

**CITY OF CRANDALL, TEXAS
WATER AND WASTEWATER
COST OF SERVICE AND RATE STUDY
SEPTEMBER 18, 2008**



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**CITY OF CRANDALL UTILITIES
WATER & WASTEWATER COST OF SERVICE AND RATE DESIGN**

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**CITY OF CRANDALL WATER & WASTEWATER UTILITIES
REVENUE REQUIREMENTS, COST OF SERVICE AND RATE DESIGN**

EXECUTIVE SUMMARY

INTRODUCTION

This report was prepared to provide the City of Crandall Water and Wastewater Utilities with a cost of service study and a comprehensive examination of its existing rate structure by an outside party. The specific purposes of the study include:

- 1) Determine the water and wastewater utilities revenue requirements for Fiscal Year 2009 and a long-term financial projection 2009 – 2013
- 2) Identify the cost to provide water and wastewater service by customer meter size
- 3) Develop and recommend a long-term rate track to help ensure the financial stability of the water and wastewater utilities
- 4) Provide one year of rate design and identify weaknesses in current rate designs and propose alternative rate structures

The Executive Summary Section of this report is structured to provide management and City Council with a general overview of the process and a summary of the study results. The Executive Summary includes:

- Projected financial statements
- Cost of service results
- Projected rate track for the Water and Wastewater Utilities

The report is structured to provide summary information, and detailed calculations are included in appendices.

**CITY OF CRANDALL WATER & WASTEWATER UTILITIES
REVENUE REQUIREMENTS, COST OF SERVICE AND RATE DESIGN**

EXECUTIVE SUMMARY

WATER DEPARTMENT

UTILITY REVENUE REQUIREMENTS FOR FISCAL YEAR 2009 – 2013 WITHOUT RATE ADJUSTMENTS

To determine the 2009 revenue requirements, the revenues and expenses for Fiscal Years 2005 – 2007 and Budget 2008 – 2009 were analyzed, with adjustments made to actual expenses to reflect projected operating characteristics. *The projected financial statements are for cost of service purposes only.* Please note the following variations from current financial statement reporting:

- A rate of return of 5.0% was used in the study for 2009 and is sufficient to generate funds to pay interest expense and to fund the replacement of assets not covered by depreciation.
- Outstanding balance of debt is charged a rate of return equal to the interest rate paid on the debt. This was calculated at 4.6%.

Table One is the projected financial statements for the Water Department from 2009 – 2013 without rate adjustments. The 2009 rate of return calculation established an operating income target of \$149,312 and in 2013 it decreases slightly to \$146,276.

Operating income for 2009 is projected at \$24,979. The Water Department's operating income is projected to decrease, with a projected operating income of \$4,050 in 2013.

Table One – Financial Statements, 2009 – 2013

	Projected 2008-09	Projected 2009-10	Projected 2010-11	Projected 2011-12	Projected 2012-13
Water Revenues					
Water Sales	800,832	824,857	849,603	875,091	901,344
Water Taps	8,297	8,546	8,803	9,067	9,339
Penalty Charges	29,457	30,341	31,251	32,189	33,155
Miscellaneous	8,000	8,240	8,487	8,742	9,004
Total Revenues	\$ 846,587	\$ 871,985	\$ 898,144	\$ 925,088	\$ 952,841
Expenses					
Supplies and maintenance	49,543	51,277	53,071	54,929	56,851
Utilities	34,475	35,682	36,931	38,223	39,561
Services	286,414	296,439	306,814	317,553	328,667
Administration	234,726	242,942	251,445	260,245	269,354
Depreciation	216,449	236,176	242,237	248,297	254,358
Total O&M	\$ 821,607	\$ 862,515	\$ 890,498	\$ 919,248	\$ 948,791
Operating Income	\$ 24,979	\$ 9,469	\$ 7,646	\$ 5,841	\$ 4,050
Interest Expense	(117,480)	(111,059)	(105,711)	(99,990)	(97,356)
I&S TAX	40,000	40,000	40,000	40,000	40,000
Interest Income	3,584	2,278	1,651	1,042	442
Connection Fees	17,563	18,090	18,632	19,191	19,767
Capital Contributions	470,000	-	-	-	-
Grant Revenue	350,000	-	-	-	-
Total Other Income & Expenses	\$ 763,667	\$ (50,691)	\$ (45,428)	\$ (39,756)	\$ (37,147)
Net Income	\$ 788,647	\$ (41,222)	\$ (37,782)	\$ (33,915)	\$ (33,097)

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REVENUE REQUIREMENTS, COST OF SERVICE AND RATE DESIGN**

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Table Two is the projected cash flows for 2009 – 2013, including projections of capital improvements as provided by the City for 2009 through 2013. Changes in the capital improvement plan, or Grants and contributions, can greatly affect the cash balance and recommended minimum cash reserve target. Cash balances for 2009 are projected at \$506,139 with the funds received from a \$350,000 grant and \$470,000 in capital contributions. The grant and capital contribution money will be used to offset the cost of capital improvements. Cash declines throughout the projection period to negative (\$36,278) in 2013. Cash balances are at critical levels.

Table Two – Water Department Projected Cash Flows

Projected Cash Flows	Projected 2008-09	Projected 2009-10	Projected 2010-11	Projected 2011-12	Projected 2012-13
Add Net Income	\$ 788,647	\$ (41,222)	\$ (37,782)	\$ (33,915)	\$ (33,097)
Add Back Depreciation Expense	216,449	236,176	242,237	248,297	254,358
Subtract Debt Principal	193,385	134,295	139,667	147,725	155,782
Add Bond Sale Proceeds	0	0	0	0	0
Cash Available from Operations	\$ 811,710	\$ 60,659	\$ 64,788	\$ 66,657	\$ 65,478
Estimated Annual Capital Additions	1,102,000	200,000	200,000	200,000	200,000
Net Cash From Operations	\$ (290,290)	\$ (139,341)	\$ (135,212)	\$ (133,343)	\$ (134,522)
Beginning Cash Balance	796,428	506,139	366,798	231,586	98,243
Ending Cash Balance	\$ 506,139	\$ 366,798	\$ 231,586	\$ 98,243	\$ (36,278)
Total Cash Available	506,139	366,798	231,586	98,243	(36,278)
Recommended Minimum	657,132	636,893	646,709	659,806	669,548

Minimum Cash Reserve

Table Three is the minimum level of cash reserves required to help ensure the timely replacement of assets and to maintain the financial stability of the water utility. The methodology used to establish the target is based on certain assumptions related to the percent of operating expense, historical investment, capital improvements, and debt service to keep in cash reserves. Based on these assumptions, the City of Crandall should maintain a minimum of \$657,132 in cash reserves for 2009 and \$669,548 by 2013. As noted above, cash balances are at critical levels and turn negative in 2013 without rate increases.

