

# City of Palm Coast, Florida



## 2018 WATER AND WASTEWATER REVENUE SUFFICIENCY ANALYSIS AND CAPITAL FACILITIES FEES

JULY 31, 2018

# Where We've Been

- Rates Last Formally Adjusted in Fiscal Year 2014
  - 4% Rate Adjustment Adopted for Fiscal Years 2014 and 2015
  - Rates Subsequently Indexed for Fiscal Year 2016 through 2018
    - 0.1%, 1.0% and 1.6% for Fiscal Year 2016, 2017 and 2018, Respectively
- Since Fiscal Year 2015 Operating Expenses (Net of Amount offset by Customer Growth) have Increased Approximately 4.6% Annually
  - Consistent Across the Nation and the State for Water and Wastewater Utilities
  - Results in a Decrease to the Net Operating Margins
  - Reduces the Ability to Cash Fund Capital Improvements

# Where Are We Now

- Utility Experiencing Declining Operating Margins
- Large Installed Asset Base - Currently - \$305 million
  - Aging Infrastructure Requires Increasing Need for Ongoing Renewal and Replacement
  - Need for Increased Funding for:
    - Gravity Sewer Lining – Decrease System Inflow and Infiltration
    - PEP Tank Repairs and Replacements
    - Water Main and Distribution System Improvements
    - Well Repairs and Replacements
- Six-Year Capital Improvement Plan – Approximately \$130 million
  - Expansion Projects Required to Serve New Growth
  - Renewal and Replacement Projects Required to Maintain the Existing System

# Where are We Going

- Primary Objective – Develop Sustainable Rate and Financial Plan
- Evaluate the Sufficiency of Revenues – Six Year Financial Forecast
  - Based On FY 2018 Budget / Actuals and 2019 Preliminary Operating Budget
  - Reflects Current Proposed Capital Improvement Plan
- Develop Capital Funding Plan
- Identify Available Cash / Funding Resources
- Recommended Adjustments to Monthly User Rates to:
  - Maintain Utilities Strong Credit Rating – Current A+ Rating
  - Fund Cost of Operations and Capital Funding Requirements
  - Support the Issuance of Future Additional Debt
  - Maintain Adequate Working Capital Requirements – Limit Financial Risks
  - Ensure the System Complies with all Rate Covenant Requirements
- Update System Capacity Fees for Current Capital Improvement Plan

# Forecast Assumptions / Issues Facing Utility

- **Continued Inflation on Cost of Operations – Primary Rate Driver**
  - Ongoing Inflation – CBO National CPI Projections: Over 2.4% per Year
  - Increasing Demand for Goods and Services – Higher Construction / Contract Service and Maintenance Costs
  - WWTP #2 Coming Online
  - Increased Labor Costs, Including Incremental Staffing Increases
  - Average Annual Operating Expense Increase = 4.0%
- **System Growth – Incremental Costs**
  - Forecast Recognizes Approximately 700 New Accounts Per Year (1.7% Growth)
  - New Plant Capacity Expansions
    - WWTP #2 – Initial 2.0 MGD Expansion Completed FY 2018
    - WWTP #2 - Additional 2.0 MGD Expansion Beginning FY 2021
    - WTP #3 – 3.0 MGD Expansion Beginning FY 2023

# Forecast Assumptions / Issues Facing Utility (cont'd.)

- **Significant Capital Infrastructure Needs – Primary Rate Driver**

- FY 2018-2023 Capital Improvement Needs = \$130.3 Million

Expenditure –Type	Amount (\$000s)	Percent
Expansion	\$66,498	51.0%
Renewals and Replacements	56,602	43.4%
Departmental Capital	<u>7,230</u>	<u>5.5%</u>
Total Capital Improvement Plan	\$130,329	100.0%

- FY 2018-2023 Capital Funding Plan

Funding Source – Type	Amount (\$000s)	Percent
Capital Accounts (R&R)	38,177	29.29%
Impact Fees	20,324	15.59%
Operating Reserves / Rates	13,586	10.42%
Grants / Other	2,700	2.07%
Existing Debt Proceeds	8,708	6.68%
Additional (New) Debt	<u>46,834</u>	<u>35.94%</u>
Total Capital Funding Plan	130,329	100.00%

