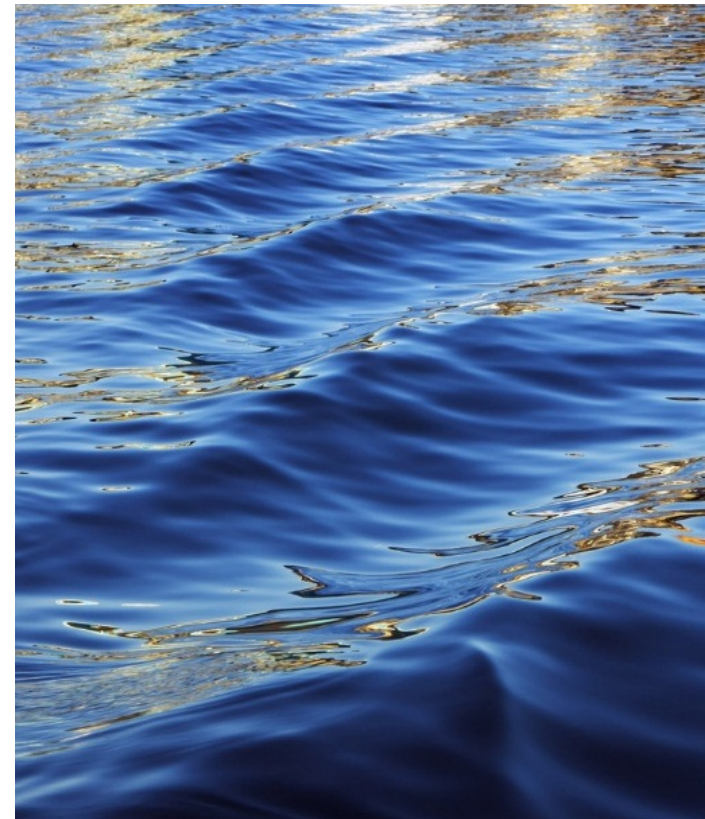
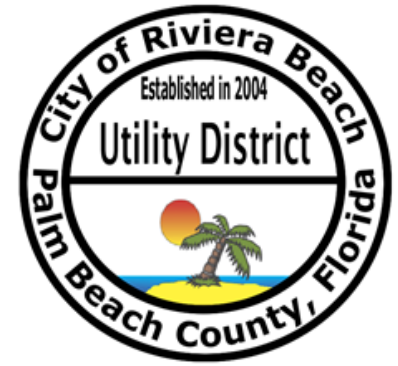




Fiscal Year 2018 Utility Revenue Sufficiency Study and Wholesale Rate Evaluation

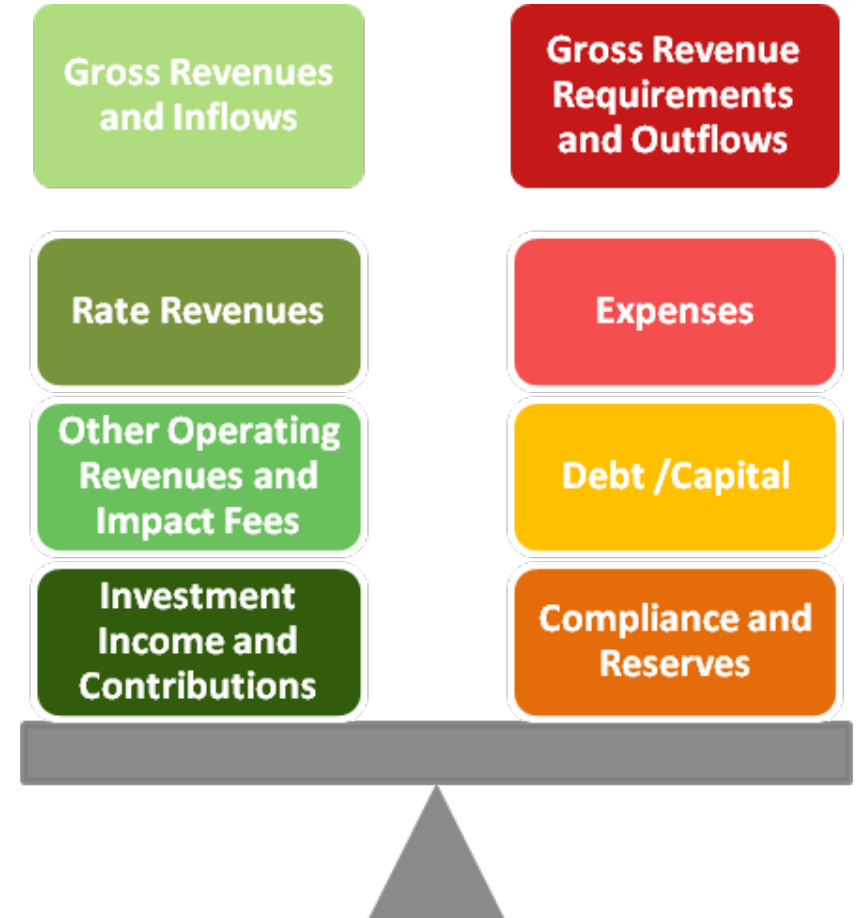


Public Resources Management Group, Inc.



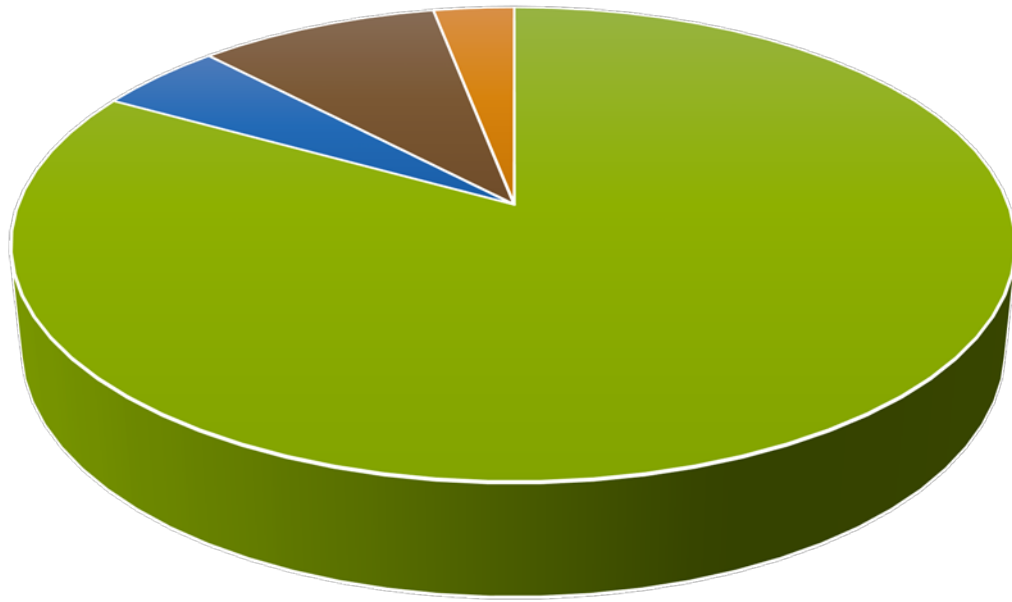
Summary of Study Purpose

- Objective – Develop Sustainable Rate and Financial Plan
- Evaluate the Sufficiency of Revenues
- Review of Historical Trends In Revenues and Expenses
- Forecast of Operating Expenses and Revenues
- Summary of Capital Needs
- Develop Capital Funding Plan
- Identify Available Cash / Funding Resources
- Develop Financial Plan
 - Revenue Requirements
 - Bond Covenants
 - Financial Targets
 - Identify Rate Implementation Plan

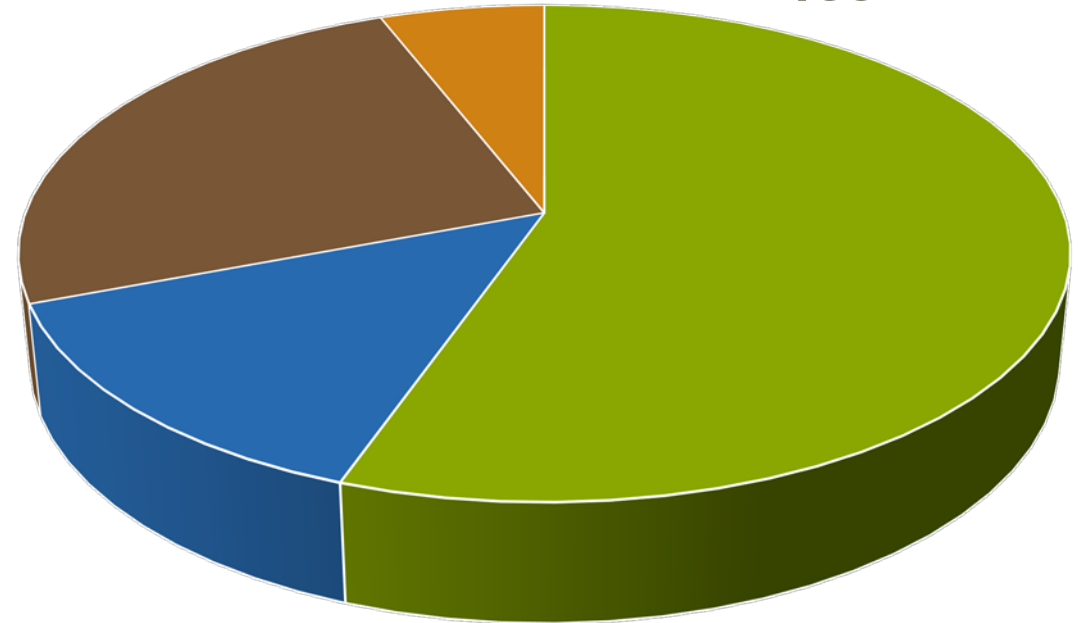


System Attributes – Customers

FY 2018 Accounts = 13,179



FY 2018 Equivalent Residential Connections (ERC) = 26,336



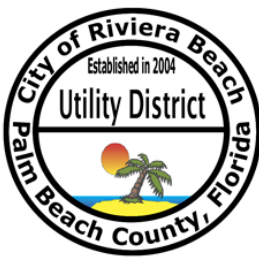
■ Single-Family ■ Multi-Family ■ Commercial ■ Irrigation

