

Presentation to  
**FLAGLER COUNTY AND CITY OF BUNNELL**



**REVENUE SUFFICIENCY REPORT  
BUNNELL / FLAGLER COUNTY  
UTILITY SYSTEM**

December 2, 2013

Presented by



**Public Resources Management Group, Inc.**



# Agenda



- ❖ Overview of Financial Evaluation
- ❖ Primary Financial Objectives
- ❖ Primary Assumptions
- ❖ Projections and Observations
- ❖ Recommended Rates and Comparisons
- ❖ Recommended Impact Fees and Comparison
- ❖ Other Observations
- ❖ Findings and Recommendations



# Overview of Financial Evaluation



- ❖ Prepare Financial Forecast to Identify Rate Recommendations
  - ◆ Prepare Five-Year Financial Forecast
  - ◆ Identified Estimated Trends in Revenue Requirements
  - ◆ Identified Potential Rates for Monthly Services
  - ◆ Determine Potential Customer Impact
  - ◆ Developed Initial Impact Fees Changed to New Development
  - ◆ Findings and Recommendations



# Primary Financial Objectives – Monthly Rates



- ❖ Fully Recover the Cost of Providing Service – "Revenue Requirements"
- ❖ Develop Capital Funding Plan
  - ◆ Blend of Debt and Capital Re-investment (Rates)
  - ◆ Improve Facilities and Ability to Provide Sustainable Service
- ❖ Comply with SRF Loan Covenants – Debt Coverage
- ❖ Promote Favorable Credit Rating
  - ◆ Reflection on Management / Consistent with Financial Practices
- ❖ Identify Rates to Support Financial Objectives



# Primary Assumptions



- ❖ Revenue Requirements = All Expenditures and Funding Requirements Paid from Rates
  - + Operating and Maintenance Expenses
  - + Payment of Debt Service
  - + Deposits to Capital Account (R&R Fund)
  - + Payment of Annual Departmental Capital
  - + Deposits for Operating Reserves / Rate Stabilization / Financial Compliance
  - Other Income and Financial Resources

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= Net Revenue Requirements Funded From Rates
  
- ❖ Must Comply with Rate Covenants / Financial Policies / Promote Sustainability



# Primary Assumptions (cont'd.)



- ❖ Relied Upon the Following Information:
  - ◆ Annual Reports Filed with FPSC by PBUC
  - ◆ Approved Rate Tariff of PBUC
  - ◆ Meetings with City / County Utility and Administrative Staff
  - ◆ Engineering Reports – System Condition
  - ◆ Understanding of the Industry
- ❖ Prepared for Fiscal Years 2014 to 2018



# Primary Assumptions (cont'd.)



- ❖ Customers Service Requirements:
  - ◆ Serve Approximately 1,550 Customers
  - ◆ Forecast Assumes 2.5% Annual Growth
  - ◆ Average Monthly Billed Sales / Customer = 3,100 Gallons
  - ◆ Served as Basis For Revenue Projections
- ❖ Rate Revenues – Accounts for 98% of Funding Needs
- ❖ Impact Fees – Restricted to Expansion Capital
  - ◆ Initial Deposit From PBUC – \$383,600 = Used for Capital
  - ◆ Projected Impact Fees Accrued for Future Benefit
  - ◆ Credits to Developer / Uncertainty as to Timing and Receipt



