

City of Camden, SC

2023 Utility Rate Study – Water, Sewer and Electric

Report / May 19, 2023



May 19, 2023

City of Camden
Attn: Mr. Tom Couch
Utility Director
1000 Lyttleton St, Camden
SC 29020

Subject: 2023 Water, Sewer, and Electric Rate Study - Report

Dear Mr. Couch:

Raftelis Financial Consultants, Inc. (Raftelis) is pleased to provide this Water, Sewer, and Electric Rate Study Report (Report or Study) for the City of Camden, South Carolina (City). The major objectives of the Study included the following:

- » Creating a five-to-ten-year financial plan for the utility fund to ensure long-term financial stability and viability, as well as compliance with internal financial policies and debt covenants;
- » Evaluating the self-sufficiency of each department within the utility fund;
- » Recommending water, sewer and electric rates that support system operations and maintenance (O&M), capital repair and replacement, system improvements and expansions, debt service, debt service coverage, and reserve requirements;
- » Communicating the basis and merits of the recommended utility rate changes to City staff, elected officials, and other key stakeholders.

The Report describes our analyses and discusses the key findings and recommendations related to the Study. It has been a pleasure working with you, and we thank you and City staff for the support provided during the course of this study.

Very truly yours,

RAFTELIS FINANCIAL CONSULTANTS, INC.

A handwritten signature in blue ink that reads 'Melissa Levin'.

Melissa Levin
Vice President

A handwritten signature in blue ink that reads 'Mihaela Coopersmith'.

Mihaela Coopersmith
Manager

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1. Executive Summary

The City of Camden, SC (City) engaged Raftelis Financial Consultants, Inc. (Raftelis) to perform a rate study to assess the financial condition of the water, sewer, and electric utilities and to make recommendations regarding future rate increases, financial policies, and best practices. Raftelis held several meetings with City staff to gather data and guidance needed for the study. This report presents the results and recommendations of the study.

1.1. Study Objectives

The City engaged Raftelis to complete the Study in order to achieve the goals and objectives identified by the Council and supported by City staff. The specific goals and key outcomes of the Study were to:

- Create a five-to-ten-year financial plan to ensure long-term financial stability and viability, and compliance with internal financial policies and debt covenants for the utility fund;
- Evaluate the self-sufficiency of each of the three utility systems;
- Recommend water, sewer and electric rates that support system operations and maintenance (O&M), capital repair and replacement, system improvements and expansions, debt service, debt service coverage, and reserve requirements.
- Communicate the basis and merits of the recommended utility rate changes to City staff, elected officials, and other key stakeholders.

The following sections summarize the findings and recommendations from the Study.

1.2. Revenue Requirements

Raftelis has reviewed the City's historical costs, or revenue requirements, and has projected the revenue requirements over the forecast period. The forecast period consists of the Fiscal Year (FY) 2024, for which the approved operating budgets were available, through FY 2028, with the financial model projecting a full ten-year outlook. Revenue requirements included operations and maintenance expenses (O&M), debt service, cash financing of the capital improvement plan (CIP), and transfers. Raftelis projected O&M expenses based on the FY 2024 operating budget according to historical trends for the utility fund and observed industry cost increases. Raftelis also reviewed the City's ten-year CIP and discussed funding sources for each system. Given these assumptions, Raftelis projects the following increases in revenue requirements from FY 2024 to FY 2028:

- **Electric:** revenue requirements for electric are projected to increase from \$26.0 million in FY 2024 to \$29.7 million in FY 2028 (an increase of \$3.6 million, or approximately 14%). This is largely driven by increases in operating and capital expenses.
- **Water:** revenue requirements for water during the study period fluctuate between \$6.1 million in FY 2024 to \$8.5 million in FY 2027. This fluctuation through the study period is mostly driven by increases in operating expenses and rate funded capital spending included in the water plan.
- **Sewer:** revenue requirements for sewer fluctuate between \$5.7 million in FY 2024 to \$7.5 million in FY 2027. Similar to water, the majority of these increases are due to the projected increase in operating expenses and rate funded capital spending during the study period.

