sewer Service in the County.

I would like to echo the Consultants comments, “the City has a unique opportunity to capitalize on an unprecedented subsidy” (Report, Page 6). The availability of these grants (ARRA & ARC) is not an opportunity that our residents, customers and taxpayers can afford to let pass by.

Please call me at 706-896-2202 with any questions after you have reviewed this Report. I will also be glad to meet with any party who would wish to discuss this Analysis.

**REPORT & ANALYSIS ON FOLLOWING PAGES.**

## ***CITY OF HIAWASSEE WASTEWATER SYSTEM RATE ANALYSIS AND FINANCIAL DESIGN REPORT***

The City of Hiawassee has engaged Engineering Management Incorporated (EMI) to perform engineering studies for a **\$535,000** wastewater project to replace and upgrade existing infrastructure. This project has been placed on the Georgia Environmental Facilities Authority's (GEFA) "fundable" project list to receive Clean Water State Revolving Fund (CWSRF) – American Recovery and Reinvestment Act (ARRA) funding. This funding includes a principal forgiveness (subsidy) rate of 70% and a one-time **\$10,700** closing fee.

Part of the project analysis was to review and recommend appropriate water and sewer rates for Hiawassee's system customers to support the proposed improvements. EMI has subcontracted the rate analysis work to Cybergov Consultants, LLC.

### **Work Products**

The study resulted in the production of the following analyses:

1. A revenue projections by customer billing codes;
2. A fiscal operating and debt service capacity analysis of the Water and Sewer Enterprise Fund at current and proposed rates;
3. An analysis of current and future debt service requirements and rate adjustments related to the proposed improvements.

### **System Fiscal Capacity**

This portion of the study focused on the adequacy of the current fiscal capacity of the Water and Sewer System ("the System") to operate as a true enterprise operation. This is defined as a proprietary function that produces sufficient revenue to fund its operating and capital needs with little or no subsidy from other City financial resources.

The current fiscal capacity of the system was assessed by two standard measures – operating ratio and coverage ratio. These are defined as:

**Operating Ratio:** The relationship between annual **operating** revenue and operating expenses. This ratio is used to evaluate whether a system has sufficient service charge revenue to cover operating expenses. A ratio of 120% of revenues over expenses would be considered good. 100% is break even.

**Coverage Ratio:** The relationship between **total** annual revenue and operating expenses plus debt service. (Formula: Total Revenue minus operating expenses [not counting depreciation] divided by debt service=Coverage Ratio.) This ratio is used to evaluate debt service capacity. A ratio of 150% is considered good.

105% is required by GEFA as an annual minimum; the USDA requirement is 110%.

A four-year history (based on audited FY 2006 – 2008 and estimated 2009 is shown below:

ITEM DESCRIPTION/YEAR	2006	2007	2008	2009 Estimated
<b>OPERATING REVENUES</b>	1,424,640	1,576,996	1,661,454	1,837,995
<b>NON-OPERATING REVENUES</b>	689,901	207,448	66,787	313,564
<b>TOTAL:</b>	2,114,541	1,784,444	1,728,241	2,151,559
<b>OPERATING EXPENSES</b>	1,049,892	1,342,069	1,183,397	1,776,666
<b>ANNUAL DEBT SERVICE</b>	888,976	345,842	304,120	480,757
<b>TOTAL:</b>	1,938,868	1,687,911	1,487,517	2,257,423
<b>OPERATING RATIO</b>	<b>136%</b>	<b>118%</b>	<b>140%</b>	<b>121%</b>
<b>COVERAGE RATIO</b>	<b>120%</b>	<b>128%</b>	<b>179%</b>	<b>78%</b>

### CWSRF – ARRA Rate and Pending Project Analysis

The city has three major wastewater projects either in process or completed that will impact the debt service structure of their system. The descriptions and fiscal implications of these projects are shown below:

1. Permanent financing for a belt press building and Chatuge pump station upgrade. Total project cost: **\$960,000**.

USDA GRANT	USDA LOAN	ANNUAL DEBT SERVICE	REMARKS
\$ -	\$ 960,000	\$ 46,527	3.75% x 40 Years

2. Stimulus project – upgrade gravity sewers. Total project cost: **\$535,000.**

SRF-ARRA SUBSIDY	SRF LOAN	ANNUAL DEBT SERVICE	REMARKS
			Admin. Fee = \$10,700
\$ 374,500	\$ 160,500	\$ 10,882	3% x 20 Years

3. Highway 76 6” force main and pump station. Total project cost: **\$700,000.**

ARC GRANT	GA FUND LOAN	ANNUAL DEBT SERVICE	REMARKS
			Admin. Fee = \$4,000
\$ 300,000	\$ 400,000	\$ 28,810	3.89% x 20 Years

4. Financing Summary

PROJECT COSTS	GRANTS/ SUBSIDIES	LOANS	ANNUAL DEBT SERVICE
\$ 2,195,000	\$ 674,500	\$1,520,500	\$ 86,219

The city has undertaken a comprehensive analysis of its rates and customers using a revenue predictive module that is part of their utility billing package. This module enables the city to model various rate structures and predict their revenue implications using the real-time customer base. As well, the city has forecast its O&M and debt service (existing and proposed) to determine the extent of revenue needs.