# Primary Assumptions (cont'd.)



## ❖ Operating Expenses

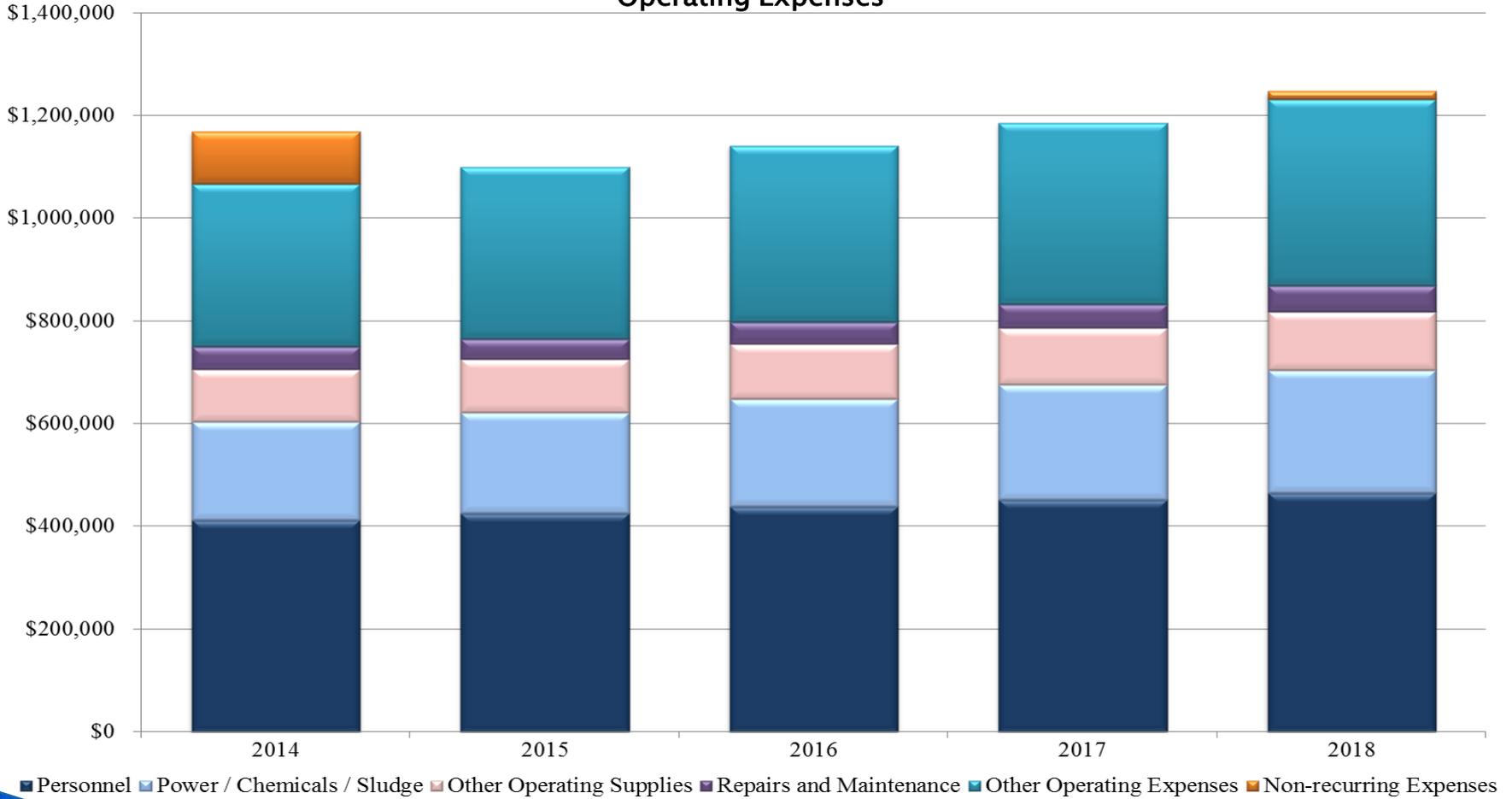
- ◆ Primary Expenses = Personnel / Power / Chemicals / Sludge Disposal = 58% of Total
- ◆ Increased Annually Inflation & System Growth = 3.8%
- ◆ Assumes No Additional Personnel
- ◆ Includes Non-recurring Expenses (CIP)
- ◆ Includes Contingency / Bad Debt Allowances



# Primary Assumptions (cont'd.)



## Operating Expenses





# Primary Assumptions (cont'd.)



- ❖ Capital Plan Estimated at \$11.65 Million / With Acquisition Cost
- ❖ Capital Funding Plan:
- ❖ Primary Capital Improvement Projects Include:
  - ◆ Wastewater Treatment Plant Rehabilitation \$2,834,650
  - ◆ Installation New Water Supply Wells 300,000
  - ◆ Lime Slaker Replacement 413,100
  - ◆ Replacement of Existing WW Lift Stations 625,000