Table Three – Water Utility Minimum Cash Reserves for 2009 – 2013

	Percent Allocated	Projected 2008-09	Projected 2009-10	Projected 2010-11	Projected 2011-12	Projected 2012-13
Operation & Maintenance Less Depreciation Expense	25%	\$ 151,290	\$ 156,585	\$ 162,065	\$ 167,738	\$ 173,608
Historical Rate Base	1%	52,930	54,930	56,930	58,930	60,930
Current Portion of Debt Service Reserve	100%	272,912	245,378	247,714	253,138	255,010
Next Years Capital Improvements - Net of bond proceeds	15%	30,000	30,000	30,000	30,000	30,000
Five Year Capital Improvements - Net of bond proceeds	15%	150,000	150,000	150,000	150,000	150,000
Recommended Minimum Cash Reserves		\$ 657,132	\$ 636,893	\$ 646,709	\$ 659,806	\$ 669,548

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REVENUE REQUIREMENTS, COST OF SERVICE AND RATE DESIGN**

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Table Four is the projected debt coverage ratios with capital additions as provided by the City. The minimum recommended debt coverage ratio for the City of Crandall was established at 1.5. Maintaining a 1.5 debt coverage ratio is good business practice and helps 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.

Table Four – Water Department Projected Debt Coverage Ratios:

<u>Debt Coverage Ratio</u>	Projected 2008-09	Projected 2009-10	Projected 2010-11	Projected 2011-12	Projected 2012-13
Add Net Income	\$ 788,647	\$ (41,222)	\$ (37,782)	\$ (33,915)	\$ (33,097)
Add Depreciation Expense	216,449	236,176	242,237	248,297	254,358
Add Interest Expense	117,480	111,059	105,711	99,990	97,356
Cash Available for Debt Service	<u>\$ 1,122,575</u>	<u>\$ 306,013</u>	<u>\$ 310,166</u>	<u>\$ 314,372</u>	<u>\$ 318,617</u>
Debt Principal and Interest	\$ 310,864	\$ 245,354	\$ 245,378	\$ 247,714	\$ 253,138
Projected Debt Coverage Ratio (Covenants)	3.61	1.25	1.26	1.27	1.26
Minimum Debt Coverage Ratio	1.50	1.50	1.50	1.50	1.50

The debt coverage ratio is deficient in 2010 – 2013 (2009 would also be deficient at .97 if the grant and contribution revenue were removed).

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REVENUE FORECAST

Sales were projected and adjusted for known or anticipated changes in customer usage and a 3.0% growth factor as provided by the City of Crandall. The tables below are projections of consumption and number of customers.

TABLE FIVE – WATER DEPARTMENT ACTUAL AND PROJECTED CONSUMPTION

Meter Size	Actual 2007	Projected 2008	Projected 2009
Residential Inside	96,418,372	99,310,923	102,290,251
Residential Outside	14,590,710	15,028,431	15,479,284
Commercial Inside	13,061,040	13,452,871	13,856,457
Commercial Outside	2,029,031	2,089,902	2,152,599
Schools	6,349,291	6,539,770	6,735,963
Mobile Park Homes	131,600	135,548	139,614
Total Consumption	132,580,044	136,557,445	140,654,169

TABLE SIX – WATER DEPARTMENT ACTUAL AND PROJECTED NUMBER OF CUSTOMERS

Number of Customers	Actual 2007	Projected 2008	Projected 2009
Residential Inside	1,067	1,099	1,132
Residential Outside	166	171	176
Commercial Inside	67	69	71
Commercial Outside	1	1	1
Schools	20	21	21
Mobile Park Homes	1	1	1
Total Consumption	1,322	1,362	1,403

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SUMMARY OF FINANCIAL POSITION

Revenue Requirement and COS Rate Adjustment

The results of the cost of service study identified that increases are needed in the water rates to meet financial targets and the objectives of City Council. Table Eight below identifies the recommended rate track

Table Seven below is a financial summary without rate increases. In 2009, the operating income for cost of service purposes is \$24,979 and is below the targeted operating income level of \$149,312. Cash reserves are projected at \$506,139 due to the projected receipt of a \$350,000 grant and \$470,000 in contributed capital. This balance is still below the minimum reserve level for 2009 of \$657,132. Debt coverage ratios are not sufficient to meet the recommended minimum debt coverage ratio of 1.5 during the projection period 2010 through 2013. Table Seven is a financial projection with no rate increase.

Table Seven – Financials With No Rate Increase

Fiscal Year	Projected Rate Adjustments	Projected Revenues	Projected Expenses	Adjusted Operating Income	Projected Cash Balances	Capital Improvements	Bond Issues	Grants/Capital Contributions	Debt Coverage Ratio
2009	0.00%	846,587	821,607	24,979	506,139	1,102,000	-	820,000	3.61
2010	0.00%	871,985	862,515	9,469	366,798	200,000	-	-	1.25
2011	0.00%	898,144	890,498	7,646	231,586	200,000	-	-	1.26
2012	0.00%	925,088	919,248	5,841	98,243	200,000	-	-	1.27
2013	0.00%	952,841	948,791	4,050	(36,278)	200,000	-	-	1.26
Recommended Target in 2009				149,312	657,132				1.50
Recommended Target in 2013				146,276	669,548				1.50

Increasing rates requires balancing the financial health of the utility, the financial impact on customers, cost of service results and the objectives of the City Council. Table Eight is the financial projection with a rate increase of 10.0% in 2009 and 2.50% 2010 - 2013.

