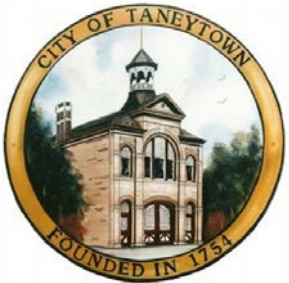


Frazier Plan Analysis

City of Taneytown, Maryland

DRAFT – WORKING PAPERS – FOR DISCUSSION PURPOSES ONLY



April 5, 2017

Results and Observations

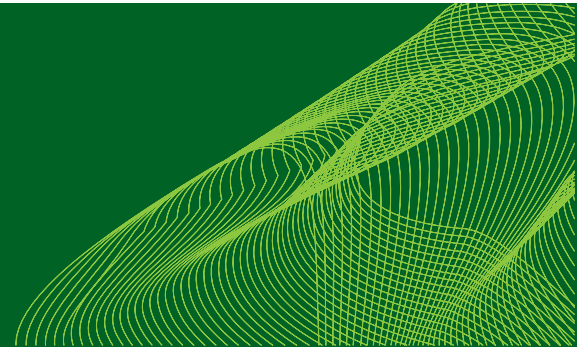


Summary Results of the Frazier Plan

- The Utility Fund begins incurring net annual losses in FY 2018, regardless of what growth assumption is used. The magnitude of the loss increases each year.
- Under conservative growth assumptions (i.e. 0 to 12 new connections per year) **all Utility Fund Cash is completely exhausted by roughly FY 2022**. Best practice/Financial Policy levels are breached within 3 years.
- Using a more aggressive growth assumption (i.e. 25 new connections per year), Utility Fund aggregate Cash would drop below Best practice/Financial Policy levels within 5 years. **Recent history in the City has shown use of a more aggressive growth assumption has been a risky strategy for the City.**
- Future capital will be required for the Water and Sewer System. The pro-forma **projections demonstrate that no cash funding of capital will be possible** and any debt funding needed to maintain the system will be **punitively expensive or not available at all.**
- The currently Self-Supporting Utility Enterprise Fund would become **reliant on General Fund support**, thus increasing the burden on the City's Real Estate Tax Rates/Taxpayers.