• Single-Family Class

- 83% of Total Accounts and 55% of Total ERCs
- Average Monthly Use per Account = 5,600 Gallons
- 72% of Flow Billed Under 5,000 Gallons or Less

• Commercial Class

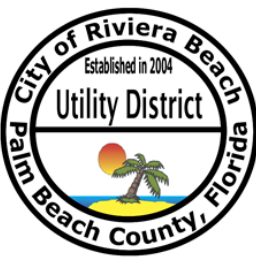
- 9% of Total Accounts and 25% of Total ERCs
- Average Monthly Use per Account = 51,000 Gallons
- Represents 34% of Total Water Sold



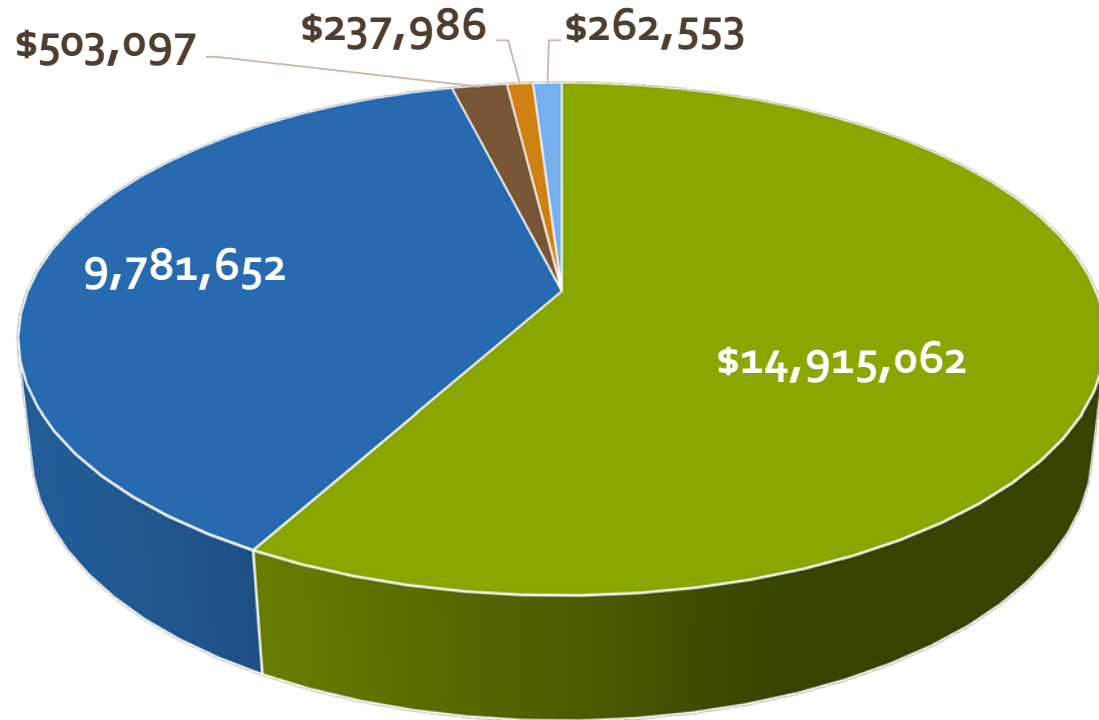
System Attributes – Existing Rates

Fiscal Year 2018 – Monthly Charges for Service (Rates)		
	<u>Water</u>	<u>Sewer</u>
Readiness-to-Serve Charge		
Single-Family 3/4-Inch Meter	\$17.63	\$16.12
Usage Charges (per 1,000 Gallons)		
0-5,000 Gallons	\$2.53	\$2.59
5,001-10,000 Gallons	3.46	2.59
10,001-20,000 Gallons	4.57	N/A
20,001 and Above	5.73	N/A
Readiness-to-Serve Charge – Commercial		
3/4-Inch Meter	\$17.65	\$16.12
1-Inch Meter	26.16	25.53
1-1/2-Inch Meter	47.31	48.84
2-Inch Meter	74.19	76.94
3-Inch Meter	132.73	142.55
4-Inch Meter	216.73	236.24
6-Inch Meter	425.89	470.29
8-Inch Meter	671.75	751.24
10-Inch Meter	957.63	1,079.11
Usage Charge (per 1,000 Gallons)		
0-10,000 Gallons	\$4.54	\$4.66
10,001-30,000	5.65	4.66
30,001 and Above	6.81	4.66

- Monthly Charges for Service
 - Readiness-to-Serve Charge Includes Capacity Reservation Based on ERCs and Meter Replacement Charge
 - Usage Charges – Water Includes Conservation Tiers and Sewer Capped at 10,000 Gallons
- Resolution 12-15UD “Rate Resolution”
 - Adopted 5-Year Rate Adjustment Plan
 - Modified Remainder of Prior Rate Plan
 - Fiscal Year 2019 (Last Year of Plan)
 - Water = 3.05% / Sewer = 8.79%

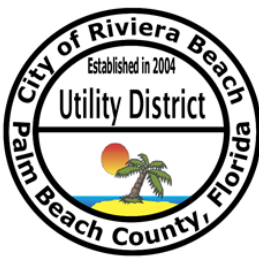


System Attributes – Fiscal Year 2018 Revenues

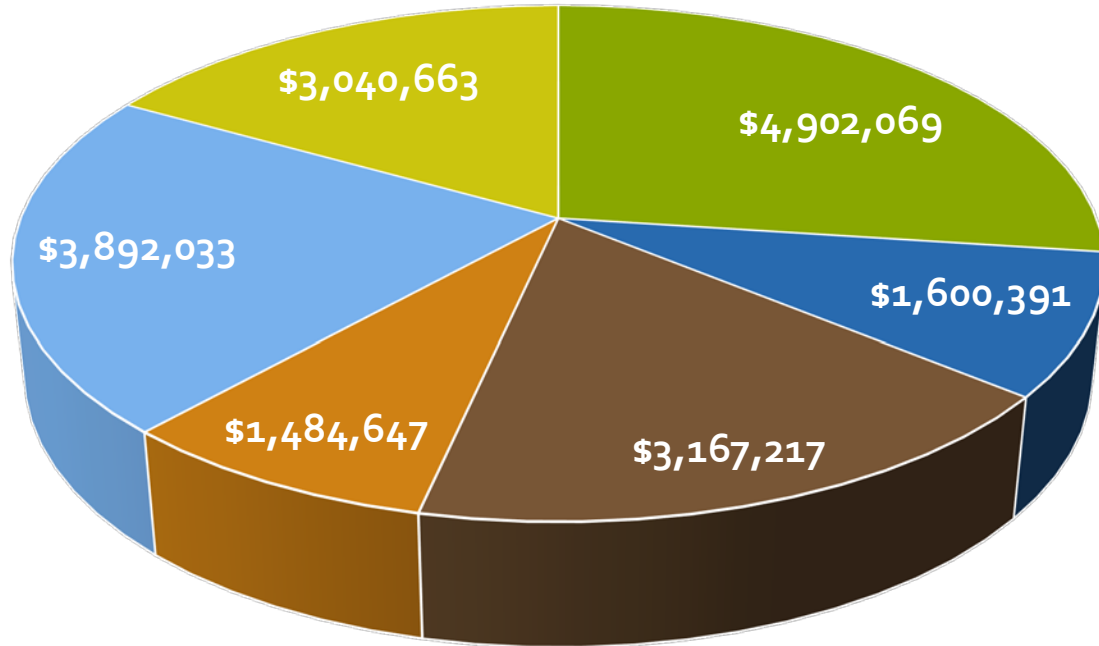


- Water Rate Revenues
- Sewer Rate Revenues
- Miscellaneous Fees and Interest Income
- ECRWRF Wholesale Charge Revenue
- Impact Fees

- Total Gross Revenues = \$26,86,546
- Rate Revenues = **96%**
 - Water = 58% / Sewer = 39%
 - Single-Family = 35%, Multi-Family = 22%, Commercial = 32%, Irrigation = 9%
- Miscellaneous Fees & Interest = **3%**
 - Misc. Fees – Penalties, Connections, Ext.
 - Interest Income
- Wholesale Revenues = **1%**

