

VILLAGE OF DEXTER RATE STUDY

April 2006

Section One

Objectives and Methodology

Objectives

The primary objective of this fund analysis and rate study is implement economical and equitable user rates to ensure proper funding of Operation and Maintenance (O&M), outstanding debt service, replacement reserve (whether restricted or unrestricted), and future capital improvement through cash funding and/or debt funding. Additional objectives include: ensuring that the rate structure itself properly reflects the customer base by equitably allocating cost, calculating a connection charge based on industry standard, and ensuring that all ordinances and resolutions that have been adopted and are to be adopted are consistent with the results of the rate study.

These goals will be accomplished with a scope of services that will begin with an analysis of past and current performance. This will include certain parameters for things such as replacement, debt service, and capital reserve. The rate structure itself will be assessed for effectiveness given the customer base being served. A rate level will be determined for the immediate future, but more importantly a long-term plan to manage rates will be suggested based on budget projections and capital improvement needs. The existing ordinances, amendments and resolutions will be reviewed in all respects for adequacy. This includes any subsequent questions or adjustments after completion.

Methodology

To meet the objectives as stated above, the rate study must provide certain analysis of the cost elements or revenue requirements. There are various approaches:

The two generally accepted and practiced approaches to projecting total revenue requirements of a sewer utility are the “cash needs” approach and the “utility basis” approach. The objective of the cash needs approach for projecting revenue requirements is to ensure that utility revenues are sufficient to recover total cash needs for a given projection period. Basic revenue requirement components of the cash needs approach include O&M expenses, debt service payments, contributions to specified reserves, and the cost of capital expenditures that are not debt-financed or contributed. Depreciation expense is not included.

The term utility basis in rate making comes from allocating revenue requirements or total costs of service to be derived from water rates, among the classes of customers served (and includes rate of return as a cost element). [AWWA]*

ACI Finance, Inc. utilizes both cash needs and utility basis. The emphasis is on cash needs, however, since this method is more conducive to municipal owned systems (except where wholesale sales are substantial and contract cost elements must be determined). The rate of return aspect of utility basis is not applicable, but the method has particular benefit in the concept of ensuring a proper level of revenue support from various classes or even large individual customers.

While cash needs and utility basis provide excellent tools in analyzing cost, they are less effective in equipping a municipality for continuing management of rates and charges.

Asset Based Budgeting (ABB) was developed by ACI Finance, Inc. to aid communities in identifying how their water and sewer funds are performing over time and provide a tool for proactively managing rates. ABB focuses on the funds on hand, i.e. cash and investments, which are available to meet the demands of maintenance to the system as well as potential fluctuations in operating cost.

*AWWA: this reference, found throughout this document, denotes a direct reference to the American Water Works Association Manual of Water Supply Practices.

Section Two
Water Fund Annual Performance

The schedule that follows is a summary of the budget and audit information regarding the Water Fund. The following are specific observations:

2-1) The Service Charge revenues have increased approximately 80% between Fiscal Year End (FYE) 2002 and 2005, due to adjustments in rates and consistent growth in the customer base.

2-2) The expenditures fluctuate from year to year, which is normal for water and sewer funds: while the majority of expenses are subject to typical inflation, the repair and maintenance spending can be erratic. The operating expenses, in total have increased substantially since FYE 2002 ... aside from repair and maintenance, in particular Personnel expense has increased.

2-3) The Net Operating Cash Flow has fluctuated from year to year, but is generally headed in the wrong direction, i.e. the margin is diminishing. This could lead to a dependence on connection charges to meet operational cost ... not a favorable trend when connection charges will eventually reduce to a more nominal amount. *This is a key aspect of this cost of service analysis.*

2-4) Charging for administration is a common and acceptable practice, as the administration and general government supports the operations of the water fund. The amounts for these charges are on the low end of an acceptable range. A higher percentage of time for the Village Manager and staff could be justified.

2-5) Depreciation is the loss in value of facilities, not restored by current maintenance, that occurs in the property because of wear and tear, decay, inadequacy, and obsolescence. [AWWA] The Net Cash Flow does not include depreciation since this expense is not a hard cost or, in other words, not a component of cash flow. Depreciation of assets, to some degree, is allowed for in projecting future revenue requirements in order to properly fund repair, replacement and capital improvement.

2-6) The capital purchases have an erratic effect on the cash flow just like repair and maintenance. The historical results also reflects a one time pay down of debt (this was for the USDA loan).