Resulting Impact

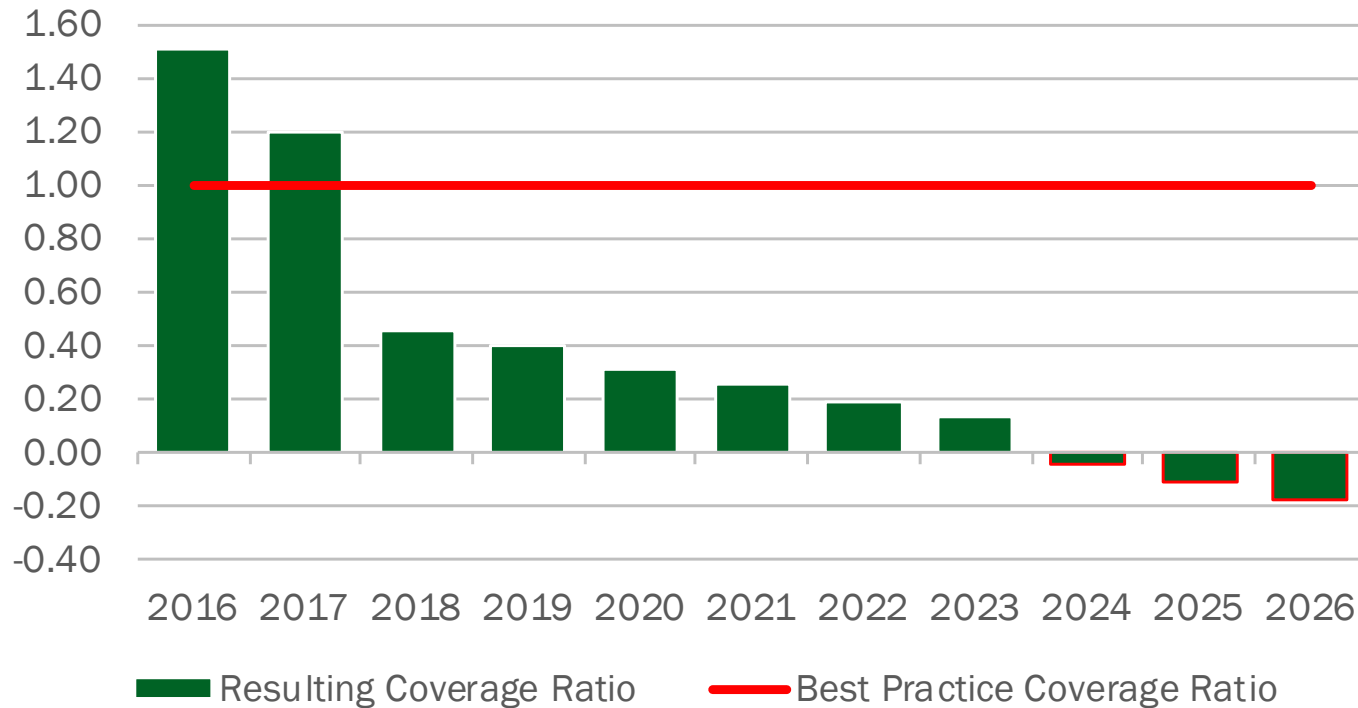


Debt Service Coverage Ratio



- The City would immediately fall below half of the Best Practice/Financial Policy Debt Service Coverage Ratio levels.
 - Debt Service Coverage of less than 1.00x indicates that the Utility Fund is not generating enough revenue to pay for its debt obligations and would be reliant on one-time cash usage to pay recurring fixed debt service costs.

