Howell Township, MI

Wastewater Financial Projection Study

June 5, 2026

Submitted Respectfully by:

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UTILITY FINANCIAL SOLUTIONS, LLC

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Jonathan Hohenstein, Township Treasurer
Howell Township
3525 Byron Road
Howell, MI 48855

Mr. Hohenstein,

We are pleased to present this executive summary report for a financial projection and rate design study completed for the Howell Township Wastewater Department. This report was prepared to provide the utility with a comprehensive examination of its existing financials by an outside party.

The specific purposes of this long-term financial projection and rate study are:

1) Determine the wastewater utility revenue requirements for fiscal year 2027
2) Project rate adjustments needed to work toward targeted revenue requirements
3) Develop retail rates to be implemented in fiscal year 2027

This report includes the results of the financial projection and identifies the future rate track for the Wastewater operation. Specific findings included in this report are:

1) Projected rate tracks are based on the utility's ability to work toward three factors listed below:
    - Debt Coverage Ratio
    - Minimum Cash Reserves
    - Optimal Operating Income

This report is intended for information and use by management and the Board of Directors for purposes stated above and is not intended to be used by anyone except the specified parties.

Sincerely,

Dawn Lund

Utility Financial Solutions, LLC
Dawn Lund, Vice-President

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UTILITY REVENUE REQUIREMENTS

Revenue requirements for the Wastewater Department were projected for 2027 based on actual fiscal year 2025 and 2026 budget expenses. Revenues and expenses were analyzed with adjustments made to actual expenses to reflect projected operating characteristics and inflation. The table below summarizes the significant assumptions used in the projection.

	Projected 2026	Projected 2027	Projected 2028	Projected 2029	Projected 2030
Inflation Rate	2.90%	2.90%	2.90%	2.90%	2.90%
Growth	0.0%	0.0%	0.0%	0.0%	0.0%
Investment Income	2.5%	2.5%	0.5%	0.5%	0.5%

Table Two below is a summary of the financial projection for the period 2026-2030. The Wastewater Department has a projected cash flow from operations of $166,492 in 2026 and decreases to $47,958 by 2030. The cash balance is projected at $1.3 million by 2030. Staff would like the study to produce about $175,000 in cash flow from operations for a repair and replacement account.

Table Two – Financial Projection Summary (Without Rate Adjustments)

Fiscal Year	Projected Rate Adjustments	Projected Revenues	Projected Expenses	Cash Flow from Operations	Projected Cash Balances	Capital Improvements	Bond Issues	Debt Coverage Ratio
2026	0.0%	$ 1,064,595	$ 961,189	$ 166,492	$ 925,150	$ 169,651	$ -	n/a
2027	0.0%	1,066,595	983,263	144,389	1,069,539	174,571	-	n/a
2028	0.0%	1,068,635	1,005,978	100,871	1,170,410	179,634	-	n/a
2029	0.0%	1,070,716	1,029,351	74,873	1,245,283	184,843	-	n/a
2030	0.0%	1,072,838	1,053,402	47,958	1,293,241	190,204	-	n/a
Minimum Target 2026					**$ 604,712**			**1.25/1.45**
Minimum Target 2030					**$ 790,039**			**1.25/1.45**

1. The five-year capital improvement plan was provided by the Utility.
2. Staff would like the study to produce about $175,000 in cash flow from operations for a repair and replacement account.
3. Financial projections should be updated during the budgeting process each year.

PROJECTED CASH FLOW

Table Three is the projected cash flow for 2026-2030, including projections of capital improvements as provided by the Utility. Changes in the capital improvement plan can greatly affect the cash balance and minimum cash reserve target. The projected cash balance for 2026 is $925,150 and $1.3 million in 2030. The minimum the utility should hold over the projection period is approximately $746,000.

Table Three – Projected Cash Flow (Without Rate Adjustments)

Projected Cash Flows	Projected 2026	Projected 2027	Projected 2028	Projected 2029	Projected 2030
Add Net Income	$ 136,144	$ 118,960	$ 80,505	$ 59,716	$ 38,162
Add Back Depreciation Expense	200,000	200,000	200,000	200,000	200,000
Subtract Debt Principal	-	-	-	-	-
Add Bond Sale Proceeds	-	-	-	-	-
Cash Available from Operations	**$ 336,144**	**$ 318,960**	**$ 280,505**	**$ 259,716**	**$ 238,162**
Estimated Annual Capital Additions	169,651	174,571	179,634	184,843	190,204
Net Cash From Operations	**$ 166,492**	**$ 144,389**	**$ 100,871**	**$ 74,873**	**$ 47,958**
Beginning Cash Balance	758,658	925,150	1,069,539	1,170,410	1,245,283
Ending Cash Balance	**$ 925,150**	**$ 1,069,539**	**$ 1,170,410**	**$ 1,245,283**	**$ 1,293,241**
Total Cash Available	**$ 925,150**	**$ 1,069,539**	**$ 1,170,410**	**$ 1,245,283**	**$ 1,293,241**
Targeted Minimum	**$ 604,712**	**$ 773,091**	**$ 778,580**	**$ 784,227**	**$ 790,039**

Projected Cash Balances meet targeted minimums throughout the projection period.