Table Eight – Financials with Rate Adjustments

Fiscal Year	Projected Rate Adjustments	Projected Revenues	Projected Expenses	Adjusted Operating Income	Projected Cash Balances	Capital Improvements	Bond Issues	Grants/Capital Contributions	Debt Coverage Ratio
2009	10.00%	926,670	821,607	105,063	586,222	1,102,000	-	820,000	3.87
2010	2.50%	977,154	862,515	114,639	552,411	200,000	-	-	1.68
2011	2.50%	1,030,417	890,498	139,919	550,306	200,000	-	-	1.81
2012	2.50%	1,086,612	919,248	167,365	579,922	200,000	-	-	1.93
2013	2.50%	1,145,904	948,791	197,112	640,631	200,000	-	-	2.03
Recommended Target in 2009				149,312	657,132				1.50
Recommended Target in 2013				146,276	669,548				1.50

The rate track was developed to work towards meeting financial targets by 2013, while trying to minimize the impact to customers.

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COST OF SERVICE COMPONENTS WATER UTILITY

The purpose of a cost of service study is to allocate costs between flow (Commodity Costs) and customer service costs (Customer Costs). The cost of service study was based on recognized procedures from the American Water Works Association.

Commodity Costs are costs that tend to vary with the quantity of water used, as well as costs associated with purchasing, pumping and distributing water to customers. Commodity costs include wholesale water purchase costs plus pumping stations and transmission lines.

Customer Costs are costs associated with serving customers regardless of their usage or demand characteristics. Customer costs include the operation and maintenance expenses related to meters and services, meter reading costs, billing and collection costs. The customer costs were allocated on the basis of the relative cost of meters and services and the number of customers.

Tables Nine and Ten compare the City of Crandall's current customer charge and commodity rates with the results of the cost of service analysis.

Table Nine – Comparison of Current Customer Service Charge with Cost of Service

In-City	Current Monthly Meter Charges	Cost of Service Monthly Meter Charges
Residential 3/4"	\$ 21.30	\$ 21.02
Commercial 3/4"	30.80	21.02
Commercial 1"	30.80	37.53
Commercial 2"	30.80	116.49
Commercial 4"	30.80	438.25
Commercial 6"	30.80	954.94

Please see appendix for detailed cost of service calculations.

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Table Ten – Comparison of Current Commodity Rate with Commodity Cost of Service

In-City	Current Commodity Charge	Cost of Service Commodity Charge
Residential 3/4"	\$ 3.05	\$ 3.70
Commercial 3/4"	3.15	3.70
Commercial 1"	3.15	3.70
Commercial 2"	3.15	3.70
Commercial 4"	3.15	3.70
Commercial 6"	3.15	3.70

Please see appendix for detailed cost of service calculations.

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Recommended Rate Track

Table Twelve is the recommended rate design for the Water Department. Rates were designed to provide an overall increase equal to 10% for 2009.

Table Eleven – Recommended Rate Design

Meter Size	Proposed 2009 Monthly Customer Charge	Proposed 2009 Commodity Charge
Residential 3/4"	\$ 23.75	\$ 3.30
Commercial 3/4"	35.00	3.30
1"	39.00	3.30
2"	45.00	3.30
4"	65.00	3.30
6"	85.00	3.30

WASTEWATER COST OF SERVICE STUDY RESULTS

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EXECUTIVE SUMMARY – WASTEWATER DEPARTMENT

UTILITY REVENUE REQUIREMENTS FOR FISCAL YEAR 2008 – 2013 WITHOUT RATE INCREASES

To determine revenue requirements, the revenues and expenses for Fiscal Years 2005 through 2007 and Budget 2008 - 2009 were analyzed, with adjustments made to actual expenses to reflect projected operating characteristics. *The projected financial statements are for cost of service purposes only.* Please note the following variations from current financial statement reporting:

- A rate of return of approximately 5.2% was used in the study and is sufficient to generate funds to pay interest expense and to fund the replacement of assets not covered by depreciation.
- Outstanding balance of debt is charged a rate of return equal to the interest rate paid on the debt. This was calculated at 4.6%.

Table Thirteen is the projected financial statements for the Wastewater Department from 2009 – 2013 without rate increases. The rate of return calculation established an operating income target of \$185,624 for 2009 and increases slightly to \$187,227 for 2013.

Operating income for 2009 is projected at negative (\$123,915). The Wastewater Department's operating income is projected to decrease, with a projected operating income of negative \$(146,825) in 2013.

Table Twelve – Financial Statements, 2009 – 2013

	Projected 2008-09	Projected 2009-10	Projected 2010-11	Projected 2011-12	Projected 2012-13
<u>Wastewater Revenues</u>					
Wastewater Sales	497,379	512,300	527,669	543,499	559,804
Wastewater Taps	3,863	3,978	4,098	4,221	4,347
Penalty Charges	17,308	17,827	18,362	18,913	19,480
Miscellaneous	6,364	6,555	6,751	6,954	7,162
Total Revenues	\$ 524,913	\$ 540,660	\$ 556,880	\$ 573,587	\$ 590,794
<u>Expenses</u>					
Supplies and maintenance	52,871	54,721	56,637	58,619	60,670
Utilities	67,020	69,366	71,794	74,306	76,907
Services	104,816	108,485	112,282	116,212	120,279
Administration	211,304	218,699	226,354	234,276	242,476
Depreciation	212,817	219,029	225,166	231,226	237,287
Total O&M	\$ 648,828	\$ 670,300	\$ 692,231	\$ 714,639	\$ 737,619
Operating Income	\$ (123,915)	\$ (129,640)	\$ (135,351)	\$ (141,052)	\$ (146,825)
Interest Expense	(117,866)	(112,334)	(107,726)	(102,797)	(97,512)
I&S TAX	119,899	65,899	67,876	69,912	72,010
Interest Income	257	(214)	(252)	(256)	(1,582)
Contributions in Aid of Construction	200,000	294,000	294,000	-	-
Total Other Income & Expenses	\$ 202,290	\$ 247,351	\$ 253,898	\$ (33,141)	\$ (27,085)
Net Income	\$ 78,376	\$ 117,711	\$ 118,547	\$ (174,193)	\$ (173,909)

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Table Thirteen is the projected cash flows for 2009 – 2013, including projections of capital improvements as provided by the City for 2009 through 2013. Changes in the capital improvement plan, grants and contributions, can greatly affect the cash balance and recommended minimum cash reserve target. Cash balances for 2009 are projected at negative \$(47,598) with the funds received from \$200,000 in contributed capital in 2009. Cash balances continue to decline throughout the projection. Cash balances are at critical levels.

