

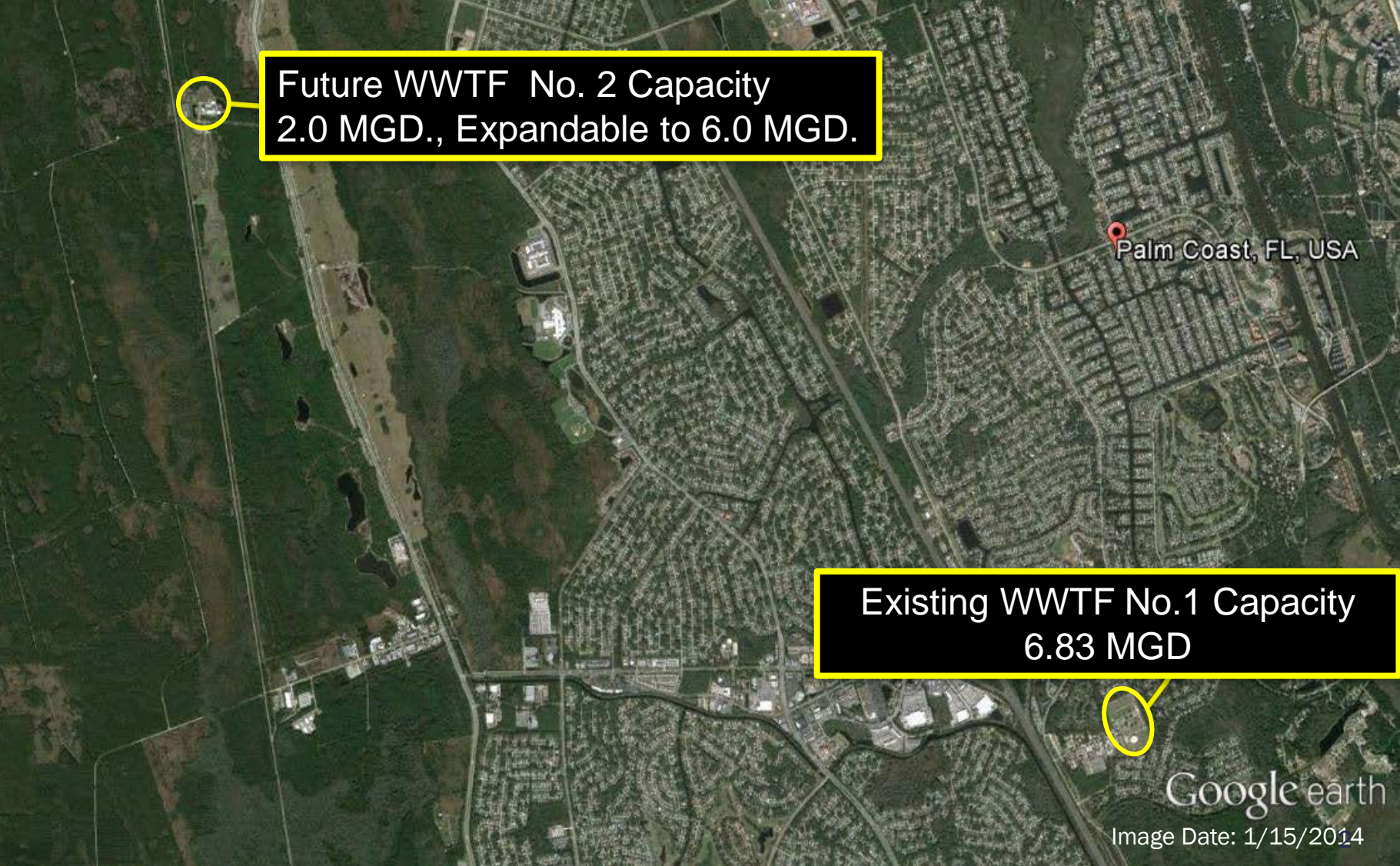


Wastewater Treatment Capacity Expansion

Council Workshop, February 24, 2015



WWTF Expansion

An aerial satellite image of Palm Coast, Florida, showing a residential area with a river and several industrial or utility sites. A yellow circle on the left side of the river is connected to a text box. A red pin on the right side of the residential area is labeled "Palm Coast, FL, USA". A yellow circle on the bottom right side of the image is connected to another text box. The text boxes are black with yellow borders.

Future WWTF No. 2 Capacity
2.0 MGD., Expandable to 6.0 MGD.

Palm Coast, FL, USA

Existing WWTF No.1 Capacity
6.83 MGD

Google earth

Image Date: 1/15/2014

62-600.405 Planning for Wastewater Facilities Expansion.