FINANCIAL TARGETS

When evaluating rates to charge customers, three factors must be considered:

1. Debt Coverage Ratio
2. Minimum Cash Reserves
3. Optimal Net Income

Each of these factors is discussed below:

Debt Coverage Ratio - The minimum targeted debt coverage ratio for revenue bonds is typically 1.25 with prudent financial planning target of 1.45. Maintaining a 1.45 debt coverage ratio is good business practice and would help to achieve the following:

- Helps to ensure adequate funds are available to meet debt service payments in years when sales are low due to cold or wet summers or loss of a major customer(s).
- Obtain higher bond rating, if revenue bonds are sold in the future, to lower interest cost.

The Utility's wastewater department currently does not hold any debt.

Minimum Cash Reserve Target – Table Four is the minimum level of cash reserves required to help ensure timely replacement of assets and to provide financial stability of the wastewater utility. The methodology used to establish this minimum is based on certain assumptions related to a percentage of operating expense, historical investment, capital improvements, and debt service to be kept in cash reserves. Minimum cash reserve attempts to quantify the minimum amount of cash the utility should keep in reserve and is considered at critical levels if cash approaches this minimum.

Actual cash reserves may vary substantially above the minimum and are dependent on the life cycle of assets that are currently in service. If a minimum cash reserve policy is established, and the utility's cash balance falls below the established amount, it should require the Board to take action to rebuild cash. The typical action includes a rate increase or the consideration of a bond issuance for extra ordinary capital. Based on these assumptions, the Wastewater Department should maintain a minimum of approximately $746,000 in cash reserves.

Table Four – Minimum Cash Reserves

	Percent Allocated	Projected 2026	Projected 2027	Projected 2028	Projected 2029	Projected 2030
Operation & Maintenance Less Depreciation Expense	**12.3%**	$ 93,626	$ 96,341	$ 99,135	$ 102,010	$ 104,969
Historical Rate Base	**2%**	326,091	491,756	494,450	497,223	500,076
Five Year Capital Improvements - Net of bond proceeds	**20%**	184,994	184,994	184,994	184,994	184,994
Targeteded Minimum Cash Reserve Levels		**$ 604,712**	**$ 773,091**	**$ 778,580**	**$ 784,227**	**$ 790,039**
Projected Cash Reserves		**$ 925,150**	**$ 1,069,539**	**$ 1,170,410**	**$ 1,245,283**	**$ 1,293,241**

Cash reserves meet the minimum targets throughout the projection period.

Notes:
1. Operation and maintenance expenses exclude depreciation expense.
2. Rate base is historical investment in plant and equipment.
3. Five-year capital is projected capital improvements for the next five years and excludes capital improvements funded through debt issuances.

Optimal operating income targets - The optimal target for setting rates is the establishment of a target operating income to help ensure the following:

1) Funding of Interest Expense on the outstanding principal on debt. Interest expense is below the operating income line and needs to be recouped through the operating income balance.

2) Funding the inflationary increase on the assets invested in the system. The inflation on the replacement of assets invested in the utility should be recouped through the Operating Income

3) Adequate rate of return on investment to help ensure current customers are paying their fair share of the use of the infrastructure and not deferring the charge to future generations.

As improvements are made to the system, the optimal operating income target will increase unless annual depreciation expense is greater than yearly capital improvements. The target established for the system is approximately $1.05 million.

Table Five – Optimal Operating Income Targets Compared to Projected

	Percent Allocated	Projected 2026	Projected 2027	Projected 2028	Projected 2029	Projected 2030
System Equity	5.3%	1,043,492	1,049,079	1,054,827	1,060,742	1,066,828
Target Operating Income		**$ 1,043,492**	**$ 1,049,079**	**$ 1,054,827**	**$ 1,060,742**	**$ 1,066,828**
Projected Adjusted Operating Income		**$ 103,406**	**$ 83,331**	**$ 62,657**	**$ 41,364**	**$ 19,436**
Rate of Return in %		**5.3%**	**5.4%**	**5.4%**	**5.4%**	**5.5%**

Projected Operating Income is below optimal targeted levels throughout the projection.

SUMMARY OF FINANCIAL POSITION

PROPOSED RATE TRACK

Increasing rates require balancing the financial health of the utility with the financial impact on customers. Table Six below is the five-year financial projection with projected rate increases of 3.5% in 2027-2030. With this projected rate track the cash from operations stabilizes over the period and is projected to produce $175,000 for a repair and replacement account as requested by staff. The rate track should be reviewed as part of the annual budget process to ensure it is adequate as costs and revenues may vary from projections.