1.3. Recommended Rate Adjustments

Under a status quo in which utility revenues are not increased, the utilities will be put in a challenging financial situation over the planning horizon as the utilities would run annual deficits, deplete all fund balances and reserves, and fail to meet target debt service coverage ratios. Therefore, it is essential that revenues increase over the planning horizon. Given that little to no customer growth is projected, it is necessary for the revenue increases to result from user charge rate increases. The City is implementing a base charge increase of \$3.00 per month for the water and sewer departments, and \$2.75 per month for the electric department to cover borrowing associated with the advanced meter reading capital project. In addition to these base charge increases, Raftelis recommends the following rate increases for FY 2024 volumetric/demand rates:

- **Electric:** 12.5% rate increases
- **Water:** 20.0% rate increase
- **Sewer:** 20.0% rate increase

Raftelis also recommends rate increases over the forecast period to improve or maintain the financial integrity of each of the utilities. The rate increases from FY 2025 on are assumed to be across the board for both base charges and volumetric rates.

The following table provides a projection of rates from FY 2024 through FY 2028. The proposed and projected rates are based on the assumptions outlined in this study.

Table 1. Projection of Recommended Rate Adjustments

Rate Increases	FY 2024*	FY 2025	FY 2026	FY 2027	FY 2028
Electric	12.5%	9.0%	6.0%	3.0%	3.0%
Water	20.0%	11.0%	8.0%	4.0%	4.0%
Sewer	20.0%	12.0%	9.0%	5.0%	5.0%

*Note: FY 2024 rate increases are applicable only to the volumetric rates (water and sewer), usage and demand charges (electric).

2. Introduction

2.1. Background of the Study

Raftelis Financial Consultants, Inc. (Raftelis) was engaged by the City of Camden, SC (City) to perform a Water, Sewer, and Electric Rate Study (Study) for a five-to-ten-year forecast period beginning in fiscal year (FY) 2024. The Study focused on developing self-sufficient rate recommendations for the utility fund, and each department within the fund. This report provides a summary of the results and findings of the Study and provides a recommended rate program to address the City's financial planning and pricing objectives.

2.1.1. Background of the Utility

The City of Camden is responsible for providing water, sewer, and electric services to residents and businesses inside and outside the City limits. The Department has not examined the rates and fees for its services in some time and wishes to have an updated study. We have developed the following project approach based on our extensive experience in completing similar studies for other utilities while taking into account the considerations and objectives identified by the City.

2.1.2. Scope of Services

The City engaged Raftelis to perform the Study and the primary objective was to evaluate the City's existing and projected costs for utility operations and make appropriate recommendations for rate adjustments. These will sufficiently address operating and capital revenue requirements and meet the City's most important pricing objectives. The work plan included the following major components:

- Creating a five-to-ten-year financial plan to ensure long-term financial stability and viability, and compliance with internal financial policies and debt covenants for the utility fund and each department within the fund;
- Evaluating the self-sufficiency of each of the three systems;
- Recommending water, sewer and electric rates that support system operations and maintenance (O&M), capital repair and replacement, system improvements and expansions, debt service, debt service coverage, and reserve requirements;
- Communicating the basis and merits of the recommended utility rate changes to City staff, elected officials, and other key stakeholders.

Raftelis has developed a model to forecast annual revenue requirements, customer demand, rates and system revenues over a five-to-ten-year planning period for each of the three funds. The model provides a mechanism for analyzing each fund's current financial position and the future impacts of the recommended program of rate adjustments to the system and its customers.

2.1.3. Rate Study Process

Raftelis utilizes a systematic approach for rate setting, which was tailored to the City's goals and objectives. The first step in the rate setting process was the identification of study goals and pricing objectives. Raftelis conducted a project kick-off meeting with City Staff to identify the most important pricing objectives and to discuss the overall rate-setting process. During the meeting, City staff indicated the most important objective of the study was to identify the revenue requirements of each system and the necessary rate

adjustments to achieve self-sufficiency and viability of each system long-term, as well as ensure meeting debt service coverage requirements for the utility fund as a whole. The intent was not to alter the existing rate structure but rather to project costs and revenues over the forecast period and understand the level of rate adjustments and customer impacts.

The next step in the rate setting process was the development of a financial plan. The financial plan summarizes revenue requirements and projected revenues for the ten-year planning period while monitoring annual debt service requirements and reserve fund balances. The methodology for developing the forecasts of revenues and revenue requirements for each system and the proposed rate adjustments are discussed in detail below.

Raftelis has developed a financial planning and rate model to forecast annual revenue requirements, customer demand, rates, and system revenues. The model allows the City to analyze its current financial position and the future impacts of the recommended program of rate adjustments to the system and its customers. The model also allows for the City to manually adjust rates for future years to see both the financial and customer impacts of the rate increases.

