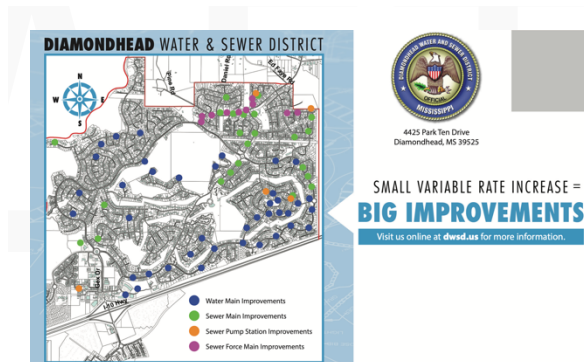


## DWSD Blog Series #6 - With So Much to Maintain, and Rehabilitate, and Increase to Meet Growth, How Is All of Our Critical District Water & Sewer Infrastructure Financed?

In this post we hope to significantly enhance our customers understanding, and appreciation for exactly how your Water and Sewer District finances the complex operations and infrastructure that provides the high quality drinking water and wastewater services you and your family demand each day. At first blush, the financing process might seem complex when, in reality, it is actually quite straightforward. Specifically, as a State legislatively created and authorized non-profit public service utility, we are obligated to operate on a full cost recovery usage fee basis. Consequently, our water and sewer fees must be constructed to recover all operating costs, plus appropriate additional allowance for systematic repair and replacement of aging infrastructure.

To meet this legislative obligation, each year we prepare, and publically post, an annual budget detailing projected operating costs and supporting cost recovery user fees. At the close of each year our operations are 3<sup>rd</sup> party audited and the resulting certified financial statement is subsequently posted for public review. The past budgets and audited financial statements for years 2015-2020 are all posted for public access on our website. Prior years budgets and statements are retrievable from archived files by request through our Comptroller.

Leading into 2021, the District was forced to undertake the first major fee schedule adjustment in over 10 years. This increase occurred as a consequence of an extensive rate study, performed by the Mississippi State University specialist for rate setting, which determined that our current rate structure, which had remained frozen since 2016, would fail to meet District financial obligations in less than 36 months. This fee adjustment was consequent to correcting politically influenced decisions to foolishly freeze, and even reduce rates for an extended (10 year) duration. These rates simply ignored the reality of steadily rising market costs and an increasing backlog of infrastructure requiring immediate replacement.



Any significant shift in utility fees is understandably attention getting for our customers. However, this one has been easily the most misunderstood and, consequently, misrepresented. You see, over 80% of our customers consistently use on average between 4,000-8,000 gallons of water and sewer monthly. The vast majority of those use less than 6,000 gallons. In 2010, the fee for this level of use ranged between \$63 - \$83 per month. Had the District simply followed the annual rate of inflation with correspondingly minor annual adjustments, that same fee schedule would have incrementally adjusted to between \$75 - \$99 per month today. As the chart illustrates, the District's new fee

	Combined Water & Sewer Use Fee				
	4000 gal.	5000 gal.	6000 gal.	7000 gal.	8000 gal.
2010	\$ 63.04	\$ 68.00	\$ 72.96	\$ 77.92	\$ 82.88
2010 Base Rate Adjusted for Inflation (Bureau of Statistics CPI)					
2021	\$ 75.49	\$ 81.43	\$ 87.36	\$ 93.30	\$ 99.24
2021 Adjusted Rate Fee Schedule					
2021	\$ 71.28	\$ 78.42	\$ 85.56	\$ 92.70	\$ 99.84
Change:	\$ (4.21)	\$ (3.01)	\$ (1.80)	\$ (0.60)	\$ 0.60

schedule still remains below the adjusted inflation rate (2010-2020) unless our customers use 8,000 gallons or greater of water monthly.

