DAVENPORT 1863
PUBLIC FINANCE

Town of Warrenton, Virginia

Water & Sewer Discussion Materials

April 12, 2022

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Overview

- Davenport & Company LLC ("Davenport") serves as Financial Advisor to the Town of Warrenton (the "Town").
- The Town is in the process of developing and eventually adopting its FY 2023 Operating and Capital Budget for the General Fund and self-supporting Water & Sewer Utility Enterprise Funds.
- NewGen Strategies & Solutions developed an updated multi-year rate study for the Water & Sewer Utility Enterprise Funds.
- Davenport was asked to review the updated plan with a specific focus on capital funding and financial best practices.
- The Town will be adopting its budget in the spring of 2022 and implementing the operating and capital budget beginning this summer.

Observations

- The Town's Water & Sewer Utility Enterprise Funds have been historically well-run from a financial perspective in that they have annually generated solid cash flows (i.e., debt service coverage) and maintained healthy reserves (i.e., days cash on hand).

- However, due to a variety of expenditure pressures (i.e., personnel needs, inflationary environment, capital needs, regulatory requirements etc.), the Town finds itself in a position where the finances of the Water & Sewer Utility Enterprise Funds could be jeopardized without a corresponding increase in revenues.

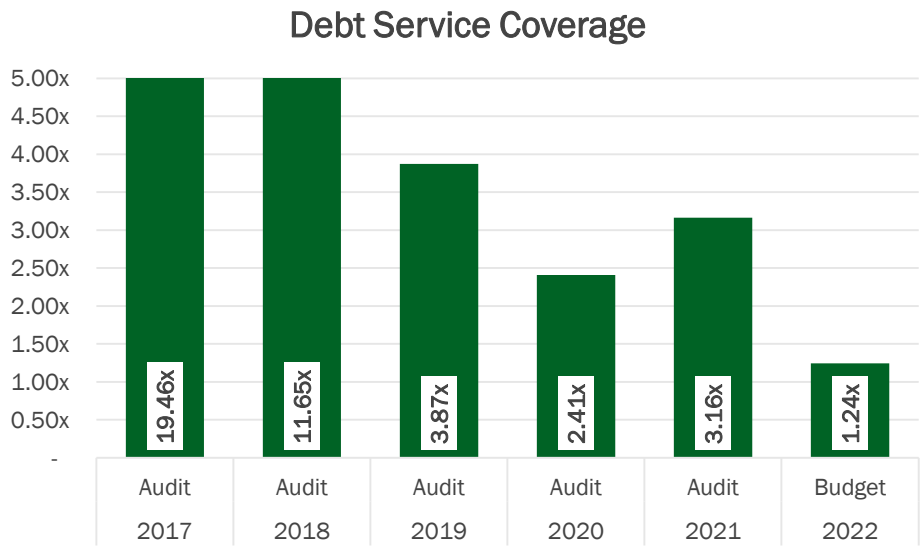
- Maintaining a self-supporting utility system is critical for several reasons, including the fact that it insulates the General Fund from the additional burden of needing to cover utility-related costs.

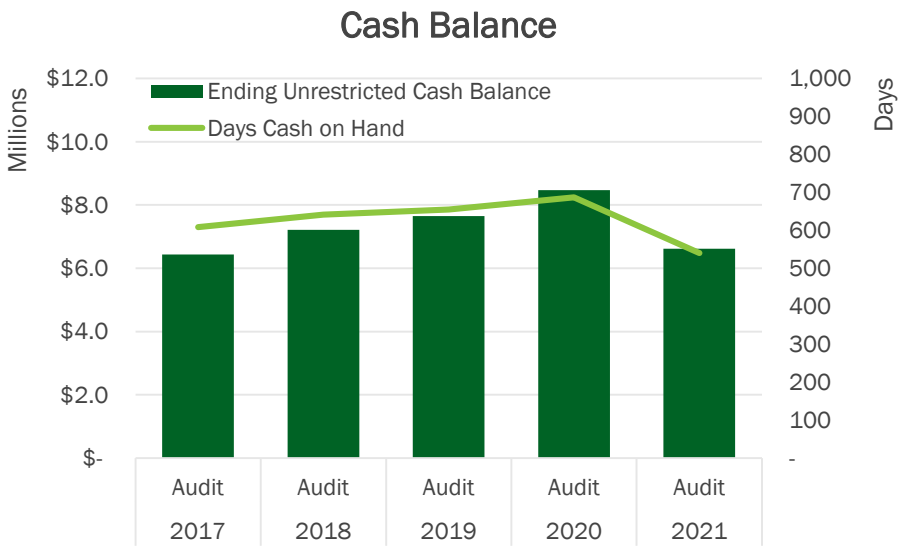
- The Town has identified capital projects that total approximately $18-19 Million over the next five years. These projects will need to be funded in order to meet ongoing regulatory and operational requirements.

