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Kwasi A. Fraser

Council
Christopher Bertaut
Joel D. Grewe
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TOWN OF PURCELLVILLE
IN
LOUDOUN COUNTY, VIRGINIA

RESOLUTION NO. _______

PRESENTED: November 15, 2022
ADOPTED: _______________

A RESOLUTION: AUTHORIZING THE TRANSFER OF NUTRIENT CREDIT REVENUES DERIVED FROM THE ABERDEEN PROPERTY THAT ARE CURRENTLY ON DEPOSIT IN THE WATER ENTERPRISE FUND

WHEREAS, in 2009, the Town of Purcellville, Virginia (the "Town"), acquired approximately 189.75 acres of real property located near Catoctin Church with a post office address of 16153 Short Hill Road, Purcellville, Virginia 20132] (herein referred to as the "Aberdeen Property"), for future water system purposes;

WHEREAS, the Town initially purchased the Aberdeen Property with funds available in its water enterprise fund and then reimbursed such purchase using a portion of the proceeds of the Town's General Obligation Public Improvement Bond, Series 2010 (Federally Taxable - Build America Bonds (Direct Pay)) (the "2010 Bond");

WHEREAS, in 2017, the Town used funds available in its water enterprise fund and its general fund to defease the 2010 Bond to final maturity (July 15, 2020), and such 2010 Bond is no longer outstanding;

WHEREAS, in 2020, the Town determined to maintain a portion of the Aberdeen Property as farmland that is forested in perpetuity thereby establishing such portion of the Aberdeen Property as a nutrient mitigation bank;

WHEREAS, the Town, with the permission of the Virginia Department of Environmental Quality, has sold nutrient credits derived from the Aberdeen Property from which it has received certain revenues (herein referred to as "Nutrient Credit Revenues") that are currently being held in the water enterprise fund as non-operating revenues;

WHEREAS, the Council of the Town (the "Town Council") desires to transfer all Nutrient Credit Revenues currently on deposit in the water enterprise fund and apply such amounts for purposes other than related to the water enterprise fund;

A RESOLUTION: AUTHORIZING THE TRANSFER OF NUTRIENT CREDIT REVENUES DERIVED FROM THE ABERDEEN PROPERTY THAT ARE CURRENTLY ON DEPOSIT IN THE WATER ENTERPRISE FUND

WHEREAS, the Town's administration has recommended to the Town Council that all Nutrient Credit Revenues be applied to pay costs associated with capital improvement projects of the Town or other legally permissible purposes, subject to further direction and appropriation from Town Council;

BE IT RESOLVED BY THE TOWN COUNCIL OF THE TOWN OF PURCELLVILLE, VIRGINIA:

1. Transfer of Nutrient Credit Revenues. The Town Council hereby finds that it is in the best interests of the Town and its citizens to transfer all Nutrient Credit Revenues currently on deposit in the water enterprise fund to the General Fund as restricted funds pending application as described below.

2. Uses of Nutrient Credit Revenues. The Nutrient Credit Revenues shall be applied to pay for costs associated with capital improvement projects of the Town or other legally permissible purposes, as directed and appropriated from time to time by majority vote of the members of the Town Council.

3. Other Actions. All other actions by officers of the Town in conformity with the purposes and intent of this Resolution are hereby ratified, approved and confirmed.

4. Effective Date. This Resolution shall take effect immediately.

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Mayor Kwasi Fraser

ATTEST:

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Diana Hays, Town Clerk

Utility Enterprise Financial Considerations

Town of Purcellville, Virginia

Town of Purcellville, Virginia

Background

- The Town of Purcellville, Virginia (the “Town”) maintains Water and Sewer Enterprise Funds.

- The Town has routinely engaged in Multi-Year Financial Planning for the Water and Sewer Enterprise and is assisted in this effort by Davenport & Company LLC (“Davenport”) – in our capacity as Financial Advisor to the Town – and Stantec – in their role as Utility Rate Consultant.

- The Town – along with Davenport and Stantec – last presented the Multi-Year Financial Plan for the Water and Sewer Funds to the Town Council in early calendar year 2021.

- The Town is nearing adoption of the its FY2023 Operating and Capital Budget. The rate increases contemplated in the FY2023 Budget are in-line with the plan that was presented roughly a year ago.