- **Fours Years Planning Period**
 - (8)(b) If the permitted capacity will be equal or exceeded within the next four years, design for the necessary expansion must be underway.
- **Capacity Expanded Six Months Prior to the Capacity Being Reached**
 - (8)(d) If the permitted capacity will be equal or exceeded within the next six months, an application for an operation permit for the expanded facility must be submitted.

City 2014 Strategic Action Plan

- **Strategy 1.2.2: Coordinate facility capacity upgrades to meet the City's growth needs appropriately**

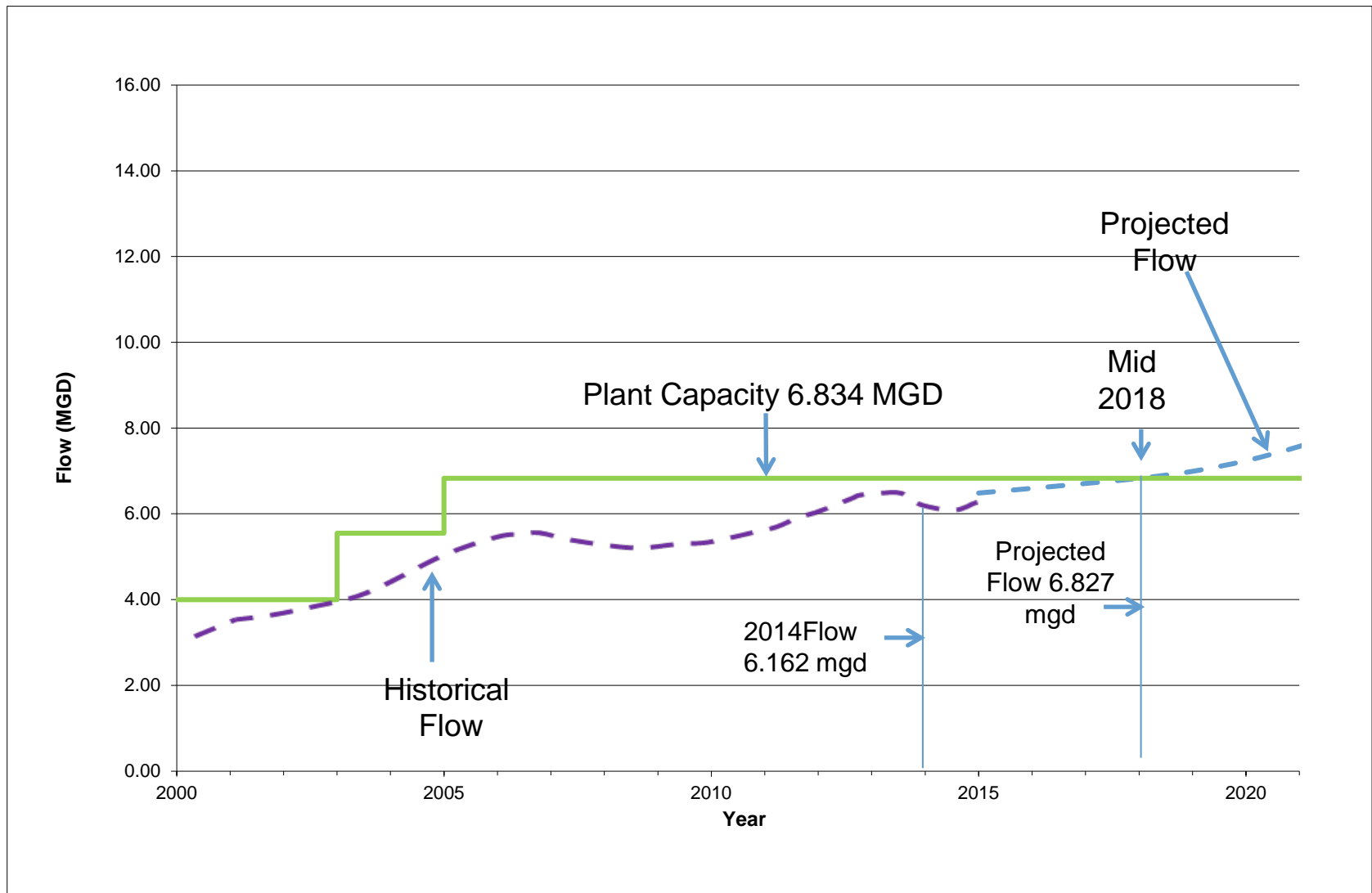
Projected Flow



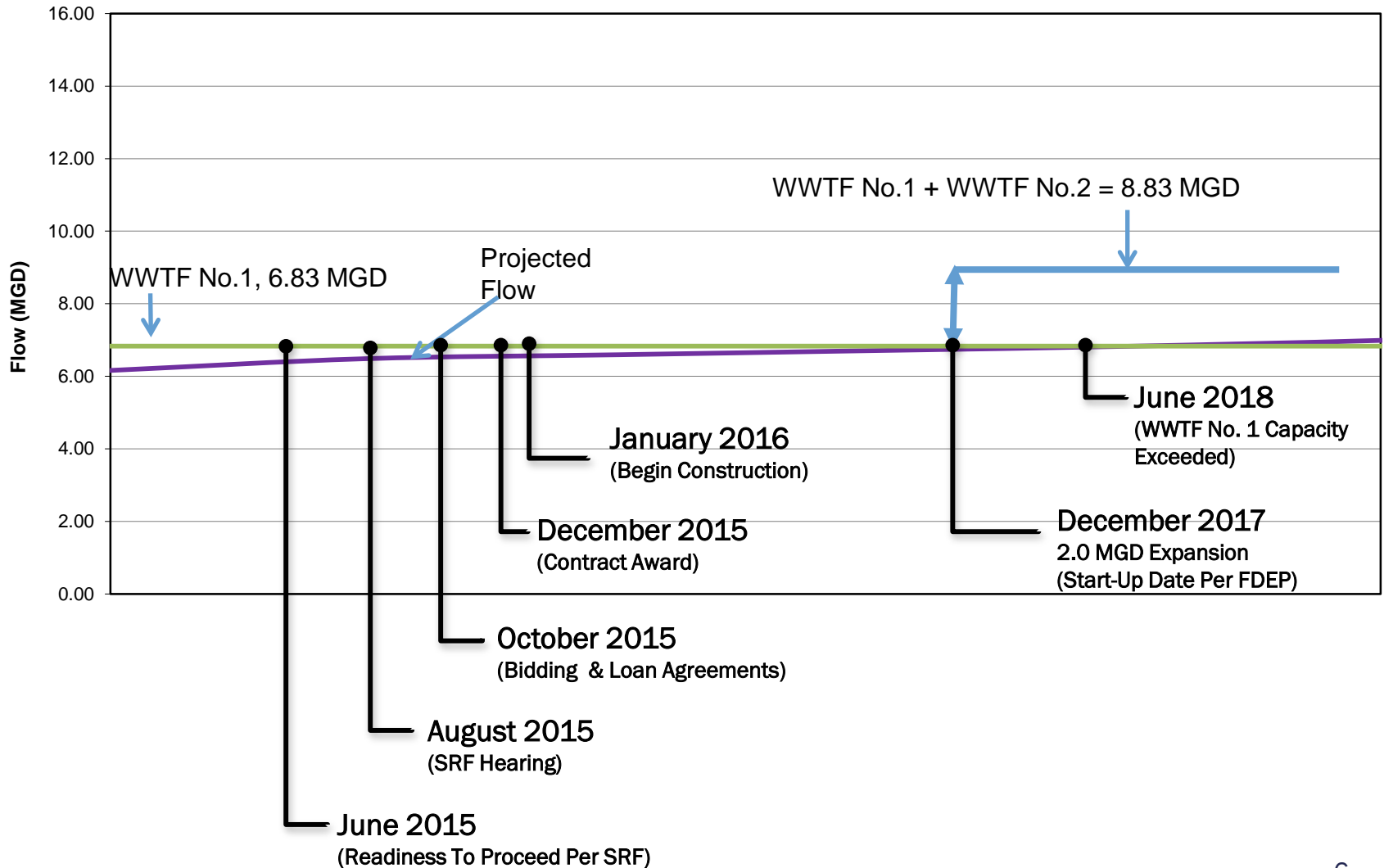
Year	Historical/Projected Flow, MGD	% of Plant Capacity
2013	6.587	96%
2014	6.162	90%
2015	6.485	95%
2016	6.594	97%
2017	6.708	98%
2018	6.827	100%

Note: The projections are based on 520 ERU growth in 2014 and 4% increase each year from 2015 to 2018.