# Primary Assumptions (cont'd.)



	Fiscal Year Ending September 30				
	2014	2015	2016	2017	2018
Capital Expenditures	<u>\$9,802,007</u>	<u>\$700,201</u>	<u>\$227,388</u>	<u>\$234,873</u>	<u>\$242,808</u>
Funding Sources:					
Annual Operating Revenues	\$-	\$10,210	\$10,946	\$11,719	\$12,534
R&R Fund (Operations)	31,000	56,971	216,442	223,154	230,275
Acquisition SRF Loan	5,681,357	-	-	-	-
Future SRF Loans	2,277,005	633,020	-	-	-
FDEP Grants	1,091,145	-	-	-	-
FAC Loan	401,500	-	-	-	-
Impact Fees	320,000	-	-	-	-
Total Funding Sources	<u>\$9,802,007</u>	<u>\$700,201</u>	<u>\$227,388</u>	<u>\$234,873</u>	<u>\$242,808</u>

❖ 80% of CIP Funded from New Debt



# Primary Assumptions (cont'd.)



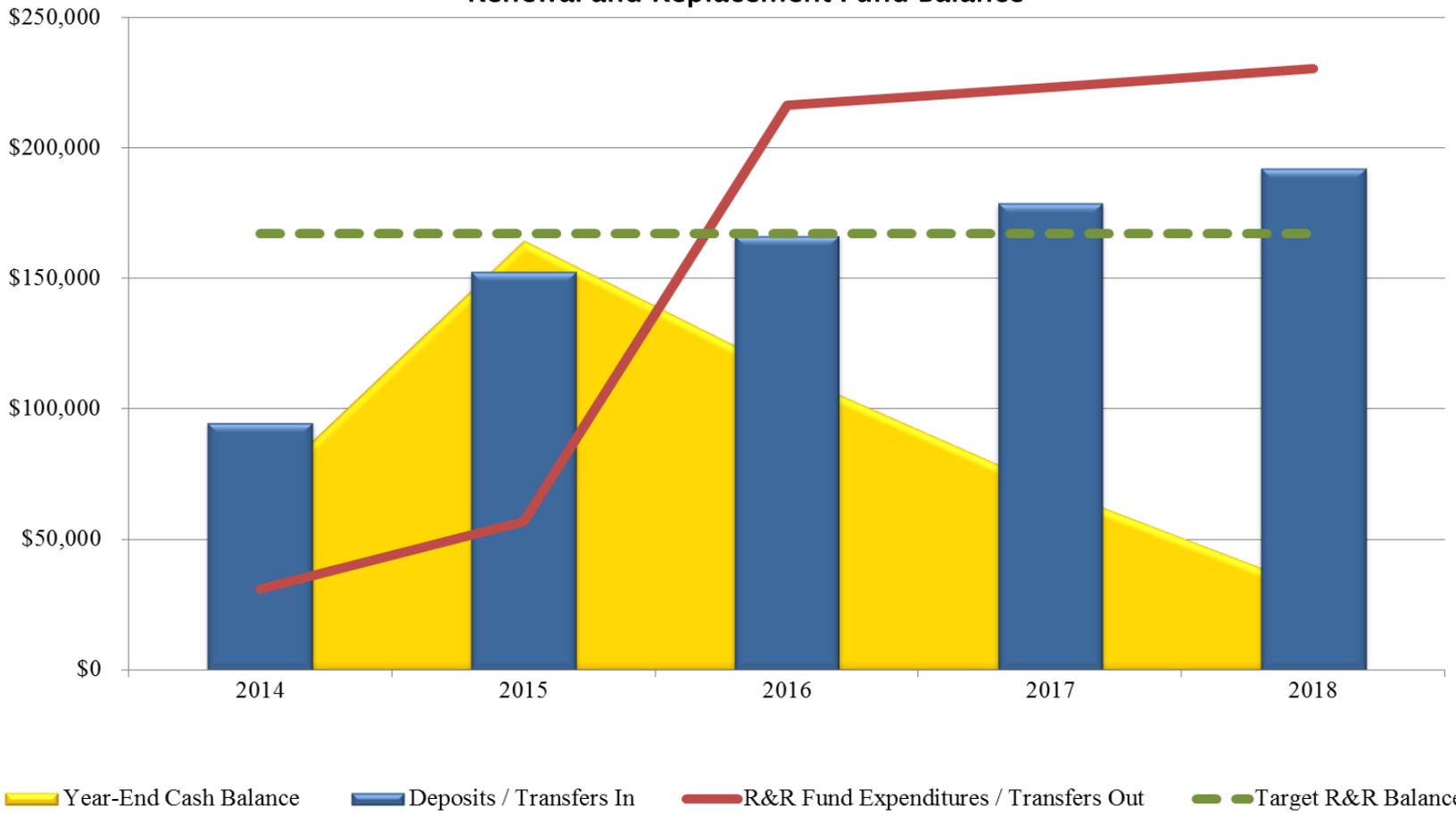
- ❖ Capital Plan Recognizes Annual Deposits to Renewal and Replacement Fund
- ❖ Provides Allowance to Fund Ongoing Capital Improvements
  - ◆ Expenditures "Lumpy" / Financing "Level"
- ❖ Deposit Set at 10% of Prior Year Gross Revenues
  - ◆ Annual Deposit Averages \$157,000 During Forecast Period
- ❖ Policy Viewed Favorably by Rating Agencies