# Forecast Assumptions / Issues Facing Utility (cont'd.)

- **Increasing Need for Asset Replacement**

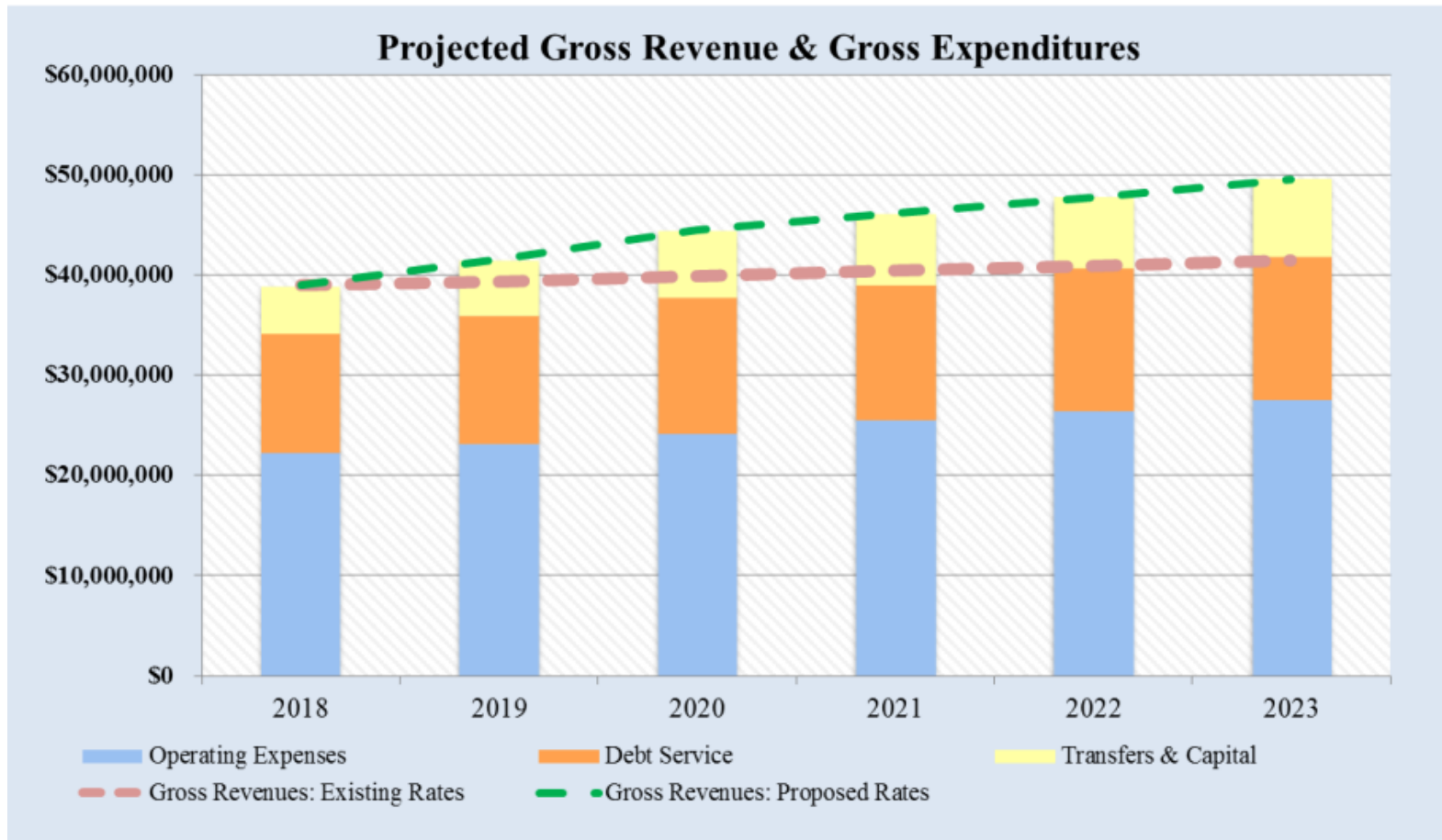
- Major Issue Facing Utilities Across the Country
- \$305 Million in Depreciable Assets – Depreciation Expense => \$10.3 Million
- Requires Levelized Capital Re-investment Plan
  - Limit Future Debt for Capital Financing
  - Promotes Flexibility in Funding and Long-Term Rate Sustainability