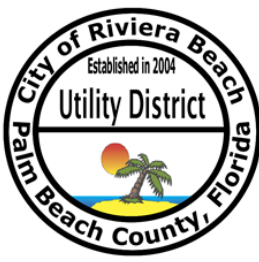


System Attributes – Fiscal Year 2018 Operating Expenses



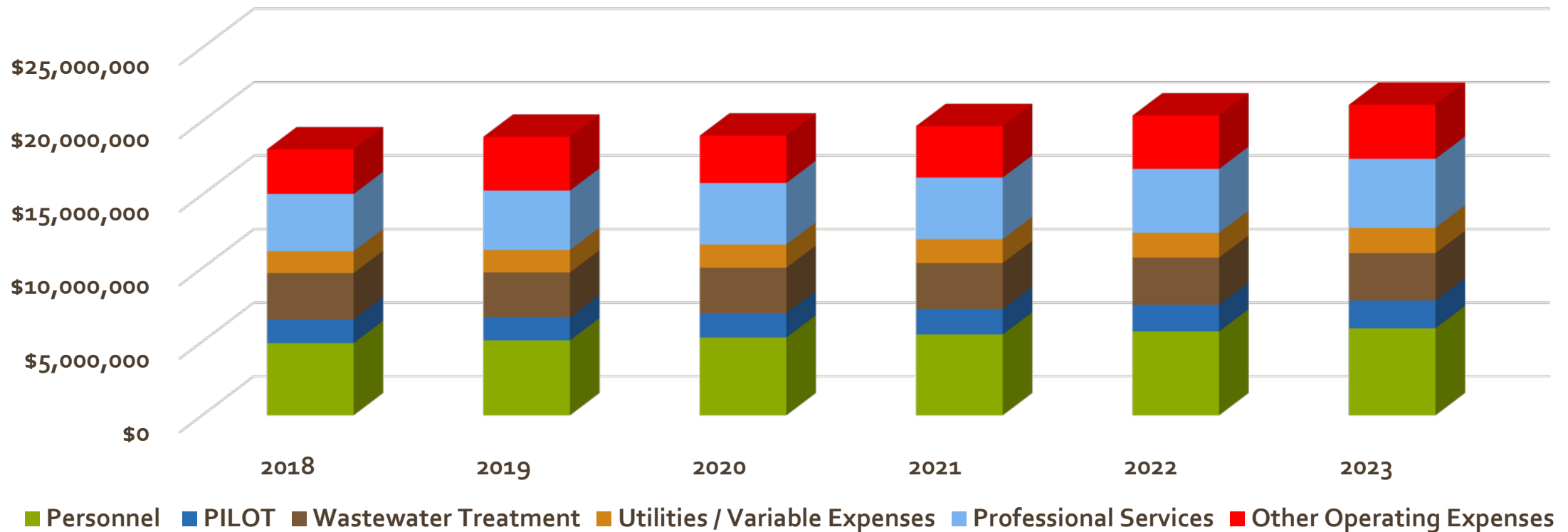
- Personnel
- Wastewater Treatment
- Professional Services
- PILOT
- Utilities / Variable Expenses
- Other Operating Expenses

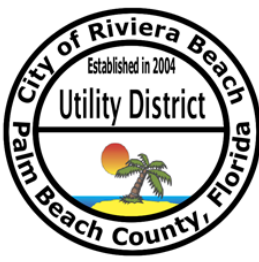
- Fiscal Year 2018 Operating Expenses = \$18,087,020
- Represents 73% of Rate Revenues
- Wastewater Treatment
 - ECRWRF = 16% of Total OpEx
 - District Has Little Control Over Potential Increases
- Personnel / Power / Chemicals = 35% of Total OpEx
- PILOT = 9% of Total OpEx



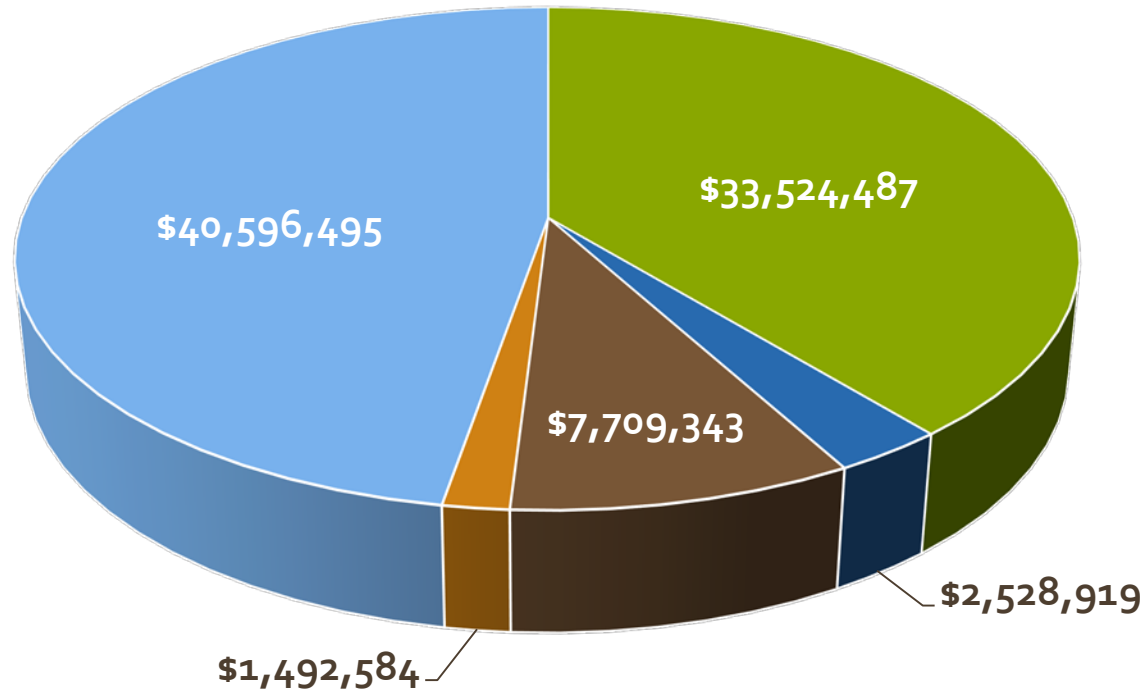
System Attributes – Projected Operating Expenses

- Operating Expenses Escalated Over Forecast Period Based on Known Changes and Inflationary Indices Published By the U.S. Bureau of Labor Statistics
- Annual Compound Growth = 3.15%
- Wastewater Treatment Growth = 0.8% Biosolids Project Completion / Benefit to Wastewater





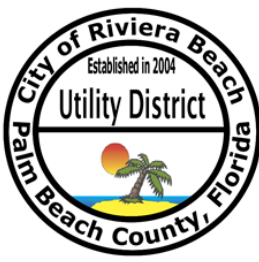
System Attributes – Fund Balance – October 1, 2017



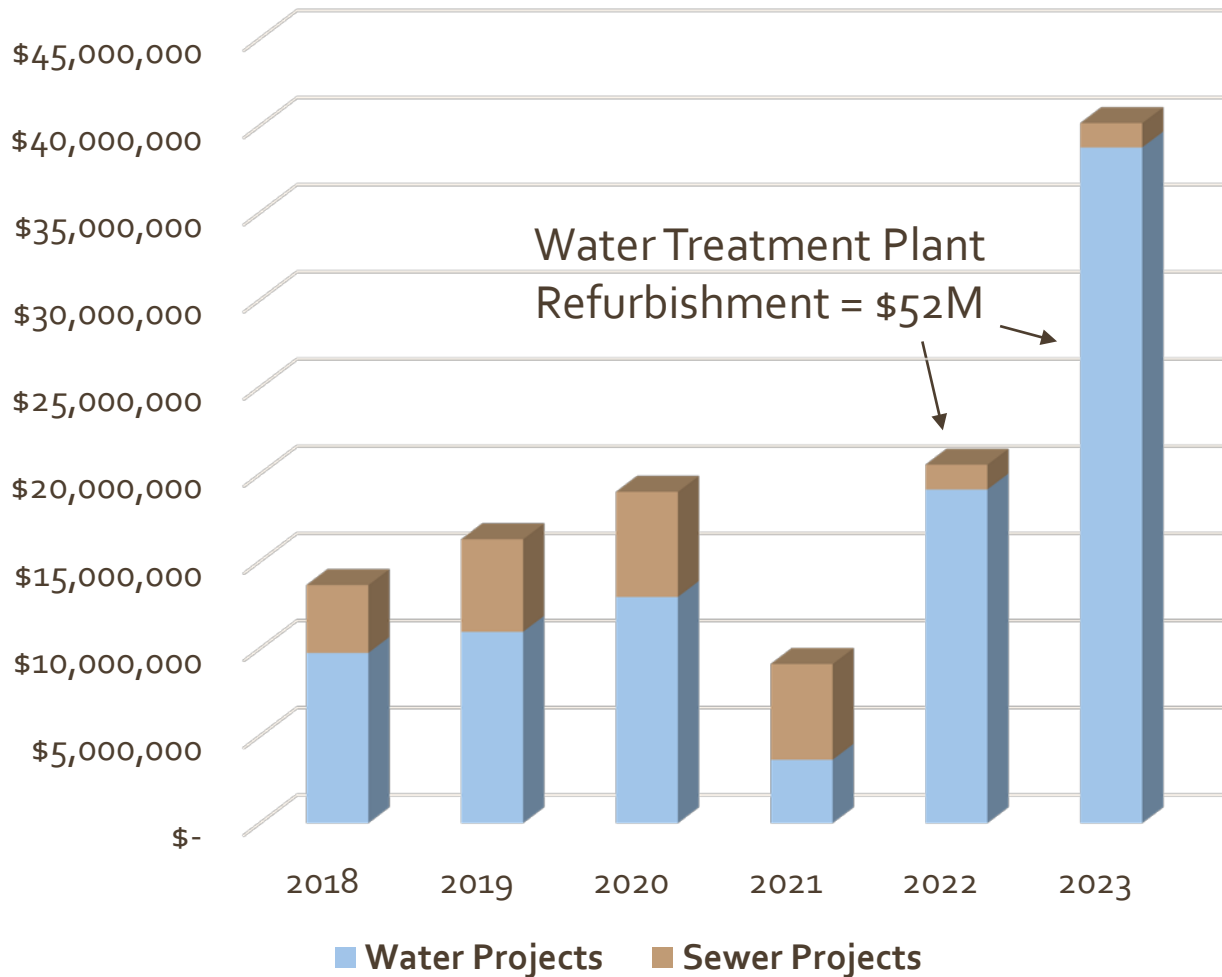
- Revenue Fund
- Customer Deposits
- Renewal and Replacement Fund
- Impact Fees
- Series 2016 Bond Proceeds

