

RE: 2024 - 2025 Comprehensive Rate Analysis Study & Rate Increase Recommendation

Dear Valued Customer,

On June 6, 2024, Scioto Water, Inc. entered into a Water Supply Revolving Loan Agreement with Ohio EPA through the Ohio Water Development Authority to fund Phase 1 of the 2022 Rose Hill Transmission Main Replacement at a cost of \$1,953,433.20. However, prior to the loan agreement being approved, Scioto Water was required to submit an application and provide a five-year history of our financial records for review.

Due to the complexities involved in this application process, Scioto Water once again called upon Ohio's Rural Community Assistance Partnership (RCAP) to provide their expertise in helping get the application completed. During the initial preparation of the Financial Review Summary and Financial Forecast it was noted that a growing shortfall had developed in debt service payments, which were not being adequately funded by the rate increases that had been assessed in the previous few years which were included in the application information. They indicated a substantial rate increase may be needed to correct the shortfall. Based upon the information provided, and at the request of the General Manager, the Board of Directors approved a contract with Great Lakes Community Assistance Partnership (RCAP) to perform a Comprehensive Rate Analysis Study for Scioto Water, Inc.

Knowing the timespan it would take to gather all the information necessary to complete the analysis, at the August 2024 regular monthly board meeting, the Board Treasurer addressed the Board about what he believed to be a serious situation that needed immediate attention and action. After some discussion, an emergency rate increase was enacted that brought us to where the rates currently are at now. Although the emergency rate increase caused some needed revisions and a delay to the Rate Analysis Study, RCAP presented the completed analysis to the Board of Directors on March 20, 2025.

The comments or recommendations listed below (in part or in whole) were provided to the Board of Directors in an Executive Summary supplied by RCAP. The full Executive Summary will be posted to Scioto Water's website @ [www.sciotowaterinc.com](http://www.sciotowaterinc.com), or Customers can pick up a paper copy at the office in Franklin Furnace.

1. **Improved Preventative Maintenance Budget:** Improved preventative maintenance costs were estimated by the water company at \$197,500 annually.
2. **Number of Days of Working Capital in Operating Fund:** Based upon the year ending balances for 2024, there were only 36 days of working capital which needs to be increased to a minimum of 45 days with an additional 45 days of working capital in an emergency fund. We therefore advise that short-term emphasis be placed on improving the company's working capital position.
3. **Debt Service Reserves:** The funding goal based upon budgeted debt service is \$1.6 million. We recommend the establishment of a debt service reserve at 10% of the annual payment amount until one annual payment on all outstanding debts is available in escrow.
4. **Predictive Maintenance Schedule:** Once emergency and debt service reserves have been secured the next priority would be funding predictive maintenance. The water system has numerous components which will need to be rehabilitated or replaced during the remaining useful life of the infrastructure. A predictive maintenance schedule was developed to address these issues. Predictive maintenance needs of the water system will require an estimated \$232,983 annually.
5. **Long Term Capital Needs:** Scioto Water, Inc. should begin saving for longer-term capital needs such as the Phase 6 project by setting aside 15% of the anticipated project cost over 10 years.
6. **Increase and Restructure of Existing Water Rates:** Existing water rates are inadequate to provide the recommended level of working capital, debt service reserves and sustainability (asset management funding). The cash shortage was projected at (-\$339,868) on a typical year basis. Water rates should be increased to cover this cash shortfall. Scioto Water Inc. should implement a \$3.50 per customer increase in both FY 2025 followed with a 4.5% increase in all rate categories in 2026. The proposed increase will provide the additional revenues necessary to support the long-term needs of the water department as they are presently defined. In addition,

**RCAP recommends that a 3.0% automatic annual rate adjustment be enacted beginning on January 1, 2027, and each January 1 thereafter.** The automatic inflationary increase should be implemented equally across all user classification and consumption groups. Automatic annual increase allows the company to benefit from revenue enhancements without the adverse customer impact associated with less frequent but larger rate increases.

After taking a month to review the Rate Study, the Board voted in the April 2025 monthly meeting to accept RCAP's recommendations and enact the rate increases as proposed and according to the schedule listed. However, because the Board wanted to provide a notice to our customers prior to the rate increase taking effect, the \$3.50 increase will not be added to customer bills until after the bills are sent out at the end of the month in June, meaning that the rate increase does not go into effect until July 1, 2025. This provides time for customers to make adjustments in their water usage habits before the rate increase is added onto everyone's minimum bill.

At the beginning of this notice I mentioned the current project that started at the end of 2024 and is expected to be completed near the end of June this year. Also as mentioned, the total project amount was estimated at \$1,953,432.20. Scioto Water was blessed to be able to fund this project at a 0% interest rate over a 30-year term, and thankfully, the first semi-annual payment of \$32,557.22 is not due until 01/01/2027. Please understand that we do not take these actions lightly as they also affect members of our Board, our management, a lot of our employees, and many members of our families as well.

### **OTHER FACTORS THAT NECESSITATE THE RATE INCREASE**

In the past fourteen years Scioto Water has completed fifteen various projects in the areas that we serve. Some of these projects were smaller (less than \$500,000) and relatively easy to get completed. However, some of these projects were multi-million-dollar projects that were greatly complex and took much longer. But the one thing that all these projects had in common was and still is, the cost increase of materials keeps getting higher and higher. From the diverse types of piping material to the chemicals used in the treatment process to manufacture the potable water, prices have gone up. From the trucks & equipment used to repair leaks, install service taps, and maintain the water systems, to the gasoline, diesel fuel and various oils used in this equipment, costs have increased,

In 1994 -1995 the cost to have the water transmission main installed from the treatment plant on Fairground Rd. in Lucasville to the tie-in point for the Village of Oak Hill, (a distance of about 28 miles by car) was approximately \$4,000,000. That's not too bad if you consider that today, it's costing nearly \$2,000,000 (\$1,953,433.20) to have less than 8,000 feet (just over 1.5 miles) of that transmission main replaced.

The increase in the cost of raw materials is not the only thing that continues to push up the cost increases of getting water from point "A" to point "B". It is also the cost increases of the other goods and services we need to purchase. Just like every other house in our service area, we also need to purchase electricity to run our pumps and power our telemetry and communication systems to effectively monitor the pressures and flows of each Public Water System operated by Scioto Water. If you're unhappy that your electric bill shot up over 20%, please multiply that by 34 so you'll understand how we feel. Our communication costs (cell phones and cellular data signals, two-way radios, internet, etc.) have almost doubled in the last three years, which adds even more cost to our operations.

Because our water systems serve more of the rural parts of the areas we're in or serve portions of the six counties that no other water system could (or would) serve, our customer base is not as densely populated, thereby raising the operation & maintenance costs for each customer we do serve. And lastly, our goal has always been to provide the best potable water, with the best possible service available to each and every customer in the most economical way that we can. Ensuring that we maintain compliance with every regulation in the book that has anything to do with the quality of the water that's provided to our customers is our highest priority and the cost of that is of no consequence. That part will never change.

Last year on October 10, 2024, Scioto Water, Inc. reached our 55<sup>th</sup> year of being a Private Not-For-Profit Corporation. As we continue to move forward, we will never stop trying to improve our water systems and our service to our customers. We believe that the financial plan we are putting into place will help us achieve those goals.

Respectfully,

Jeffrey D. Spradlin  
General Manager  
Scioto Water, Inc.