- A primary goal of the Multi-Year Financial Planning is to ensure that the Water and Sewer Funds remain “self supporting” meaning that they are not reliant on recurring financial support from the General Fund.

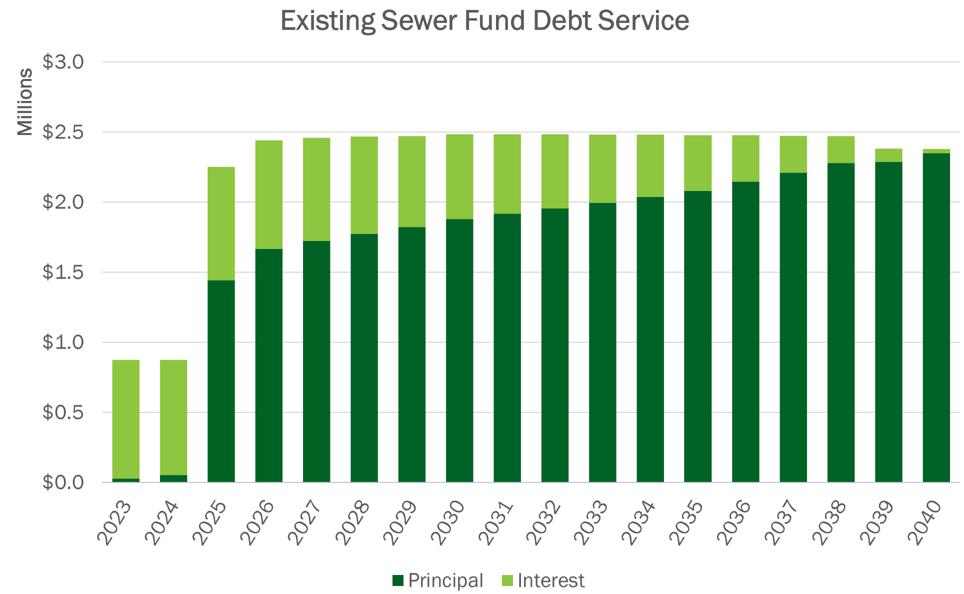
- Another primary goal of the Multi-Year Financial Planning is to identify a strategy that minimizes the need for substantial year to year user rate increases – to the extent possible.

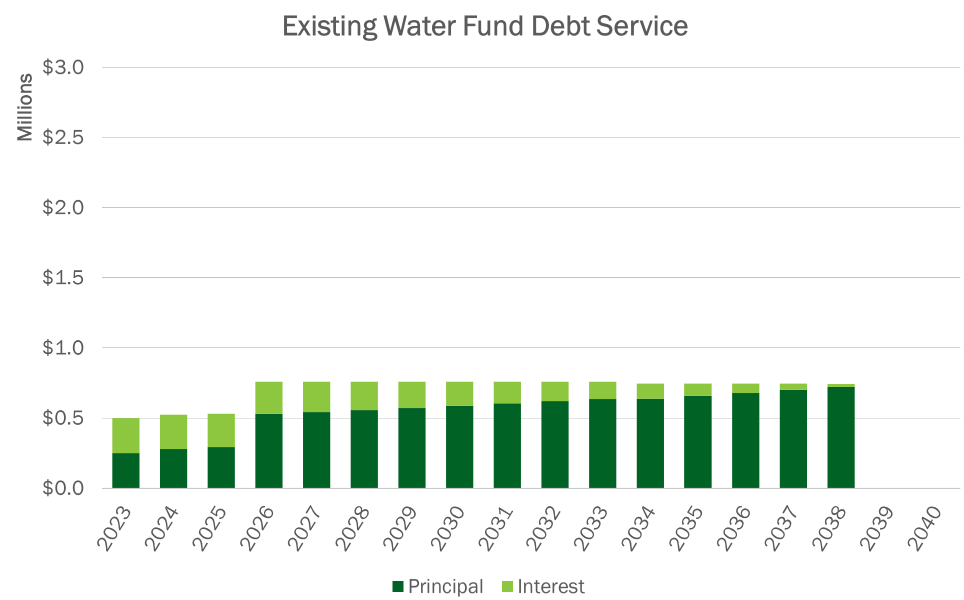
Selected Developments – Water & Sewer Funds