# Primary Assumptions (cont'd.)



### Renewal and Replacement Fund Balance





# Primary Assumptions (cont'd.)



## ❖ Finance Plan Recognizes the Issuance of Debt

Description	Year Issued	Term (Years)	Year First Debt Payment	Amount Borrowed	Annual Debt Payment
SRF Loan - Acquisition of System	2013	30	2013	\$5.798 Million	\$271,154
SRF Loan - Water CIP Projects	2014	30	2016	1.034 Million	52,530
SRF Loan - Sewer CIP Projects	2014	30	2016	2.078 Million	105,526
FAC Loan - Working Capital / CIP	2014	15	2014	1.100 Million	94,090
Total Annual Debt Service					<u>\$523,300</u>

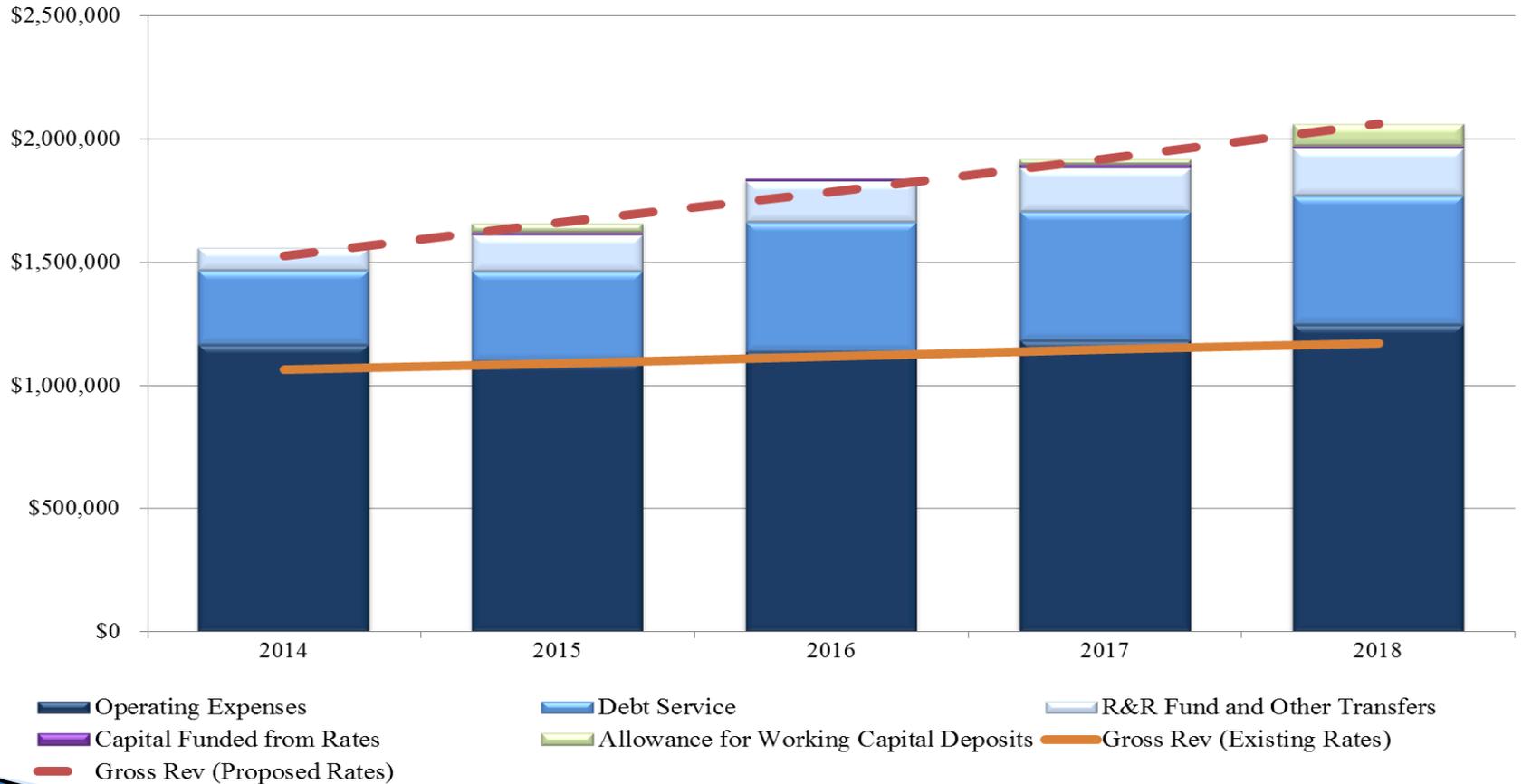
## ❖ Must Meet Loan Covenants - 1.15x Net Revenue Coverage