2-7) Restricted funds include reserves (as required by USDA) for Repair Replacement and Improvement (RRI) and Debt Reserve. The RRI reserve should be utilized for all system repair and maintenance prior to using unrestricted funds.

2-8) An indication of proper funding of repair, replacement and capital improvement is an adequate amount of cash and investments. This is the premise of ABB as described in *Methodology*. Adequate for most systems would be 50% to 100% of the annual Operation and Maintenance (O&M) budget depending on the age of the system, capital needs, etc. As will be further discussed later in this report, the Water Fund cash and investments the are unrestricted or in RRI reserve are about 85% of the O&M expenses for FYE budget 2006. This is currently an acceptable level.

Section Three
Water Fund Past and Current Rate Structures

The Water Fund revenue support is based on a per customer Readiness to Serve (RTS) with no volume included plus a commodity charge. This is billed on a bi-monthly basis. The following are observations regarding the rate structure:

Rate structures vary from utility to utility, but generally include three elements. First, they include consideration of the classifications of customers served (i.e., residential, commercial and industrial). Second, they establish the frequency of billing. Third, they identify the charges or schedule of charges each classification of customer will be assessed. It is this final element of a rate structure, the schedule of charges on which utilities and customers tend to focus. The design is a function of many diverse and sometimes competing objectives. [AWWA]

3-1) The rate structure itself, i.e. RTS with no volume and charged by customer (not by meter size) plus a commodity charge, is an excellent choice for this customer base. With the emphasis on commodity charge it conveys an equitable distribution of cost. It is, in fact, a model of the past EPA standard for a user charge system.

3-2) According to Act 94 of 1933, as amended, and the Village's outstanding Revenue Bond Ordinances (bond issues for the USDA loan), all revenue must follow a specific flow of funds: all moneys collected must first be applied to O&M, second to debt service, third to debt service reserve, and finally to capital improvements ... funds that remain go back through this flow the following fiscal year.

3-3) While the revenue bonds remain outstanding, funds may not be transferred out of the Water Fund.

3-4) The RTS revenue generates approximately 23% of total user charge revenue. This is a reasonable percentage; if this were 30% or greater, it would probably be too high compared to fixed cost. Volume is generally regarded by regulatory agencies and the industry as a more equitable form of rate setting:

Uniform rates, i.e. commodity charges, are easily understood and implemented, perceived as equitable, provide utilities with a degree of revenue stability in

comparison to other more complex rate forms, and facilitates conservation because customer bills vary with the level of water usage. [AWWA]

3-5) Based on the customer and volume count, we are able to calculate Total Annual Revenue such that it comes within a reasonable percentage of FYE 2005. This is referred to as the “test of accuracy,” and it indicates these historical operating figures may be used for projections.

3-6) The water system Connection Charge is \$3,000. Connection charges are intended to provide equity buy-in to a system that has been supported by existing customers:

It is common policy for government-owned utilities to recover directly from the customer the costs of installing a tap or connection to a water main, the service line to the property, and the water meter. System Development Charges (SDCs) assign the capacity cost of growth, at least in part, to those causing the growth rather than to existing customers. The objectives may include having new development pay its own way, fund major system expansion, fund a portion of capital improvements, minimize debt, recover capital costs, maintain appropriate level of retained earnings and cash reserves. [AWWA]

There are various approaches to determining the level of the connection charge which include:

The two basic methods for calculating SDCs are the equity method or system buy-in and the incremental cost method. The financial goal is to achieve a level of equity from new customers by collecting a SDC representative of the average equity attributable to existing customers. The incremental cost method is based on the concept of new development paying for the incremental cost of system capacity needed to serve new development. This approach proposes to mitigate the cost impact of new growth on existing customers’ user rates. The goal is to charge a fee for new customers sufficient to allow customer user rates to be revenue-neutral with respect to growth of the system. However, in systems undergoing rapid and expensive growth, this may be difficult to achieve.

A key component of developing an equity method SDC is determining system equity. The major components include the valuation of system assets, accumulated depreciation, system liabilities, sources of equity, and system capacity. One measure of the valuation of the system assets is the original value of the total plant less accumulated depreciation. This valuation may be adjusted to recognize the cost of reproducing or replacing assets.