- Funding for these capital projects is needed in annual increments of roughly $3-4 Million per year, which allows the Town to evaluate at least annually its capital funding plan as actual costs and projects are known.

Selected Historical/Budgeted Financial Metrics

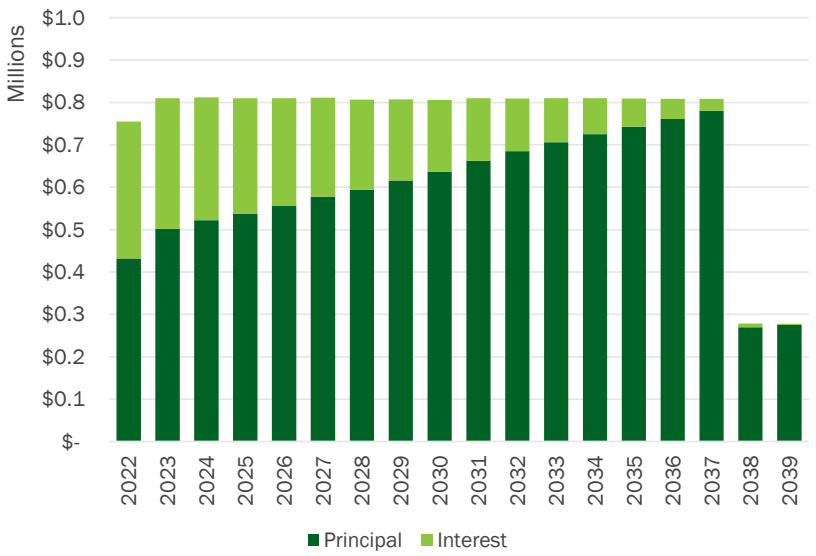
	Select Water & Sewer Utility Financial Metrics	2017 Audit	2018 Audit	2019 Audit	2020 Audit	2021 Audit	2022 Budget
1	Debt Service Coverage	19.46x	11.65x	3.87x	2.41x	3.16x	1.24x
2							
3	Ending Unrestricted Cash Balance	$6,432,597	$7,220,020	$7,653,103	$8,473,309	$6,612,579	
4	Days Cash on Hand	608	642	655	687	540	





Source: FY 2017 – FY 2021 Audits, FY 2022 Budget.

Existing Debt Profile



Total Debt Service

Fiscal Year	Principal	Interest	Total
Total	10,583,000	2,866,818	13,449,818
2022	432,000	323,189	755,189
2023	502,000	307,728	809,728
2024	522,000	290,104	812,104
2025	538,000	271,821	809,821
2026	557,000	252,851	809,851
2027	578,000	233,121	811,121
2028	594,000	212,704	806,704
2029	616,000	191,600	807,600
2030	636,000	169,654	805,654
2031	663,000	146,792	809,792
2032	685,000	124,559	809,559
2033	706,000	103,934	809,934
2034	725,000	84,773	809,773
2035	743,000	66,344	809,344
2036	761,000	47,568	808,568
2037	780,000	28,444	808,444
2038	270,000	8,713	278,713
2039	275,000	2,922	277,922