- In early calendar year 2021 – the Town successfully refunded $8.5 million of outstanding Water and Sewer Enterprise Debt allowing the Town to reduce the interest rate and free-cash for both the Water and Sewer Funds.
  - In addition – the 2021 Refunding also allows the Town to prepay the loan at anytime without penalty – providing considerable flexibility in managing the Water and Sewer debt profile.
- In total, the Town currently has roughly $40.5 million of Water and Sewer Enterprise debt outstanding. A summary of the outstanding amount and future payments are found on the following page.
- The Town has been able to realize approximately $923,000 in one-time funding from the sale of Nutrient Credits in the Water Fund.
  - Davenport was asked to evaluate options for utilizing these monies. Initial options to this effect are contained herein.
- The Town has been heavily reliant on new connection related Availability Fees for years. Davenport understands that future revenue from new connections is projected to be substantially less than recent history if not potentially zero in future years.
- Inflation is running at a 40 year high. This will pressure both the Operating and Capital budgets of the Town and specifically the Water and Sewer Enterprise Funds.
- Stantec and Davenport were asked to return to Town Council on May 24th with an update on the Multi-Year Financial Plan.

Existing Utility Enterprise Debt

Existing Utility Fund Debt Service (Water & Sewer)			
FY	Principal	Interest	Total
2023	$ 277,000	$ 1,097,200	$ 1,374,200
2024	334,000	1,065,235	1,399,235
2025	1,735,352	1,048,971	2,784,323
2026	2,197,508	1,003,233	3,200,742
2027	2,267,556	949,972	3,217,528
2028	2,332,518	894,916	3,227,434
2029	2,394,417	836,771	3,231,188
2030	2,466,277	776,685	3,242,962
2031	2,520,000	723,589	3,243,589
2032	2,574,000	668,009	3,242,009
2033	2,630,000	610,340	3,240,340
2034	2,675,000	551,877	3,226,877
2035	2,739,000	484,366	3,223,366
2036	2,826,000	397,188	3,223,188
2037	2,911,000	307,224	3,218,224
2038	3,002,000	213,934	3,215,934
2039	2,288,000	93,962	2,381,962
2040	2,349,000	31,594	2,380,594
Total	$ 40,518,629	$ 11,755,067	$ 52,273,696





Nutrient Credit Funding Observations

- The roughly $923,000 from the Nutrient Credits are a one-time funding source. As such –if they are to be spent – they should be used in a way that recognizes the one-time nature of the monies.

- The Nutrient Credits were derived from the Water Fund and thus will be utilized in the Water Fund in order to adhere to proper accounting and financial management principals.

- The Town has a variety of options to consider with respect to deploying the Nutrient Credit Funding including – but not limited to – the following:

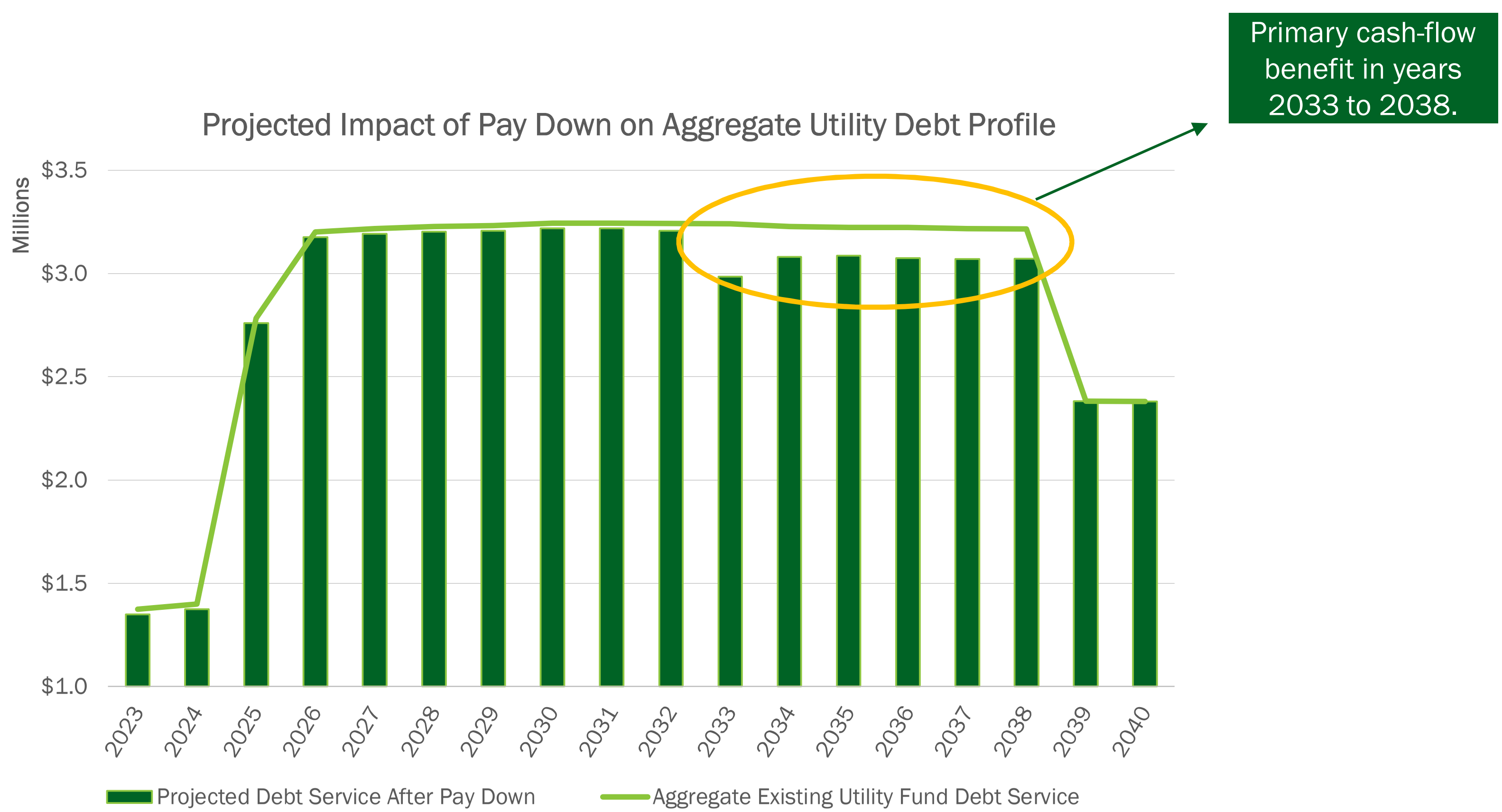
1. Pay-down existing debt;
2. Set aside in a Capital Reserve fund to help offset the planned increases in existing debt service (note: the Town successfully utilized this strategy as part of the Plan of Finance for the Town Hall in the FY2014 to FY2020 time period);
3. Use to help to maintain reserve levels in an environment where Availability Fee revenue is projected to decline rapidly;
4. Fund required Capital Projects in lieu of additional borrowing;

- Davenport recommends that before making any final determinations as to the use of these proceeds – the Town should evaluate the status of the updated Multi-Year Financial Plan that will be presented on May 24.

Sample #1: Nutrient Credit used for Debt Paydown

- For illustrative purposes, the graph below depicts the impact of using $923,000 to pay down principal* on the Water Fund portion of the 2021 Refunding Bonds (2.69% interest rate).

- While this provides some near term savings (roughly $25k per year for the next 10 years), the majority of the cash-flow benefit would be realized in the next decade due to the likelihood that the monies would be applied to the back of the loan.