3. Financial Planning Process

Raftelis utilizes a systematic approach for rate setting which was tailored to the City's goals and objectives. The first step in the rate-setting process was the identification of financial objectives, which Raftelis gathered from City staff throughout several project meetings. It was determined that the City's main financial goals included financial viability of the utility fund, revenue sufficiency, building reserves, working toward self-sufficiency of each department, and the minimization of customer impacts.

- Revenue sufficiency refers to ensuring that the projected revenue requirements are met each year.
- Financial viability refers to the utility fund enterprise status, meaning it cannot rely on outside funds to cover its revenue requirements.
- Building reserves refers to the utility having cash reserves on hand to cover unexpected revenue requirements, whether on an emergency basis or due to requirements for matching grants or other necessary spending.
- Working toward self-sufficiency of each department refers to focusing on increasing rates over time such that water, sewer and electric are each self-sufficient and not relying on one or both of the other departments to cover all of its revenue requirements.
- The minimization of customer impacts refers to mitigating the annual impacts associated with increasing user charge rates by implementing consistent increases annually, rather than implementing periodic increases of a greater magnitude which can lead to what is commonly referred to as "rate shock."

The next step in the rate-setting process was the development of a financial plan, which summarizes the revenue requirements and projected revenues for a five-to-ten-year planning period. The financial plan projects any revenue shortfalls under the City's existing rates and indicates the additional revenue necessary to support the projected revenue requirements and for each of the utilities to meet or advance towards its financial objectives over the planning period.

Revenue requirements include O&M costs, cash-funded capital, annual debt service requirements and any transfers and reserves contributions required for the purposes of maintaining financial viability. After identifying the revenue requirements, Raftelis analyzed customer demand, which is a critical element in developing rate recommendations as these data are relied upon for revenue calculation purposes. The City's billing data for the utility customers was reviewed to develop a projection of the future number of customer accounts and billable consumption and demand, upon which revenues were forecast using the existing rates.

After the financial plan was developed, the process of creating revenue adjustment scenarios and resulting rates to recover the revenue shortfall identified in the financial planning process began. Based on a wholistic view of the utility revenue and revenue requirement projections, Raftelis developed rate recommendations for each system to address the primary financial pricing and performance objectives of the utility fund.

4. Utility Financial Plan

As noted above, the development of financial plans for the utilities includes establishing forecasts of revenue requirements, determining the necessary revenue increase using forecasted customer accounts and demand, and examining the forecasted operating results and customer impacts over the five-year forecast period, from Fiscal Year (FY) 2024 to FY 2028. This section presents the financial plan and recommended results for the electric, water, and sewer utility.

4.1. Revenue Requirements

The first major task in establishing a financial plan is developing an understanding of the revenue requirements of a utility during the forecast period. Revenue requirements refer to the utility's annual costs that must be recovered through user rates, fees, and charges. Revenue requirements are comprised of cash-based expenses including O&M expenses, cash-funded capital projects, debt service principal and interest payments, and any transfers and reserve contributions.

4.1.1. Operations and Maintenance Expenses

O&M expenses represent normal, recurring expenses necessary to sustainably operate and maintain the system during the City's annual accounting cycle, which runs from July 1 to June 30. Prior year actual operating expenses as well as the FY 2023 and FY 2024 operating budgets served as the basis for the projection of utility operating costs. Operating expenses were escalated from the FY 2024 budget by 3% to 5% per year to account for growing utility costs and inflation, which is consistent with longer-term historical trends. It is worth noting that current inflationary pressures are running significantly higher than what the City has experienced historically. The FY 2024 budget serves as a baseline for projecting O&M costs, and through discussions with staff, it was determined that the current budget contains elevated projections due to the current inflationary pressures on expenses and is a solid basis for projections. However, the potential implications of sustained inflation at current levels should continue to be monitored carefully.

The system operating expenses for the first 5 years of the forecast period are presented in Table 2.