Table Thirteen – Wastewater Department Projected Cash Flows

Projected Cash Flows	Projected 2008-09	Projected 2009-10	Projected 2010-11	Projected 2011-12	Projected 2012-13
Add Net Income	\$ 78,376	\$ 117,711	\$ 118,547	\$ (174,193)	\$ (173,909)
Add Back Depreciation Expense	212,817	219,029	225,166	231,226	237,287
Subtract Debt Principal	190,967	140,056	144,685	151,627	158,569
Add Bond Sale Proceeds	0		0		0
Cash Available from Operations	\$ 100,226	\$ 196,684	\$ 199,028	\$ (94,594)	\$ (95,192)
Estimated Annual Capital Additions	205,000	205,000	200,000	200,000	200,000
Net Cash From Operations	\$ (104,774)	\$ (8,316)	\$ (972)	\$ (294,594)	\$ (295,192)
Beginning Cash Balance	57,176	(47,598)	(55,914)	(56,886)	(351,480)
Ending Cash Balance	\$ (47,598)	\$ (55,914)	\$ (56,886)	\$ (351,480)	\$ (646,672)
Total Cash Available	(47,598)	(55,914)	(56,886)	(351,480)	(646,672)
Recommended Minimum	594,749	600,635	608,596	616,341	621,596

Table Fourteen is the minimum level of cash reserves required to help ensure timely replacement of assets and to maintain the financial stability of the wastewater utility. The methodology used to establish the target is based on certain assumptions related to the percent of operating expenses, historical investment, capital improvements, and debt service to keep in cash reserves. Based on these assumptions, the City of Crandall should keep a minimum of \$594,749 in cash reserves for 2009. Minimum cash reserve requirements increase slightly in 2013 to \$621,596.

Table Fourteen – Wastewater Utility Minimum Cash Reserves

	Percent Allocated	Projected 2008-09	Projected 2009-10	Projected 2010-11	Projected 2011-12	Projected 2012-13
Operation & Maintenance Less Depreciation Expense	25%	\$ 109,003	\$ 112,818	\$ 116,766	\$ 120,853	\$ 125,083
Historical Rate Base	1%	52,456	54,506	56,506	58,506	60,506
Current Portion of Debt Service Reserve	100%	252,390	252,411	254,424	256,082	255,107
Next Years Capital Improvements - Net of bond proceeds	15%	30,150	30,150	30,150	30,150	30,150
Five Year Capital Improvements - Net of bond proceeds	15%	150,750	150,750	150,750	150,750	150,750
Recommended Minimum Cash Reserves		\$ 594,749	\$ 600,635	\$ 608,596	\$ 616,341	\$ 621,596
Projected Cash Reserves		\$ (47,598)	\$ (55,914)	\$ (56,886)	\$ (351,480)	\$ (646,672)

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Table Fifteen is the projected debt coverage ratios with capital additions as provided by the City for 2009 – 2013. The minimum recommended debt coverage ratio for the City of Crandall was established at 1.5. Maintaining a 1.5 debt coverage ratio is good business practice and helps to achieve the following:

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

Table Fifteen – Wastewater Department Projected Debt Coverage Ratios:

<u>Debt Coverage Ratio</u>	Projected 2008-09	Projected 2009-10	Projected 2010-11	Projected 2011-12	Projected 2012-13
Add Net Income	\$ 78,376	\$ 117,711	\$ 118,547	\$ (174,193)	\$ (173,909)
Add Depreciation Expense	212,817	219,029	225,166	231,226	237,287
Add Interest Expense	117,866	112,334	107,726	102,797	97,512
Cash Available for Debt Service	<u>\$ 409,059</u>	<u>\$ 449,074</u>	<u>\$ 451,439</u>	<u>\$ 159,830</u>	<u>\$ 160,890</u>
Debt Principal and Interest	\$ 308,833	\$ 252,390	\$ 252,411	\$ 254,424	\$ 256,082
Projected Debt Coverage Ratio (Covenants)	1.32	1.78	1.79	0.63	0.63
Minimum Debt Coverage Ratio	1.50	1.50	1.50	1.50	1.50

The debt coverage ratio is deficient in 2009 and 2012 through 2013 (and would be deficient throughout the projection period if the contributions were removed).

REVENUE FORECAST

Sales were projected and adjusted for known or anticipated changes in customer usage and 3.0% growth per year as provided by the City. The tables below are projections of consumption and number of customers (page 16).