Overview of Fund Balance	
	Beginning of Fiscal Year 2018
Total Starting Fund Balances	\$85,851,828
Less Restricted / Claimed Funds:	
Customer Deposits	(\$2,528,919)
Impact Fees Funds	(1,492,584)
Series 2016 Bond Proceeds	(40,596,495)
Operating Reserves (180 of Op.Ex.)	(8,919,627)
Capital Reserves (1 Year's Depreciation)	(3,082,565)
Total Restricted Funds:	(\$56,620,190)
Funds Available for Future Capital and Other Purposes:	\$29,231,638
Total CIP Less Series 2016 Bond Projects	\$78,992,280
Remaining CIP Required Funding	\$49,760,642

- Remaining CIP Funding
 - Annual Deposits to R&R Fund from Rates
 - Additional Bonds

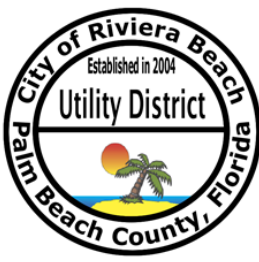


System Attributes – Capital Improvement Plan



Identified Funding Sources	FY 2018-2023
Annual Rate Revenues	\$2,966,405
Revenue Fund (411)	21,062,000
Impact Fees	853,620
Renewal and Replacement Fund	20,590,750
Series 2016 Bond Proceeds	40,716,000
Series 2022 Bond Proceeds (Proposed)	33,400,000
Total Capital Funding Sources:	\$119,588,775

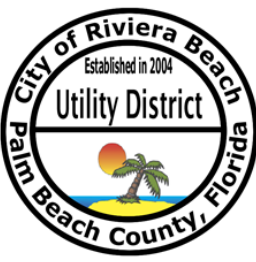
- Goal – Reduce Future Debt
- Water Treatment Plant Refurbishment
 - Originally Constructed In 1958 (60 Years Old)
 - Provides All Water to District Customers
 - Older Treatment Technology
 - Identified Funding Sources
 - System Reserves = \$18,450,000
 - Series 2023 Bonds = \$33,400,000
- Series 2016 Bond Projects Previously Identified and Scheduled / Underway



Recommendations – Renewal and Replacement Fund Deposit

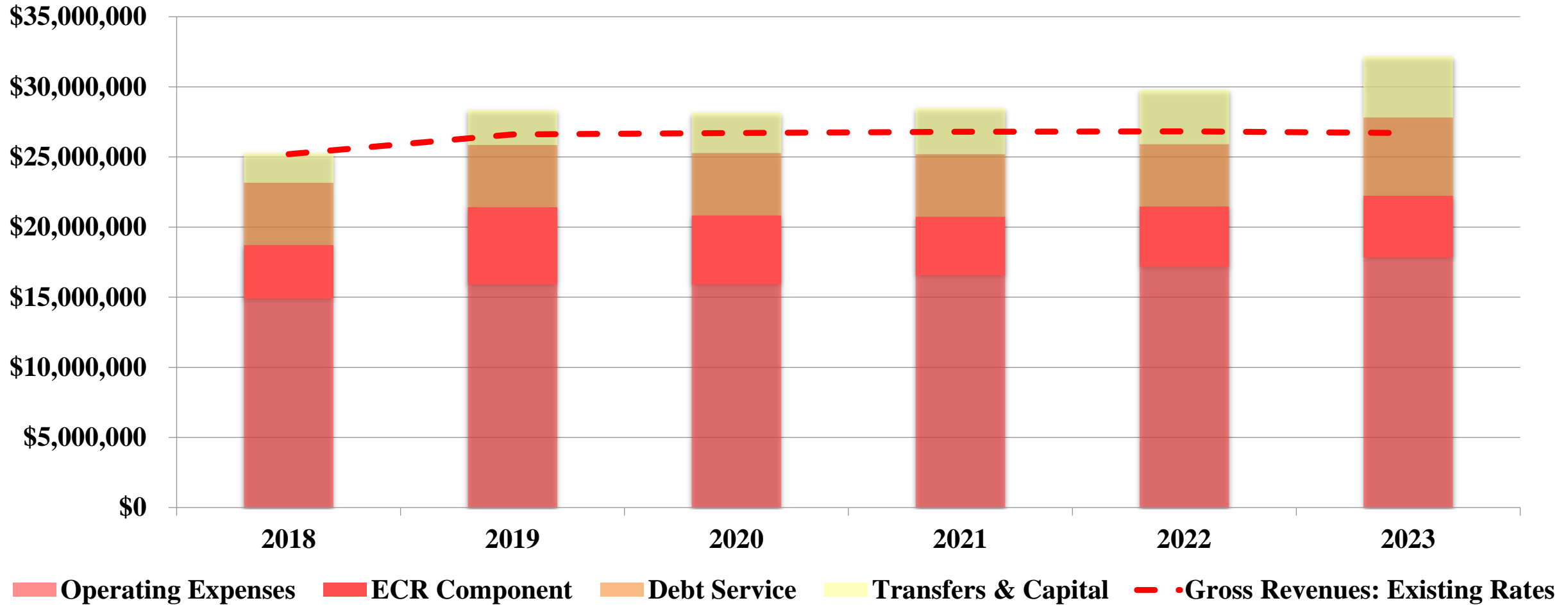
- Recommendation – Increase Transfer to Approximately 12.5% of Prior Year’s Revenues
 - Incremental Annual Increase to Get to 12.5% Fund Deposit By End of Forecast Period
 - Sufficient to Meet Requirements of Capital Improvement Plan and Promote Pay-Go Funding
 - Provides Funds To Meet Targeted Capital Reserves (Hedge Against Emergency Capital Needs)
 - Demonstrates Reinvestment Plan to Outsiders (Credit Rating Agencies, Bond Holders, Customers)
 - Improves Annual Debt Service Coverage Ratio

Renewal and Replacement Fund – Recommended Annual Deposit						
	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
Required Deposit (Bond Resolution)						
Percentage	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Amount	\$1,210,602	\$1,259,991	\$1,330,527	\$1,395,779	\$1,465,490	\$1,535,283
Additional Deposit						
Percentage	1.73%	3.00%	4.00%	5.00%	6.50%	7.50%
Amount	\$418,874	\$755,994	\$1,064,421	\$1,395,779	\$1,905,137	\$2,302,924
Total Annual Deposit	\$1,629,476	\$2,015,985	\$2,394,948	\$2,791,558	\$3,370,627	\$3,838,207