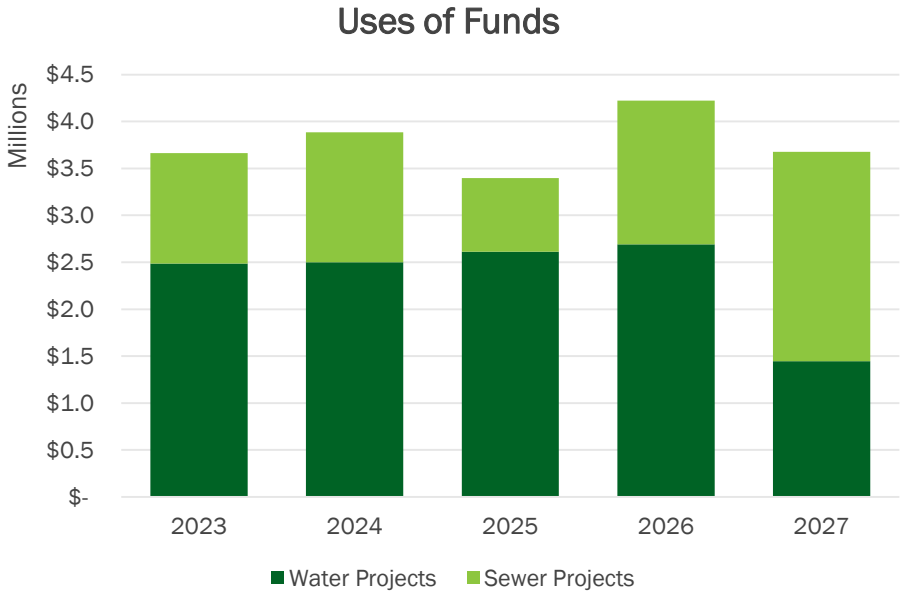
- As a result of the two refundings that were completed in CY 2021, the Town will realize debt service savings of $1.06 Million over the life of the outstanding loans.

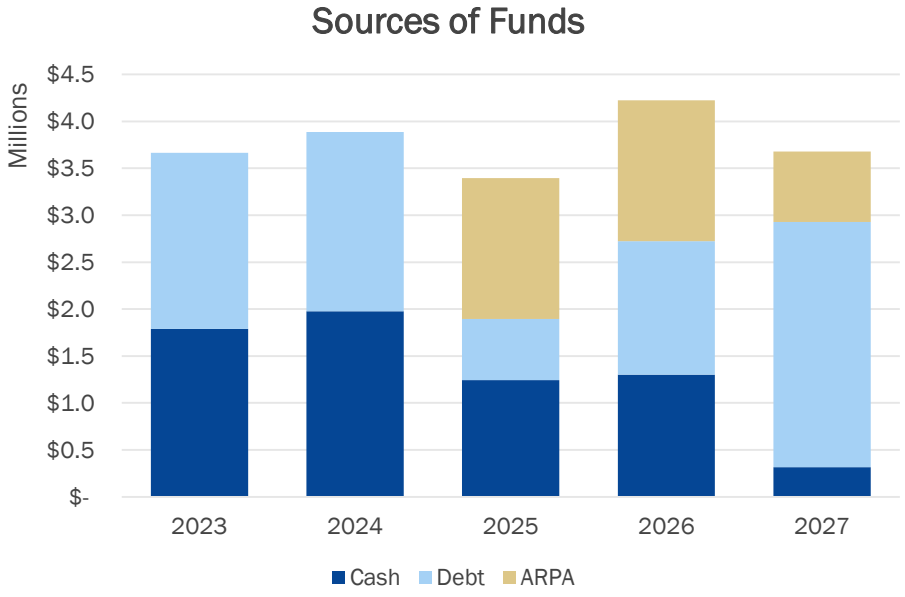
Principal Outstanding as of 6/30/2022	
2021 VRA Refunding	$3,855,000
2021A GO Refunding	6,728,000
Total Principal Outstanding	$10,583,000

Source: Final Numbers.

Projected Capital Needs

- The Town is contemplating funding a Capital Improvement Plan of approximately $18-19 Million over the next 5 years, as reflected below.
  - Approximately 45% is anticipated to be funded with debt ($8.5 Million), 35% from cash ($6.6 Million), and 20% from ARPA ($3.8 Million).





Source: NewGen Strategies & Solutions Rate Study.