The following shows the shortfall of the pro forma period (defined as the twelve month period after all new project debt service payments are in place).

ITEM DESCRIPTION	PROFORMA
OPERATING REVENUES	1,890,000
NON-OPERATING REVENUES	268,500
TOTAL	2,158,500
OPERATING EXPENSES	1,661,046
ANNUAL DEBT SERVICE	566,976
TOTAL	2,228,022
<b>OPERATING RATIO</b>	<b>114%</b>
<b>COVERAGE RATIO</b>	<b>88%</b>

**AMOUNT NEEDED TO MAKE 105% COVERAGE: \$97,871**

In order to make the minimum required 105% CWSRF coverage ratio, the following rate/revenue structure would be required to fund the three new projects as well as current debt service and project O&M.

**Recommended Rate Structure**

ICE DESCRIPTION	CURRENT MINIMUM BILL	DOLLAR INCREASE	NEW RATE	RATE PER 1000 GALLONS ABOVE 2000 GALLON BASE	INCREASE AMOUNT	NEW RATE PER 1000 GALLONS ABOVE 2000 GALLON BASE
<b>WATER INSIDE CITY</b>		<b>2.50%</b>			<b>2.50%</b>	
RESIDENTIAL BELOW METER	\$17.05	\$0.43	\$17.48	\$3.68	\$0.09	\$3.77
RESIDENTIAL ABOVE METER	\$19.49	\$0.49	\$19.98	\$3.68	\$0.09	\$3.77
COMMERCIAL-3/4" METER	\$30.45	\$0.76	\$31.21	\$3.68	\$0.09	\$3.77
COMMERCIAL- 1" METER	\$48.72	\$1.22	\$49.94	\$3.68	\$0.09	\$3.77
COMMERCIAL-1.5" METER	\$85.26	\$2.13	\$87.39	\$3.68	\$0.09	\$3.77
COMMERCIAL-2" METER	\$146.16	\$3.65	\$149.81	\$3.68	\$0.09	\$3.77
COMMERCIAL-3" METER	\$243.60	\$6.09	\$249.69	\$3.68	\$0.09	\$3.77
COMMERCIAL-4" METER	\$488.25	\$12.21	\$500.46	\$3.68	\$0.09	\$3.77
<b>SEWER INSIDE CITY</b>		<b>2.50%</b>			<b>2.50%</b>	
RESIDENTIAL	\$22.45	\$0.56	\$23.01	\$5.99	\$0.15	\$6.14
COMMERCIAL-3/4" METER	\$59.85	\$1.50	\$61.35	\$5.99	\$0.15	\$6.14
COMMERCIAL-1" METER	\$89.78	\$2.24	\$92.02	\$5.99	\$0.15	\$6.14
COMMERCIAL-1.5" METER	\$199.50	\$4.99	\$204.49	\$5.99	\$0.15	\$6.14