The incremental cost method assigns to new development the incremental cost of system expansion needed to serve the new development which includes various factors, including the period of growth, growth rates, type of growth, capacity associated with the various improvements needed to serve the projected growth, and cost of these improvements. [AWWA]

The basic industry standard calculation may be derived by taking the equity value from FYE 2005 (\$5,779,088) divided by the system's total number of customers (1,911 meters) with the result being an average equity value of \$3,025. This is very close to the current \$3,000.

However we have future capital improvement to consider. Another way to calculate the connection charge is to add the amounts estimated to be needed for future capital improvement and bonding (\$1,987,000 and \$1,200,000, respectively) to the above-mentioned equity value and divide the corresponding total by the system's total number of customers plus the total number of future REUs (within 10 years), to arrive at a connection fee of \$3,550.

These industry calculations should be considered upper limits to the connection charge.

Given the current cash position of the fund, the connection charge may remain at \$3,000.

Section Four
Water Fund
Projected Cash Flow and Rate Structure

Cash Flow

The revenue requirements were formulated on the historical performance and current budget information.

4-1) The “Projected Cash Flow” is a means of identifying the trend in expenses that is anticipated over a period of time.

From a revenue-adequacy standpoint, projections beyond 10 years tend to be quite speculative and are of questionable value. Usually a projection period of about five years is considered adequate. [AWWA]

4-2) Revenue requirements are frequently expressed in terms of a “Test Year” for the purpose of allocating costs and designing rates. [AWWA] The Test Year is not a restated budget; rather, it is an estimated level based on actual historical performance and anticipated changes. The purpose it serves is to give guidance on projecting levels of cash flow in order to manage rates over the next two to three years. General operating expenses have been increased for inflation by 3% annually and personnel and administrative cost by 4%.

4-3) Non-Operating Expenses includes estimated future debt service. It also includes “Capital Purchases” that are anticipated to be paid from cash.

It is common practice for utilities to finance a portion of the capital improvement program from annual revenues. Often, normal annual replacements, extensions, and improvements (such as meters, services, vehicles, smaller mains, and similar items, which occur on a regular basis each year) are financed in this way.

Also, utilities may use current revenue to finance a portion of major capital replacements and improvements. However, major capital projects are typically debt-financed because the repayment of the debt over a number of years reduces fluctuations in annual revenue requirements and more closely matches capital costs to the useful life of the facility. Thus, existing customers will not be required to pay 100 percent of the initial cost of facilities to be used by future customers. [AWWA]

The level reflected in the Capital Purchases line item is intended to provide “pay-as-you-go” funding for system improvement and replacement.

4-4) Utilizing ABB, a target level of funds on hand must be identified. **It is the recommendation of this report that the target level of funds on hand be no less than 50% and preferably 75%. This is a key management tool that can be used by Council and staff to gage the performance of the Fund from year to year.** *This should not be considered a barrier ... dropping below this level is acceptable with a plan within a few years to bring the level back to target.*

4-5) Outstanding debt should be evaluated in 3 to 5 years for cash pay-off and/or refinancing.

Rate Structure and Rate Adjustment

There are two separate issues to address: the rate structure, and the management of the rates based on an anticipated method and level of capital improvement funding.

The process of selecting the most appropriate rate structure for a particular utility is not simple. The selection is complex because there are so many types of rate structures. No one rate structure meets all utility objectives equally, and not all objectives are valued the same by the utility or its customers. [AWWA]

4-6) Rate Structure: it is the recommendation of this report that the rate structure be maintained. It is an excellent example of an equitable distribution of cost for the customer base being served.

4-7) **Rate Adjustment: the key to this review is the development of a Net Operating Cash Flow with an increasing margin.** For this reason a one time

increase plus annual adjustments for inflation is recommended. In this way, dependency upon connection charges and/or other dependency funds will be avoided and the long term financial independence of this Enterprise Fund will be better ensured.

THE PROPOSED RATE MUST BE REVIEWED PERIODICALLY. THE VARIABLES USED, INCLUDING PROJECTED OPERATION AND MAINTENANCE COST, MAY BE SUBJECT TO SIGNIFICANT VARIATIONS DEPENDING ON DECISIONS RELATED TO FUTURE SYSTEM IMPROVEMENTS.

Section Five
Sewer Fund Annual Performance

The schedule that follows is a summary of the budget and audit information regarding the Sewer Fund. The following are specific observations:

5-1) The Service Charge revenues have increased approximately 57% between Fiscal Year End (FYE) 2002 and 2005, due to adjustments in rates and consistent growth in the customer base.