TABLE SIXTEEN – WASTEWATER DEPARTMENT ACTUAL AND PROJECTED CONSUMPTION

Meter Size	Actual 2007	Projected 2008	Projected 2009
Residential Inside	96,418,372	99,310,923	102,290,251
Residential Outside	14,590,710	15,028,431	15,479,284
Commercial Inside	13,061,040	13,452,871	13,856,457
Commercial Outside	2,029,031	2,089,902	2,152,599
Schools	6,349,291	6,539,770	6,735,963
Mobile Park Homes	131,600	135,548	139,614
Total Consumption	132,580,044	136,557,445	140,654,169

**CITY OF CRANDALL WATER & WASTEWATER UTILITIES
REVENUE REQUIREMENTS, COST OF SERVICE AND RATE DESIGN**

EXECUTIVE SUMMARY

TABLE SEVENTEEN – WASTEWATER DEPARTMENT ACTUAL AND PROJECTED NUMBER OF CUSTOMERS

Number of Customers	Actual 2007	Projected 2008	Projected 2009
Residential	933	961	990
Senior Discount	121	125	128
Commercial	54	56	57
Schools	15	15	16
Home Park	1	1	1
Total Consumption	1,124	1,158	1,192

**CITY OF CRANDALL WATER & WASTEWATER UTILITIES
REVENUE REQUIREMENTS, COST OF SERVICE AND RATE DESIGN**

SUMMARY OF FINANCIAL POSITION

Revenue Requirement and COS Rate Adjustment

The results of the cost of service study identified that increases are needed in the wastewater rates to meet financial targets and the objectives of City Council. Table Nineteen below identifies the recommended rate track

Table Eighteen below is a financial summary without rate increases. In 2009, the operating income for cost of service purposes is negative (\$123,915) and is below the targeted operating income level of \$185,624. Cash reserves are projected at negative (\$47,598) well below the recommended minimum of \$594,749. The cash balances reflect a \$200,000 contribution in aid of construction in 2009. Debt coverage ratios are not sufficient to meet the recommended minimum debt coverage ratio of 1.5 during the projection period of 2009 and 2012 through 2013.

Table Eighteen – Financials Without Rate Increase

Fiscal Year	Projected Rate Adjustments	Projected Revenues	Projected Expenses	Adjusted Operating Income	Projected Cash Balances	Capital Improvements	Bond Issues	Grants/Capital Contributions	Debt Coverage Ratio
2009	0.00%	524,913	648,828	(123,915)	(47,598)	205,000	-	200,000	1.32
2010	0.00%	540,660	670,300	(129,640)	(55,914)	205,000	-	294,000	1.78
2011	0.00%	556,880	692,231	(135,351)	(56,886)	200,000	-	294,000	1.79
2012	0.00%	573,587	714,639	(141,052)	(351,480)	200,000	-	-	0.63
2013	0.00%	590,794	737,619	(146,825)	(646,672)	200,000	-	-	0.63
Recommended Target in 2009				185,624	594,749			788,000	1.50
Recommended Target in 2013				187,227	621,596				1.50

Increasing rates requires balancing the financial health of the utility, the financial impact on customers, cost of service results and the objectives of the City Council. It is recommended that rates are phased-in to minimize the impacts on customers. Table Nineteen is the financial projection with the cost of service rates of 26% in 2009 and 6.5% in 2010 – 2013.

Table Nineteen – Financials with Rate Adjustments

Fiscal Year	Projected Rate Adjustments	Projected Revenues	Projected Expenses	Adjusted Operating Income	Projected Cash Balances	Capital Improvements	Bond Issues	Grants/Capital Contributions	Debt Coverage Ratio
2009	26.00%	654,231	648,828	5,404	81,721	205,000	-	200,000	1.74
2010	6.50%	715,816	670,300	45,515	249,142	205,000	-	294,000	2.48
2011	6.50%	783,315	692,231	91,084	475,978	200,000	-	294,000	2.69
2012	6.50%	857,302	714,639	142,663	467,497	200,000	-	-	1.75
2013	6.50%	938,403	737,619	200,784	523,600	200,000	-	-	2.00
Recommended Target in 2009				185,624	594,749			788,000	1.50
Recommended Target in 2013				187,227	621,596				1.50

The rate track was developed to work towards meeting financial targets by 2013.

**CITY OF CRANDALL WATER & WASTEWATER UTILITIES
REVENUE REQUIREMENTS, COST OF SERVICE AND RATE DESIGN**

EXECUTIVE SUMMARY

COST OF SERVICE COMPONENTS WASTEWATER UTILITY

The purpose of a cost of service study is to allocate costs between flow (Commodity Costs) and customer service costs (Customer Costs). The cost of service study was based on recognized procedures from the American Public Works Association.

Commodity Costs are costs that tend to vary with the quantity of wastewater treated, as well as costs associated with the collection system.

Customer Costs are costs associated with serving customers regardless of their usage or demand characteristics. Customer costs include the operation and maintenance expenses related to meters and services, meter reading costs, billing and collection costs. The customer costs were allocated on the basis of the relative size of water meters and services and the number of customers.

Tables Twenty and Twenty-one compare the City of Crandall's current customer charge and commodity rates with the results of the cost of service analysis. The result of cost of service by meter size is below in Table Twenty.

Table Twenty – Comparison of Monthly Current Customer Service Charge with Actual Cost of Service

Meter Size	Current Monthly Customer Charge	COS Monthly Customer Charge
Residential 3/4"	\$ 26.00	\$ 27.21
Residential Senior 3/4"	16.00	27.21
Commercial 3/4"	32.75	27.21
1"	32.75	48.38
2"	32.75	193.50
4"	32.75	774.02
6"	32.75	1,741.54

Table Twenty-one compares the cost of service commodity charge with the current commodity charge. The commodity charge includes the cost related to treatment plant, chemicals, sludge handling and other collection related expenses.

Table Twenty-one – Comparison between Current Commodity Charges with Cost of Service Charges

Meter Size	Current Commodity Charge	COS Commodity Charge
Residential 3/4"	\$ 1.76	\$ 4.43
Residential Senior 3/4"	\$ 1.76	4.43
Commercial 3/4"	\$ 1.86	4.43
1"	\$ 1.86	4.43
2"	\$ 1.86	4.43
4"	\$ 1.86	4.43
6"	\$ 1.86	4.43

Please see appendix for detailed cost of service calculations.

**CITY OF CRANDALL WATER & WASTEWATER UTILITIES
REVENUE REQUIREMENTS, COST OF SERVICE AND RATE DESIGN**

EXECUTIVE SUMMARY

Recommended Rate Design

Table Twenty-two is the recommended rate design for the Wastewater Department. Rates were designed to provide an overall increase equal to 26% for 2009.

