

Memo

To: Kathleen McNamara
From: Aaron Nordman
Re: Rate Study 2019 Update

Date: 11-6-2019

Performance Engineers, Inc. (PEI) has completed a review of the St. James Township current 2019 year-to-date data for the purpose of providing the Township with an update to be used for planning FY2020 sewer rates. In general, it appears that current rate structure is adequate to support the operational costs of the sewer system. The following is a list of recommendations for the Township's consideration in planning for the upcoming fiscal year:

- PEI has previously observed heavy FOG (Fats, Oils, & Grease) impacting the downtown lift station. It is our understanding that the suspected primary source of the FOG is the Shamrock restaurant, which does not have proper grease traps, but did commit to some sort of enzyme treatment system. Recent discussions indicate that this treatment along with operational changes at the restaurant may be having a positive impact, but this should be monitored.
- PEI recommends that the system operator continue to monitor the downtown lift station. If FOG continuing to seem high. Then further evaluation might be needed.
- PEI is recommending the installation of inspection ports in the drainfield for monitoring the infiltrative surface. A construction detail for these ports has been provided. We assume that this could be installed by Mr. Butler, but we would like to be involved in coordinating the placement within the field.
- Other than these minor issues, it appears to us that the system is being run very cost effectively and we are not proposing any significant changes to the overall operation and maintenance plan for the sewer system.

Based on a review of the previous rate setting information, the Ordinance requirements for how rates are established, and our projection of costs for the upcoming year, PEI is recommending that the rates be adjusted to \$42.00 per REU based upon the following:

Budget Item	FY2019 Budget	FY2019 Expected	FY2020 Budget
Sewer Fund Operational Expenses	\$20,400	\$23,120	\$23,800
Road Fund Re-Payment	\$13,000	\$13,000	\$13,000
Debt Servicing	\$7,000	\$7,000	\$7,000
Maintenance (RR&I)	\$5,000	\$3,700	\$5,000
Net Operational Expenses	\$45,400	\$46,820	\$48,800
Capital Improvements	\$0	\$7,600	\$0

The fiscal year accounting spreadsheets provided to us shows that sewer fund operational expenses are expected to end up about 15% higher than the previous year. It does appear that revenue estimate was good and that the overall sewer fund will be close to the anticipated budget. The one caveat to this is that the sewer system experienced an unanticipated expense associated with a pump failure at the lift station. The new pump has a cost of \$7,622, which is going to be covered through the Capital Improvement Fund. This would leave the Capital Improvement Fund with a balance around \$23,000 to support any other unforeseen repairs during the upcoming year. The installation cost of about \$3,700 will be covered through the Sewer Use Fund, which had about \$5,000 budgeted for RR&I.

In future equipment failures, we encourage the Township to reach out to us for support and advice on the repair. It could be the case that we can find alternate equipment and/or suppliers resulting in a savings to the Township.

In regard to the cost structure, we have assumed an inflationary cost adjustment to the expenses for wages and utilities. We have then assumed that loan repayments would follow the established schedule. In regard to the income estimates, utilizing a "readiness-to-serve" basis for billing should result in a very predictable revenue stream, as appears to have been the case during the previous year.

PEI is sensitive to the fact that the user rates have been climbing over the past few years and that we proposed a \$3.50/mo. rate increase last year. Therefore, we are recommending that the rate only be adjusted for a 1.2% cost of living adjustment, up \$0.50 to \$42/mo. for the next fiscal year. However, the case could easily be made that the rates should actually be higher yet, give the relatively low fund balances that the Township currently holds in reserve for capital improvements and operations. It is our understanding that there is about \$10k held in capital improvements and \$23k for operations. This relatively low level of reserve funds could easily be used up during a single emergency repair or equipment failure event, similar to what was experienced this year.

On the positive side, our review of the system and discussions with your operator indicate that the simplicity of the overall system and current condition do not indicate any major repairs are imminent. It is for this reason that we believe rates can be held down at \$42.00. It should be the goal to get through the road repayment and CSB loan repayments by keeping all other costs to a minimum. Then with these paid off, keep the user rates constant and start accumulating some reserve funding at that point. We should not lose sight of the fact that there are significant mechanical systems involved in the operation of the sewer system and that these have finite service life cycles. So, accumulation of reserve fund is going to become a higher priority with each passing year.

Finally, it should also be noted that a user rate of \$42/mo is consistent, if not low, compared to the surrounding communities. St. James is different, in that users pay a flat fee instead of a base fee plus gallons used. However, if we assume a typical REU value of 5,000 gallons per month the sewer rates for the surrounding communities range from \$33/mo to \$69/mo.

Should you have any questions regarding this report, please do not hesitate to contact us.

Sincerely,
Performance Engineers, Inc.

Aaron Nordman