5-2) The expenditures fluctuate from year to year, which is normal for water and sewer funds: the while the majority of expenses are subject to typical inflation, the repair and maintenance spending can be erratic. The operating expenses, in total have increased moderately since FYE 2002.

5-3) The Net Operating Cash Flow has fluctuated from year to year. Dependence on connection charges to meet operational cost must be avoided. *This is a key aspect of this cost of service analysis.*

5-4) Charging for administration is a common and acceptable practice, as the administration and general government supports the operations of the sewer fund. The amounts for these charges are on the low end of an acceptable range. A higher percentage of time for the Village Manager and staff could be justified.

5-5) Depreciation is the loss in value of facilities, not restored by current maintenance, that occurs in the property because of wear and tear, decay, inadequacy, and obsolescence. [AWWA] The Net Cash Flow does not include depreciation since this expense is not a hard cost or, in other words, not a component of cash flow. Depreciation of assets, to some degree, is allowed for in projecting future revenue requirements in order to properly fund repair, replacement and capital improvement.

5-6) There have been capital purchases from cash that vary from year to year just like repair and maintenance. The historical results also reflects a one time pay down of debt (this was for the USDA loan).

5-7) Restricted funds include reserves (as required by USDA) for Repair Replacement and Improvement (RRI) and Debt Reserve. The RRI reserve should be utilized for all system repair and maintenance prior to using unrestricted funds.

5-8) An indication of proper funding of repair, replacement and capital improvement is an adequate amount of cash and investments. This is the premise of ABB as described in *Methodology*. Adequate for most systems would be 50% to 100% of the annual Operation and Maintenance (O&M) budget depending on the age of the system, capital needs, etc. As will be further discussed later in this report, the Sewer Fund cash and investments the are unrestricted or in RRI reserve are about 72% of the O&M expenses for FYE budget 2006. This is currently an acceptable level.

Section Six
Sewer Fund Past and Current Rate Structures

The Sewer Fund revenue support is based on a per customer Readiness to Serve (RTS) with no volume included plus a minimum charge that includes 1,000 gallons (1 Mgal) plus a commodity charge and debt charge based on volume. This is billed on a bi-monthly basis. The following are observations regarding the rate structure:

Rate structures vary from utility to utility, but generally include three elements. First, they include consideration of the classifications of customers served (i.e., residential, commercial and industrial). Second, they establish the frequency of billing. Third, they identify the charges or schedule of charges each classification of customer will be assessed. It is this final element of a rate structure, the schedule of charges, on which utilities and customers tend to focus. The design is a function of many diverse and sometimes competing objectives. [AWWA]

6-1) The rate structure itself could use modification. A better approach would be the structure that is being used for the Water Fund, i.e. RTS with no volume and charged by customer (not by meter size) plus one and only one commodity charge. The minimum charge with volume makes it more difficult for staff and professionals to track billable volume. The elimination of this charge will have a nominal effect on revenue.

6-2) According to Act 94 of 1933, as amended, and the Village's outstanding Revenue Bond Ordinances (bond issues for the USDA loan), all revenue must follow a specific flow of funds: all moneys collected must first be applied to O&M, second to debt service, third to debt service reserve, and finally to capital improvements ... funds that remain go back through this flow the following fiscal year. Therefore, a separate debt charge does not assure the application of the revenue to debt service ... nor is this desired.

6-3) While the revenue bonds remain outstanding, funds may not be transferred out of the Sewer Fund.

6-4) The RTS revenue generates approximately 10% of total user charge revenue. This is consistent with past EPA standards for a user charge system. Volume is

generally regarded by regulatory agencies and the industry as a more equitable form of rate setting:

Uniform rates, i.e. commodity charges, are easily understood and implemented, perceived as equitable, provide utilities with a degree of revenue stability in comparison to other more complex rate forms, and facilitates conservation because customer bills vary with the level of water usage. [AWWA]

6-5) Based on the customer and volume count, we are able to calculate Total Annual Revenue such that it comes within a reasonable percentage of FYE 2005. This is referred to as the “test of accuracy,” and it indicates these historical operating figures may be used for projections.