Debt Service Coverage Ratio

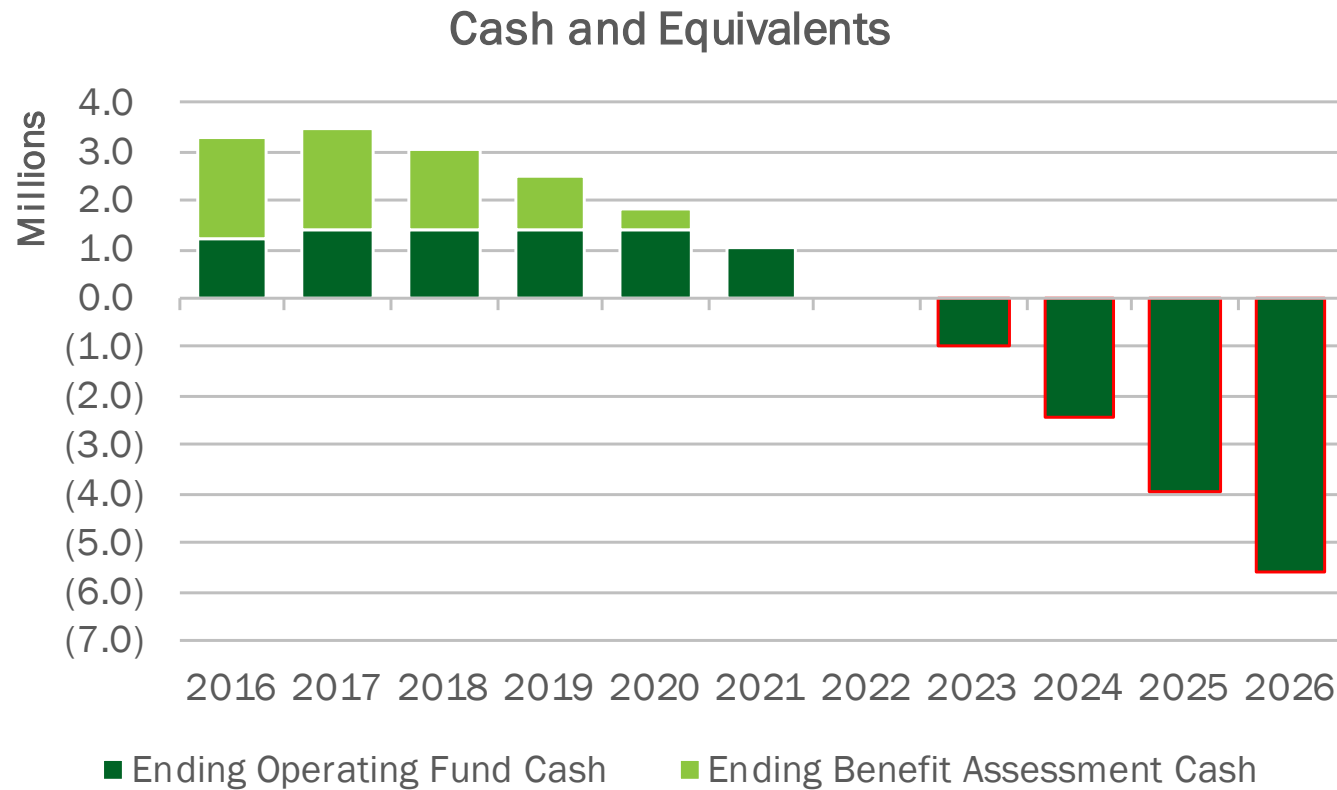


Note: Assumes the City experiences modest growth in New Connections (i.e. 12 New Connections per year) with 1 New Connection equal to 60,000 gallons billed per year.

Cash and Equivalents



- The City would run out of Operating Fund Cash and Benefit Assessment Cash in the Utility Fund by FY 2022.
 - The City’s Utility Fund would then become reliant on the General Fund to cover Utility Fund operating expenses.