# Projections and Observations - User Rates



## ❖ Rates Must be Increased to Fund Revenue Requirements





# Projections and Observations – User Rates (cont'd.)



## ❖ Proposed Rate Adjustments:

	2014	2015	2016	2017	2018
Effective Date	Jan. 1, 2014	Oct. 1, 2014	Oct. 1, 2015	Oct. 1, 2016	Oct. 1, 2017
Recommend Rate Adjustments	46.0%	5.0%	5.0%	5.0%	5.0%

## ❖ Reasons for Rate Increase

- ◆ Increased Operating Expenses – Improved Level of Service
- ◆ Significant Capital Needs – Results in Issuance of Debt
- ◆ Compliance with Rate Covenants of SRF Loans
- ◆ Need for Ongoing Capital Re-investment
- ◆ Promote Sustainability of System – Financial Credit



# Rate Impact to Customer



## Comparison of Existing and Proposed Residential Rates – for 5/8" Service (98% of Accounts) [1]

	<u>Existing</u>	<u>Proposed</u>
<b>Water Service</b>		
Base Charge (per Bill)	\$11.91	\$17.39
Usage Charge (per 1,000 Gallons)	3.42	4.99
<b>Wastewater Service</b>		
Base Charge (per Bill)	\$19.28	\$28.15
Usage Charge (per 1,000 Gallons) [2]	3.73	5.45

[1] Average monthly Residential Customer uses 3,000 gallons of service.

[2] Monthly Wastewater bill capped at 10,000 gallons of service.



# Rate Impact to Customer (cont'd.)



## Comparison of Existing and Proposed Residential Rates Average Monthly Use – 3,000 Gallons

	<u>Water</u>	<u>Wastewater</u>	<u>Combined</u>
Existing Rates	\$22.17	\$30.47	\$52.64
Proposed Rates (FY 2014)	<u>32.36</u>	<u>44.50</u>	<u>76.86</u>
Difference	<u>\$10.19</u>	<u>\$14.03</u>	<u>\$24.22</u>

- ❖ Issues That Could Positively Affect Rates:
  - ◆ Increased Customer Growth
  - ◆ Lower Operating Expenses than Assumed
  - ◆ Receipt of Impact Fees
  - ◆ Lower Financing Costs or Prepayment of Future Debts
  - ◆ Increased Other Operating Revenues



# Projections and Observations – Impact Fees



- ❖ Purpose of Impact Fees – "Growth Pays for Growth"
- ❖ Recover Capital Cost of Capacity Allocable to New Users
  - ◆ Must Meet "Rational Nexus" Provisions Dictated By Case Law / Florida Statutes
  - ◆ Must be Based on "Local Costs"
  - ◆ Support Capital Needs for System Growth
- ❖ Basis for Fees
  - ◆ Recognizes Only System Costs – Benefit All Properties
  - ◆ Considered – Existing Facilities (Not Being Replaced)
  - ◆ Considered – New and Planned Capital Needs
  - ◆ Maintained LOS as Approved by FPSC (220 gpd/ERC)