Table 2. Utility Operating Expenses

O&M Summary	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
Salaries and Wages	\$ 2,818,425	\$ 2,902,978	\$ 2,990,067	\$ 3,079,769	\$ 3,172,162
Fringe Benefits	1,305,691	1,344,862	1,385,208	1,426,764	1,469,567
Operating Expenses	21,251,585	21,981,994	22,866,677	23,787,017	24,744,455
Other Non-Departmental	351,000	361,530	372,376	383,547	395,054
Total	\$ 25,726,701	\$ 26,591,364	\$ 27,614,328	\$ 28,677,097	\$ 29,781,237

4.1.2. Existing Debt Service

Existing debt service refers to prior debt issuances and the corresponding annual debt service payments, both principal and interest, that the City is obligated to pay. The utility currently has four outstanding debt issues, the Series 2012A, 2013A, 2014A, & 2020 Combined Public Utility System Improvement Revenue Bonds. The annual debt service is approximately \$7.0 million in FY 2024 and increases to about \$7.3 million in FY 2028.

4.1.3. Capital Improvement Plan

A significant part of any utility's revenue requirements is the funding of its capital improvement plan. The City provided Raftelis with its latest capital plan, which projects infrastructure investments through FY 2033, and the study projects annual capital spending starting in FY 2024. The City plans to spend approximately \$26.6 million in total between FY 2024 and FY 2028 for the entire system. The capital financing plan assumes that the electric CIP will be primarily funded by a mix of cash, existing and proposed debt. The water and sewer CIP will be funded through a mix of grant, cash, and existing debt. Approximately \$10.3 million will be funded through grants by the system (the City was awarded \$10 million through the SCIIP grant program), \$11.5 million funded through cash, and some of the projects will be funded with debt. Table 3 presents the revenue requirements for the system.

Table 3. Utility Revenue Requirements

System Revenue Requirements	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
Operating Expenses	\$25,726,701	\$26,591,364	\$27,614,328	\$28,677,097	\$29,781,237
Current Debt Service	6,988,346	7,311,400	7,304,150	7,314,900	7,322,150
Future Debt Service	-	-	-	-	34,340
Rate Funded Capital (PAYGO)	203,638	3,326,004	2,336,616	4,555,871	1,102,893
Capital Outlay	2,687,442	1,723,503	1,702,554	1,689,995	1,731,694
Transfers to Capital Reserve	2,266,000	2,322,650	2,380,716	2,440,234	2,501,240
Total	\$37,872,127	\$41,274,921	\$41,338,364	\$44,678,097	\$42,473,555

4.2. Existing Rates and Revenues

As an Enterprise Fund, the City's revenues come principally from customer user fees and rates, with some supplemental revenue generated from other operating and non-operating sources.

4.2.1. Customer Demand

With the majority of revenues generated directly from user charge revenues, Raftelis examined customer trends to estimate the City's future customer base. Raftelis was given access to historical City billing data for FY 2020 to FY 2022, which was used as the basis for future projections. Based on discussions with City staff, and industry trends of declining per-capita consumption, Raftelis has assumed a 0.5% increase in residential (single phase) electric customer accounts while all other customer classes are assumed to remain flat throughout the projection period. Electrical usage was assumed to decrease slightly for residential (single phase) and small commercial consumers. Meanwhile, water and sewer accounts are projected to increase by 1.0% over the projection period for residents within the City limits. A 1.0% increase is also projected for inside water and sewer consumption.

Table 4 and Table 5 show customer account and usage projections over the forecast period.

Table 4. Customer Accounts Projections

Bills	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
Electric	125,509	126,052	126,597	127,145	127,696
Water	81,412	81,936	82,465	83,000	83,540
Sewer	54,130	54,589	55,052	55,519	55,992

Table 5. Demand Projections

Electric Usage (KWH)	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
Usage	176,937,370	176,462,980	175,990,961	175,521,303	175,053,993
Electric Demand (KW)	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
Demand	33,296	33,240	33,184	33,128	33,073
Water and Sewer Usage (CF)	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
Water					
Inside City	56,595,925	57,161,885	57,733,503	58,310,838	58,893,947
Outside City	30,142,730	30,142,730	30,142,730	30,142,730	30,142,730
Total: Water Usage	86,738,655	87,304,615	87,876,233	88,453,568	89,036,677
Sewer					
Inside City	52,585,145	53,110,997	53,642,107	54,178,528	54,720,313
Outside City	25,287,971	25,287,971	25,287,971	25,287,971	25,287,971
Contract	6,854,046	6,922,586	6,991,812	7,061,730	7,132,348
Total: Sewer Usage	84,727,162	85,321,554	85,921,890	86,528,229	87,140,632

The accounts, usage and demand data shown in the tables above directly inform the projection of revenue calculations. The number of accounts are multiplied by the monthly fixed charges and the projected usage and demand are multiplied by usage and demand charges for each fiscal year. The City's existing FY 2023 electric rates are shown below in Table 6 with water and sewer rates shown in Table 7 and Table 8, respectively.

