Presentation to

CITY OF PALM COAST, FLORIDA

WATER AND WASTEWATER RATE STUDY AND BOND FEASBILITY REPORT

Prepared in Conjunction with the Issuance of
Utility System Revenue Bonds, Series 2013

February 12, 2013

Presented by

Public Resources Management Group, Inc.

Introduction

- Address questions and comments received from the public about the proposed water and wastewater rate increases.
- PRMG and City Staff have been working on the Rate Study for approximately 7 months.
  - Multiple Rate Phasing Scenarios and Financing Plans have been considered.
- The current proposed rate phasing plan recognizes:
  - The need to fund forecasted operating expenses of the System.
  - Increased contributions from rates for capital funding to reduce future debt borrowings.
  - Fully funding capital improvement program.

Introduction (continued)

- Maintenance of the City's operating reserves / working capital balances.
- Must Have Adequate Debt Service Coverage Compliance
  - Lower Interest Expense over the Long-Term
  - Release of $6.2 million Debt Service Reserve Fund for Capital Improvements
  - Meet Additional Bonds Test
  - Maintain Favorable Bond Credit Rating

Questions / Option1

❖ Option 1 - What if we reduced Renewal and Replacement Funding from 10% to 5%?

Option 1 - Reduce R&R From 10% to 5%

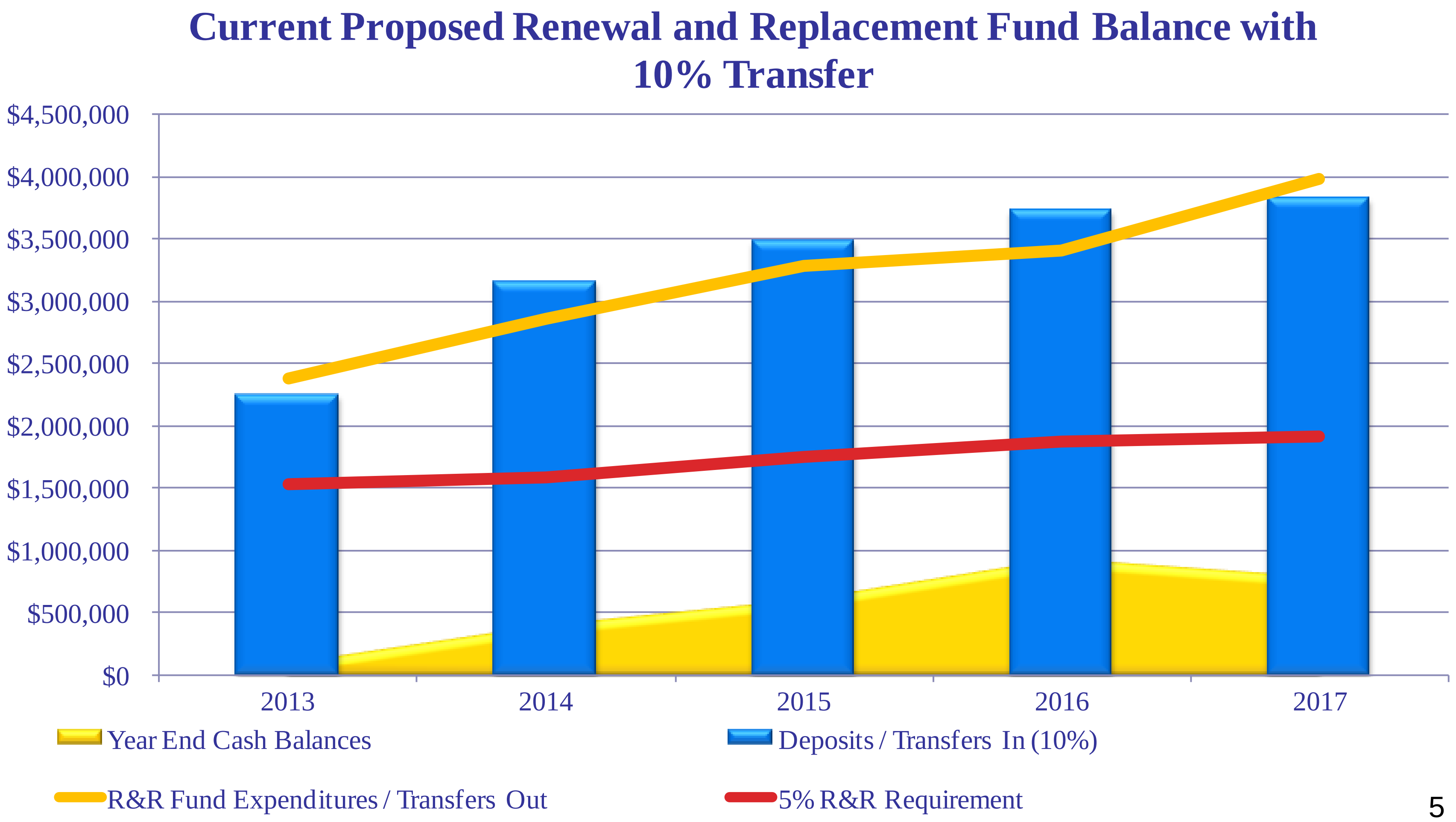
Fiscal Year	Per Rate Study (10% R&R Funding)	Adjusted Rate Increase Reduced R&R Funding to 5.0%	Monthly Increase to Customers Monthly Bill: Per Rate Study	Monthly Increase to Customers Monthly Bill: With Reduced R&R Funding
2013	8.00%	5.00%	$4.61	$2.97
2014	7.00%	7.00%	4.15	$4.03
2015	7.00%	7.00%	4.44	$4.31
2016	2.00%	2.00%	1.36	$1.32
2017	2.20%	2.20%	1.52	$1.48