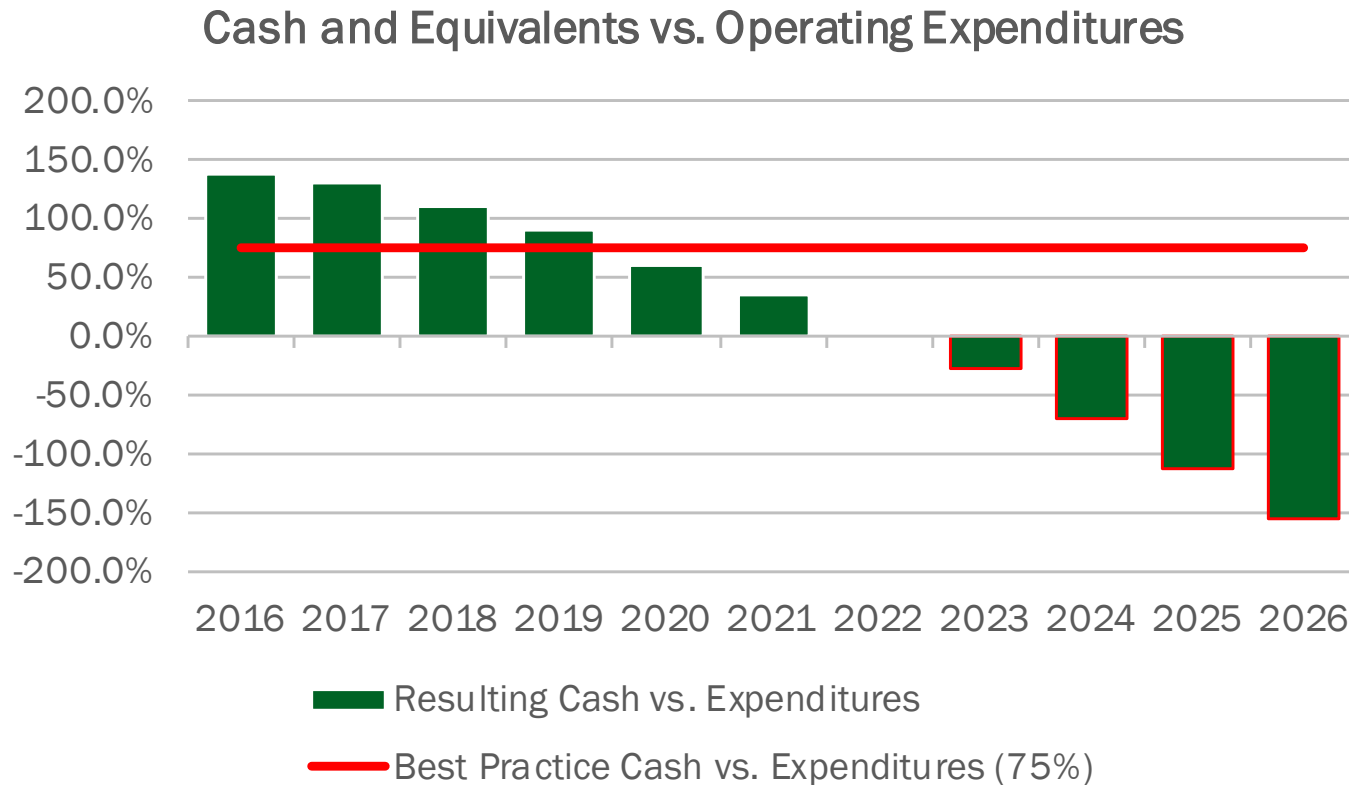


Note: Assumes the City experiences modest growth in New Connections (i.e. 12 New Connections per year) with 1 New Connection equal to 60,000 gallons billed per year.

Cash and Equivalents



- By FY 2020 the Utility Fund's Cash and Equivalents (i.e. Operating Fund Cash and Benefit Assessment Cash) would fall below Best Practice levels of 75% of Operating Expenditures.



Note: Assumes the City experiences modest growth in New Connections (i.e. 12 New Connections per year) with 1 New Connection equal to 60,000 gallons billed per year.



Pro Forma Results

Frazier Plan – User Rate Impact Analysis



- The Frazier Plan contemplates cutting Sewer Rates by 50% in FY 2018 and leaving Water Rates at current levels.

Projected Impact on User Rates							
	Actual 2016	Budgeted 2017	Projected 2018	Projected 2019	Projected 2020	Projected 2021	Projected 2022
Water Rate	\$7.37	\$7.63	\$7.63	\$7.63	\$7.63	\$7.63	\$7.63
Annual Change	13.00%	3.50%	0.00%	0.00%	0.00%	0.00%	0.00%
Sewer Rate	\$14.48	\$14.99	\$7.49	\$7.49	\$7.49	\$7.49	\$7.49
Annual Change	13.00%	3.50%	-50.00%	0.00%	0.00%	0.00%	0.00%
Sewer Base Fee	0.00	0.00	0.00	0.00	0.00	0.00	0.00

Impact on Average Quarterly Bill								Average Annual Increase
2,000 Gallons per Month Usage	\$131.12	\$135.71	\$90.75	\$90.75	\$90.75	\$90.75	\$90.75	-5.12%
4,600 Gallons per Month Usage	\$301.58	\$312.14	\$208.73	\$208.73	\$208.73	\$208.73	\$208.73	-5.12%
32,000 Gallons per Month Usage	\$2,097.96	\$2,171.39	\$1,452.03	\$1,452.03	\$1,452.03	\$1,452.03	\$1,452.03	-5.12%