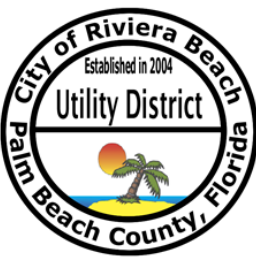


System Attributes – Revenue Requirements

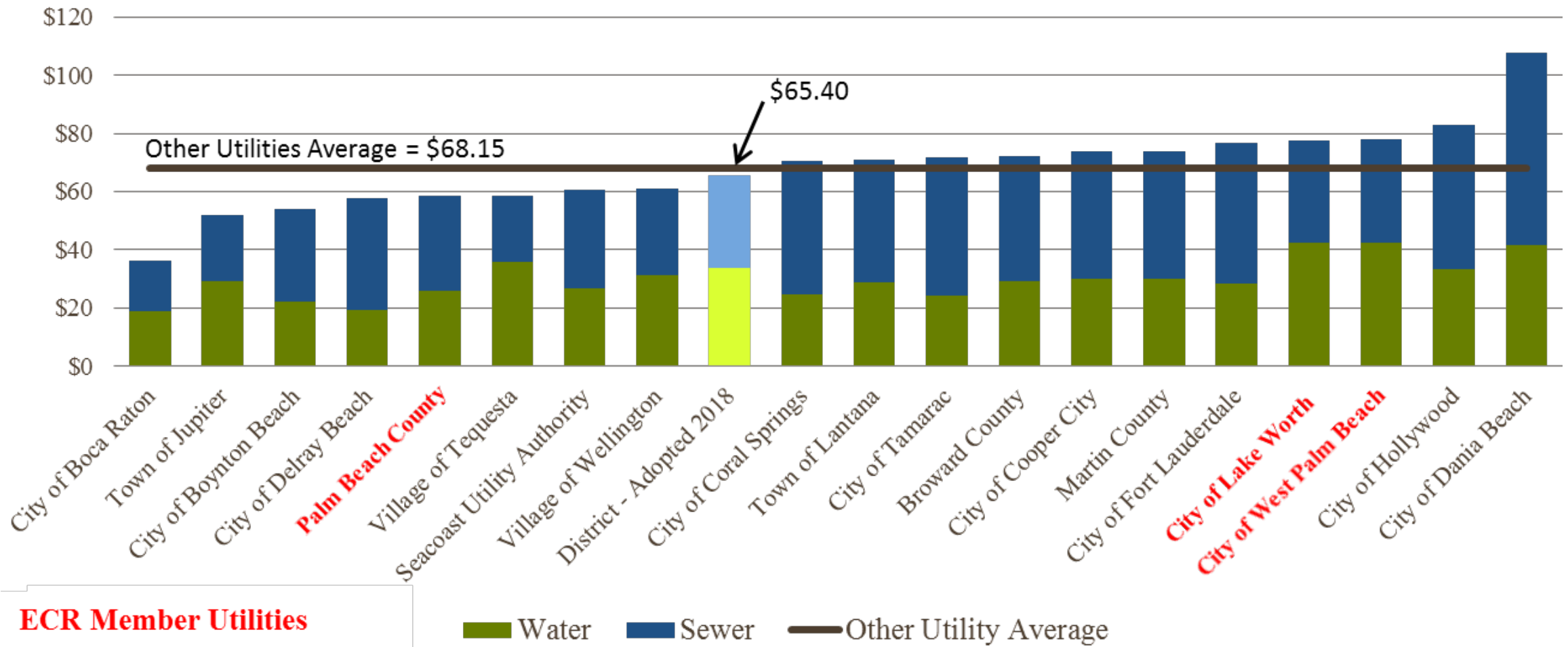
- Existing Revenues are Not Sufficient to Meet the Identified Revenue Requirements

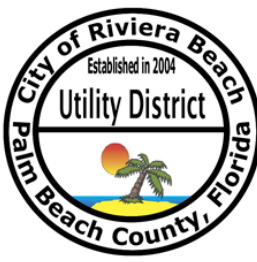


Comparison of Monthly Residential Bill Combined Water and Wastewater at 6,000 Gallons



Comparison of Combined Water and Sewer Bills at 6,000 gal

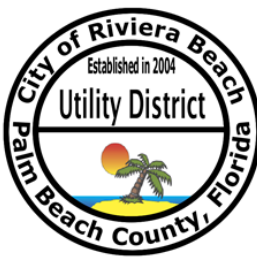




Study Results – Issued and Recommendations

Identified Issues and Recommended Solution

	<u>Identified Issue</u>	<u>Solution / Recommendation</u>
1	Fully Fund Ongoing Asset Replacements and Repairs Identified In Capital Improvement Plan	Increase Annual Transfer to R&R Fund = 12.5%
2	Fully Fund Water Treatment Plant Refurbishment	Use \$18.45M of Cash Reserves to Reduce Additional Debt (Series 2023 Bonds = \$33.4M)
3	Promote Strong Fiscal Position To Receive Favorable Rating For Series 2023 Bonds	Establish Minimum Fund Reserves (Operating & Capital), Target Projected Debt Coverage Ratio Greater Than 200%, Increase Net Revenue Margin, Implement Rate Plan
4	Maintain Debt Service Coverage Ratio Greater than 200%	Implement Rate Adjustment Plan, Limit Debt, Increase R&R Fund Deposit
5	Produce Sufficient Revenues to Meet Identified Revenue Requirements , Financial Targets, and to Limit Financial Risk	Implement Rate Adjustment Plan

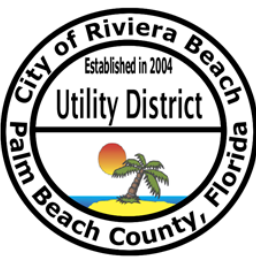


Recommendations – Rate Adjustment Plan

- Annual Price Index Adjustment
 - Recurring Adjustment to Account for Inflation / Maintains Existing Operating Margins
 - Based on Predetermined Index (Consumer Price Index (CPI))
 - Reduces Rate Impact to Customers by implementing Small Annual Changes vs. Single Larger Adjustment
 - Average Annual Change for Last 10 Years = 1.68% Annually
- Adopt FY-2020-2023 (4-Year) Water-Only Rate Adjustment Plan
 - Provide Revenues to Fund Proposed Series 2023 Bonds (Water Treatment Plant Refurbishment Project)
 - Moves Water System Closer to Full Recovery Basis

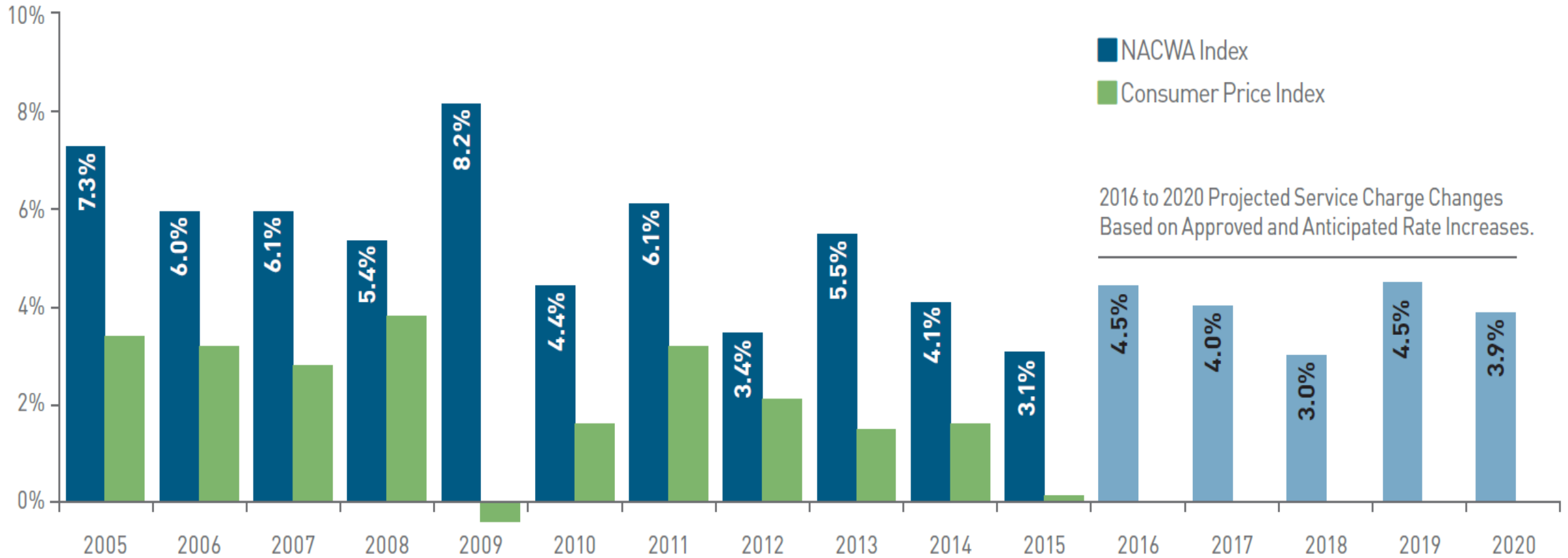
Proposed Rate Adjustments for Financial Forecast

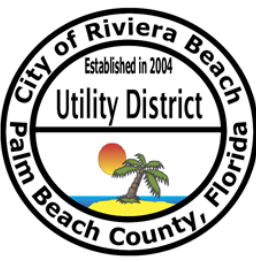
	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
Annual Price Index Adjustment	1.68%	1.68%	1.68%	1.68%
Additional Water Adjustment	5.00%	5.00%	5.00%	5.00%
Additional Sewer Adjustment	0.00%	0.00%	0.00%	0.00%
Combined System Adjustment	4.64%	4.69%	4.75%	4.81%
Increase to Residential Monthly Bill @ 6,000	\$2.90	\$3.07	\$3.24	\$3.43
Cents Per Day	\$0.10	\$0.10	\$0.11	\$0.11