6-6) The sewer system Connection Charge is \$5,000. Connection charges are intended to provide equity buy-in to a system that has been supported by existing customers:

It is common policy for government-owned utilities to recover directly from the customer the costs of installing a tap or connection to a water main, the service line to the property, and the water meter. System Development Charges (SDCs) assign the capacity cost of growth, at least in part, to those causing the growth rather than to existing customers. The objectives may include having new development pay its own way, fund major system expansion, fund a portion of capital improvements, minimize debt, recover capital costs, maintain appropriate level of retained earnings and cash reserves. [AWWA]

There are various approaches to determining the level of the connection charge which include:

The two basic methods for calculating SDCs are the equity method or system buy-in and the incremental cost method. The financial goal is to achieve a level of equity from new customers by collecting a SDC representative of the average equity attributable to existing customers. The incremental cost method is based on the concept of new development paying for the incremental cost of system capacity needed to serve new development. This approach proposes to mitigate the cost impact of new growth on existing customers’ user rates. The goal is to charge a fee for new customers sufficient to allow customer user rates to be revenue-neutral with respect to growth of the system. However, in systems undergoing rapid and expensive growth, this may be difficult to achieve.

A key component of developing an equity method SDC is determining system equity. The major components include the valuation of system assets, accumulated depreciation, system liabilities, sources of equity, and system capacity. One measure of the valuation of the system assets is the original value of the total plant less accumulated depreciation. This valuation may be adjusted to recognize the cost of reproducing or replacing assets.

The incremental cost method assigns to new development the incremental cost of system expansion needed to serve the new development which includes various factors, including the period of growth, growth rates, type of growth, capacity associated with the various improvements needed to serve the projected growth, and cost of these improvements. [AWWA]

The basic industry standard calculation may be derived by taking the equity value from FYE 2005 divided by the system's total number of customers (1,403 meters) with the result being an average equity value of \$6,560. This is somewhat higher than the current \$5,000.

Another way to calculate the connection charge is to add the amounts estimated to be needed for future capital improvement and bonding (\$740,000 and \$1,000,000, respectively) to the above-mentioned equity value and divide the corresponding total by the system's total number of customers plus the total number of future REUs (within 10 years), to arrive at a connection fee of \$5,420.

These industry calculations should be considered upper limits to the connection charge.

Given the current cash position of the fund, the connection charge may remain at \$5,000.

Section Seven
Sewer Fund
Projected Cash Flow and Rate Structure

Cash Flow

The revenue requirements were formulated on the historical performance and current budget information.

7-1) The “Projected Cash Flow” is a means of identifying the trend in expenses that is anticipated over a period of time.

From a revenue-adequacy standpoint, projections beyond 10 years tend to be quite speculative and are of questionable value. Usually a projection period of about five years is considered adequate. [AWWA]

7-2) Revenue requirements are frequently expressed in terms of a “Test Year” for the purpose of allocating costs and designing rates. [AWWA] The Test Year is not a restated budget; rather, it is an estimated level based on actual historical performance and anticipated changes. The purpose it serves is to give guidance on projecting levels of cash flow in order to manage rates over the next two to three years. General operating expenses have been increased for inflation by 3% annually and personnel and administrative cost by 4%.

7-3) Non-Operating Expenses includes estimated future debt service. It also includes “Capital Purchases” that are anticipated to be paid from cash.

It is common practice for utilities to finance a portion of the capital improvement program from annual revenues. Often, normal annual replacements, extensions, and improvements (such as meters, services, vehicles, smaller mains, and similar items, which occur on a regular basis each year) are financed in this way.

Also, utilities may use current revenue to finance a portion of major capital replacements and improvements. However, major capital projects are typically debt-financed because the repayment of the debt over a number of years reduces fluctuations in annual revenue requirements and more closely matches capital costs to the useful life of the facility. Thus, existing customers will not be required to pay 100 percent of the initial cost of facilities to be used by future customers. [AWWA]

The level reflected in the Capital Purchases line item is intended to provide “pay-as-you-go” funding for system improvement and replacement.

7-4) Utilizing ABB, a target level of funds on hand must be identified. **It is the recommendation of this report that the target level of funds on hand be no less than 50% and preferably 75%. This is a key management tool that can be used by Council and staff to gage the performance of the Fund from year to year. This should not be considered a barrier ... dropping below this level is acceptable with a plan within a few years to bring the level back to target.**

7-5) Sustained cash balances that are substantially above the target level of cash should be utilized to pre-pay debt. This should be evaluated within 3 to 5 years along with refinancing.

Rate Structure and Rate Adjustment

There are two separate issues to address: the rate structure, and the management of the rates based on an anticipated method and level of capital improvement funding.