❖ Results in a one-time rate adjustment.

❖ Potential Risk with this Option

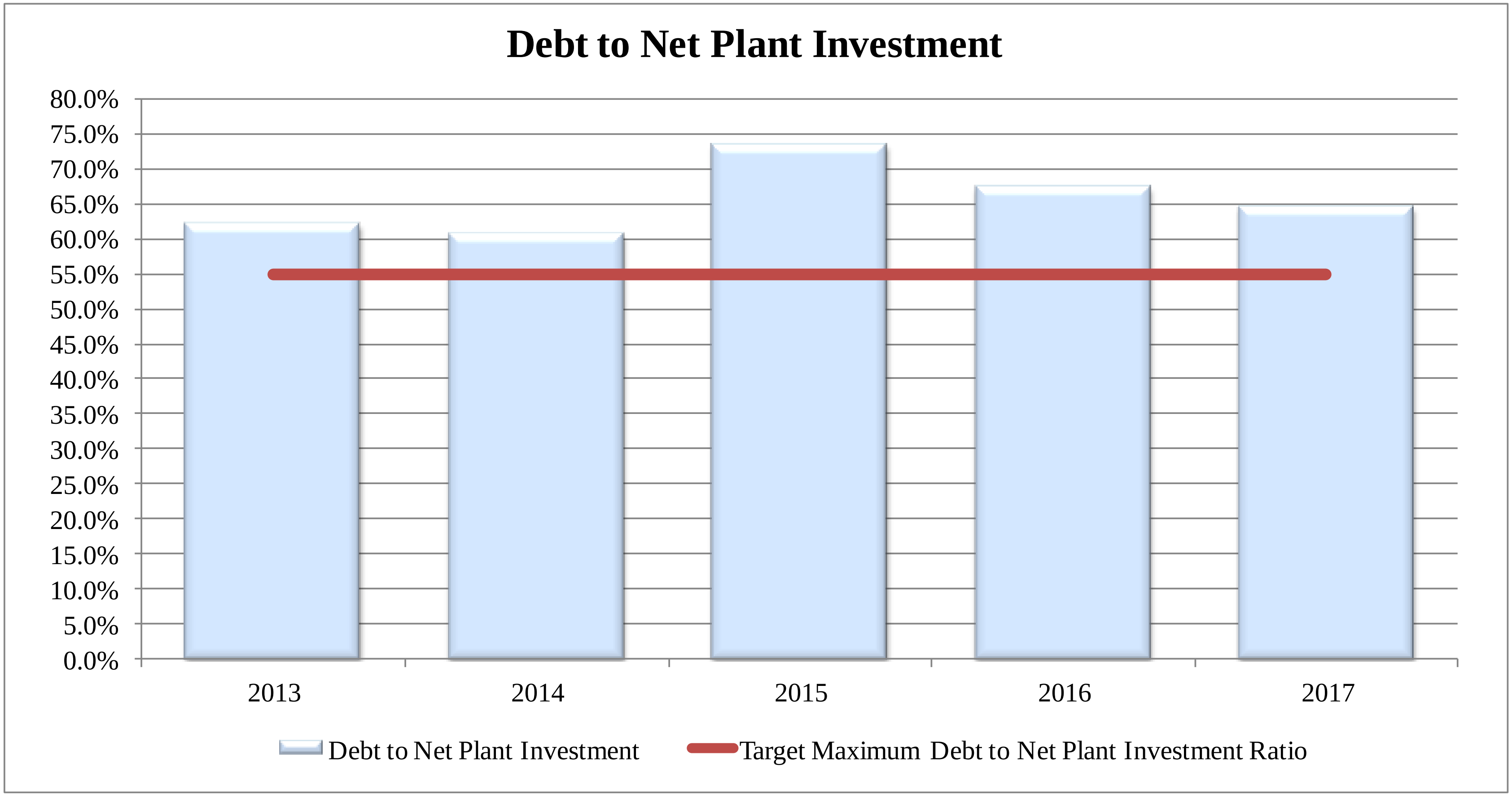
- Unfunded Capital Program Unless Defer Projects
- Increased Capital Funded from Debt – Eventually Permanently higher rates
- Reduced Debt Coverage / Reduction in Credit Rating