COMMERCIAL 2" METER	\$299.25	\$7.48	\$306.73	\$5.99	\$0.15	\$6.14
COMMERCIAL-3" METER	\$598.50	\$14.96	\$613.46	\$5.99	\$0.15	\$6.14
COMMERCIAL-4" METER	\$1,197.00	\$29.93	\$1,226.93	\$5.99	\$0.15	\$6.14
<b>WATER TOWNS COUNTY</b>		<b>5.00%</b>			<b>5.00%</b>	
DENTIAL BELOW BOOSTER	\$20.46	\$1.02	\$21.48	\$4.41	\$0.22	\$4.63
DENTIAL ABOVE BOOSTER	\$23.38	\$1.17	\$24.55	\$4.41	\$0.22	\$4.63
MERCIAL-3/4" METER	\$36.54	\$1.83	\$38.37	\$4.41	\$0.22	\$4.63
MERCIAL-1" METER	\$58.46	\$2.92	\$61.38	\$4.41	\$0.22	\$4.63
MERCIAL-1.5" METER	\$102.31	\$5.12	\$107.43	\$4.41	\$0.22	\$4.63
MERCIAL-2" METER	\$175.39	\$8.77	\$184.16	\$4.41	\$0.22	\$4.63
MERCIAL-3" METER	\$292.32	\$14.62	\$306.94	\$4.41	\$0.22	\$4.63
MERCIAL-4" METER	\$585.90	\$29.30	\$615.20	\$4.41	\$0.22	\$4.63
<b>SEWER TOWNS COUNTY</b>		<b>10.00%</b>			<b>10.00%</b>	
DENTIAL	\$26.93	\$2.69	\$29.62	\$7.18	\$0.72	\$7.90
MERCIAL-3/4" METER	\$71.82	\$7.18	\$79.00	\$7.18	\$0.72	\$7.90
MERCIAL-1" METER	\$107.73	\$10.77	\$118.50	\$7.18	\$0.72	\$7.90
MERCIAL-1.5" METER	\$239.40	\$23.94	\$263.34	\$7.18	\$0.72	\$7.90
MERCIAL-2" METER	\$359.10	\$35.91	\$395.01	\$7.18	\$0.72	\$7.90
MERCIAL-3" METER	\$718.20	\$71.82	\$790.02	\$7.18	\$0.72	\$7.90
MERCIAL-4" METER	\$1,436.40	\$143.64	\$1,580.04	\$7.18	\$0.72	\$7.90
<b>WATER NORTH CAROLINA</b>		<b>10.00%</b>			<b>10.00%</b>	
DENTIAL ABOVE BOOSTER	\$29.40	\$2.94	\$32.34	\$4.85	\$0.49	\$5.34
MERCIAL-3/4" METER	\$38.37	\$3.84	\$42.21	\$4.85	\$0.49	\$5.34
MERCIAL-1" METER	\$61.38	\$6.14	\$67.52	\$4.85	\$0.49	\$5.34
MERCIAL-1.5" METER	\$107.43	\$10.74	\$118.17	\$4.85	\$0.49	\$5.34
MERCIAL-2" METER	\$184.16	\$18.42	\$202.58	\$4.85	\$0.49	\$5.34
MERCIAL-3" METER	\$306.94	\$30.69	\$337.63	\$4.85	\$0.49	\$5.34
MERCIAL-4" METER	\$615.20	\$61.52	\$676.72	\$4.85	\$0.49	\$5.34
<b>SEWER NORTH CAROLINA</b>		<b>20.00%</b>			<b>20.00%</b>	
DENTIAL	\$28.28	\$5.66	\$33.94	\$7.54	\$1.51	\$9.05
MERCIAL-3/4" METER	\$75.41	\$15.08	\$90.49	\$7.54	\$1.51	\$9.05
MERCIAL-1" METER	\$113.12	\$22.62	\$135.74	\$7.54	\$1.51	\$9.05
MERCIAL-1.5" METER	\$251.37	\$50.27	\$301.64	\$7.54	\$1.51	\$9.05
MERCIAL-2" METER	\$377.06	\$75.41	\$452.47	\$7.54	\$1.51	\$9.05
MERCIAL-3" METER	\$754.11	\$150.82	\$904.93	\$7.54	\$1.51	\$9.05
MERCIAL-4" METER	\$1,508.22	\$301.64	\$1,809.86	\$7.54	\$1.51	\$9.05

The above rate/revenue structure would produce the following proforma.

<b>ITEM DESCRIPTION</b>	<b>PROFORMA</b>
OPERATING REVENUES	1,992,000
NON-OPERATING REVENUES	268,500
TOTAL	2,260,500
OPERATING EXPENSES	1,661,046
ANNUAL DEBT SERVICE	566,976

TOTAL	2,228,022
OPERATING RATIO	120%
COVERAGE RATIO	106%

AMOUNT NEEDED TO MAKE 105% COVERAGE:	<b>(\$4,129)</b>
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**PROFORMA YEAR ANALYSIS**

CURRENT OPERATING REVENUE:	1,890,000	
NEW REVENUE-RATES/CUST./FEES:	<u>102,000</u>	[New Rates 1/1/2010]
TOTAL REVENUES:	1,992,000	
PROJECTED OPERATING EXPENSES:	1,661,046	[Less one-time \$154,000 + 3%]
PROJECT O&M INCREASES:	<u>-</u>	
TOTAL EXPENSES:	1,661,046	
CURRENT DEBT SERVICE:	480,757	
*NEW DEBT SERVICE:	10,882	
OTHER NEW DEBT SERVICE:	<u>75,337</u>	[Proposed USDA & ARC Projects]
TOTAL ANNUAL DEBT SERVICE:	566,976	
*PRINCIPAL:	<u>160,500</u>	RATE: <u>3.00%</u> YEARS: <u>20</u>

Under this project/funding scenario, a **4,500** gallon monthly residential inside-city, below the booster customer's bill would go from the present **\$26.25** to **\$26.91**.

**Conclusions/Observations**

The city has a unique opportunity to capitalize on unprecedented subsidy availability in the CWSRF. Until now, the CWSRF has been strictly a 100% loan program. Under the one-time **70% subsidy** availability, the city would save **\$24,788** per year and **\$495,760** over the 20 year life of the financing.