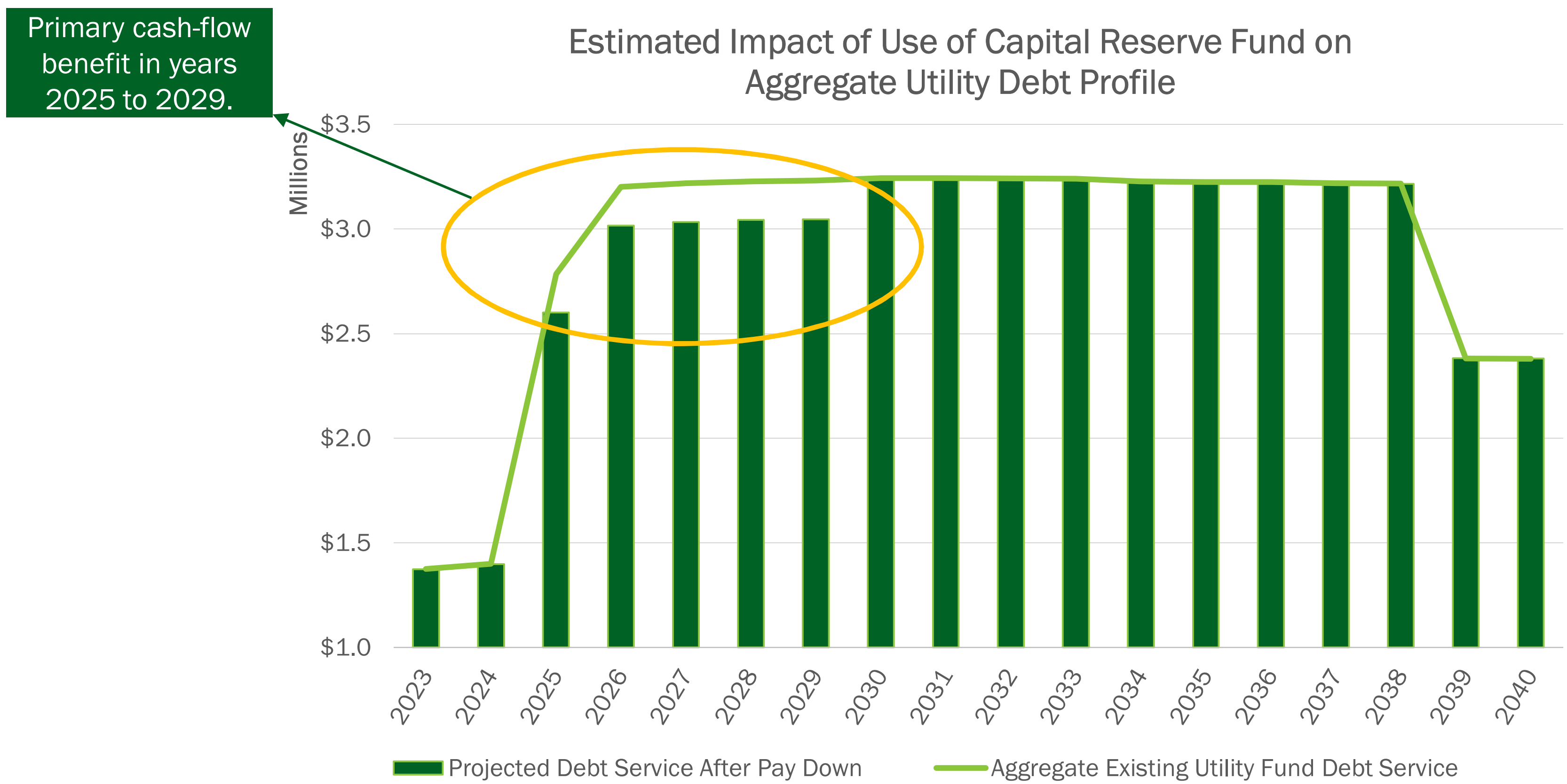


*Note: It is assumed the Town would pay down outstanding principal on the 2021A Bond in inverse order.

Sample #2: Nutrient Credit in a Capital Reserve Fund

- For illustrative purposes, the graph below depicts the use of the $923,000 in a Capital Reserve Fund that is used over multiple years (5 years in this sample) to help offset the increase in Utility Enterprise debt service beginning in FY2025.

- While this strategy may result in less total savings, the Town's current rate payers would experience more of a benefit and the Town would have the ability to incrementally spend-down the cash versus expending all of it at once in a debt paydown scenario.



Next Steps

- Finalize with Stantec and Town Staff updated Multi-Year Financial Projections with a focus on:
  - Estimated impact to the aggregate Utility Enterprise bill for a typical customer (i.e. Water + Sewer);
  - Long-term financial sustainability of the Water & Sewer fund;
  - Projected trends with respect to Availability Fees;
  - Projected trends with respect to Cash & Reserve levels; and
  - Projected Capital Funding needs and associated funding sources.
- As part of the May 24 presentation – provide Town Council with additional detail / recommendations on dedication of the Nutrient Credit monies as part of a holistic review of the Multi-Year Financial Plan.

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