Question / Option 1 (continued)



Question / Option 1 (continued)

- Why borrowing for Renewal and Replacement may not be prudent?
- The System is currently in a high leveraged position.



Questions / Option 2

- Option 2 - What if we adjusted capital improvement plan to push-out growth related projects beyond the current forecast period (lower capital improvement plan by approximately $24 million)?

Option 2 - Reduce Capital Program for Growth Related Projects

Fiscal Year	Per Rate Study (10% R&R Funding)	Adjusted Rate Increase for Reduced Capital Plan	Monthly Increase to Customers Monthly Bill: Per Rate Study	Monthly Increase to Customers Monthly Bill: With Reduced Capital Plan
2013	8.00%	8.00%	$4.61	$4.61
2014	7.00%	4.00%	4.15	$2.37
2015	7.00%	4.00%	4.44	$2.46
2016	2.00%	2.00%	1.36	$1.28
2017	2.20%	2.20%	1.52	$1.44

- Results in the need to reevaluate rates in Fiscal Year 2015.

Questions / Option 2 (continued)

- Potential Risk for this Option
  - May not be Able to Adjust Rate Program if Capital Plan Accelerates
  - Potential Interest Rate Risk due to Delay in Financing

Questions / Option 3

- Option - 3 What rate adjustments are required immediately? Two year rate adoption plan only.

Option 3 - What Rate Adjustment Required Immediately
Two Year Rate Adoption Plan

Fiscal Year	Per Rate Study (10% R&R Funding)	Adjusted Rate Increase for Two Year Plan	Monthly Increase to Customers Monthly Bill: Per Rate Study	Monthly Increase to Customers Monthly Bill: With Reduced Capital Plan
2013	8.00%	8.00%	$4.61	$4.61
2014	7.00%	4.00%	4.15	$2.37

- The System needs the immediate rate increases for Fiscal Years 2013 and 2014 to:
  - Cover continued operating cost increases.
  - Meet the additional debt service associated with immediate capital requirements.
  - Increase Renewal and Replacement Funding to avoid future borrowing.
  - Maintain adequate operating margins and operating reserves.
- Adopting a two year plan would require rates to be revisited for Fiscal Year 2015.