Frazier Plan – No New Connections

Projected Financial Results



Projected Financial Results								
	Actual 2016	Budgeted 2017	Projected 2018	Projected 2019	Projected 2020	Projected 2021	Projected 2022	Projected 2026
Total Operating Revenues	2,682,749	2,886,808	1,947,692	1,947,692	1,947,692	1,947,692	1,947,692	1,947,692
Total Operating Expenditures	(1,191,497)	(1,577,572)	(1,640,675)	(1,706,302)	(1,774,554)	(1,845,536)	(1,919,358)	(2,245,377)
Net Non-Operating Revenues ⁽¹⁾	285,578	4,000	8,686	6,728	4,594	1,947	(904)	(15,811)
Existing Debt Service	(1,175,694)	(1,098,942)	(1,098,739)	(1,101,700)	(1,095,749)	(1,103,635)	(1,111,227)	(1,111,109)
New Debt Service ⁽²⁾	0	0	0	0	(140,923)	(140,923)	(281,845)	(281,845)
Total Debt Service	(1,175,694)	(1,098,942)	(1,098,739)	(1,101,700)	(1,236,672)	(1,244,558)	(1,393,073)	(1,392,954)
Net Income After Net Non-Operating Revenues and Debt Service	601,136	214,294	(783,036)	(853,582)	(1,058,940)	(1,140,455)	(1,365,642)	(1,706,450)
Use of Benefit Assessment Cash ⁽³⁾	0	0	(783,036)	(853,582)	(429,721)	0	0	0
Ending Operating Fund	1,193,609	1,407,903	1,407,903	1,407,903	778,684	(361,771)	(1,727,414)	(8,030,897)
Ending Operating Fund vs. Total Operating Expenditures	50.4%	52.6%	51.4%	50.1%	25.9%	-11.7%	-52.1%	-220.7%
Ending Benefit Assessments	2,066,338	2,066,338	1,283,302	429,721	0	0	0	0
Ending Benefit Assessments vs. Total Operating Expenditures	87.3%	77.2%	46.8%	15.3%	0.0%	0.0%	0.0%	0.0%
Aggregate Operating Fund and Benefit Assessments vs. Total Operating Expenditures	137.7%	129.8%	98.2%	65.4%	25.9%	-11.7%	-52.1%	-220.7%
Coverage Ratio	1.51	1.20	0.29	0.23	0.14	0.08	0.02	-0.23

(1) Includes benefit assessment, connection fees and interest income.

(2) Assumes two Financings for capital projects at estimated market rates. The first in FY 2020 for 20 years @ 5%, and the second in FY 2022 for 20 years @ 5%.

(3) The Analysis assumes Operating Losses are drawn from the Benefit Assessment Cash until the Benefit Assessment Cash is no longer available.

Frazier Plan – 12 New Connections per Year

Projected Financial Results



Projected Financial Results								
	Actual 2016	Budgeted 2017	Projected 2018	Projected 2019	Projected 2020	Projected 2021	Projected 2022	Projected 2026
Total Operating Revenues ⁽¹⁾	2,682,749	2,886,808	1,958,582	1,969,473	1,980,363	1,991,253	2,002,143	2,013,033
Total Operating Expenditures	(1,191,497)	(1,577,572)	(1,640,675)	(1,706,302)	(1,774,554)	(1,845,536)	(1,919,358)	(2,245,377)
Net Non-Operating Revenues ⁽²⁾	285,578	4,000	181,486	180,374	179,116	177,373	175,457	(9,937)
Existing Debt Service	(1,175,694)	(1,098,942)	(1,098,739)	(1,101,700)	(1,095,749)	(1,103,635)	(1,111,227)	(1,111,109)
New Debt Service ⁽³⁾	0	0	0	0	(140,923)	(140,923)	(281,845)	(281,845)
Total Debt Service	(1,175,694)	(1,098,942)	(1,098,739)	(1,101,700)	(1,236,672)	(1,244,558)	(1,393,073)	(1,392,954)
Net Income After Net Non-Operating Revenues and Debt Service	601,136	214,294	(599,345)	(658,155)	(851,747)	(921,468)	(1,134,830)	(1,635,235)
Use of Benefit Assessment Cash⁽⁴⁾	0	0	(599,345)	(658,155)	(851,747)	(576,290)	(154,800)	0
Ending Operating Fund	1,193,609	1,407,903	1,407,903	1,407,903	1,407,903	1,062,725	82,695	(5,610,209)
Ending Operating Fund vs. Total Operating Expenditures	50.4%	52.6%	51.4%	50.1%	46.8%	34.4%	2.5%	-154.2%
Ending Benefit Assessments	2,066,338	2,066,338	1,621,793	1,118,437	421,490	0	0	0
Ending Benefit Assessments vs. Total Operating Expenditures	87.3%	77.2%	59.2%	39.8%	14.0%	0.0%	0.0%	0.0%
Aggregate Operating Fund and Benefit Assessments vs. Total Operating Expenditures	137.7%	129.8%	110.6%	90.0%	60.8%	34.4%	2.5%	-154.2%
Coverage Ratio	1.51	1.20	0.45	0.40	0.31	0.26	0.19	-0.17