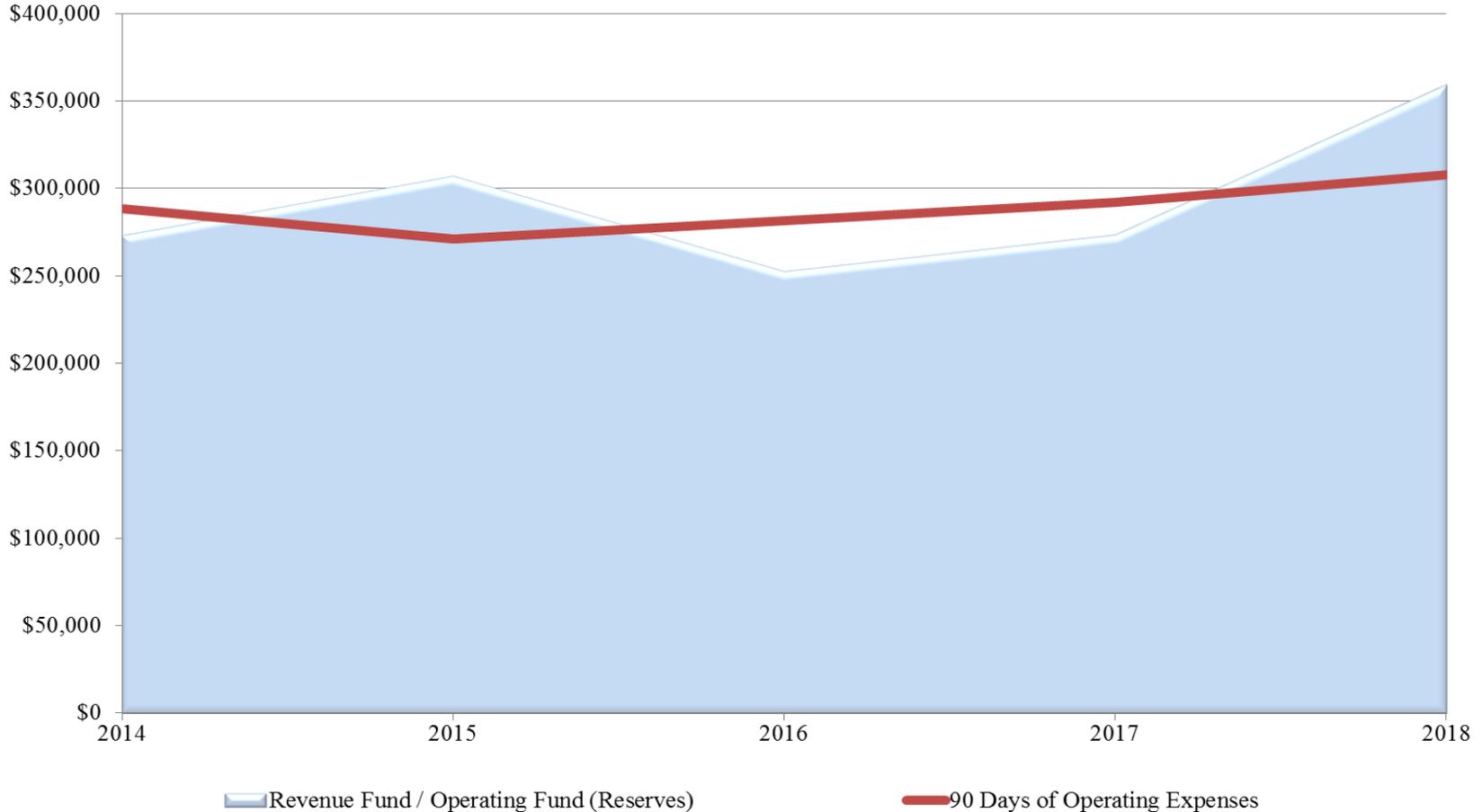
# Projections and Observations – Impact Fees (cont'd.)



