



Memo

To: Kathleen McNamara

Date: 11-23-2020

From: Aaron Nordman

Re: Rate Study 2020 Update

Performance Engineers, Inc. (PEI) has completed a review of the St. James Township current 2020 year-to-date data for the purpose of providing the Township with an update to be used for planning FY2021 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:

- There has been an ongoing issue with heavy FOG (Fats, Oils, & Grease) impacting the downtown lift station. It has been suspected that the 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. Additionally, we have had discussions with the restaurant and it they have changed to utilize less dishware over the past couple years, all of which should be having a positive effect on the overall FOG loading. 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 previously 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.
- During the past year the system was approached by a brewery that wanted to discharge some of their high organic (BOD loading) process wastewater to the Township's sewer system. While we were receptive to trying to make this arrangement work out for the benefit of both the brewery and the Township, the State has intervened and determined that the permit category for the community system would not allow this process water to be discharged. The cost and effort that would be required to either dispute this or make modifications to allow it are too great for the potential revenue. Therefore, this request has been considered denied.
- 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 \$42.50 per REU based upon the following:

Budget Item	FY2020 Budget	FY2020 Expected	FY2021 Budget
Sewer Fund Operational Expenses	\$23,800	\$18,800	\$24,000
Road Fund Re-Payment	\$13,000	\$13,000	\$13,000
Debt Servicing	\$7,000	\$7,000	\$7,000
Maintenance (RR&I)	\$5,000	\$11,400	\$5,000
Net Operational Expenses	\$48,800	\$50,200	\$49,000
Capital Improvements	\$0	\$0	\$0

The fiscal year accounting spreadsheets provided to us show that the sewer fund maintenance expenses are expected to end up slightly over budget, primarily due to \$11,000 in pump out costs that were incurred this year. Fortunately, it also appears that the overall operational expenses were under budget and the revenue estimate will be slightly over budget. Therefore, the sewer fund budget as a whole appears to be on track despite the pump out cost and the disruption that COVID has had on everything this year. It appears that the Township will end up with total expenses around \$50,200 and revenues of \$51,700.

For the proposed budget, 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 historically.

PEI is sensitive to the fact that the system supports a commercial user base that has likely been struggling with the pandemic. Therefore, we are recommending that the rate only be adjusted for a 1.2% cost of living adjustment, up \$0.50 to \$42.50/mo. for the next fiscal year. It is our understanding that there is about \$15k held in capital improvements and \$7.5k for operations. This is a relatively low level of reserve funds, which could easily be used up during a single emergency repair or equipment failure event.

On the positive side, we also do not expect any major repairs based on the current condition. It is for this reason that we believe rates can be held down at \$42.50/month. 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 \$42.50/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