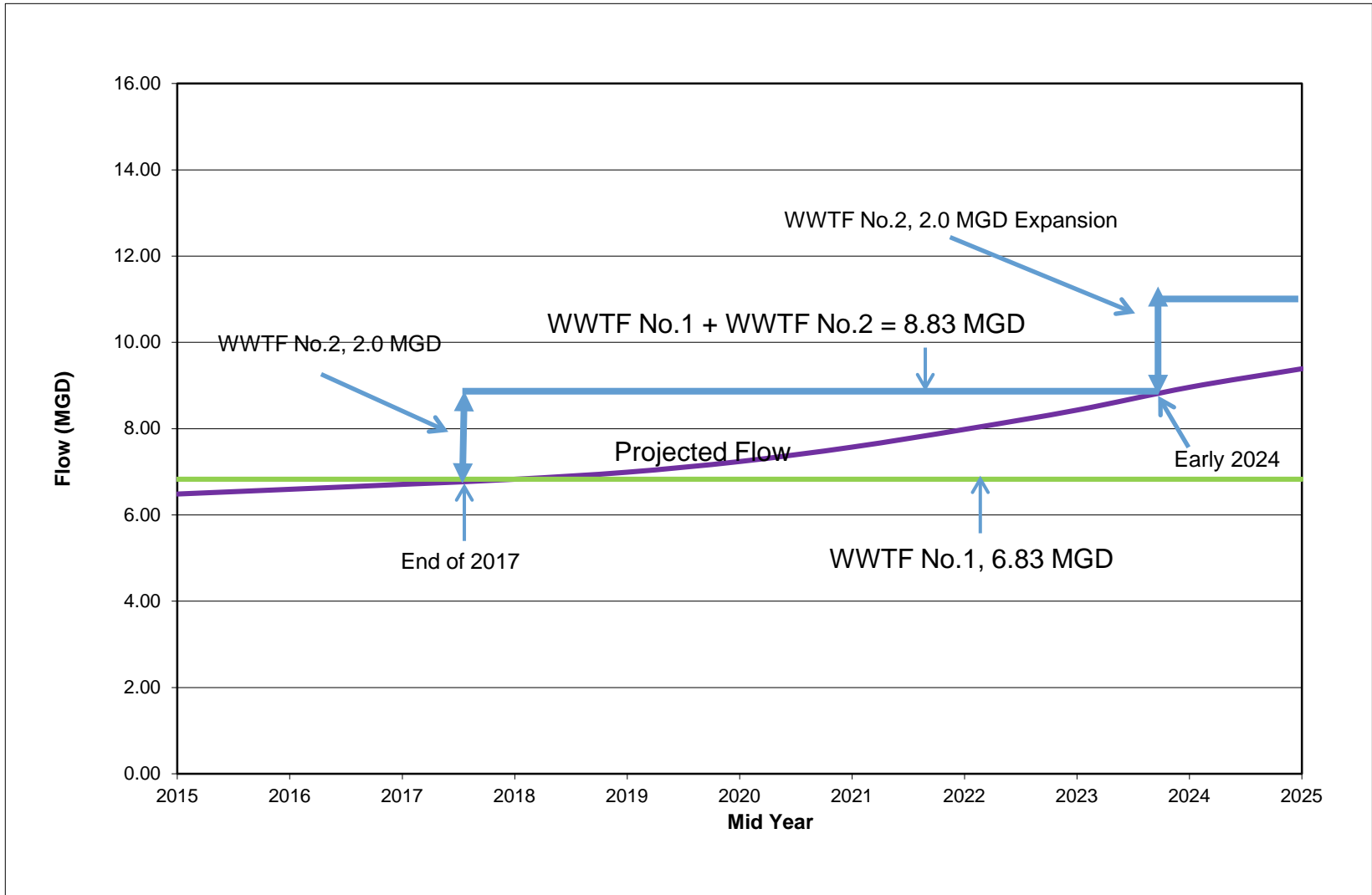
Flow vs Capacity



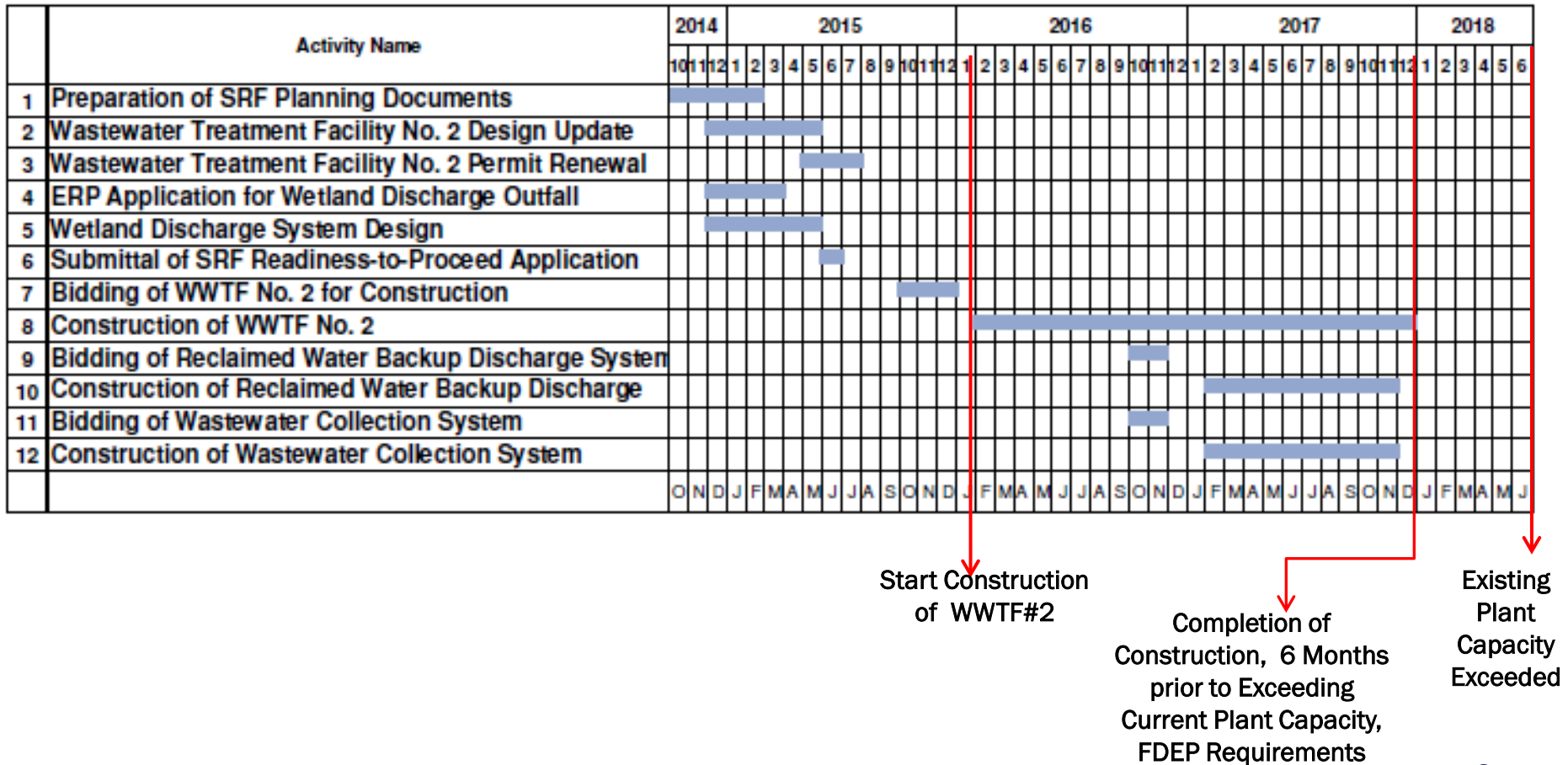
Future WWTF Plan



Future WWTF Plan



Implementation Schedule



SRF Program



Request for Inclusion

- Narrative of Project
- Priority Categories
- Census Tracts
- Population
- Cost Estimate
- Priority Score
- Schedule

Planning Document

- Executive Summary
- Cost Comparison
 - 2 Alternatives
- Environmental Effects/Benefits
 - Evaluation of: Flora, Fauna, Endangered Species, Water Bodies, Agric. Lands, Wetlands, & Undisturbed Areas
- Selected Alternative Evaluation
- Statement on Environmental Justice
- Public Participation Process
 - Advertise in newspaper; Discuss Alternatives; Provide Minutes
- Financial Feasibility
 - Dedicated Revenues to Repaying the Loan
 - Existing/Proposed User Charge System
- Schedule
- Adopting Resolution

Agency Reviews of Planning Documents

- State Clearing House
- US Fish and Wildlife
- 60 Day Review Period

Environmental Information Document

- 30 Day comment period
- DEP drafts and publishes based on information provided in the planning document

SRF Program



Readiness-to-Proceed Requirements

- For loans, submit all documentation 30 days Prior to SRF Hearing Date or before June 1st. For Grants, submit all documents by June 30th. All must be deemed complete 15 days before hearing.
- Request for Inclusion
- Planning Document, including environmental review process must be complete Biddable Plans & Specs
- Permits
- Site Certification



Priority List Meeting

- Places Project on Fundable List
- Assigns a Priority Score
- For grants, assigns a grant percentage
- For loans, if funds are not available for all or a portion of the project, this amount goes to contingency list
- For grants, if the project does not successfully compete for funds at the list adoption meeting, the sponsor may reapply the next year.