- **Forecast Recognizes Recommended Increase to R&R Funding Level**

- Current City Policy 10% of System Revenues (Currently \$3.8 Million Annually)
- Recommended Phase-In Funding Level to 15% by 2023 (\$7.0 Million Annually)

# Projected Revenue Requirements

- Existing Rates Not Considered Sufficient to Fund Revenue Requirements
- Revenue Requirements Analysis:





# Proposed User Rate Revenue Adjustments

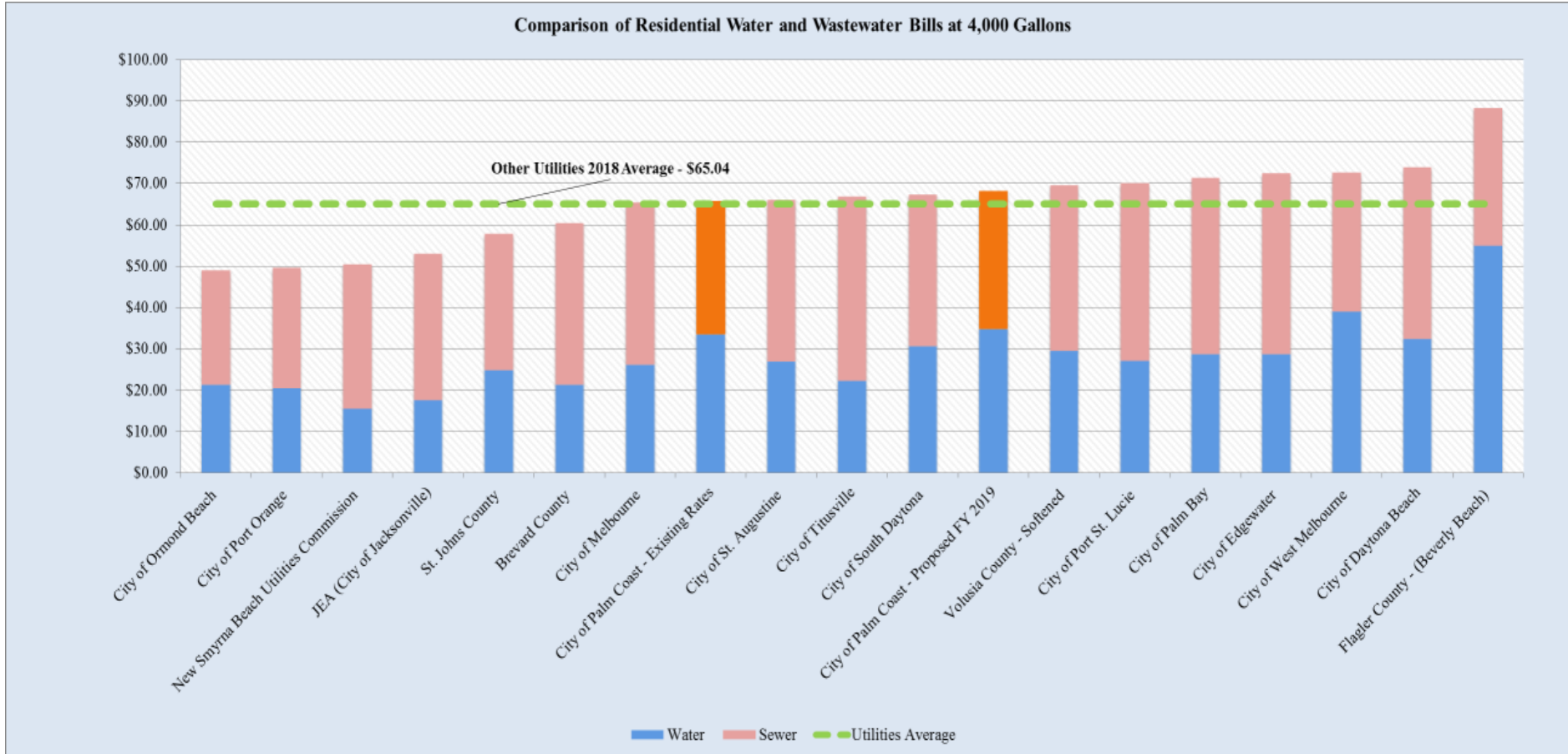
- Recommended Rate Adjustments:

Effective Date	Proposed Increase		Water		Wastewater	
	Index *	Additional	Average Residential	Increase	Average Residential	Increase
<b>PROPOSED ADJUSTMENTS:</b>						
Existing Average Bill			\$33.55		\$32.21	
Oct. 1, 2018	2.90%	3.10%	\$35.56	\$2.01	\$34.14	\$1.93
Oct. 1, 2019	2.40%	3.60%	\$37.69	\$2.13	\$36.19	\$2.05
<b>ANNUAL RATE INDEXING</b>						
Oct. 1, 2020	2.40%	0.00%	\$38.59	\$0.90	\$37.06	\$0.87
Oct. 1, 2021	2.40%	0.00%	\$39.52	\$0.93	\$37.95	\$0.89
Oct. 1, 2022	2.40%	0.00%	\$40.47	\$0.95	\$38.86	\$0.91

\* Index Based on Actual Change in the Consumer Price Index From June 2017 to June 2018.

- Proposed Rates Will Remain Competitive with Those of "Neighboring" Utilities

# Monthly Water and Wastewater User Rates Remain Competitive



# Primary Reasons For Recommended Rate Adjustments

- Increased Cost of Operations
  - Inflation Impacts
  - WWTP #2 Coming Online (Incremental Increase)
  - Additional Personnel (Incremental Increase)
- Recommended Increase in R&R Funding Level from 10% to 15% of System Revenues (by End of Forecast Period)
- Additional Debt Service Cost Associated with Funding the Capital Improvement Plan
  - \$11.5 Million Bond/Loan FY 2020
  - \$11.2 Million Bond/Loan FY 2022
  - \$24.0 Million SRF/Loan FY 2020 – 2023
- \$24 Million SRF Loan Debt Service (OUTSIDE Forecast)