Table Six – Financial Projection Summary (With Rate Adjustments)

Fiscal Year	Projected Rate Adjustments	Projected Revenues	Projected Expenses	Cash Flow from Operations	Projected Cash Balances	Capital Improvements	Bond Issues	Debt Coverage Ratio
2026	0.0%	$ 1,064,595	$ 961,189	$ 166,492	$ 925,150	$ 169,651	$ -	n/a
2027	3.5%	1,099,306	983,263	177,100	1,102,250	174,571	-	n/a
2028	3.5%	1,135,201	1,005,978	167,601	1,269,851	179,634	-	n/a
2029	3.5%	1,172,323	1,029,351	176,978	1,446,828	184,843	-	n/a
2030	3.5%	1,210,712	1,053,402	186,840	1,633,669	190,204	-	n/a
Minimum Target 2026					**$ 604,712**			**1.25/1.45**
Minimum Target 2030					**$ 790,039**			**1.25/1.45**

SIGNIFICANT ASSUMPTIONS

This section outlines the procedures used to develop the cost of service and rate design for the Wastewater Utility and the related significant assumptions.

Forecasted Operating Expenses
Forecasted expenses were based on 2025 actual and budget 2026 adjusted for inflation.

Inflation
Inflation was assumed at 2.9% 2026-2030.

Interest Income
Interest income was forecasted based on projected cash balances and an interest rate of 2.5% in 2026-2027 and 0.5% 2028-2030.

Capital Improvements
The capital improvement projections were provided by the utility. Projections for 2026-2030 are listed below:

Year	Projected Capital Improvement
2026	$ 169,651
2027	174,571
2028	179,634
2029	184,843
2030	190,204

WASTEWATER OPERATION FINDINGS

For the Howell Township's wastewater operations to maintain long-term financial targets, rate increases should be considered. Below is a summary of the financial projection with proposed inflationary-type rate adjustments of 3.5% in 2027-2030. The rate track was set to stabilize cash flow from operations. The rate track should be reviewed as part of the annual budget process as costs and revenues may vary from projections.

Fiscal Year	Projected Rate Adjustments	Projected Revenues	Projected Expenses	Cash Flow from Operations	Projected Cash Balances	Capital Improvements	Bond Issues	Debt Coverage Ratio
2026	0.0%	$ 1,064,595	$ 961,189	$ 166,492	$ 925,150	$ 169,651	$ -	n/a
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2030	3.5%	1,210,712	1,053,402	186,840	1,633,669	190,204	-	n/a
Minimum Target 2026					**$ 604,712**			**1.25/1.45**
Minimum Target 2030					**$ 790,039**			**1.25/1.45**

A Cash Reserve Policy should be considered and updated each year with the budget process based on the formula below. Minimum cash reserve attempts to quantify the minimum amount of cash the utility should keep in reserve and is considered at critical levels if cash approaches this minimum. Actual cash reserves may vary substantially above the minimum and are dependent on the life cycle of assets that are currently in service.

	Percent Allocated	Projected 2026	Projected 2027	Projected 2028	Projected 2029	Projected 2030
Operation & Maintenance Less Depreciation Expense	**12.3%**	$ 93,626	$ 96,341	$ 99,135	$ 102,010	$ 104,969
Historical Rate Base	**2%**	326,091	491,756	494,450	497,223	500,076
Five Year Capital Improvements - Net of bond proceeds	**20%**	184,994	184,994	184,994	184,994	184,994
Targeteded Minimum Cash Reserve Levels		**$ 604,712**	**$ 773,091**	**$ 778,580**	**$ 784,227**	**$ 790,039**
Projected Cash Reserves		**$ 925,150**	**$ 1,069,539**	**$ 1,170,410**	**$ 1,245,283**	**$ 1,293,241**

Wastewater Department 3.5% - 2027-2030 Proposed Rates

		Current Charges	Proposed 2027	Proposed 2028	Proposed 2029	Proposed 2030
With Meter	$	25.69	**$ 26.50**	**$ 27.50**	**$ 28.50**	**$ 29.50**
Consumption		9.00	**9.32**	**9.65**	**9.98**	**10.33**
Avg Bill (5,000 gallons)	$	70.69	$ 73.10	$ 75.73	$ 78.42	$ 81.16
$ Increase Monthly Bill			$ 2.41	$ 2.63	$ 2.69	$ 2.74
			3.4%	3.6%	3.7%	3.6%
Phase-In						
No Meter	**$**	**36.00**	**$ 46.50**	**$ 57.84**	**$ 69.89**	**$ 81.16**
Equiv units		1.15	2.15	3.15	4.15	5.00
$ Increase Monthly Bill			$ 10.50	$ 11.35	$ 12.05	$ 11.28

The financial projection should be updated each year with the budget process to help ensure the proposed rates are on-track.