Further exacerbating an already flawed billing structure, the legacy billing system carried over from the 1990s, capped billing at 8000 gallons of use. This amounted to basically giving water away for large volume users. Needless to say, this class of users saw substantial increases in their billing after the price adjustment as it was the first time they had been billed for use above 8000 gallons. Most of these high volume users are irrigating large properties or have other non-typical water demands such as continuous flow pools. To help reduce costs, the District offers these unique customers the optional purchase of a special separate meter system to avoid needlessly paying for sewage collection and treatment they are not using in these applications.

Included in the financing structure of our utility is the ongoing acquisition and repayment of various loan structures. Public water and sewer systems rely primarily on 4 finance instruments to help augment large-scale upgrade project financing. They include:

- (1) Federal Drinking Water State Revolving Loan Funds (DWSRF)
- (2) Federal Clean Water State Revolving Loan Funds (CWSRF)
- (3) Open Market Revenue Bonds
- (4) Federal / State Assistance Grants (where eligible and applicable)

As detailed in Blogs #2-3, the District has tens of millions of dollars worth of critical major repairs yet to be undertaken to properly rehabilitate the 180+ miles of aged water and sewer piping. These finance instruments make it possible to affordably address these repairs through strategic 5 year capital improvement project planning using low interest loans. The District has consistently used these mechanisms since its inception in 1989. Due to the historically low interest offered today, we will be utilizing open market revenue bonds to secure the funding needed for our current 5 year capital plan (discussed in Blog #5).

The District's new capital improvements bond has been another subject grossly misrepresented around our community. Specifically, some community political leaders, and local media have propelled the myth that this \$12.5M bond will add another \$20 per month to our customers' bills. That is simply false, repayment of this bond was and is already structured into the new rate schedule instituted in December 2020.

Another central question to financing regards the new infrastructure needed to service the expansion of our burgeoning residential and commercial developments. To properly answer that question we have to separate 3 separate classes of new development. First, the conversion of previously undeveloped, but prior platted lots along our existing roads and right of ways. This type of development does not require anything more than the water and sewer connection taps to our mains lying along the easements. The second involves new residential developments such as Beaux Vue Phase 2 and the Elliott Homes Diamondhead Lakes Development. For this group, the District works in tandem with the City Manager and Permits Division to provide piping specifications for the developer to meet District standards for connection. Developers must self finance and construct this new distribution and collection infrastructure accordingly. Service is then provided at the point of tap and meter as with any existing new residence. The third class involves new Commercial Development, such as the

new Memorial Imaging and Clinic on Veterans Drive and the Dollar General. Coordination on these development projects is handled similar to new residential phases where the District provides the technical specifications for the Developer to follow. In these situations the Developer and, at times, the City through various incentives where determined advantageous to the community, co-finance the new distribution and collection infrastructure needed to connect to the District's services.

As we discussed in previous blogs, the District's capacity to absorb these significant new service demands is not possible without corresponding infrastructure investment in our services. Hence, the new \$12.5M bond is necessary to install the new Water tower and main service line water distribution and sewer collection piping system rehabilitations required to stabilize existing and meet new service demands.

In summary, the District, through continually excellent technical and financial administration of our services, provides the best service to value of any comparative utility offering today. We sincerely hope that these building block information posts have given our customers a far greater appreciation for your District's attention to every management detail supporting your water services.

As a reminder, please join us at any of the four upcoming townhall meetings where we look forward to answering any outstanding questions you may still have regarding your water services or our position on the Consolidation Referendum.

### **DWSD Town Hall Meetings**

**Saturday, May 15<sup>th</sup> at 9:00 a.m. to 11:00 a.m. – POA Community Center**

**Tuesday, May 18<sup>th</sup> at 10:00 a.m. to 12:00 p.m. - Country Club – Emerald Ballroom II & III**

**Wednesday, May 26<sup>th</sup> at 4:00 p.m. – 6:00 p.m. - City Hall Council Chambers**

**Thursday, June 3<sup>rd</sup> at 6:00 p.m. – 8:00 p.m. - City Hall Council Chambers**

Thank you again for your ongoing interest and support. Please continue to follow the remaining 2 posts as we wrap this series up over the next month in preparation for the Referendum vote on June 8th.

The Diamondhead Water and Sewer Board