

RESOLUTION 2021-02-06

RESOLUTION REGARDING THE WATER UTILITY'S FINANCIAL NEEDS

WHEREAS, the Trustees of the Village of Merrimac, Sauk County, Wisconsin are committed to providing to all residents safe and reliable water service that serves both potable water needs and adequate flow for fire protection; and

WHEREAS, the Trustees have been entrusted to serve as good stewards toward the Water Utility Assets, for which the 2021 depreciated value of the municipally-financed portion of those Assets are approximately \$1.3M; and

WHEREAS, the Trustees understand that fulfilling their commitment to provide safe and reliable water requires responsible fiscal planning and collecting adequate revenue to cover all current expenses, debt service, plus an allowable savings to cover amortized cost, unanticipated needs, and long-term planning; and

WHEREAS, to support the Trustees in their duty to perform responsible fiscal decision-making, the Wisconsin Public Service Commission (PSC) retains unilateral authority to set rates and requires that public utilities operate similarly to businesses; and

WHEREAS, the last time the Village applied to the PSC to analyze our Water Utility Finances via a Conventional Rate Case (CRC) was 1999, twenty-two years ago; and

WHEREAS, the Wisconsin DNR recommends Water Utilities apply for a CRCs every five years (see May 28, 2021 Sanitary Survey Report); and

WHEREAS, the PSC allows and encourages utilities to apply every year for a 3 percent increase via a Simplified Rate Case (SRC), in years when it does not apply for a CRC; and,

WHEREAS, for the years between 2001 and 2011 inclusive, the Village only applied twice out of eleven years for the 3% increase, which put our Water Utility on a slow path toward fiscal failure; and

WHEREAS, for the years between 2012 and 2020, the Village applied for the 3% SRC nearly every year, which improved our Water Utility finances, but SRCs would not be an option after 2022 unless we perform CRC in this year; and

WHEREAS, Village staff have completed the CRC application, which applies the PSC methodology to analyze the Water Utility's finances; based on that preliminary analysis, the Test Year 2021 Water Utility Revenue is projected to be:

General Service (Metered) Charges (via monthly bills)	\$71,600 (est)
Public Fire Protection/Hydrant Rental (via Property Taxes)	\$42,600
Water Tower Rents (from U.S. Cellular)	\$25,300
<u>Miscellaneous</u>	<u>\$2,000 (est)</u>
TOTAL Revenue	\$141,500; and

WHEREAS, Public Fire Protection/Hydrant Rental shown above is the largest single line item expense of the General Fund; and

WHEREAS, another significant General Fund expense is the combined Principal and Interest Payments for the 2009 Highway 78 project, which is \$48,400, and which will retire in 2030; and

WHEREAS, the preliminary analysis of the Test Year 2021 Water Utility Revenue *Requirement* showed that the Water Utility currently has a Net Operating Loss of \$39,700, as follows:

Regular Operation & Maintenance Costs	\$98,600
Amortized O&M Costs (Tower painting, tower and well maintenance)	\$45,000
Taxes Paid (Social Security and PILOT)	\$10,600
<u>Depreciation (non-cash expense)</u>	<u>\$37,000</u>
TOTAL Revenue Requirement	\$181,200
<u>TOTAL Revenue</u>	<u>- \$141,500</u>
Operating Loss	\$39,700; and

WHEREAS, because the PSC expects public utilities to operate similarly to private businesses, it does not permit utilities to chronically operate at a loss, but instead encourage them to operate with a net income of 4.9% on depreciated municipally-financed assets, pursuant to Wisc Statutes 66.0811(1); and

WHEREAS, on this basis, the PSC is likely to require the Village of Merrimac raise rates to generate an additional \$103,400 (to overcome the \$39,700 Operating Loss, plus 4.9% of \$1.3M, which is \$63,700), with rates anticipated to go into effect December 2021 or January 2022; and

WHEREAS, this \$103,400 additional revenue, if apportioned similarly to current rates, would be approximately 62.7% General Service (\$64,800) and 37.3% Public Fire Protection/Hydrant Rental (\$38,600), for totals as shown:

General Service (Metered) Charges	\$136,400
Public Fire Protection/Hydrant Rental	\$81,200
Water Tower Rents	\$25,300
<u>Miscellaneous</u>	<u>\$2,000 (est)</u>
TOTAL Revenue	\$244,900; and

WHEREAS, the Village of Merrimac General Fund is currently operating at its Allowable Levy Limit (Wis Stats 66.0602), and there is not capacity within the General Fund to absorb the additional \$38,600 in Public Fire Protection Charges; and

WHEREAS, Wis Stats 66.0602(2m)(b) specifically exempts from the provision for “Negative Adjustment of the Allowable Levy Limit” any Public Fire Protection charges associated with the production of water for public fire protection purposes, so Direct Charging for Public Fire Protection associated with the Water Utility will not reduce the Village’s Allowable Levy Limit, based on the Village’s current understanding of those laws; and

WHEREAS, removing all water-provision-related Public Fire Protection/Hydrant Rental charges (account 100-00-52205-000-000) from the Levy and putting them on monthly utility bills would allow for a balanced General Fund Budget in 2022; and

WHEREAS, one of the PSC-approved methods for allocating Direct Public Fire Protection costs among all residents is based on Property Valuation; thus, it is similar to recouping those costs via Property Taxes, except that it would also apply to tax-exempt properties, including the Merrimac School and municipal property; and

WHEREAS, the Trustees understand that increases in utility rates most significantly impacts lower income residents, and they wish to reduce the impact of the anticipated water rate increase on those lower income residents as much as legally-allowed, by pursuing the Property Valuation Method to set the Direct Public Fire Protection Charge;

WHEREAS, typical practice is for utilities to pursue a CRC immediately following completion of large capital projects; and,

WHEREAS, the anticipated \$63,700 of Return on Investment (4.9% x \$1.3M) provision is larger than the preliminarily-projected SDWLP Debt Service for the Well Projects of \$59,100, which would commence in 2024 (see RESOLUTION 2021-01-06); and

WHEREAS, it appears the anticipated Year 2022 water rate increase *may* be enough to *delay* pursuing the post-Project CRC until the Village Property Tax payers have relief from the \$48,400 annual Highway 78 debt service payment in mid-2030; and

WHEREAS, based on this potential affordability of the Well Projects' debt payments within the upcoming CRC, the Village may be able to only pursue 3% SRCs during 2023 through 2030, applying for a post-Well-Project CRC-based rate increase in 2031; and

WHEREAS, this Resolution is intended to articulate the Trustees' current understanding and intention, but does not preclude adjusting the approach once PSC's Revenue Requirement and recommended rate structure are presented to the Village by the PSC officially;

NOW, THEREFORE BE IT RESOLVED by the Village of Merrimac Board of Trustees:

1. To submit the Conventional Rate Case application to the PSC to secure adequate revenue for the Water Utility;
2. To transition to Property-Value-based Direct Billing for Water Utility Public Fire Protection/Hydrant Rental Charges in early 2022, when the PSC has completed its rate case;

Adopted and Recorded June 8, 2021

Approved June 8, 2021

APPROVED:



Philip Budde, President

ATTEST:



Brian Mooney, Administrator/Clerk/Treasurer