Table 6. Electric Utility FY23 Rates

Monthly Charge (\$ / Month)	FY 2023
Residential (Single Phase)	\$ 9.61
Residential (Three Phase)	\$ 19.07
Small Commercial (Single Phase)	\$ 15.52
Small Commercial (Three Phase)	\$ 19.07
Large Commercial (Single Phase)	\$ 112.28
Large Commercial (Three Phase)	\$ 119.77
Large Commercial (Economic Development)	\$ 119.77
Solar Metering	\$ 9.61
Energy Charge (\$ / kWh)	FY 2023
Residential (Single Phase)	
Block 1	\$ 0.1310
Block 2	\$ 0.1234
Residential (Three Phase)	
Block 1	\$ 0.1310
Block 2	\$ 0.1234
Small Commercial (Single Phase)	
Block 1	\$ 0.1348
Block 2	\$ 0.1241
Small Commercial (Three Phase)	
Block 1	\$ 0.1348
Block 2	\$ 0.1241
Large Commercial (Single Phase)	
Block 1	\$ 0.1207
Block 2	\$ 0.0668
Large Commercial (Three Phase)	
Block 1	\$ 0.1207
Block 2	\$ 0.0668
Large Commercial (Economic Development)	
Block 1	\$ 0.1259
Block 2	\$ 0.1156
Demand Charge (\$ / kW)	FY 2023
Small Residential	
Block 2	\$ 13.14
Small Commercial (Single Phase)	
Block 2	\$ 12.41
Small Commercial (Three Phase)	
Block 2	\$ 12.41
Large Commercial (Single Phase)	
Block 2	\$ 15.33
Large Commercial (Three Phase)	
Block 2	\$ 15.33
Large Commercial (Economic Development)	
Block 2	\$ -

Table 7. Water Utility FY23 Rates

Rates		FY 2023
Inside City		
5/8" - Sprinkler	\$	17.95
1" - Sprinkler	\$	17.95
5/8"	\$	17.95
1"	\$	51.23
1-1/2"	\$	84.50
2"	\$	134.35
3"	\$	174.97
4"	\$	290.19
6"	\$	578.95
8"	\$	867.71
Volume Charges		
Tier 1	\$	1.87
Tier 2	\$	1.50
Outside City		
Sprinkler - Out Town	\$	34.67
1.5" Spcl	\$	34.67
5/8"	\$	34.67
1"	\$	101.07
1 1/2"	\$	167.47
2"	\$	266.94
3"	\$	347.98
4"	\$	577.88
6"	\$	1,154.04
Volume Charges		
Tier 1	\$	3.72
Tier 2	\$	2.98

Table 8. Sewer Utility FY23 Rates

Rates		FY 2023
Inside City		
Residential	\$	8.97
Commercial	\$	8.97
Flat	\$	8.97
Kershaw City	\$	8.97
Volume Charges		
Residential		
Tier 1	\$	3.63
Tier 2	\$	-
Commercial	\$	3.63
Flat	\$	3.63
Bypass meter	\$	3.63
Kershaw	\$	3.63
Outside City		
Residential	\$	17.26
Commercial	\$	17.26
Sewer Monitor	\$	17.26
Volume Charges		
Residential		
Tier 1	\$	7.30
Tier 2	\$	-
Commercial	\$	7.30
Sewer Monitor-610	\$	7.30
Sewer Monitor-620	\$	0.98