- ❖ Proposed Fees:
  - ◆ Water System – \$2,146 / ERC
  - ◆ Sewer System – \$2,509 / ERC
- ❖ Proposed Fees Considered Interim
  - ◆ No Operating History of System
  - ◆ Limited Long-term Capital Plan and Service Strategy
  - ◆ Recommend Re-evaluation of Fees No Later Than 2 Years



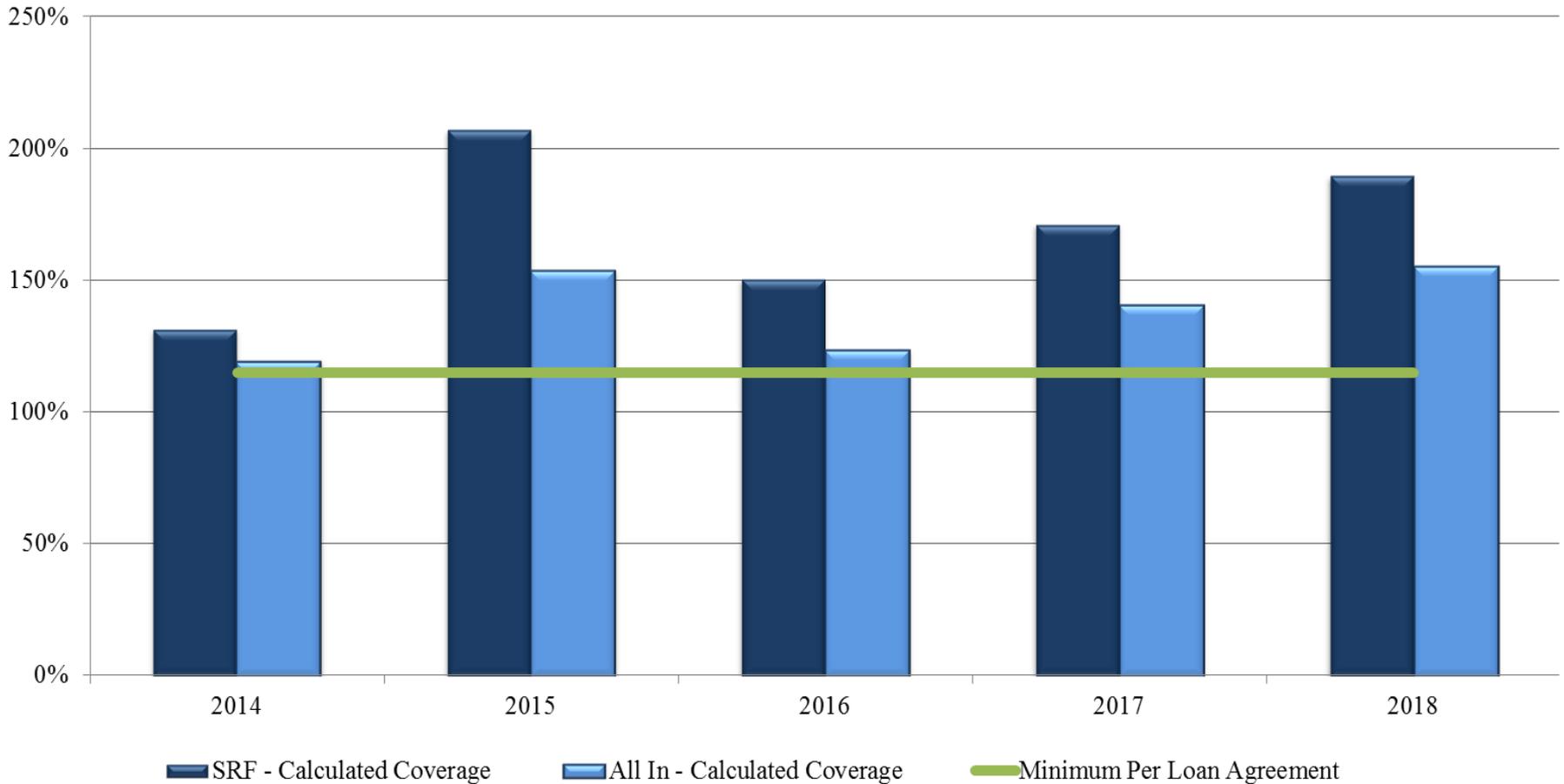
# Other Observations – Working Capital (Liquidity)



❖ Assumes \$400,000 Deposit from  
FAC Loan (Working Capital)