(1) Assumes 1 New Connection is equal to 60,000 gallons of usage per year.

(2) Includes benefit assessment, connection fees and interest income.

(3) Assumes two Financings for capital projects at estimated market rates. The first in FY 2020 for 20 years @ 5%, and the second in FY 2022 for 20 years @ 5%.

(4) The Analysis assumes Operating Losses are drawn from the Benefit Assessment Cash until the Benefit Assessment Cash is no longer available.

Frazier Plan – 25 New Connections per Year

Projected Financial Results



Projected Financial Results								
	Actual 2016	Budgeted 2017	Projected 2018	Projected 2019	Projected 2020	Projected 2021	Projected 2022	Projected 2026
Total Operating Revenues ⁽¹⁾	2,682,749	2,886,808	1,970,380	1,993,068	2,015,756	2,038,444	2,061,132	2,083,820
Total Operating Expenditures	(1,191,497)	(1,577,572)	(1,640,675)	(1,706,302)	(1,774,554)	(1,845,536)	(1,919,358)	(2,245,377)
Net Non-Operating Revenues ⁽²⁾	285,578	4,000	368,686	368,491	368,181	367,419	366,515	(3,574)
Existing Debt Service	(1,175,694)	(1,098,942)	(1,098,739)	(1,101,700)	(1,095,749)	(1,103,635)	(1,111,227)	(1,111,109)
New Debt Service ⁽³⁾	0	0	0	0	(140,923)	(140,923)	(281,845)	(281,845)
Total Debt Service	(1,175,694)	(1,098,942)	(1,098,739)	(1,101,700)	(1,236,672)	(1,244,558)	(1,393,073)	(1,392,954)
Net Income After Net Non-Operating Revenues and Debt Service	601,136	214,294	(400,348)	(446,443)	(627,289)	(684,231)	(884,783)	(1,558,085)
Use of Benefit Assessment Cash⁽⁴⁾	0	0	(400,348)	(446,443)	(627,289)	(684,231)	(884,783)	0
Ending Operating Fund	1,193,609	1,407,903	1,407,903	1,407,903	1,407,903	1,407,903	1,407,903	(2,987,797)
Ending Operating Fund vs. Total Operating Expenditures	50.4%	52.6%	51.4%	50.1%	46.8%	45.6%	42.5%	-82.1%
Ending Benefit Assessments	2,066,338	2,066,338	1,988,490	1,864,547	1,559,758	1,198,027	635,744	0
Ending Benefit Assessments vs. Total Operating Expenditures	87.3%	77.2%	72.6%	66.4%	51.8%	38.8%	19.2%	0.0%
Aggregate Operating Fund and Benefit Assessments vs. Total Operating Expenditures	137.7%	129.8%	124.0%	116.5%	98.6%	84.3%	61.7%	-82.1%
Coverage Ratio	1.51	1.20	0.64	0.59	0.49	0.45	0.36	-0.12

(1) Assumes 1 New Connection is equal to 60,000 gallons of usage per year.

(2) Includes benefit assessment, connection fees and interest income.

(3) Assumes two Financings for capital projects at estimated market rates. The first in FY 2020 for 20 years @ 5%, and the second in FY 2022 for 20 years @ 5%.

(4) The Analysis assumes Operating Losses are drawn from the Benefit Assessment Cash until the Benefit Assessment Cash is no longer available.

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