National Annual Charge Changes

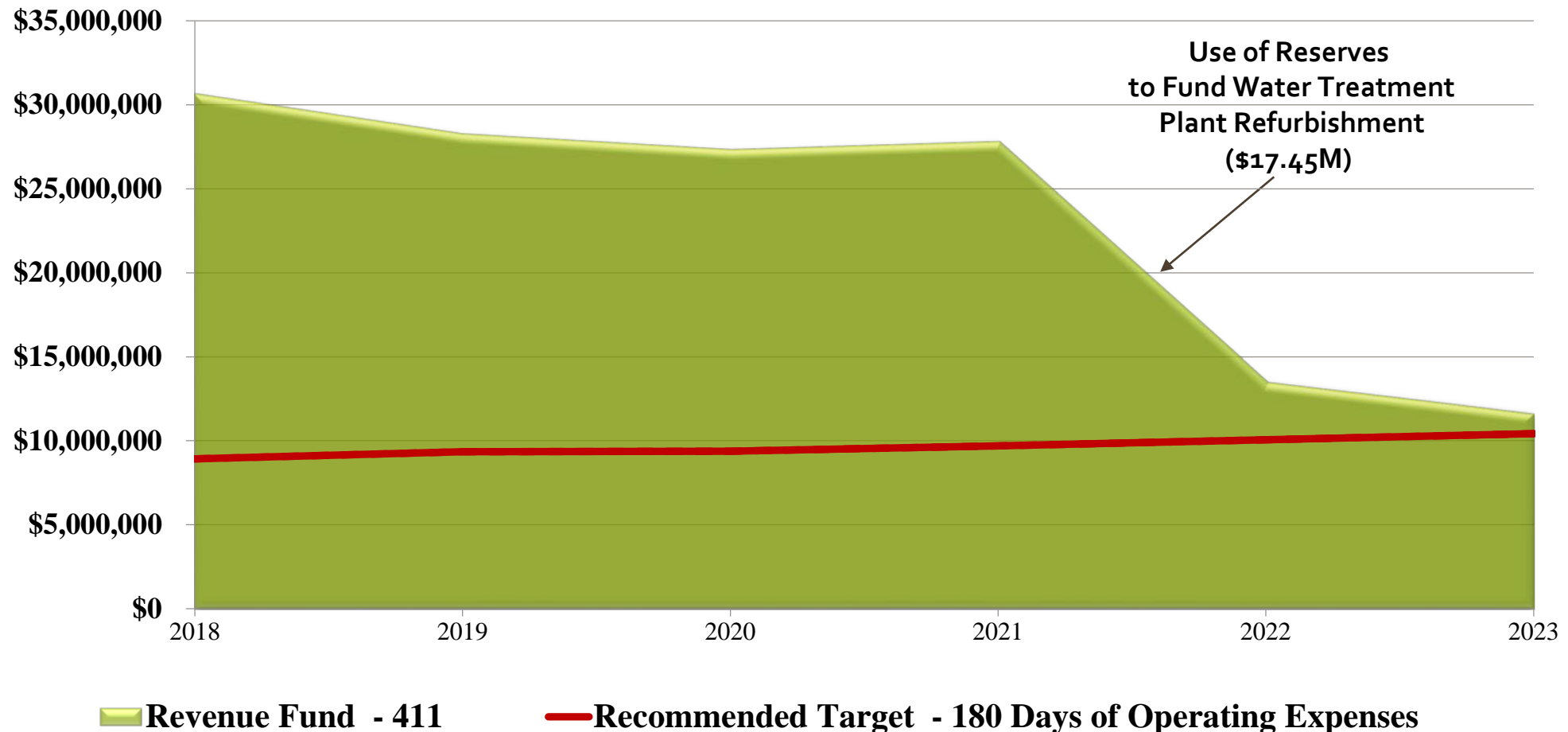
ANNUAL CHANGE IN COST OF CLEAN WATER INDEX VS. INFLATION

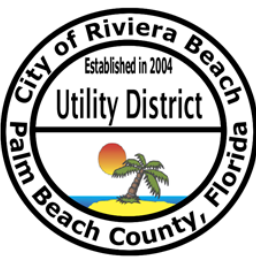




Recommendations – Operating Reserves Target

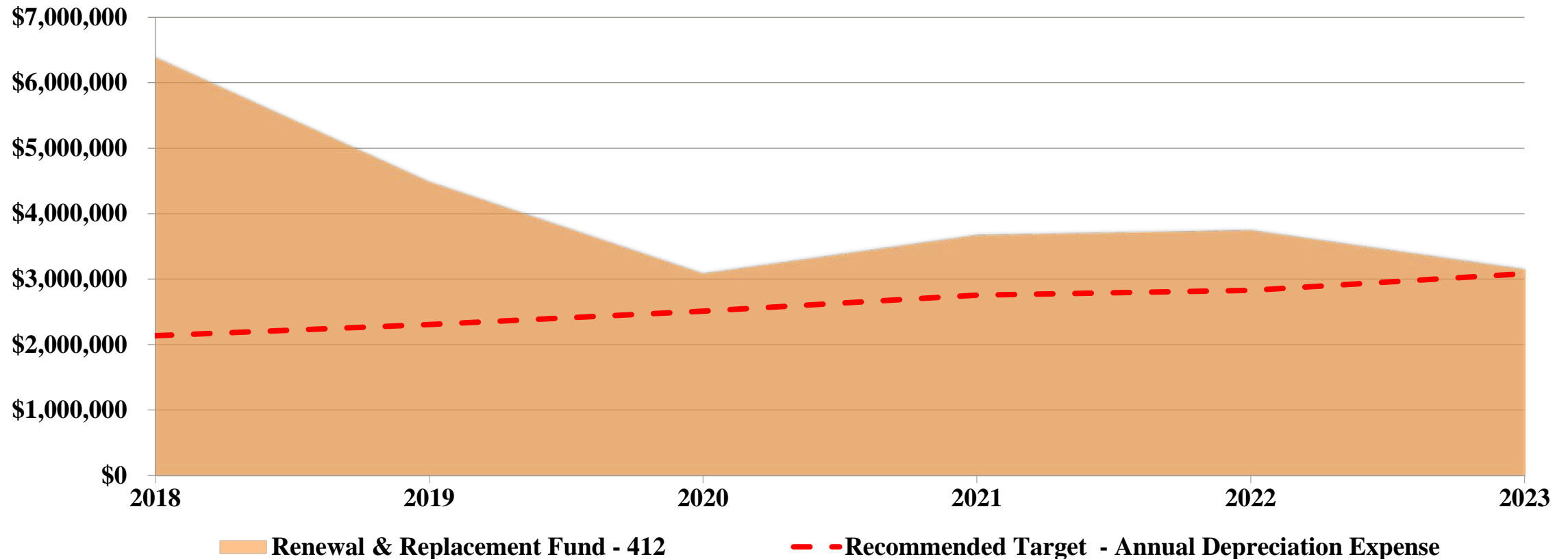
- Maintain Funds In Revenue Fund Greater Than 180 Days of Operating Expenses
- Provides Hedge Against Emergency / Unforeseen Operating Issues (Hurricane or Lawsuit)

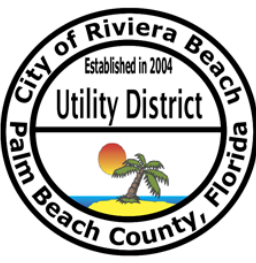




Recommendations – Capital Reserves Target

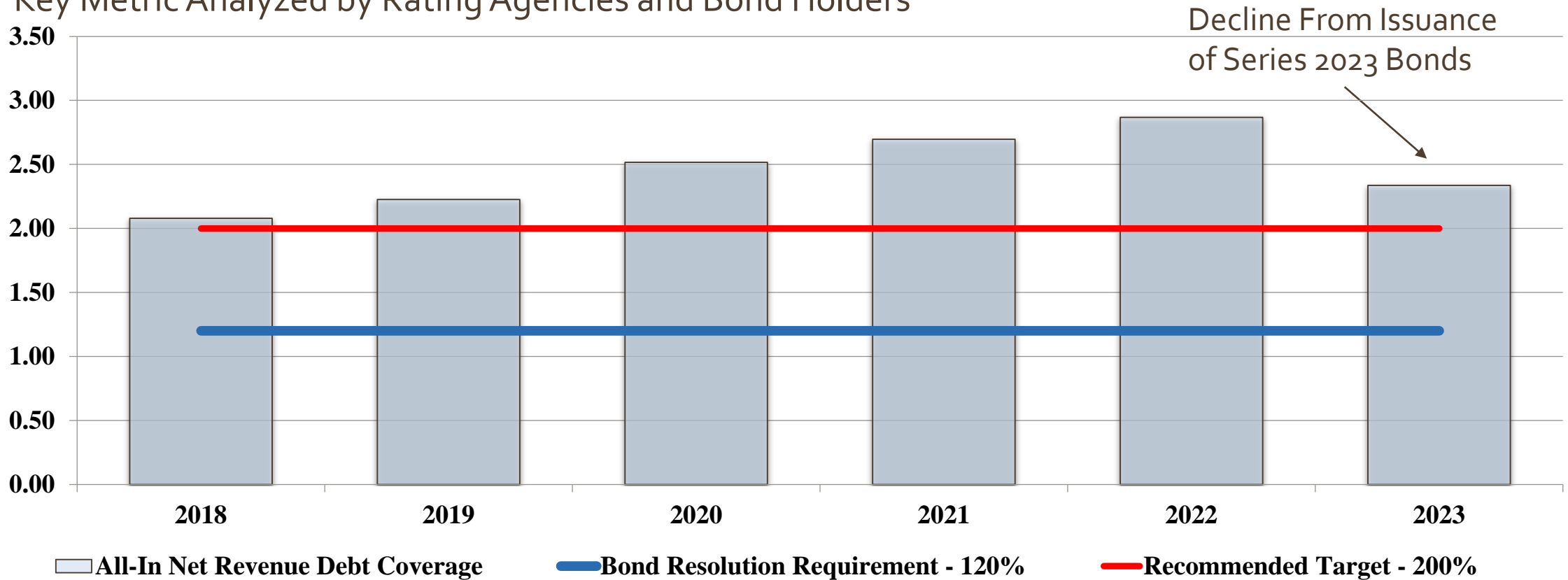
- Maintain Funds In Renewal and Replacement Fund Greater Than Annual Depreciation Expense
- Fiscal Year 2023 Estimated Minimum Target = \$3,082,565
- Provides Hedge Against Emergency Capital or Project Overruns (Major Main Break or Water Treatment Plant Project Costs Higher than Estimated)