Projected Rate Increases (Per NewGen Plan)

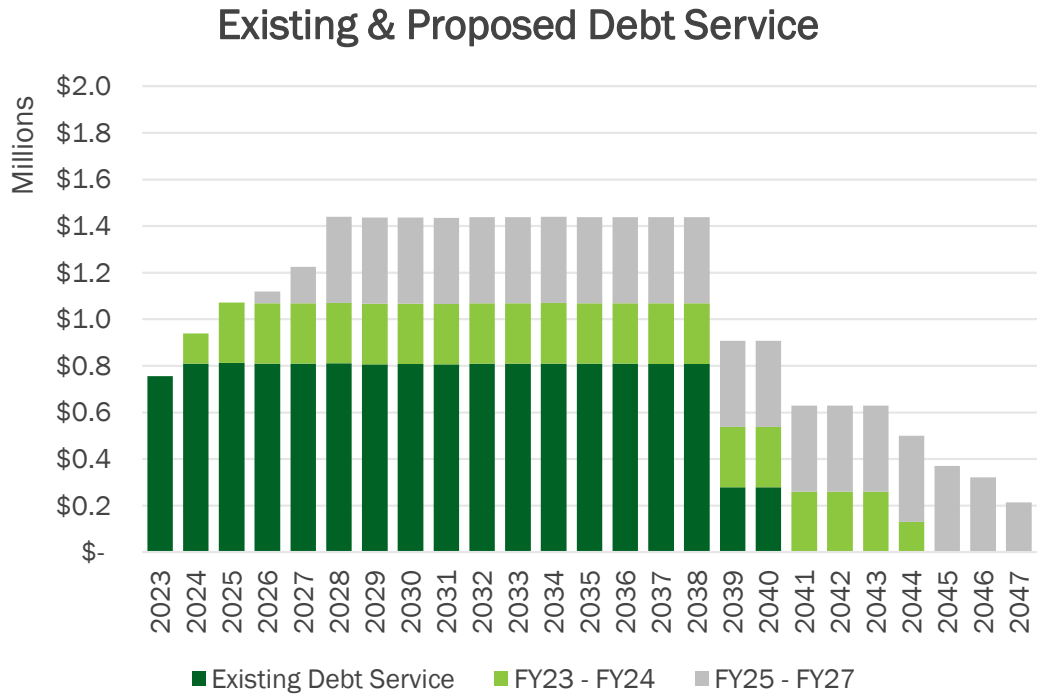
- The Town evaluates its rate increases on an annual basis.

- The proposed rate increases for FY 2023 move the Town in the right direction toward sustainable self-supporting Water & Sewer Utility Enterprise Funds.
  - However, the Town's rates will need to be further evaluated in the future to ensure that rate increases are sufficient to keep pace with the Town's operating and capital needs.

	User	Monthly Usage (G)	Monthly Bill						5-Yr Avg. Increase
			Current	2023	2024	2025	2026	2027	
1	Small User	2,000	$17.65	$19.04	$20.67	$22.56	$23.12	$23.69	6.1%
2	Median User	3,000	$33.22	$36.30	$39.92	$44.16	$45.59	$47.07	7.2%
3	Large User	5,000	$64.36	$70.82	$78.42	$87.36	$80.53	$93.83	7.8%
4	$ Increase for Median User	3,000	N/A	$3.08	$3.62	$4.24	$1.43	$1.48	
5	% Increase for Median User	3,000	N/A	9.3%	10.0%	10.6%	3.2%	3.2%	