Questions / Option 4

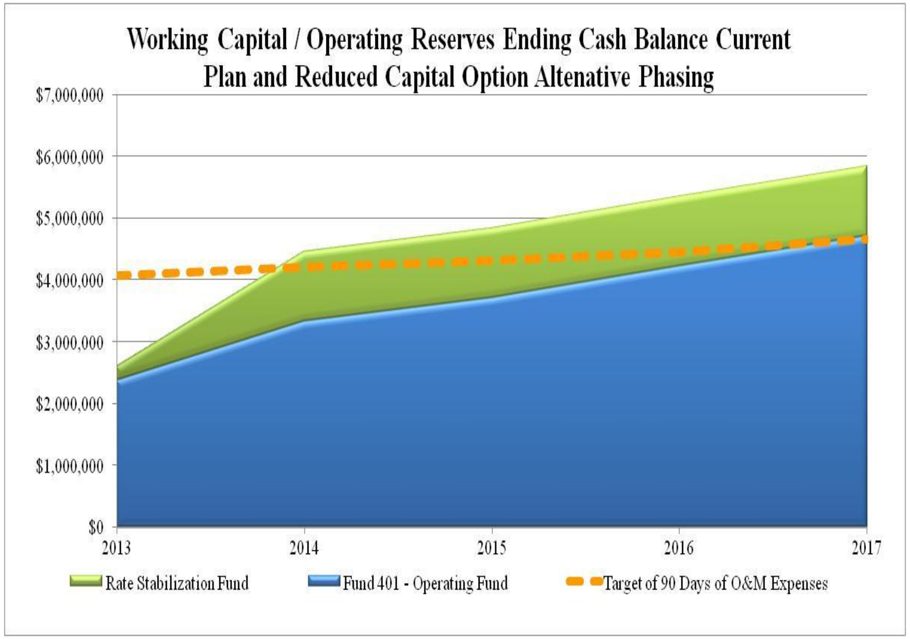
- Option 4 - Why was the current rate phase strategy chosen and are there any alternative rate phasing strategies? What about 5% every year?

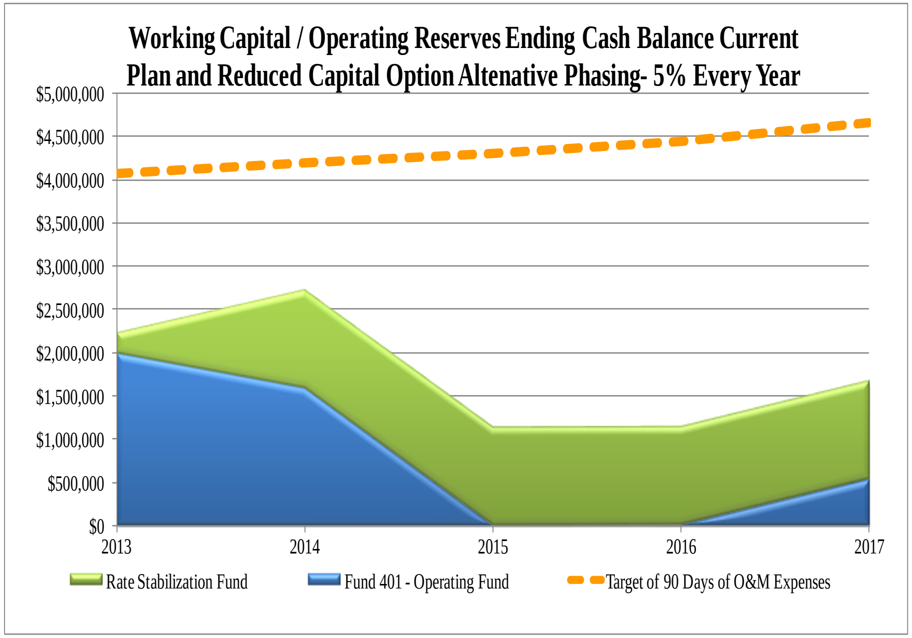
	Fiscal Year Ending September 30				
	2013	2014	2015	2016	2017
Current Plan Per Rate Study:					
Proposed Rate Increases	8.00%	7.00%	7.00%	2.00%	2.20%
Net Revenue Requirements	$29,705,208	$32,398,770	$35,383,755	$36,215,741	$37,202,153
Revenues with Proposed Rate Adjustments	30,099,693	33,354,790	35,761,982	36,729,432	37,689,739
Revenue Surplus / (Deficiency) After Adjustments	$394,485	$956,020	$378,226	$513,691	$487,586
As Percent of Existing Revenue	1.31%	2.87%	1.06%	1.40%	1.29%
Alternative Phasing:					
Alternative Rate Increases	5.00%	5.00%	5.00%	5.00%	5.00%
Net Revenue Requirements	$29,705,596	$32,322,691	$35,195,072	$35,986,865	$37,091,738
Revenues with Alternative Rates	29,712,072	31,920,172	33,609,242	35,464,707	37,391,448
Revenue Surplus / (Deficiency) After Adjustments	$6,476	($402,519)	($1,585,830)	($522,158)	$299,711
As Percent of Existing Revenue	0.02%	(1.26%)	(4.72%)	(1.47%)	0.80%

- **Not Justifiable for Primary Rate Study Proposal-** System would not meet expenditure requirements for Fiscal Years 2014 through 2016.