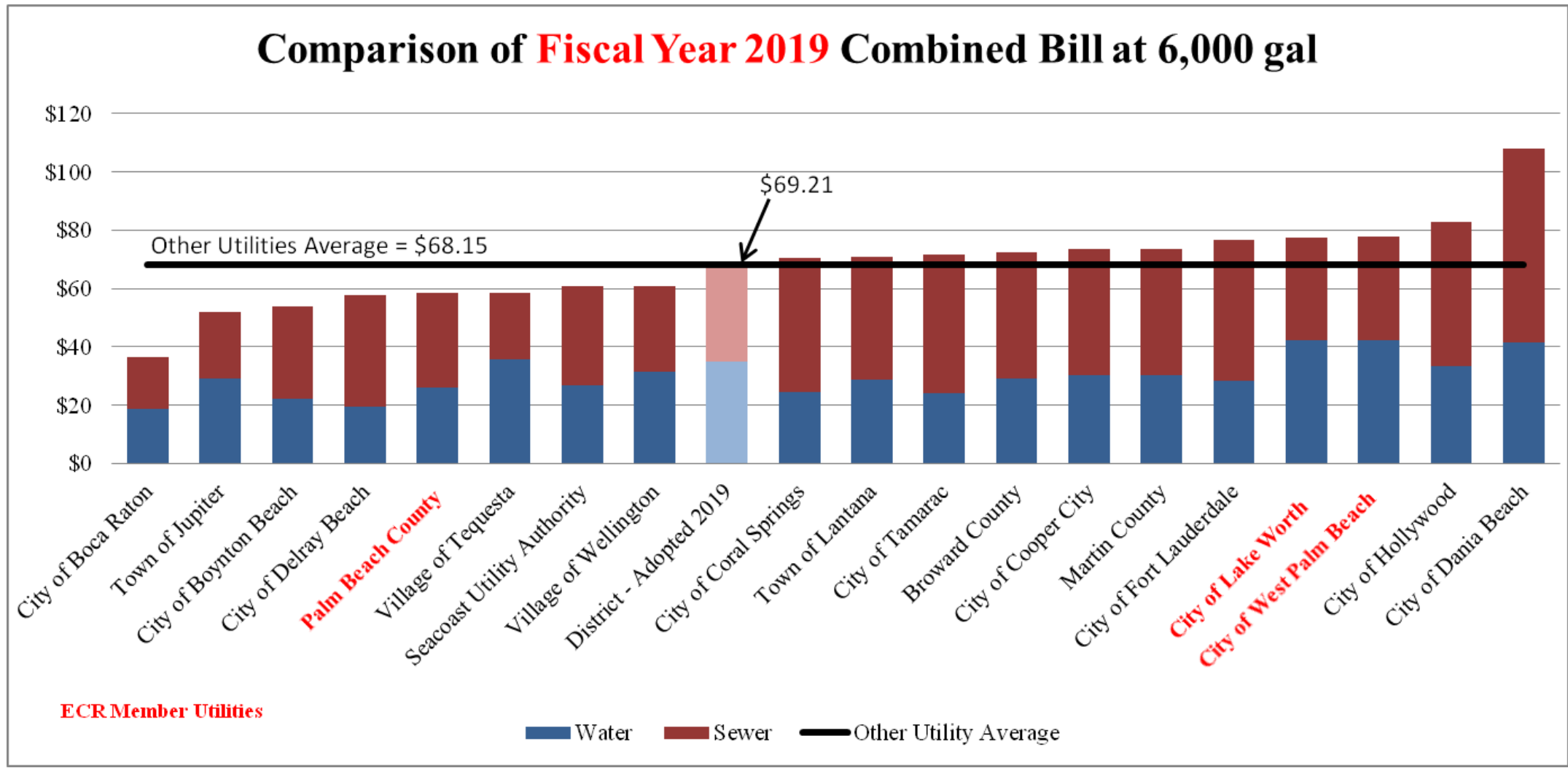
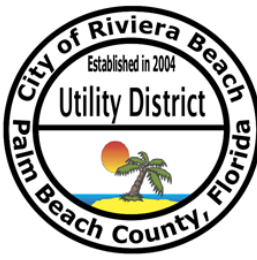


Recommendations – Maintain Strong Debt Coverage

- Annual Test Required By Bond Resolution – Minimum Required Ratio = 120% / Recommended = 200%
- Test the System’s Net Revenues (Revenues Less Operating Expenses) Ability to Pay Debt Service
- Key Metric Analyzed by Rating Agencies and Bond Holders



Comparison of Fiscal Year 2019 Monthly Residential Bill Combined Water and Wastewater at 6,000 Gallons



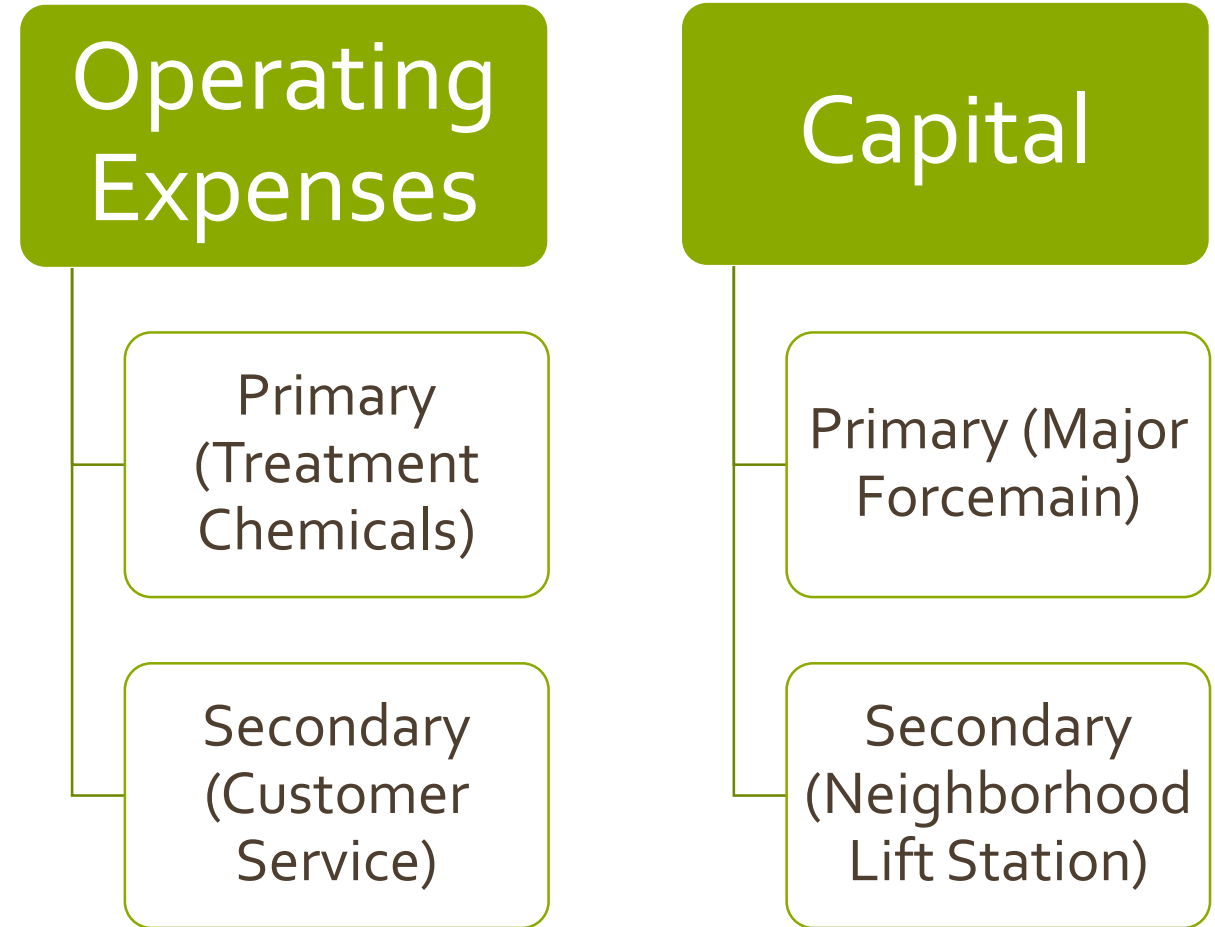


Water and Wastewater Wholesale Rate Evaluation

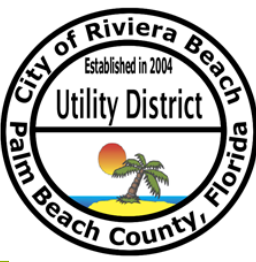
Fiscal Year 2018 Utility Revenue Sufficiency Study