Table Twenty-two – Recommended Rate Design

Meter Size	Proposed 2009 Monthly Custome Charge (0 - 2,000)	Proposed 2009 Commodity (All over 2,000)
Residential 3/4"	\$29.00	\$2.36
Residential Senior 3/4"	19.50	2.36
Commercial 3/4"	37.00	2.36
1"	41.00	2.36
2"	44.00	2.36
4"	49.00	2.36
6"	56.00	2.36

**CITY OF CRANDALL WATER & WASTEWATER UTILITIES
REVENUE REQUIREMENTS, COST OF SERVICE AND RATE DESIGN**

SIGNIFICANT ASSUMPTIONS

This section outlines the procedures used to develop the cost of service and rate design for the City of Crandall's Water and Wastewater Utilities and the related significant assumptions.

- 1) Unit sales were projected and adjusted for known or anticipated changes in customer's usages. A customer usage growth rate of 3% per year was projected for 2009 through 2013 for water and wastewater as provided by the City of Crandall.
- 2) Operating expenses were projected based on test years 2005 – 2007, and Budget 2008 and 2009 with expenses being forecasted based on a "normal" years operating expenses and increased for inflation and other known factors.
- 3) Inflation was assumed at 3.5% annually.
- 4) Depreciation expense was projected based on historical capital additions and future capital additions as provided by the City of Crandall.
- 5) Beginning cash balances were provided by the City of Crandall as well as anticipated grants and capital contributions.
- 6) Interest expense and bond principal were forecasted based on schedules as provided by the City and calculated for anticipated bonds (if any).
- 7) Interest income was forecasted based on projected cash balances and an interest rate of 0.5%. as provided by the City of Crandall
- 8) Assumptions were made for Assets, Revenues and Expenses as the financials for three utilities, Water, Wastewater and Refuse, were separate for the study from combined financials. Costs were allocated directly when they could be determined, otherwise, in most cases, the percentage used was 55% to Water, 35% to Wastewater and 10% for refuse (not addressed in this study).
- 9) Currently a cost cap is placed on the Wastewater rates of \$48.00 for residential. The study assumes that the City Council would like to remove the cap which will automatically increase revenues by an estimated \$30,000. The cap revenues were estimated applying the billing statistics to the current revenues. The actual results of lifting the cost cap may vary from this estimate.

**CITY OF CRANDALL WATER & WASTEWATER UTILITIES
REVENUE REQUIREMENTS, COST OF SERVICE AND RATE DESIGN**

RECOMMENDATIONS

- 1) The City of Crandall's water rates are not sufficient to maintain the long-term financial health of the water utility. Without a rate increase, operating financial targets will not be met. Considering the goals and objectives as indicated by the City, UFS recommends the implementation of the following rate track to work toward financial targets by 2013.

Fiscal Year	Projected Rate Adjustments	Projected Revenues	Projected Expenses	Adjusted Operating Income	Projected Cash Balances	Capital Improvements	Bond Issues	Grants/Capital Contributions	Debt Coverage Ratio
2009	10.00%	926,670	821,607	105,063	586,222	1,102,000	-	820,000	3.87
2010	2.50%	977,154	862,515	114,639	552,411	200,000	-	-	1.68
2011	2.50%	1,030,417	890,498	139,919	550,306	200,000	-	-	1.81
2012	2.50%	1,086,612	919,248	167,365	579,922	200,000	-	-	1.93
2013	2.50%	1,145,904	948,791	197,112	640,631	200,000	-	-	2.03
Recommended Target in 2009				149,312	657,132				1.50
Recommended Target in 2013				146,276	669,548				1.50

- 2) The City of Crandall's wastewater rates are not sufficient to maintain the long-term financial health of the wastewater utility. Without a rate increase, operating financial targets will not be met. Considering the goals and objectives as indicated by the City, UFS recommends the implementation of the following rate track to work toward financial targets by 2013.

Fiscal Year	Projected Rate Adjustments	Projected Revenues	Projected Expenses	Adjusted Operating Income	Projected Cash Balances	Capital Improvements	Bond Issues	Grants/Capital Contributions	Debt Coverage Ratio
2009	26.00%	654,231	648,828	5,404	81,721	205,000	-	200,000	1.74
2010	6.50%	715,816	670,300	45,515	249,142	205,000	-	294,000	2.48
2011	6.50%	783,315	692,231	91,084	475,978	200,000	-	294,000	2.69
2012	6.50%	857,302	714,639	142,663	467,497	200,000	-	-	1.75
2013	6.50%	938,403	737,619	200,784	523,600	200,000	-	-	2.00
Recommended Target in 2009				185,624	594,749			788,000	1.50
Recommended Target in 2013				187,227	621,596				1.50

**CITY OF CRANDALL WATER & WASTEWATER UTILITIES
REVENUE REQUIREMENTS, COST OF SERVICE AND RATE DESIGN**

RECOMMENDATIONS

- 3) The City of Crandall should consider adopting a Water Cash Reserve Policy based on the formula identified below to establish minimum reserves for the Water Utility.

	Percent Allocated	Projected 2008-09	Projected 2009-10	Projected 2010-11	Projected 2011-12	Projected 2012-13
Operation & Maintenance Less Depreciation Expense	25%	\$ 151,290	\$ 156,585	\$ 162,065	\$ 167,738	\$ 173,608
Historical Rate Base	1%	52,930	54,930	56,930	58,930	60,930
Current Portion of Debt Service Reserve	100%	272,912	245,378	247,714	253,138	255,010
Next Years Capital Improvements - Net of bond proceeds	15%	30,000	30,000	30,000	30,000	30,000
Five Year Capital Improvements - Net of bond proceeds	15%	150,000	150,000	150,000	150,000	150,000
Recommended Minimum Cash Reserves		\$ 657,132	\$ 636,893	\$ 646,709	\$ 659,806	\$ 669,548

- 4) The City of Crandall should consider adopting a Wastewater Cash Reserve Policy based on the formula identified below to establish minimum reserves for the Wastewater Utility.