Question / Options 4 (continued)

- One of the reason for the proposed phasing plan was to achieve a targeted 90 days operating reserves for the System.





Questions / Option 4 (continued)

- No alternative phasing strategy recommended for primary rate study proposal.
- If other options are chosen the alternative phasing strategies is as follows:

Option 4 - Reduce Capital Program for Growth Related Projects
(Maintain 10% R&R Funding) Alternative Phasing

Fiscal Year	Per Rate Study (10% R&R Funding)	Reduced Capital Plan and Alternative Phasing	Monthly Increase to Customers Monthly Bill: Per Rate Study	Monthly Increase to Customers Monthly Bill: With Reduced Capital Plan
2013	8.00%	6.00%	$4.61	$3.52
2014	7.00%	5.00%	4.15	$2.91
2015	7.00%	5.00%	4.44	$3.05
2016	2.00%	2.00%	1.36	$1.28
2017	2.20%	2.20%	1.52	$1.44

Question / Option 5

- What if Senior Lien Debt Service Coverage was lowered to 140%

	Fiscal Year Ending September 30				
	2013	2014	2015	2016	2017
Current Plan Per Rate Study:					
Proposed Rate Increases	8.00%	7.00%	7.00%	2.00%	2.20%
Net Revenue Requirements	$29,705,208	$32,398,770	$35,383,755	$36,215,741	$37,202,153
Revenues with Proposed Rate Adjustments	30,099,693	33,354,790	35,761,982	36,729,432	37,689,739
Revenue Surplus / (Deficiency) After Adjustments	$394,485	$956,020	$378,226	$513,691	$487,586
As Percent of Existing Revenue	1.31%	2.87%	1.06%	1.40%	1.29%
Senior Lien Coverage	157.07%	169.65%	151.73%	154.86%	155.60%
Alternative:					
Alternative Rate Increases	0.00%	5.00%	12.90%	2.00%	2.20%
Net Revenue Requirements	$29,706,243	$32,221,034	$35,077,602	$36,055,595	$37,050,751
Revenues with Alternative Rates	29,066,038	30,476,957	34,280,785	35,280,406	36,202,392
Revenue Surplus / (Deficiency) After Adjustments	($640,204)	($1,744,077)	($796,816)	($775,189)	($848,359)
As Percent of Existing Revenue	(2.20%)	(5.72%)	(2.32%)	(2.20%)	(2.34%)
Senior Lien Coverage	146.14%	140.75%	140.22%	143.54%	143.94%

- **Not Justifiable -** System would not have adequate cash flow to meet expenditure requirements. Would be forced to lower R&R Funding.

Questions / Option 6

- Option 6 - What if we increased our revenue growth projections over the forecast period for additional customer growth. **Not Justifiable.**
  - Growth based on recent customer growth trends
  - Better alternative would be to reduce the capital plan for all growth related projects.
  - City would need to revaluate rates and capital program every two years based on current customer growth projections.

Question / Option 7

- Option 7 - What may be the impact if the System was downgraded by the rating agencies?

Option 7 - Downgraded and Reduce R&R From 10% to 5%				
	Per		Monthly Increase to Customers Monthly Bill	
	Rate Study	Adjusted	Per Rate	With Reduce R&R
Fiscal Year	(10% R&R Funding)	Increase	Study	and Downgrade
2013	8.00%	6.75%	$4.61	$3.93
2014	7.00%	7.00%	4.15	$4.10
2015	7.00%	7.00%	4.44	$4.39
2016	2.00%	2.00%	1.36	$1.34
2017	2.20%	2.20%	1.52	$1.50

- Downgrading will also effect your future costs of borrowing so rates maybe higher over the long-term.

Question / Option 8

- Option 8 -What is the impact on rates if expenses are cut or additional revenue sources are found?

- For every $1,000,000 in additional revenues from other sources or operating expense cuts rates could be reduced by approximately 3% or approximately a $1.65 per month reduction to the typical monthly bill.

  - The reduction must be sustainable not a 1 year occurrence

Discussion and Questions