TRILOGY
CONSULTING, LLC
MUNICIPAL & UTILITY ADVISORS

TO: Brian Helminger, District Director

FROM: Christy DeMaster, Trilogy Consulting

DATE: July 2, 2025

RE: Sewer Rate Study Update

HOVMSD retained Trilogy Consulting, LLC to review the existing sewer rate structure and identify any changes recommended based on changes in operations, customer flows and loadings, cost structure, or infrastructure upgrades or current best practices in ratemaking. The purpose of this memo is to provide an update on the status of the study and preliminary recommendations and findings.

To date, Trilogy has completed the following:

1) Reviewed the 2008 sewer rate study prepared by McMahon Associates, multiple years of sewer rate calculations, the excel spreadsheet formulas used to calculate the rates, the current list of sewer assets, and several years' annual audits.
2) Compiled and analyzed historical trends in flows and loadings from each member municipality, total flows and loadings treated, revenues and expenses, capital outlay funding, debt service, and restricted and unrestricted cash balances.
3) Evaluated the financial status of HOVMSD and how well the current methodology is performing in terms of generating reasonable revenues and charging each of the member municipalities in proportion to contribution of flows and loadings.
4) Conducted an in-depth review of the cost of service and rate calculation methodology to identify any potential adjustments based on industry best practices and current conditions.

Our preliminary findings, recommendations, and next steps are outlined below.

Financial Status and Reasonableness of Rates

- HOVMSD is in an excellent financial position.
    - Debt coverage (total revenues minus operation and maintenance expenses) has been above 1.40x debt service in recent years, well above the 1.10x level required by the Clean Water Fund Loan Program (CWFLP).
    - Days cash on hand (unrestricted cash balance divided by average daily operating expenses) exceeded 500 days at year end for 2019 through 2023. To earn the highest rating on this factor from Moody's Investor Service on this criterion, a utility needs to

maintain at least 250 days' cash on hand.[1] Unrestricted cash balance was lower at year-end 2024 due to funds spent on the interceptor rehabilitation project that were not reimbursed from the CWFLP before year end.

- Rate setting and budgeting practices are conservative, resulting in the District's actual revenues typically exceeding projections and expenses coming in under budgeted amounts. For 2019 through 2024, revenues were approximately $3.0 million over O&M expenses, debt service, cash funded capital outlay and deposits to the Equipment Replacement Fund (ERF).
- The ERF fund balance was almost $9.5 million as of year end 2024. The total original cost of all equipment included in the ERF calculation is just under $12.9 million. HOVMSD may want to consider changing from an itemized schedule with an annual deposit to the percentage method of determining the minimum ERF balance. Under the percentage method, utilities with $10.0 - $20.0 million in equipment need to maintain a minimum ERF balance equal to at least 10% of the equipment subject to ERF funding, or about $1.3 million for HOVMSD. If the balance fell below that level, the District would have three years to restore the fund balance to the minimum required level. If the District eliminates the annual ERF deposit from its budget and rate calculations, there may need to be an amount added to the provisions for debt service to provide the necessary 1.10x debt coverage required by the CWFLP (the ERF deposit increases revenues but doesn't count as an expense for calculating debt coverage).
- Using an average of the last three years flows and loadings for each member community results in underestimating flows and loadings for a community with increasing flows and loadings and collecting higher than projected revenues from that community. In recent years, this impact has been most pronounced with the Village of Little Chute. The alternative to this is to use trend analysis to develop projections, however that introduces more subjectivity.

Allocation Methodology

- The rate methodology allocates costs to member municipalities in proportion to their contributed flows and loadings and is generally consistent with industry standards.
- Debt service for the interceptor rehabilitation project should be allocated based on volume instead of demand (number of customers) to be consistent with the allocation of the Marine Manhole project debt service and interceptor sewer maintenance expenses.
- About half of the current expenses (Payroll, Workers Comp Insurance, other miscellaneous O&M expenses, 2006 debt service) are allocated according to the allocation of the capital cost of the wastewater treatment facilities in the 2008 rate study. The allocation of Payroll

[1] Rating Methodology, US Municipal Utility Revenue Debt Methodology, April 13, 2022, Moody's Investors Service

and Workers Comp could be modified to allocate specific categories of wages and associated workers comp based on the type of position (i.e. operators vs. administration).

- The allocation of plant assets hasn't been updated since 2008 and needs to be updated to reflect plant additions since 2008, the most significant of which are the disc filter project and the interceptor rehabilitation project.
- The allocation of deposits to the ERF hasn't been updated since 2008 and needs to be updated to reflect the current equipment list.
- There are some assets in the ERF list that shouldn't be included, such as valves.
- The classification or grouping of plant assets and ERF assets in the 2008 rate study is unusual. Typically, assets are identified by a smaller number of categories and by general function such as preliminary treatment, primary treatment, secondary treatment, sludge handling, disinfection, plant site piping, etc. rather than by proprietary process names such as Actiflo or Biostyr.
- The classification of plant assets used in the 2008 rate study cannot be entirely verified or recreated since the asset management system doesn't have descriptions or account numbers for each asset that correspond to the categories used in the 2008 rate study.
- There are 27 distinct allocation methodologies for O&M expenses, ERF deposits, total plant allocation, and debt service allocation. Allocation percentages for specific treatment processes (i.e. Actiflo, Biostyr) vary for O&M expenses, ERF deposits, and total plant.

Next Steps

- Work with District staff to develop specific recommendations for managing the ERF balance and deposits going forward.
- Work with District staff to develop a simpler classification scheme for all plant assets and equipment and classify each asset accordingly. This will be done initially using an excel spreadsheet of all assets downloaded from the asset management software. The District could update this spreadsheet as assets are added or retired and use it to generate an updated plant allocation and ERF allocation each year for the rate study. Alternatively, if the District purchases new asset management software, these classifications could be added to the new database.
- Simplify the allocation methodologies to be consistent for O&M, capital and debt service for each process.
- Develop estimated rates using the updated cost allocation methodology.