Loan/Grant Application

- Must be submitted with 120 days after being placed on the fundable list
- Agreement must be executed within 210 days of being placed on the fundable list



Loan Agreement

- 20 year terms
- Financing rate is a percentage of the market rate
- The percentage is based on affordability criteria

Wastewater Management System Facilities Plan



- **FDEP SRF Requirements for Loan Application**
- **Improvements Identification**
 - WWTF No.2
 - Wastewater Collection and Pumping System
 - Reclaimed Water Distribution and Wetlands Backup Discharge System
- **Cost Estimation**
 - Construction Cost: \$26,000,000
 - 10% Contingency: \$2,600,000
 - Engineering Services: \$1,500,000
 - Total: \$30,100,000
- **Approval and Authorization by the City Council**

Capital Finance Plan Agenda



- **Purpose**
- **Recent Rate History**
- **SRF Assumptions**
- **Assumptions and Highlights**
- **Observations and Conclusions**

- **Development of Capital Finance Plan**
 - Required by FDEP to Secure SRF Loan

- **Purpose is to Identify the City’s Future Ability to Repay SRF Loan Obligation**
 - Provides Commitment to Meet Loan Agreement Covenants
 - Seven-Year Financial Forecast and Funding Analysis – FY 2015-2021
 - 3 Years Beyond In-Service Date of SRF Funded Expenditures
 - Objective: Ensure Rates/Revenues Meet Expenditure Requirements

Recent Rate History



- **Last Formal Review of Rates – FY 2013**
 - Support of Issuance of \$89,600,000 Series 2013 Bonds
 - Released \$6,300,000 in Debt Service Reserve
- **Identified 2013 Rate Implementation Plan**

Fiscal Year	Initial Percent Adjustment [1]	Adopted Percent Adjustment [2]	Status
2014	7.00%	4.00%	Implemented
2015	7.00%	4.00%	Implemented
2016 - 2019 [3]	Index Only	Index Only	Implementation Approved

[1] Initial Proposed Rates Prior to WWTF Deferral by City Council.

[2] Rates Adopted by the City Council.

[3] Index continues after 2019; was last year of the rate plan.

Changes Since 2013 Financial Forecast



■ Benefits

- Improved Economic Conditions – Increased Customer Growth
- Favorable Interest Rates – Reduces Cost to Borrow
- Ability to Defer Debt Payment Until Construction Complete
- Low Inflation Climate

■ Immediate Risks

- Construction Costs Increasing (Competition)
- WWTF Capacity Can No Longer Be Deferred

SRF Loan Assumptions



- **SRF Construction Loan Recommended to Fund New Wastewater Treatment Facility No. 2**
 - 2.0 MGD Initial Expansion

- **Total Construction Proceeds = \$30,100,000**

- **Total Estimated Loan Principal = \$31,084,240**
 - Reflects Loan Service Fee (to FDEP) of 2%
 - Capitalized Interest Cost During Construction
 - No Payments Made / Interest Accrued on Draws Until Completion

SRF Loan Assumptions (cont'd)



- **Semi-annual Payments Assumed to Begin FY2018**
 - Payments Begin After Construction Completed
 - Annualized Estimated Payments = \$1,689,994/yr
 - Assumes 0.83% Annual Interest Rate
 - Requires that Net Revenues > 1.15x Annual Debt Service
 - After Payments of Senior Lien Bonds

Advantages of Debt Funding



- **Advantages of Debt Funding Capital Improvements**
 - Match Funding with Service Life of the Assets
 - Matches Cost Recovery to Future Customers Benefiting From the New Capacity
 - Results in Lower Rate Impact to Existing Customers
 - Potential 40% Increase to Existing Customers if Pay-As-You-Go Funding

Primary Forecast Assumptions



- **Customer Growth = 1% / yr**
- **Operating Expenses = 3.3% / yr**
 - Personnel / Power / Chemicals / Sludge = 73% of Total Operating Expenses
 - Operating Expenses = 53% of Total Revenue Requirements
- **Assumed Annual Capital Reinvestment From Rates**
 - Continued Programmed Deposits to R&R Fund at 10% of Prior Year Gross Revenue (\$3.7 Million) – 9.8% of Total Revenue Requirements
- **Total Debt Service Requirements**
 - With 2015 SRF Loan Beginning in 2018 = \$13.5 Million
 - 34.5% of Total Revenue Requirements