Wholesale Rate Evaluation Purpose

- Study Process:
- Segregate Revenue Requirements
 - Primary Costs – Benefit All Users (Treatment)
 - Secondary Costs – Benefit Only Retail Customers (Customer Service)
- Develop Rate Components – Operations, Debt, Capital
- Identify Units of Service – Water Produced, Wastewater Treated
- Calculate Water and Wastewater Wholesale Rates



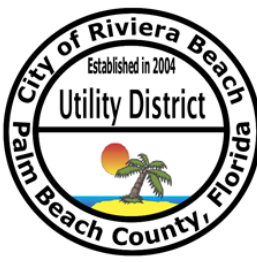
Wholesale Rate Evaluation – Allocation of Revenue Requirements



Summary of Water and Wastewater Revenue Requirements Allocation Analysis				
Cost Component	Water		Wastewater	
	Primary	Secondary	Primary	Secondary
Operating and Maintenance Costs	\$7,220,940	\$1,267,501	\$1,307,127	\$1,364,613
Wastewater Treatment at ECRWRF	N/A	N/A	3,799,807	0
Debt Service Payments	1,959,706	930,788	1,152,270	399,830
Capital Costs	950,446	476,451	442,049	246,030
Indirect Expense Allocation	<u>1,021,031</u>	<u>269,565</u>	<u>202,556</u>	<u>166,686</u>
Total Allocated Cost Components	\$11,152,122	\$2,944,306	\$6,941,810	\$2,177,159
Percent of Revenue Requirements	79.11%	20.89%	76.12%	23.88%

- 79.11% and 76.12% of the Water and Wastewater Revenue Requirements Have Been Identified as Primary.
- Primary Costs Must Be Recovered From All Users (Retail and Wholesale)
- Amounts Identified As Secondary Only Benefit District’s Retail Customers

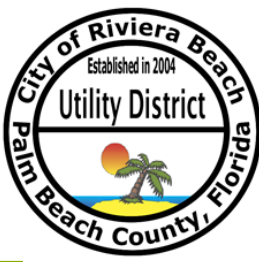
Wholesale Rate Evaluation – Calculation of Wholesale Water Rate



Calculation of Wholesale Water Rate (per 1,000 Gallons)	
<u>Description</u>	<u>Test Year</u>
Total Primary Cost Components	\$11,152,122
Units of Service – Finished Water (000s)	<u>2,918,718</u>
Calculated Cost (per 1,000 Gallons)	\$3.8209
Allowance for Payment in Lieu of Taxes	<u>0.2439</u>
Proposed Wholesale Water Rate (per 1,000 Gallons)	\$4.0648
Proposed Wholesale Water Rate (per 1,000 Gallons) – Rounded	\$4.0600

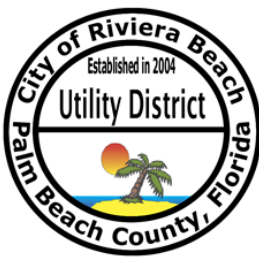
- Total Costs to be Recovered for Each 1,000 Gallons of Metered Water.
- Payment-in-Lieu-of-Taxes Required by Resolution Amount Shown Grossed Up to Recognize Cost to the District
 - Resolution No. 14-14UD *"The PILOT due each Fiscal Year shall be six percent (6.0%) of the gross revenues billed during such Fiscal Year for monthly water and wastewater service charges and commodity charges for sales to the retail and wholesale customers served by the System."*

Wholesale Rate Evaluation – Calculation of Wholesale Wastewater Rate

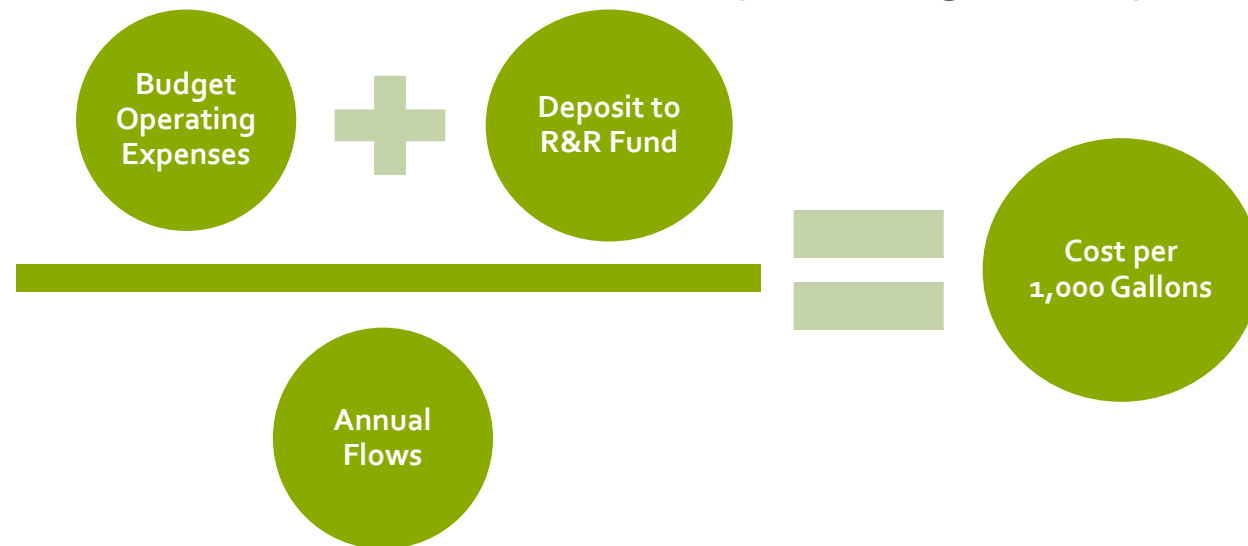


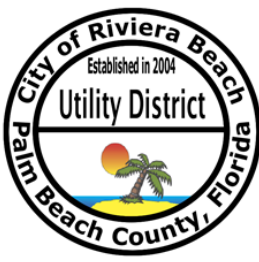
Calculation of Wholesale Wastewater Rate (per 1,000 Gallons)	
<u>Description</u>	<u>Test Year</u>
<u>District Cost Portion</u>	
Total Primary Cost Components (Excluding ECRWRF)	\$3,142,003
Units of Service – Average Wastewater Treated (000s)	<u>1,804,593</u>
Calculated Cost (per 1,000 Gallons)	\$1.7411
Allowance for Payment in Lieu of Taxes	<u>0.1111</u>
District Costs (per 1,000 Gallons)	\$1.8523
<u>ECRWRF Wastewater Treatment Portion</u>	
Total Payments to ECRWRF	\$3,799,807
Estimated Budgeted Flow to ECRWRF	<u>1,804,593</u>
Calculated Cost (per 1,000 Gallons)	\$2.1056
Allowance for Payment in Lieu of Taxes	<u>0.1344</u>
District Costs (per 1,000 Gallons)	\$2.2400
Proposed Wholesale Wastewater Rate (per 1,000 Gallons)	\$4.0923
Proposed Wholesale Wastewater Rate (per 1,000 Gallons) – Rounded	\$4.0900

Wholesale Rate Evaluation – Calculation of Wholesale Wastewater Rate (cont'd.)



- Proposed Wholesale Wastewater Rate Includes Two (2) Components
 - District Portion of Costs – Fixed Amount Based On Existing System Revenue Requirements
 - Subject to Annual Rate Adjustments
 - ECRWRF Wastewater Treatment Component – “Pass-Through” Charge
 - District Is One of Five Members of The ECRWRF Governing Board.
 - ECRWRF Board Can Increase Required Payments For Any Year (Recurring or Non-recurring)
 - Component Should Be Recalculated Annually to Recognize Change (Increase or Decrease)
 - Annual Recalculation Based on ECRWRF Adopted Budget for Upcoming Fiscal Year





Study Results – Issues and Recommendations

Identified Issues and Recommended Solution

	<u>Recommendations and Issues</u>	<u>Solution / Recommendation</u>
1	Adopt Proposed Wholesale Water Rate of \$4.06 per 1,000 Gallons	Represents (10.5%) Decline as Compared to Existing Rate
2	Adopt 2 Component Wholesale Wastewater Rate of \$4.09 per 1,000 Gallons	Represents (12.2%) Decline as Compared to Existing Rate Reduces Annual Wastewater Revenue Limits Financial Risk From ECRWRF Costs
3	Minimum Criteria for Determination of Wholesale User	Contractual Agreement, Capacity Reservation, Pays for Cost of Connection, No Sales for Resale
4	Apply Rate Adjustments to Wholesale Water Rate and District Portion of Wholesale Wastewater Rates	Implement Rate Adjustment Plan to District Components of Wholesale Rates (Not ECRWRF Component)
5	Review Rate Determination Every 2-3 Years	To Account for Potential Changes in Costs and Promote Full Cost Recovery



Questions and Comments

Fiscal Year 2018 Utility Revenue Sufficiency Study