	Percent Allocated	Projected 2008-09	Projected 2009-10	Projected 2010-11	Projected 2011-12	Projected 2012-13
Operation & Maintenance Less Depreciation Expense	25%	\$ 109,003	\$ 112,818	\$ 116,766	\$ 120,853	\$ 125,083
Historical Rate Base	1%	52,456	54,506	56,506	58,506	60,506
Current Portion of Debt Service Reserve	100%	252,390	252,411	254,424	256,082	255,107
Next Years Capital Improvements - Net of bond proceeds	15%	30,150	30,150	30,150	30,150	30,150
Five Year Capital Improvements - Net of bond proceeds	15%	150,750	150,750	150,750	150,750	150,750
Recommended Minimum Cash Reserves		\$ 594,749	\$ 600,635	\$ 608,596	\$ 616,341	\$ 621,596

**CITY OF CRANDALL WATER & WASTEWATER UTILITIES
REVENUE REQUIREMENTS, COST OF SERVICE AND RATE DESIGN**

RECOMMENDATIONS

- 1) The following is the recommended rate design for the Water Utility. The new rates are design to provide for an overall rate increase of 10.0% for 2009.

Meter Size	Proposed 2009 Monthly Customer Charge	Proposed 2009 Commodity Charge
Residential 3/4"	\$ 23.75	\$ 3.30
Commercial 3/4"	35.00	3.30
1"	39.00	3.30
2"	45.00	3.30
4"	65.00	3.30
6"	85.00	3.30

- 2) The following is the recommended rate design for the Wastewater Utility for 2009. The new rates are design to provide for an overall rate increase of 26% for 2009.

Meter Size	Proposed 2009 Monthly Custome Charge (0 - 2,000)	Proposed 2009 Commodity (All over 2,000)
Residential 3/4"	\$29.00	\$2.36
Residential Senior 3/4"	19.50	2.36
Commercial 3/4"	37.00	2.36
1"	41.00	2.36
2"	44.00	2.36
4"	49.00	2.36
6"	56.00	2.36

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ACCOUNTANTS' COMPILATION REPORT

City of Crandall
Board and City Council

The accompanying forecasted statements of revenues and expenses of the City of Crandall Utilities were compiled for the fiscal year 2009 in accordance with guidelines established by the American Institute of Certified Public Accountants.

The purpose of this report is to assist management in forecasting revenue requirements and determining the cost to service each customer class. This report should not be used for any other purpose.

A compilation is limited to presenting, in the form of a forecast; information represented by management and does not include evaluation of support for any assumptions used in projecting revenue requirements. We have not audited the forecast and, accordingly, do not express an opinion or any other form of assurance on the statements or assumptions accompanying this report.

Differences between forecasted and actual results will occur since some assumptions may not materialize and events and circumstances may occur that were not anticipated, some of these variations may be material. Utility Financial Solutions has no responsibility to update this report after the date of this report.

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

UTILITY FINANCIAL SOLUTIONS

Mark Beauchamp, CPA, CMA, MBA
Holland, MI
September 12, 2008

Appendix One – Impacts on Customers Water Department 10% Increase

	Current		Proposed
	Rates	COS Charge	Rates
Res 3/4" Customer Service Charge	\$ 21.30	\$ 21.02	\$ 23.75
Commodity Rate	3.05	3.70	3.30

Usage Level in 1000 Gallons	Current Rates	COS Charge	Proposed Rates	Dollar Impact	Percent Change
5	\$ 36.55	\$ 39.53	\$ 40.25	\$ 3.70	10.12%
7	42.65	46.94	46.85	4.20	9.85%
10	51.80	58.05	56.75	4.95	9.56%
13	60.95	69.15	66.65	5.70	9.35%
16	70.10	80.26	76.55	6.45	9.20%

	Current		Proposed
	Rates	COS Charge	Rates
Com 3/4" Customer Service Charge	\$ 30.80	\$ 21.02	\$ 35.00
Commodity Rate	\$ 3.15	\$ 3.70	3.30

Quarterly Usage Level in 1000 Gallons	Current Rates	COS Charge	Proposed Rates	Dollar Impact	Percent Change
5	\$ 46.55	\$ 39.53	\$ 51.50	\$ 4.95	10.63%
7	52.85	46.94	58.10	5.25	9.93%
10	62.30	58.05	68.00	5.70	9.15%
13	71.75	69.15	77.90	6.15	8.57%
16	81.20	80.26	87.80	6.60	8.13%

	Current		Proposed
	Rates	COS Charge	Rates
Com 1" Customer Service Charge	\$ 30.80	\$ 37.53	\$ 39.00
Commodity Rate	3.15	\$ 3.70	3.30

Quarterly Usage Level in 1000 Gallons	Current Rates	COS Charge	Proposed Rates	Dollar Impact	Percent Change
15	\$ 78.05	\$ 93.07	\$ 88.50	\$ 10.45	13.39%
20	93.80	111.58	105.00	11.20	11.94%
25	109.55	130.09	121.50	11.95	10.91%
30	125.30	148.60	138.00	12.70	10.14%
35	141.05	167.11	154.50	13.45	9.54%

	Current		Proposed
	Rates	COS Charge	Rates
Com 2" Customer Service Charge	\$ 30.80	\$ 116.49	\$ 45.00
Commodity Rate	\$ 3.15	\$ 3.70	3.30

Quarterly Usage Level in 1000 Gallons	Current Rates	COS Charge	Proposed Rates	Dollar Impact	Percent Change
40	\$ 156.80	\$ 264.59	\$ 177.00	\$ 20.20	12.88%
50	188.30	301.61	210.00	21.70	11.52%
60	219.80	338.63	243.00	23.20	10.56%
70	251.30	375.66	276.00	24.70	9.83%
80	282.80	412.68	309.00	26.20	9.26%

	Current		Proposed
	Rates	COS Charge	Rates
Com 4" Customer Service Charge	\$ 30.80	\$ 438.25	\$ 65.00
Commodity Rate	\$ 3.15	\$ 3.70	3.30