Primary Forecast (cont'd)



■ Highlights

- Maintain Strong Operating Margin = > 40%
- Maintain Adequate All-In Debt Coverage = 1.48x
- Continued Ongoing Capital Reinvestment
- Days Working Capital – Maintain Minimum of 120 Days
- Promotes Credit Rating – A+ by Fitch / S&P

Assumed System Rate Adjustments



Forecasted Rate Adjustments:

- Indexing Already Included in Rate Structure

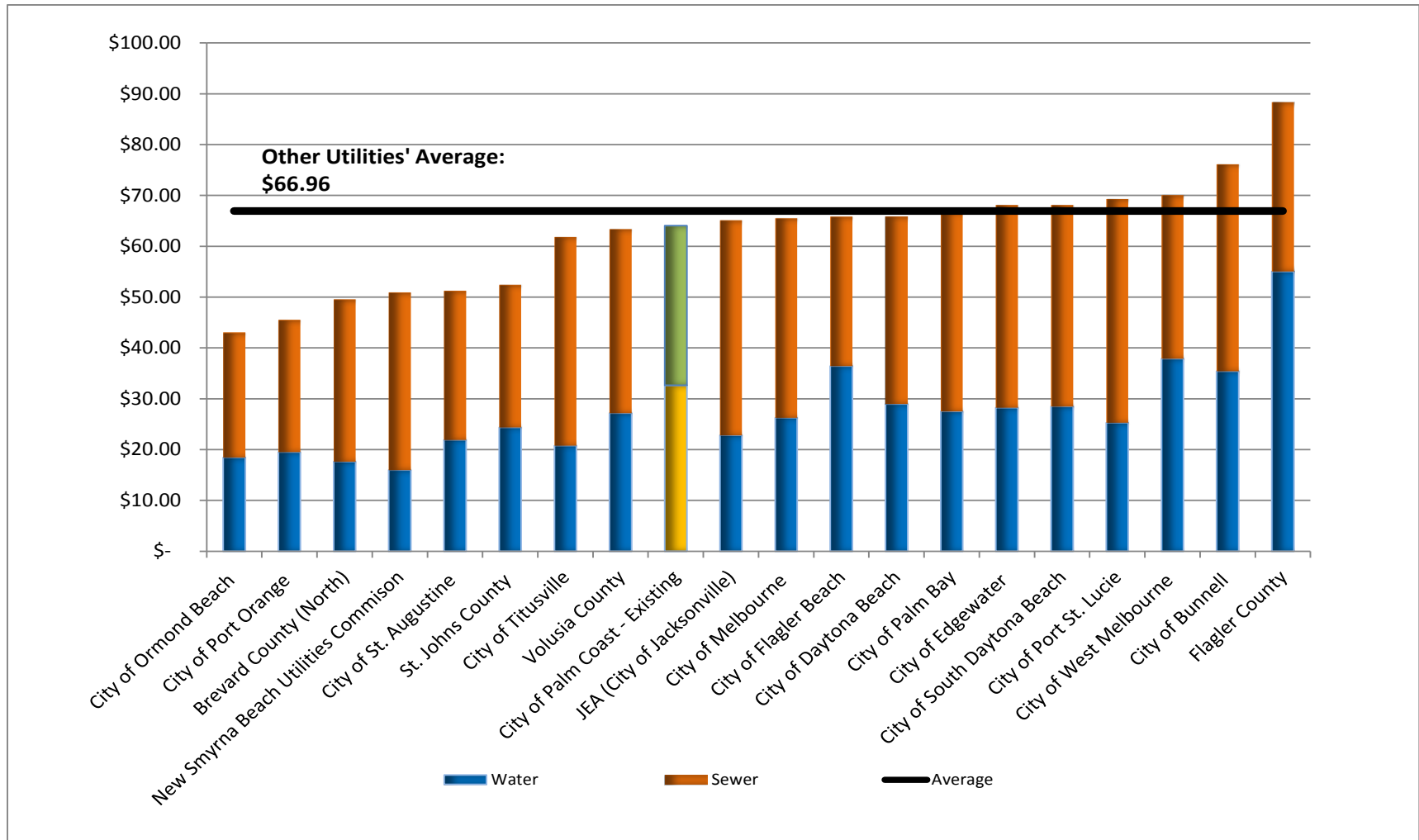
Fiscal Year	Water and Sewer Revenue Adjustments	
	Annual Price Index [1]	Estimated Additional Rate Adjustment
2016 - 2021	CPI	0.00%

[1] Assumed to be effective October 1st of each Fiscal Year.

