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March 4, 2016

Dr. Brant Keller
Public Works Director
City of Griffin, Georgia

Subject: Financial Plan & FY 2017 Rate Update

Dear Dr. Keller:

Raftelis Financial Consultants, Inc (RFC) was engaged by the City of Griffin (City) to evaluate the City's water and wastewater financial plan based on the FY 2017 budget request. This project included updating the comprehensive financial planning model to account for the most recent customer account and usage information, anticipated operating expenses, capital investments and the proposed method of financing those investments, as well as synchronizing with the wholesale customer rates and revenue forecast. The objective of the evaluation was to develop a forecast of rates and charges that will meet the revenue needs of the water and wastewater utilities, while positioning the City for healthy long-term fiscal performance.

The capital improvements that have been identified through 2024 represent significant investment in the aging infrastructure of the water and wastewater systems. The total anticipated water capital needs for FY 2016 through FY 2024 are approximately \$57 million. This includes upgrades to the Harry Simmons Treatment Plant, replacing the 1929 Flint River Pump Station, rehabilitation of raw water lines, and other projects. The total anticipated wastewater capital needs for FY 2016 through FY 2024 are approximately \$27 million. This includes an expansion of the Potato Creek Wastewater Treatment Plant, modifications to the Cabin Creek Wastewater Treatment Plant, and other projects. Given the magnitude of these needs over the next ten years, it is important to ensure the utility is well-positioned to make these investments.

RFC worked with City staff to evaluate several possible scenarios for the financial plan of the utility to meet the anticipated operating and capital needs of the future based on a number of assumptions related to the timing of capital projects and expected costs, and capital funding or financing sources. Financing of the capital improvements was assumed to be achieved with a mixture of GEFA loans, capital cost recovery funds, the Coweta payment funds, Industrial Drive Interceptor contributions and cash generated annually through the user rates and charges. The capital financing plan balances near term revenue needs with amortization of the investment costs throughout the useful life of the assets.

RFC and City staff considered a number of options of rate adjustments to meet future needs. The initial option involved equal rate increases to both water and wastewater rates throughout the forecast. As a whole, the utility would be able to meet its future revenue requirements, however, under this scenario, the wastewater system would continue to partially subsidize the water system costs, although this subsidy was being reduced slowly over time. With this in mind, the second scenario shifted the majority of the overall revenue increases to the water system so that water utility would become self-supporting more quickly. The following table presents the rate increases that are projected to meet the operating and capital needs of the

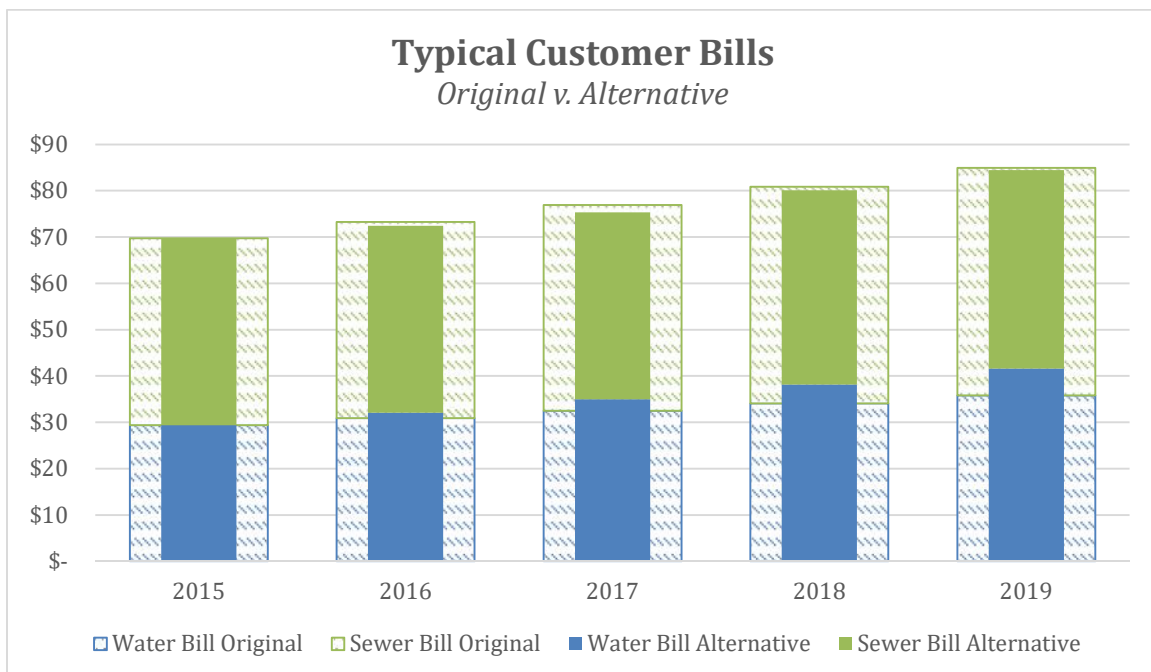
system while bringing the water utility to a self-supporting position. The increases projected for 2017 – 2019 are for informational purposes only since the City reevaluates the financial plan annually to ensure the proposed rate adjustments reflect the latest information. These proposed rate increases are assumed to occur on March 1 of each year, and include any adjustments that could occur due to increases in the MCI. In other words, there would no longer be a separate, automatic rate adjustment tied to the MCI, just a single rate adjustment made each year.

<i>EFFECTIVE MAR 1</i>	2016	2017	2018	2019
WATER RATES	9.0%	9.0%	9.0%	9.0%
SEWER RATES	0.0%	0.0%	4.0%	2.0%

A typical residential customer that uses 5,000 gallons of water per month would see the following monthly bills based on these projected rate increases.

<i>5,000 GAL</i>	2015	2016	2017	2018	2019
Water Bill	\$ 29.40	\$ 32.06	\$ 34.97	\$ 38.14	\$ 41.58
Sewer Bill	\$ 40.33	\$ 40.33	\$ 40.33	\$ 41.97	\$ 42.84
TOTAL BILL	\$ 69.73	\$ 72.39	\$ 75.30	\$ 80.11	\$ 84.42
\$ Change		\$ 2.66	\$ 2.91	\$ 4.81	\$ 4.31
% Change		3.8%	4.0%	6.4%	5.4%

The following graph presents the typical bill projection for the initial rate scenario with equal rate increases applied to both water and sewer rates along with the bills under the alternative that has shifted the increases to the water system. Since the rates are designed to recover the same level of overall revenues each year, consistent with the capital funding plan, the overall bill is comparable under each scenario (with the proposed alternative slightly lower than the initial), although the water bill increases to better support water costs under the alternative approach.



The projected rate increases are necessary to achieve the goals and objectives of the financial plan, which include:

- Funding the annual operating and capital needs of the system to ensure reliable service delivery;
- Maintaining compliance with legal and coverage requirements related to long-term indebtedness;
- Strengthening the financial position of the water and wastewater utility funds to enhance the creditworthiness to address future borrowing needs; and
- Minimizing impacts to water and wastewater customers

Additionally, all wholesale customers of the City continue to generate revenue that fully recovers the costs incurred by the City to provide service to those customers. The wholesale rates are evaluated annually to keep the rates aligned with their costs of service.

Raftelis Financial Consultants appreciates the opportunity to work with the City. Should you have questions regarding the topics discussed in this letter, do not hesitate to contact me at 704.373.1199.

Sincerely,

RAFTELIS FINANCIAL CONSULTANTS, INC.

A handwritten signature in blue ink, appearing to read "Alexis F. Warmath".

Alexis F. Warmath
Vice-President