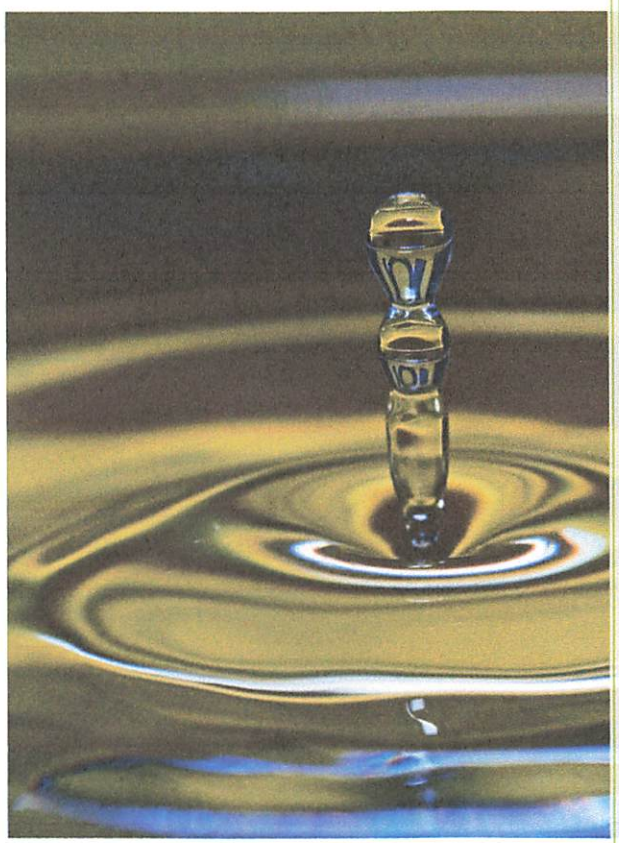
Great Lakes COMMUNITY ACTION PARTNERSHIP

RCAP

Scioto Water Inc.
Water Rate Analysis



Submitted by: Ohio RCAP

Administered by

GLCAP Community Action Commission, Inc.

219 S. Front Street

Fremont, Ohio 43420

1-800-775-9767

Executive Summary

The Ohio Rural Community Assistance Partnership (RCAP) was commissioned to prepare this rate analysis. The study was completed using historical and projected data for operating and non-operating expenses, debt service, and capital expenditures. The majority of the data used was obtained from client records. Industry standards and rules of thumb developed by industry experts were applied where community specific information was unavailable. This analysis was prepared with a long-term planning horizon which focuses on minimizing cost over the remaining useful life of the infrastructure. To accomplish this goal, the budget included funding for improved preventative and timely predictive maintenance.

Water loss is a general indicator of the overall condition of the distribution system. The water company reported an average three-year water loss of 33% in the 2014 Rate Study. This compares to 24% water loss calculated for 2024. Furthermore, water loss has declined in each of the past 3 years. Scioto Water has an incredibly challenging terrain with rocky and often unstable slopes with wide pressure variations. Considering the challenges faced in obtaining water loss reductions, the company should be congratulated on the level and consistency of progress made.

Water loss more than 15% is considered unacceptable by regulatory agencies which means that additional water loss reductions should be targeted. The improved maintenance budget contains funding for ongoing improvement in leak location and repair. Recommended maintenance improvements include zone metering, water audits, acoustic leak detection, hydrant flushing, valve exercising and GIS mapping. The improved maintenance budget also contains funding for maintenance program improvement for the Lucasville and Franklin Furnace well fields and treatment plants. Improved preventative maintenance costs were estimated by the water company at $197,500 annually.

As of 12/31/2024 the operating account contained $618,888. This represents 36 days of working capital based upon typical operating expenses. We recommend that utilities maintain a minimum of 45 days of working capital in the operating account. The company should endeavor to safeguard an additional 45 days of working capital in an emergency fund with a combined cash available balance of 90 days of operating expenses. We therefore advise that short-term emphasis be placed on improving the company's working capital position.

In addition, we recommend that you build the debt service reserve to provide for one annual payment on all outstanding loans. These funds should be used as a rainy-day fund for unforeseen emergencies and economic hardships. Debt service reserves were reported at $236366 as of 12/31/2024. 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.

Once emergency and rainy-day funds 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.

In a perfect world, the water company would save enough money to acquire these improvements using cash. While this goal may be unachievable in the short term, the goal of saving 100% for predictive maintenance should be established for the long term. I tried to phase in predictive maintenance deposits beginning in FY 2026 with the first scheduled full payment not being made until FY 2029. It will require many years of scheduled predictive maintenance escrow deposits to achieve the escrow account goal of providing the company's predictive maintenance needs. In the interim you will need to secure loan money to fund your predictive maintenance needs.

The water company identified several capital projects which will be needed during the budgeted 5-year financial forecast. It was assumed that you would be borrowing 100% of your short-term capital needs. For budgeting purposes, I assumed that financing could be obtained at a market interest rate of 3% on a 20-year term. Available rates and terms will be subject to change. This is particularly true given the current economic environment.

You 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. These funds can be used to pay for project soft cost such as engineering design, environmental review, etc. The funding agencies prioritize projects which are shovel ready. The ability to fund these costs internally will give you a priority position when it comes time to secure construction funding.

The only undocumented cost which wasn't included in the budget was funding for an operator in training. Your general manager and several of the department managers will be retiring during the budget forecast period. When they retire you risk losing a lot of experience and expertise. You should consider hiring key position replacements 12 to 18 months in advance of their departure. This is particularly true if the position is filled from outside the organization.

The existing volume rate of $11.83 per 1000 gallons is rather high. High usage rates have the greatest impact upon large taps. This concern is mitigated by the fact that 1, 1 ½ and 2-inch taps represent only 1% of your customers. High usage rates will however impact on the ability to grow water sales to industrial customers. If the company could sell water to larger customers, you may want to treat them like a bulk rate like what is presently being done for the Village of Oak Hill and Jackson Water Inc. This recommendation would apply to new customers with 3-inch or larger meters.

Existing water rates are inadequate to provide the recommended level of working capital, debt service reserves (rainy day money), 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, we recommend 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. The board has been raising rates frequently anyway, the increase just hasn't been automated.

Scioto Water Inc. is presently selling wholesale water to the Village of Oak Hill and Jackson County Water. These wholesale contracts should be renegotiated with an escalation clause to allow for wholesale rate adjustments whenever rates for Scioto Water customers are increased. Automatic bulk rate adjustments should be proportionate to the increase made to your internal customers. I didn't perform a bulk rate analysis in this study; however, the bulk rates presently being charged are low when compared to what is being charged elsewhere. You may want to consider doing a wholesale rate study when it comes time to renegotiate these contracts.

For a more in-depth explanation of the rate study methodology see Ohio RCAP's publication ***"The Art and Science of Utility Rate Analysis and Structure"***.

Disclaimer:

While Ohio RCAP has taken reasonable measures to insure accuracy of these recommendations, the final responsibility for expense and revenue projections and resulting utility rates lies with the community. Rate recommendations are only as good as the information they are based upon. In order to minimize errors, the community was asked to review rate analysis format and preliminary findings in draft format in advance of their public release.