Water and Wastewater Typical Residential Monthly Bill Comparison



■ Average Monthly Residential Use = 4,000 gallons



Conclusions and Observations



- **Issuance of 2015 SRF Loan is a Cost Effective Basis to Finance WWTF**
 - Low Issue Cost to Secure Loan
 - Extremely Low Interest Rates 0.83% vs. 5.75% (Prior Forecast)
 - Ability to Defer Payment Until Project Completion
- **To Meet Identified Financial Plan System Requires Only Rate Indexing Adjustments**
- **City has Financial Capability to Repay 2015 SRF Loan and Maintain Overall Creditworthiness of System**

Conclusions and Observations (cont'd)



- **Staff will Monitor Results – Anticipate Complete Rate Study Planned to Fiscal Year 2017**
 - Possible Refinancing of Series 2007 Revenue Bonds
 - Updated Growth Assumptions
 - Updated Capital Requirements
 - Evaluate Rate and Cost Recovery Relationships

- **Rate Adjustments Only Being Disclosed for the Purpose of the Capital Finance Plan Feasibility Analysis**
 - Further Review of Financial Forecast Will Continue
 - **NOT Requesting Adoption of Additional Rate Adjustments**

Next Steps



- **March 3, 2015 - Public Hearing and approval of the Capital Financing Plan and Facility Plan**
- **March 10, 2015 - Submit Public Hearing Summary and City's Resolution to FDEP**
- **June 1, 2015 – Submit Readiness to Proceed Package**
- **August 12, 2015 - DEP SRF Hearing**
- **November 1, 2015 - Sign SRF Loan Agreement with FDEP**
- **November 1, 2015 – Advertise WWTP No.2 for Construction Bid**
- **December 1, 2015 – Receive Bid**
- **January 1, 2016 - Award Contract / Construction Start**
- **December 31, 2017 - Substantial Completion of Construction**

Discussion and Questions



Frequently Asked Questions





- **For FY 2014, the City Served on Average:**
 - 43,455 Water Accounts
 - 35,717 Sewer Accounts

- **Utility Customer Growth Projections FY 2015 through FY 2021**
 - Forecast Assumes Growth Projection of Approximately 1.0% or 450 Average Connections per Year

- **Average Use per Customer**
 - Relatively Consistent by Class
 - Typical Residential Customer = 4,000 Gallons per Month of Water

■ Evaluated Revenue Requirements – Based on Following Formula:

- + Operating Expenses
- + Senior Lien Debt Service Payments
- + Subordinate Lien Debt Service Payments (SRF)
- + Capital Funded from Operations
- + Deposits to Working Capital / Debt Compliance *
- Other Operating Revenues and Income
- Use of Working Capital (Fund Balance)
- = Net Revenue Requirements Funded From Rates

* Includes:

- Maintain Adequate Operating Reserves
- Maintain Rate Covenant Compliance
- Maintain Favorable Bond Rating

Revenue Requirements



- **Operating Expense Forecast Based on FY 2015 Adopted Budget**
- **Forecast Recognized:**
 - System Growth in Accounts Served/Sales and Flows
 - Inflationary Allowances Ranging from 2.0% to 2.4% Based on Nature of Expense
 - Labor Cost Increases and Personnel Additions (6 Additional Positions Over the Forecast)
 - Contingency Allowance of 4.0% was Included in Forecast to Account for Unanticipated Expenses

Capital Improvement Program Funding



- **The City’s Capital Improvement Plan was assumed to be funded with a the following sources:**

7-Year Capital Improvement Program	<u>Amount</u>	<u>Percent</u>
Funding Source:		
Operating Reserves/Rate Revenues	\$ 10,800,000	12.46%
Existing Bond Proceeds	12,405,502	14.31%
Renewals & Replacements Fund	27,144,518	31.31%
System Capital Facilities Fees Fund	6,082,498	7.02%
2015 SRF Loan	30,100,000	34.72%
Grants	158,880	0.18%
Total Capital Funding	<u><u>\$86,691,398</u></u>	<u><u>100.00%</u></u>



- **Annual Transfer for Renewal and Replacements**
 - Required Per Bond Resolution (5% Minimum)
 - Forecast Recognizes 10% of Prior Year's Gross Revenues or Approximately \$3,700,000 per Year
 - 10% Required for Sustainable Long-Term Operations
- **Proposed 2015 SRF Loan – Provide \$30.1 Million in New Project Funding**
 - Approximately \$1,700,000 per Year Increase in Debt Service Payments