



# DDA

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**To: East Range Water Committee**

**From: Shannon Sweeney, David Drown Associates, Inc.**

**Date: January 11, 2022**

**Re: Water Treatment Project Utility Rate Analysis**

I have been asked to update my utility rate analysis for the East Range Water Project. As with my original report, it is important to understand the assumptions that are used as they can have significant impacts on the projected revenues required to support the new system. Several of the critical assumptions used in the rate analysis have been taken from preliminary engineering reports and the preliminary project worksheets submitted for the Water Infrastructure Fund (WIF) program application. Those assumptions include the following:

- 1) That there are currently 947 Equivalent Residential Users (ERU's) served by the system; and
- 2) When the project is completed there will be 990 ERU's served by the system; and
- 3) Operating costs for the new facilities will remain essentially the same with only inflationary increases; and
- 4) The total project cost is estimated to be \$24,799,844.

The assumptions used in the **Exhibit 1** rate analysis includes a funding mix that produces a weighted monthly average user rate of approximately \$37.16 which is the affordability threshold used by the Minnesota Public Facilities Authority (PFA) for the Water Infrastructure Fund (WIF) grant:

- 1) \$7.5 million in project costs will be paid from grants authorized in the 2018 and 2020 bonding bills (State of Minnesota); and
- 2) The Minnesota Public Facilities Authority (PFA) will provide the statutory maximum PFA WIF Grant of \$5 million; and
- 3) Supplemental grants of \$9.8 million will be secured from Federal and/or State sources; and
- 4) The balance of project funding will be provided by a PFA loan of \$2.5 million that has a 30-year term and an interest rate of 1%; and
- 5) The WIF Grant will require a funded reserve equal to 50 cents per thousand gallons of flow which has been estimated based on 5,000 gallons per ERU; and
- 6) Rates in all user categories are increased proportionately.

The assumptions used in the **Exhibit 2** rate analysis include the following:

- 7) \$7.5 million in project costs will be paid from grants authorized in the 2018 and 2020 bonding bills (State of Minnesota); and
- 8) The Minnesota Public Facilities Authority (PFA) will provide the statutory maximum Water Infrastructure Fund (WIF) Grant of \$5 million; and
- 9) Supplemental grants of \$7.3 million will be secured from Federal and/or State sources; and
- 10) The balance of project funding will be provided by a PFA loan of \$5 million that has a 30-year term and an interest rate of 1%; and
- 11) The WIF Grant will require a funded reserve equal to 50 cents per thousand gallons of flow which has been estimated based on 5,000 gallons per ERU; and
- 12) Rates in all user categories are increased proportionately.

**Rate Projections:**

At this point rate projections at project completion have been estimated based on the assumptions outlined above. Two scenarios have been prepared based on input from the project engineering firm.

**Exhibit 1 - \$2.5 million PFA Loan:**

The attached Exhibit 1 looks at the rate impacts assuming a loan of \$2.5 million from the Minnesota Public Facilities Authority (PFA) will be required with the balance of project costs funded through grants.

## Assumptions:

- a) 12% of the new project debt is allocated to the Town of White and 88% is allocated to the City of Aurora (\$2.5 million total project debt); and
- b) Aurora continues to make its own debt service payments; and
- c) Operating Costs are allocated based on usage.

**Exhibit 2 - \$5 million PFA Loan:**

The attached Exhibit 2 looks at the rate impacts assuming a loan of \$5 million from the Minnesota Public Facilities Authority will be required with the balance of project costs funded through grants.

## Assumptions:

- a) 12% of the new project debt is allocated to the Town of White and 88% is allocated to the City of Aurora (\$5 million total project debt); and
- b) Aurora continues to make its own debt service payments; and
- c) Operating Costs are allocated based on usage.

The funding scenarios used in this analysis are based on several assumptions including project ranking and WIF program grant availability. The final funding mix from PFA will not be known until the project has moved through their application process.

**East Range Water Project  
Water Rate Analysis - \$2.5 mil PFA Loan**

**Exhibit 1**

**ERU's @ Completion:**

		% of Total
City of Aurora	869	88%
Town of White	121	12%
<b>Total:</b>	<b>990</b>	

5,000 average per ERU  
4,950,000  
 \$ 2,475.00 -Monthly WIF Reserve

<b>Embarrass Pit Option 1b: New Debt Allocated 88%-12%</b>	Total:	City of Aurora	Monthly Cost	Town of White	Monthly Cost
			Per ERU (Aurora)		Per ERU (Town of White)
Total Estimated Operating Cost	\$264,033.00	\$232,349.04	\$22.28	\$31,683.96	\$21.82
+ Debt Service for ERWP	\$96,870.28	\$85,245.85	\$8.17	\$11,624.43	\$8.01
+ Existing Debt Service for Aurora	\$53,964.00	\$53,964.00	\$5.17	\$0.00	\$0.00
+ WIF Reserve Requirement	31,036.50	\$27,312.12	\$2.62	\$3,724.38	\$2.57
<b>= Total Required Revenues</b>	<b>\$445,903.78</b>	<b>\$398,871.01</b>	<b>\$38.25</b>	<b>\$47,032.77</b>	<b>\$32.39</b>

Assumptions:

- 1) 12% of ERWP debt paid by TOW & 88% paid by Aurora
- 2) Aurora pays its own debt
- 3) Operating costs allocated based on ERU's of each entity

**East Range Water Project  
Water Rate Analysis - \$5 mil PFA Loan**

**Exhibit 2**

**ERU's @ Completion:**

		% of Total		
City of Aurora	869	88%	5,000	average per ERU
Town of White	121	12%	4,950,000	
<b>Total:</b>	<b>990</b>		<b>\$ 2,475.00</b>	<b>-Monthly WIF Reserve</b>

<b>Embarrass Pit Option 1b: New Debt Allocated 88%-12%</b>			<b>Monthly Cost Per ERU (Aurora)</b>	Town of White	<b>Monthly Cost Per ERU (Town of White)</b>
	Total:	City of Aurora			
Total Estimated Operating Cost	\$264,033.00	\$232,349.04	\$22.28	\$31,683.96	\$21.82
+ Debt Service for ERWP	\$193,740.57	\$170,491.70	\$16.35	\$23,248.87	\$16.01
+ Existing Debt Service for Aurora	\$53,964.00	\$53,964.00	\$5.17	\$0.00	\$0.00
+ WIF Reserve Requirement	31,036.50	\$27,312.12	\$2.62	\$3,724.38	\$2.57
<b>= Total Required Revenues</b>	<b>\$542,774.07</b>	<b>\$484,116.86</b>	<b>\$46.42</b>	<b>\$58,657.21</b>	<b>\$40.40</b>

Assumptions:

- 1) 12% of ERWP debt paid by TOW & 88% paid by Aurora
- 2) Aurora pays its own debt
- 3) Operating costs allocated based on ERU's of each entity