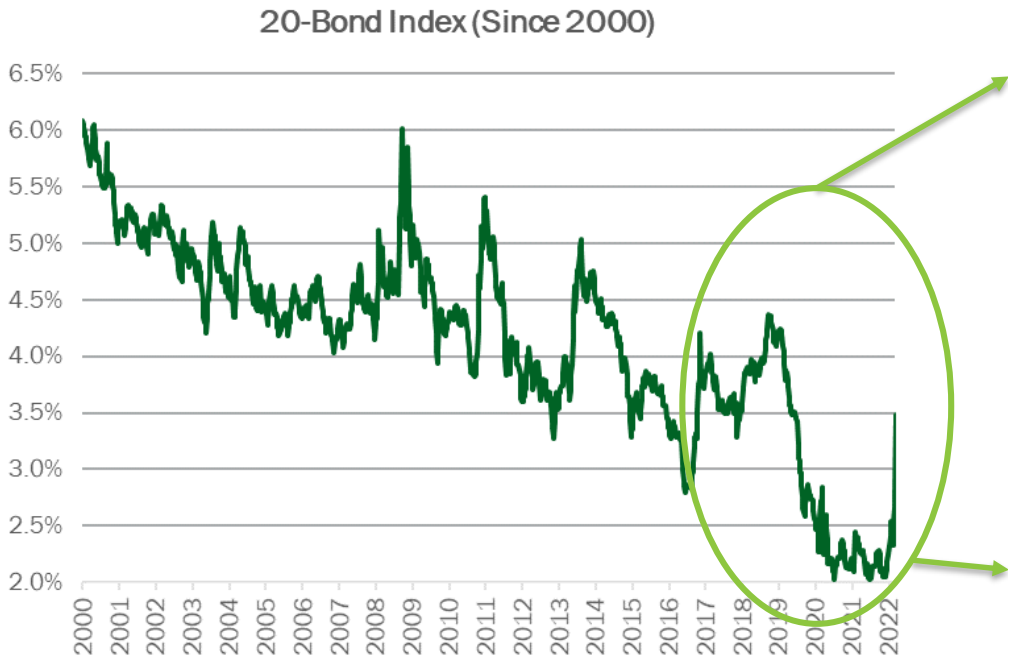
Source: Town Staff, NewGen Strategies & Solutions Rate Study.

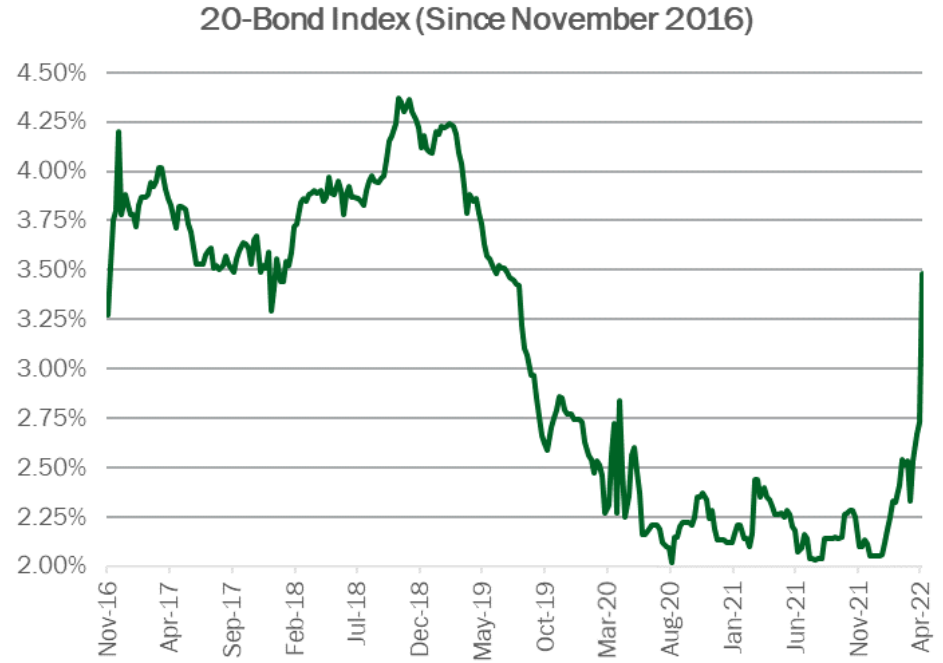
Existing & Proposed Debt Service (Per NewGen Plan)



Source: NewGen Strategies & Solutions Rate Study.

Interest Rate Trends | Tax-Exempt





Long term interest rates are near historically low levels.

While still historically favorable, interest rates have been increasing during the first quarter.

The above charts show MMD data as of April 7, 2022.

Next Steps

- Balance of Spring 2022: Town adopts Operating and Capital Budget and corresponding user rates.

- Summer/Early Fall 2022: Implement first phase of capital plan via a self-supporting utility borrowing.

- Fall 2022 into Winter 2022/2023: Update multi-year plan based upon actual results for FY 2022 and updated capital costs.

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