The process of selecting the most appropriate rate structure for a particular utility is not simple. The selection is complex because there are so many types of rate structures. No one rate structure meets all utility objectives equally, and not all objectives are valued the same by the utility or its customers. [AWWA]

7-6) Rate Structure: it is the recommendation of this report that the minimum charge be dropped from the rate structure. Also, the debt charge be folded into the regular commodity rate.

7-7) **Rate Adjustment: the key to this review is the development of a Net Operating Cash Flow with an increasing margin.** No increase is needed at this time. However, beginning July 1, 2007, an annual adjustment for inflation is recommended. In this way, dependency upon connection charges and/or other funds will be avoided and the long term financial independence of this Enterprise Fund will be better ensured.

THE PROPOSED RATE MUST BE REVIEWED PERIODICALLY. THE VARIABLES USED, INCLUDING PROJECTED OPERATION AND MAINTENANCE COST, MAY BE SUBJECT TO SIGNIFICANT VARIATIONS DEPENDING ON DECISIONS RELATED TO FUTURE SYSTEM IMPROVEMENTS.

Executive Summary

Observations and Recommendations

[1] Previous rate adjustments have been most helpful in maintaining a positive cash flow. However, water and sewer connection revenues remain a factor in the level of system revenue. It is anticipated that this will change over time with the slowing of growth, and at that point it will be important for user charges to fully support capital improvement as well as O&M.

[2] The Water Fund and the Sewer Fund do not have substantial unrestricted cash balances beyond levels for normal operations. RRI Reserve should be used before unrestricted cash for any and all maintenance, repairs, and improvements. **It is the recommendation of this report that the target level of funds on hand be no less than 50% and preferably 75%. This is a key management tool that can be used by Council and staff to gage the performance of the Fund from year to year.**

[3] The staff has maintained excellent supporting data on the water and sewer systems, including number of users, billed vs. pumped volumes, and capital improvement projections. This vastly improves the ability to review and manage the funds.

[4] **Water rates should be increased as indicated, i.e. a one time increase on July 1, 2006 with subsequent annual adjustments for inflation. Sewer rates do not need to be increased at this time but should be subject to annual adjustments for inflation beginning July 1, 2007.** This will continue to provide proper coverage of operating cost as well as support capital improvement needs. The recommended inflation factor is 3%.

[5] The connection charges for both water and sewer may be maintained at current levels. By no means should an adjustment exceed industry calculated standards. *The revenue should be collected in the receiving account and only transferred as needed to debt retirement, debt service reserve, and replacement reserve as necessary.*

[6] USDA would like the Village to refinance the outstanding water and sewer bonds. However, it is recommended to review the refunding opportunity in about five years. This will allow the duration of the bonds to be reduced to a reasonable remaining life such that refunding bonds will be more acceptable to the market. Also in five years, the variables connection charge revenue and capital improvement will become clearer such that the Village may better evaluate the feasibility of a significant cash pay-off of the existing bonds.

[7] There are various court cases and findings, especially in the last several years, which are relevant to water and sewer rate making. By having this “cost of service” analysis completed, the Council has provided a basis for the rates and charges they will implement. Although this is no assurance regarding legal challenges, it does provide the Village with a basis for rate management. Any ordinance or resolution adopted in relation to implementing the recommendations herein, should reference this “Fund Analysis and Rate Study” as a cost of service analysis.

[8] A full review should be conducted within three years. Connection charge revenue and capital improvement spending are variables with the potential of large fluctuation. This will eventually stabilize but not within the next 3 to 5 years.

[9] The proposed debt for water and sewer may be strong candidates for the Drinking Water Revolving Fund (DWRF) and Sewer Revolving Fund (SRF), respectively. These should be further investigated. The interest cost savings is equivalent to 25 to 30% grant funding.

By acceptance of this study the Village Council understands and accepts the responsibility and liability for potential challenges to the rate structure and management of the funds. Rate studies, while often based on various methods industry guidelines, do not follow a clear standard as does, for example, a CPA in producing an audit according to Generally Accepted Accounting Principals. Furthermore, State law and case law do not provide any reasonable or comprehensive guidance regarding methodology, rate structure or management of fund balances. ACI Finance, Inc. is reliant upon Village officials, and other sources, who have access to relevant data to provide accurate information. The Village accepts that fund management and rate adjustment recommendations are inherently subject to estimations and projections and, as such, no assurance is provided regarding the actual performance of the funds over time. The Village is advised to seek legal counsel regarding the implementation of any recommendations and their liability implications.

APPENDIX A