Quarterly Usage Level in 1000 Gallons	Current Rates	COS Charge	Proposed Rates	Dollar Impact	Percent Change
150	\$ 503.30	\$ 993.60	\$ 560.00	\$ 56.70	11.27%
200	660.80	1,178.72	725.00	64.20	9.72%
250	818.30	1,363.84	890.00	71.70	8.76%
300	975.80	1,548.95	1,055.00	79.20	8.12%
350	1,133.30	1,734.07	1,220.00	86.70	7.65%

	Current		Proposed
	Rates	COS Charge	Rates
Com 6" Customer Service Charge	\$ 30.80	\$ 954.94	\$ 85.00
Commodity Rate	3.15	\$ 3.70	3.30

Quarterly Usage Level in 1000 Gallons	Current Rates	COS Charge	Proposed Rates	Dollar Impact	Percent Change
300	\$ 975.80	\$ 2,065.64	\$ 1,075.00	\$ 99.20	10.17%
400	1,290.80	2,435.88	1,405.00	114.20	8.85%
500	1,605.80	2,806.11	1,735.00	129.20	8.05%
600	1,920.80	3,176.34	2,065.00	144.20	7.51%
700	2,235.80	3,546.57	2,395.00	159.20	7.12%

Appendix Two – Impacts on Customers Wastewater Department 26% Increase

Res 3/4"

	Current Rates	COS Charge	Proposed Rates
Customer Service Charge	\$ 26.00	\$ 27.21	\$ 29.00
Commodity Rate	1.76	4.43	2.38

Usage Level in 1000 Gallons	Current Rates	COS Charge	Proposed Rates	Dollar Impact	Percent Change
5	\$ 34.80	\$ 49.36	\$ 40.90	\$ 6.10	17.53% *
7	38.32	58.22	45.66	7.34	19.15% *
10	43.60	71.51	52.80	9.20	21.10% *
13	48.88	84.80	59.94	11.06	22.63% *
16	54.16	98.08	67.08	12.92	23.86% *

* Because cap elimination

Com 3/4"

	Current Rates	COS Charge	Proposed Rates
Customer Service Charge	\$ 32.75	\$ 27.21	\$ 37.00
Commodity Rate	\$ 1.86	4.43	2.38

Quarterly Usage Level in 1000 Gallons	Current Rates	COS Charge	Proposed Rates	Dollar Impact	Percent Change
10	\$ 51.35	\$ 71.51	\$ 60.80	\$ 9.45	18.40%
15	\$ 60.65	\$ 93.66	\$ 72.70	12.05	19.87%
20	\$ 69.95	\$ 115.80	\$ 84.60	14.65	20.94%
25	\$ 79.25	\$ 137.95	\$ 96.50	17.25	21.77%
30	\$ 88.55	\$ 160.10	\$ 108.40	19.85	22.42%

Com 1"

	Current Rates	COS Charge	Proposed Rates
Customer Service Charge	\$ 32.75	\$ 48.38	\$ 41.00
Commodity Rate	1.86	4.43	2.38

Quarterly Usage Level in 1000 Gallons	Current Rates	COS Charge	Proposed Rates	Dollar Impact	Percent Change
15	\$ 60.65	\$ 114.82	\$ 76.70	\$ 16.05	26.46%
20	\$ 69.95	\$ 136.97	\$ 88.60	18.65	26.66%
25	\$ 79.25	\$ 159.12	\$ 100.50	21.25	26.81%
30	\$ 88.55	\$ 181.26	\$ 112.40	23.85	26.93%
35	\$ 97.85	\$ 203.41	\$ 124.30	26.45	27.03%

Com 2"

	Current Rates	COS Charge	Proposed Rates
Customer Service Charge	\$ 32.75	\$ 193.50	\$ 44.00
Commodity Rate	\$ 1.86	4.43	2.38

Quarterly Usage Level in 1000 Gallons	Current Rates	COS Charge	Proposed Rates	Dollar Impact	Percent Change
40	\$ 107.15	\$ 370.69	\$ 139.20	\$ 32.05	29.91%
50	\$ 125.75	\$ 414.98	\$ 163.00	37.25	29.62%
60	\$ 144.35	\$ 459.28	\$ 186.80	42.45	29.41%
70	\$ 162.95	\$ 503.58	\$ 210.60	47.65	29.24%
80	\$ 181.55	\$ 547.87	\$ 234.40	52.85	29.11%

Com 4"

	Current Rates	COS Charge	Proposed Rates
Customer Service Charge	\$ 32.75	\$ 774.02	\$ 49.00
Commodity Rate	\$ 1.86	4.43	2.38

Quarterly Usage Level in 1000 Gallons	Current Rates	COS Charge	Proposed Rates	Dollar Impact	Percent Change
150	\$ 311.75	\$ 1,438.45	\$ 406.00	\$ 94.25	30.23%
200	\$ 404.75	\$ 1,659.93	\$ 525.00	120.25	29.71%
250	\$ 497.75	\$ 1,881.41	\$ 644.00	146.25	29.38%
300	\$ 590.75	\$ 2,102.89	\$ 763.00	172.25	29.16%
350	\$ 683.75	\$ 2,324.37	\$ 882.00	198.25	28.99%

Com 6"

	Current Rates	COS Charge	Proposed Rates
Customer Service Charge	\$ 32.75	\$ 1,741.54	\$ 56.00
Commodity Rate	1.86	4.43	2.38

No customers on this rate to moved to COS rate

Quarterly Usage Level in 1000 Gallons	Current Rates	COS Charge	Proposed Rates	Dollar Impact	Percent Change
300	\$ 590.75	\$ 3,070.41	\$ 770.00	\$ 179.25	30.34%
400	\$ 776.75	\$ 3,513.37	\$ 1,008.00	231.25	29.77%
500	\$ 962.75	\$ 3,956.33	\$ 1,246.00	283.25	29.42%
600	\$ 1,148.75	\$ 4,399.29	\$ 1,484.00	335.25	29.18%
700	\$ 1,334.75	\$ 4,842.25	\$ 1,722.00	387.25	29.01%