# Capital Facilities Fees (Impact Fees)

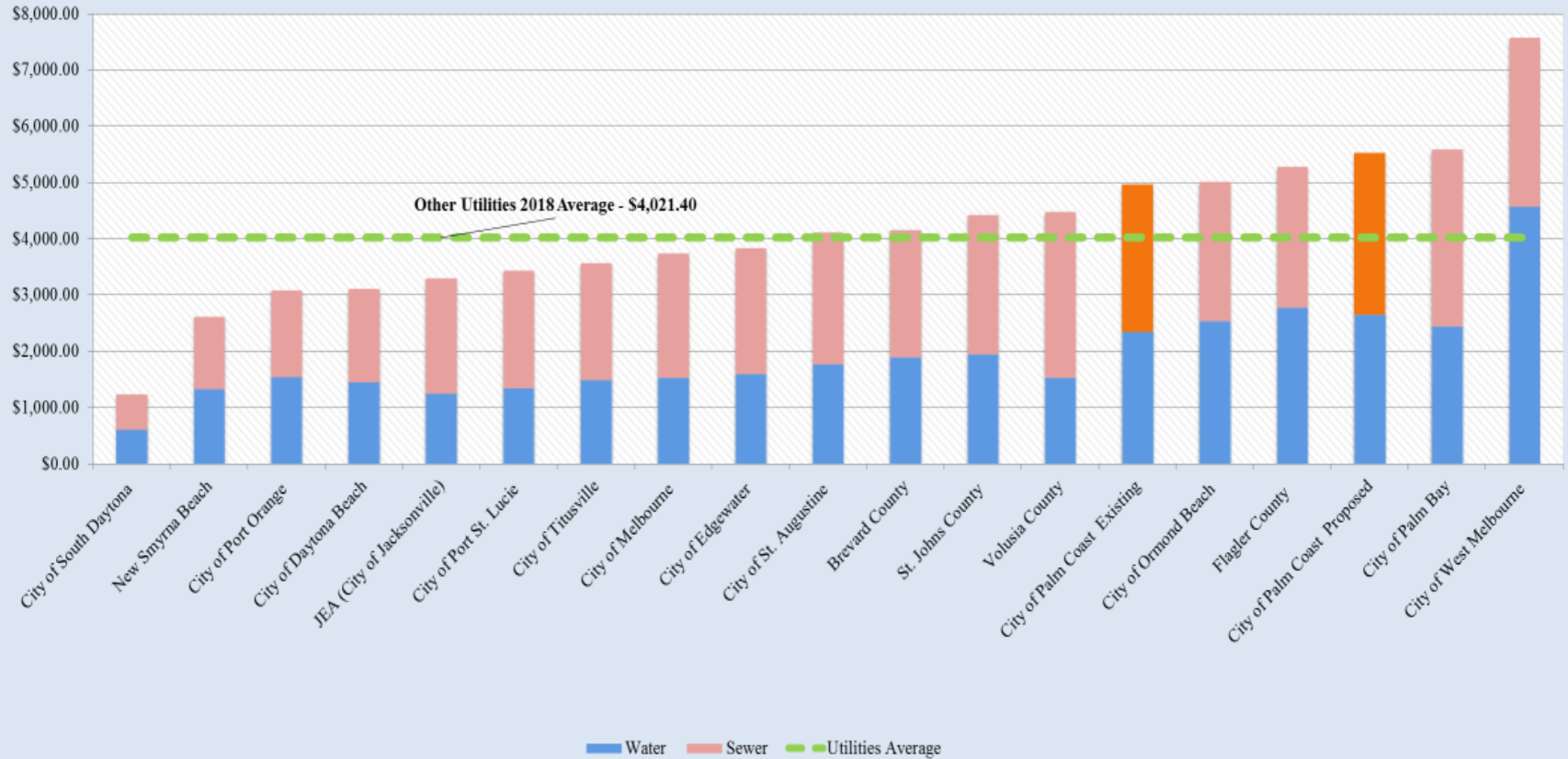
# Capital Facilities Fees

- **Recover Capital Cost of Capacity Allocable to New Users**
  - Fee Only Charged to New Development
  - Provides Additional Financial Resources
- **Fees Decreased in FY 2013 In Order To:**
  - Reflect Lowered Capital Spending Plan At that Time
- **Fees Recommended to Be Adjusted to Reflect Current Capital Improvement Plan (Per Single Family Residential Equivalent)**

Effective Date	Fees Prior to Reduction			
	In FY 2013	Existing	Proposed	Increase
Water Fee	\$ 2,679.81	\$ 2,355.72	\$ 2,658.00	\$ 302.28
Wastewater Fee	2,734.95	2,609.15	2,860.00	250.85
Combined Fee	5,414.76	4,964.87	5,518.00	553.13

# Capacity Fee Comparison

Comparison of Water and Sewer Residential Impact Fees



# Conclusions / Recommendations

- Council Should Consider Adopting the 2-Year Rate Phasing Plan (2019 and 2020)
  - Provides Rate Continuity
  - Supports Issue of Additional Bonds
  - Promotes Strong Fiscal Position and Maintaining Credit Rating
  - Adoption of Rate Resolution Will Require Notification on Bill – Fl. Statute 180.136
- Utility Should Continue to Annually Index Rates for Fiscal Years 2021 through 2023
- Council Should Consider Adopting the Proposed Capacity Fees to Increase Financial Resources
  - Once Approved Cannot Implement for 90 Days – Fl. Statute 163.31801

# Questions and Discussion