4.3. Recommended Financial Plan – Revenue Adjustments

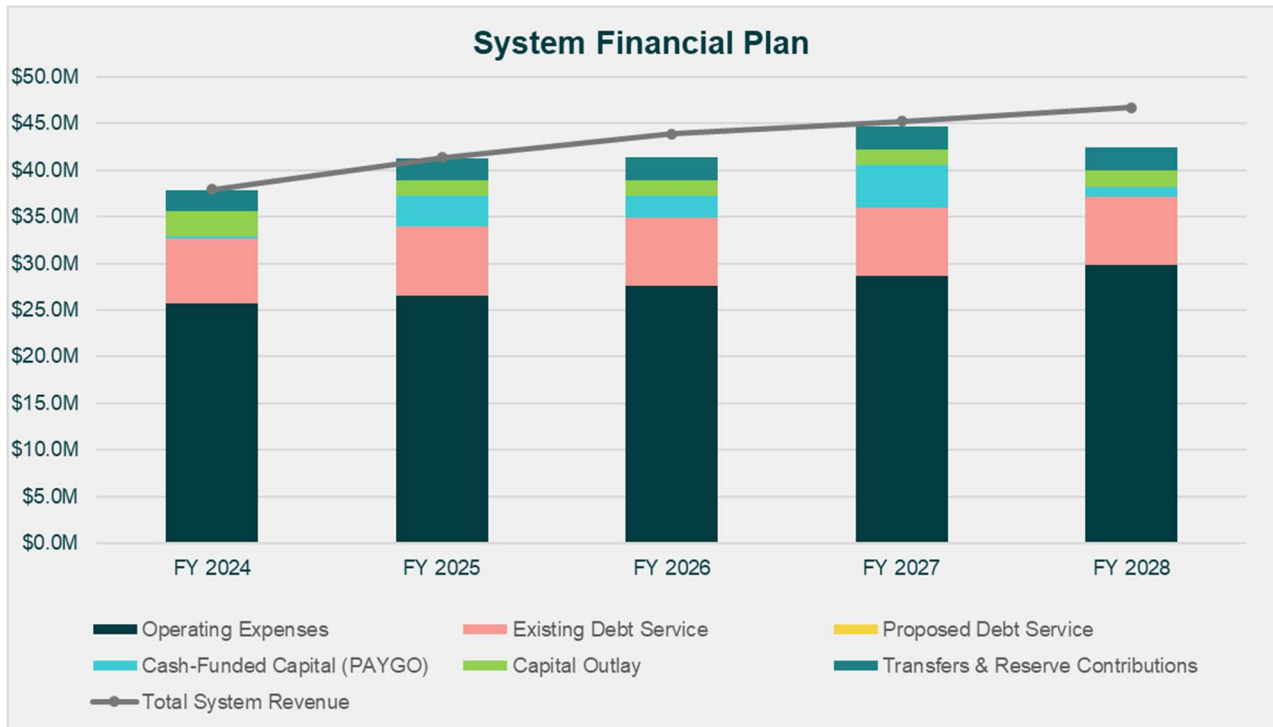
Raftelis has carefully reviewed the system wide financial condition and recommends the rate increases displayed in Table 9. The City has already stated that they are implementing a \$3.00 base charge increase for water and sewer, and a \$2.75 base charge increase for electric to cover the new debt service associated with the ARM project. The rate increases recommended below are to be applied to the volumetric rates for FY 2024, and across-the-board to the City's rates starting in FY 2025. These rate adjustments balance the City's financial objectives, which include affordability and minimization of customer impacts, with the City's financial performance objectives. The recommended rate increases will offset inflationary pressures and keep the City from falling behind with respect to rising operating and capital costs, while emphasizing utility affordability.

Table 9. Proposed System Rate Increase

Rate Increase		FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
Electric						
Monthly Charge	Base	0.00%	9.00%	6.00%	3.00%	3.00%
Energy Charge	Usage (KWH)	12.50%	9.00%	6.00%	3.00%	3.00%
Demand Charge	Demand (KW)	12.50%	9.00%	6.00%	3.00%	3.00%
Water						
Fixed Charge	Base	0.00%	11.00%	8.00%	4.00%	4.00%
Volumetric	Volume (CCF)	20.00%	11.00%	8.00%	4.00%	4.00%
Sewer						
Fixed Charge	Base	0.00%	12.00%	9.00%	5.00%	5.00%
Volumetric	Volume (CCF)	20.00%	12.00%	9.00%	5.00%	5.00%

The financial plan with the recommended rate adjustments for the combined utility is presented below in Figure 1.

Figure 1. Recommended System Financial Plan



5. Findings and Conclusions

Raftelis has reached the following conclusions and recommendations regarding the sufficiency of the City's current rates over the projection period:

- Based upon the assumptions and data described in this Study, the analysis indicates that the current rates will not generate sufficient revenue to satisfy the City's annual operating expenses, capital improvement requirements, debt service, and operating reserve requirements in FY 2024 or thereafter.
- Raftelis recommends the City adopt the recommended rate adjustments as shown in Table 9 above effective July 1, 2023.

Finally, it is important to note that there are often differences between forecast and actual results because events and circumstances frequently do not occur as expected, and those differences may be material. We recommend that the City continually monitor the ten-year financial plan to maintain their proactive approach to financial planning and rate setting.