TOWN OF RICHLANDS
SPECIAL CALLED MEETING

The Richlands Town Council held a "Special Called Meeting" on Tuesday July 1, 2025, at 12:00pm in the Buchanan Hall Room 161 at Southwest Virginia Community College, Richlands, VA.

Mayor: Rod. D. Cury
Town Manager: Ron Holt
Town Attorney: Absent
Finance Director: Ronnie Campbell
Project Manager: Susan Whitt
Town Clerk: Amanda Beheler
Council Members: Seth White, Jan White, and Laura Mollo.

IN RE: Financial Planning Retreat w/Davenport

David Rose gave a presentation to staff regarding the General Fund and Electric Fund Financial Review & Electric Fund Generator Project Funding Plan Recommendation.

The following is an overview of the Presentation:

Background Goals & Objectives

- Davenport, in our role as Financial Advisor to the Town of Richlands (the "Town"), was asked to prepare a Comprehensive Financial Review of the Town's overall financial condition.

- The Town is presented with unique challenges compared to localities of similar sizes as the Town maintains both a Water & Wastewater Fund as well as an Electric Fund (together the "Enterprise Funds").

- The goals and objectives of the information presented herein is to:

  - Provide a historic trend analysis and overview of the Town's General and Electric Funds.

  - Provide an estimated projection of the impact of FY 2025 Fiscal Year results and FY 2026 Budget on the Town's Unassigned Fund Balance; and

  - Present a preliminary projection and Plan of Finance for the Town's Electric Fund.

  - The Plan of Finance will permanently fund the Town's Electric Generator Project, which is currently underway.

Key Observations through Fiscal Year 2025

- As a result of APRA, the Town's General Fund accumulated healthy fund balances through fiscal year end June 30, 2024.

  - Unassigned Fund Balance ($3.6 Million) was 48.4% of Revenues in FY 2024 – well above the Town's 10% Policy Target.

- The Electric Fund accumulated strong Unrestricted Cash Balances through the Fiscal Year end June 30, 2024 as a result of generating serval years of surplus revenues over expenses.

  - Unrestricted Cash Balance ($4.6 Million) represented 233 Days Cash on Hand in FY 2024 – well above the Town's 120 Days Cash on Hand Policy.

- The Town adopted a structurally balanced FY 2025 Budget for the General Fund and Enterprise Funds (Water, Wastewater and Electric).

- However, based on preliminary FY 2025-year end results, Town Staff have indicated the Town may end up using about $1 Million of Unassigned General Fund Balance due to unanticipated budgetary variances (VRS contributions and salaries).

FY 2026 Budgeted Revenue | General & Electric Funds

- In FY 2026, the Town budgeted a net use of about $760,000 of Unassigned General Fund Balance to support the Electric Fund.

Unassigned Fund Balance Trends & Estimates | General Fund

- The FY 2025 projected use of Unassigned Fund Balance is due to an estimated year end shortfall of approximately $1 Million.

- Additionally, in FY 2025, the General Fund advanced the Electric Fund approximately $700,000 related to the Generator Project.

    - Note: This amount is anticipated to be reimbursed to the General Fund with the permanent financing of the Generator Project.

- In FY 2026, the Town's combined General and Electric Fund Budgets are estimated to use another approximate $760,000 of General Unassigned Fund Balance.

Unassigned Fund Balance | Comparatives – Dollars ($)

- The Town's FY 2024 Unassigned Fund Balance level is slightly below that of its comparable peers in terms of dollars ($).

- By FY 2026, the Town's projected Unassigned Fund balance in terms of dollars ($) is estimated to be half that of the peer group levels.

Unassigned Fund Balance | Comparatives – % of Revenues

- The Town's FY 2024 Unassigned Fund Balance level is comparable to that of its peers as a percentage (%) of revenues.

- By FY 2026, the Town's projected Unassigned Fund balance as a percentage (%) of revenues is estimated to be well below its comparable peers, but still above its 10% policy.

Current Status of the Electric Fund

- As of FY 2024, the Electric Fund did not have any outstanding debt.

- In July 2024, the Town initiated an approximate $16.3 Million Generator Project (the "Project") that is currently being constructed with the following funding sources:

    - The Town anticipates receiving approximately $4.0 Million in grants.

    - As a result, the Town has an estimated long-term financing need of approximately $12.3 Million. (Note: Approximately $2 Million will be used to repay a Tobacco Commission Loan that will be used as interim financing).

- Current status of Project funding is as follows:

    - The Town has borrowed approximately $9.6 Million of short-term interim financing; and

  - In addition, the Town has spent approximately $2.9 Million of its own funds (General Fund Balance and Unrestricted Electric Fund cash).

- The Project is designed to:

  - Mitigate the cost of purchased power and transmission costs over a long-term horizon.

  - In addition, this Project is designed to reduce the Town's reliance on peak demand power costs during extreme weather events.