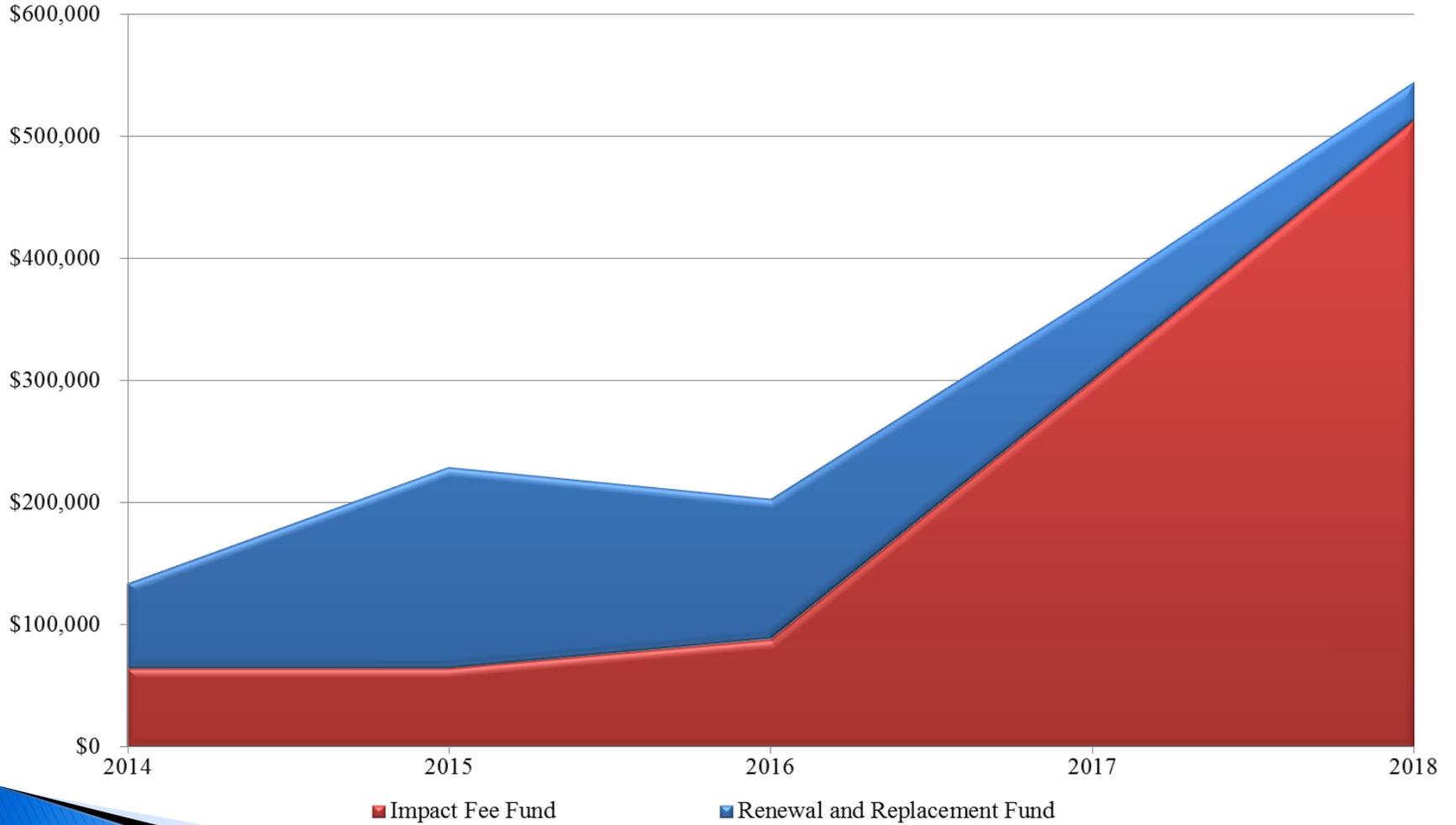
# Other Observations – SRF & "All-In" Debt Service Coverage



❖ Assumes Implementation of  
Rate Adjustments for All Years



# Other Observations – Capital Fund Liquidity





# Findings and Recommendations



- ❖ Adopt Recommended Rate Adjustments
  - ◆ Applied Uniformly to Existing Rates
  - ◆ Adopt 5 Years of Increase (Ability to Borrow)
- ❖ Re-evaluate Revenue Requirement Forecast Annually
  - ◆ Identify Issues Early and Adjust Rate / Financing Plan Accordingly
- ❖ Must have a Sustainable Financial Plan Going Forward
- ❖ Adopt Interim Impact Fees
  - ◆ Re-evaluate No Later than 2 Years



# Questions and Discussions