The Electric Fund Generator Project

- Project costs and reconciliation of funds spent to date are as follows:
  – Unassigned General Fund Balance: $700,000
  – Electric Fund Unrestricted Cash: 2,200,000
  – First Bank & Trust Notes: 9,600,000
  – Total Funds Expended to Date: $12,500,000
  – Funds to be expended by December 2025: 3,800,000
  – Total Project Cost: $16,300,000

- Project Sources (Long-term):

  – Permanent Financing: $12,300,000
  – Grants: 4,000,000
  – Total Project Sources (Long-term): $16,300,000

Electric Generator Project | Key Considerations

- Spending the Town's General Fund and Electric Fund cash to implement the Project prior to permanent financing is placing stress on the Town's cash flows.

- The Town may need additional Interim Financing to cash flow the remaining $3.8 Million needed – unless grant funds and/or the Tobacco Commission Loan are made available in the next 30 to 60 days.

- It is essential that long-term financing is obtained this fall to complete the Project and reimburse the Town's General and Electric Funds.

- The Electric Fund will also need to have rates sufficient to generate recurring revenues to pay operating expenses and debt service related to the Generator Project.

  – The General Fund cannot sustainably support the Electric Fund going forward.

- The most cost-effective long-term financing is anticipated to be through the Virginia Resources Authority's ("VRA") Pooled Bond Program.

  – Applications are due on/about August 1, 2025, for participation in the Fall Pool.

Electric Fund | Projected Operating Pro Forma Assumptions

- The Town's Electric Fund Pro Formas shown on the next few pages begins with the Town's FY 2026 Budget as the base year.

  – This budget includes a 17% increase to the cost per Kilowatt Hour ("KWH"); and

  – Estimated $4 increase to the customer monthly charge, per the FY 2026 Budget.

- The Pro Formas assumes the following:

Revenue Assumptions

– Rate increases are solved to maintain a Debt Service Coverage of 1.0x.

– All estimated required revenue increases are assumed to fall solely on the Collections line item (i.e., the Town's per KWH rate).

– No revenues from Power Cost Adjustments in FY 2027 and beyond – except for unforeseen circumstances such as extreme weather events.

– No transfers in from the General Fund in FY 2027 and beyond.

- Additionally, the Pro Forma assumes the following:

Expense Assumptions

– Operating Expenses (excluding Power Cost) are assumed to increase by 2.0% annually, in FY 2027 and beyond.

– The Town's expenses associated with Power Cost have been estimated by the Town's Electric Consultant, GDS (in concert with Quantum Power), and assume the Generator is constructed in FY 2027.

– The Generator Project is funded with an approximate 20-year, $12.3 Million Long-term financing in FY 2026, with interest only in FY 2027 and full principal and interest beginning in FY 2028.

Electric Fund Pro Forma | Key Observations

- The Town's Electric Fund incorporated a rate increase in the FY 2026 Budget.

  – However, it was not sufficient to maintain self-sufficiency of the Electric Fund and results in a net use of one-time General Fund Balance of approximately $760,000.

- The General Fund is supporting the Electric Fund to the tune of a net $760,000 transfer in FY 2026.

- With or Without the Generator Project, the Town is facing a substantial rate increase in FY 2027.

- The Generator Project is projected to result in lower cumulative Energy Cost rate increases that are needed to maintain self-sufficiency for the Electric Fund through FY 2030 as follows:

  – With the Generator approximately $67.48 per 1,000 KWH.

  – Without the Generator approximately $69.77 per 1,000 KWH.

  (Note: The above estimates are inclusive of the FY 2026 Budgeted Increases)

Electric Fund Pro Forma | Estimated Energy Cost Increases

Rate increases in FY 2027 are due to rate collections in the FY 2026 Budget not being sufficient to cover budgeted expenses.

Next Steps | Permanent Financing of the Electric Generator Project

- Proceed with permanent financing of the Generator Project through VRA's 2025 Fall Pool.

– Applications are due to VRA on/about August 1, 2025 (Davenport to take the lead in this application).

- Monitor cash balances and spending on the Project for the potential need to pursue additional interim financing.

- In September 2025, if approved by VRA to participate in the Fall Pool, Town Council will need to consider approving an authorizing resolution and documents required to participate in VRA's Fall Pool.

- In late October, VRA will sell its bonds and "lock in / fix" the interest rate on the Town's Bond.

- In early November, VRA will close on the bonds

  – the Town will have access to the proceeds from the permanent financing.

  – Repay all Interim Financing and Tobacco Commission Loan.

Mr. White advised the numbers shown in the PowerPoint did not include the transmission or distribution fees and stated that it's not an "all-in" cost and requested the information be updated.

Council discussed the next steps and advised they will need a Resolution in September to Authorize the Town to participate in VRA's Fall Pool.

The council also discussed several options to help citizens with rate increases.

Rodney D. Cury, Mayor

Amanda Beheler, Town Clerk