



Notice of Public Hearings on Water & Sewer rates

The City of Tarpon Springs is proposing Water and Sewer rate increases for FY 2020 through FY 2028.

This item will be discussed at public hearings by the City Board of Commissioners. The meetings will take place at:

City Hall Auditorium

324 East Pine Street

Tarpon Springs, Florida 34689

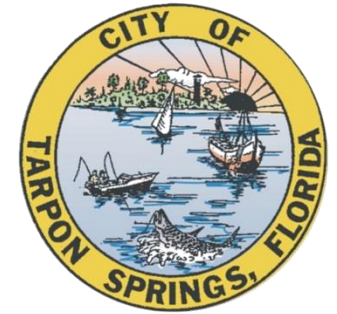
Meeting dates:

Tuesday May 8, 2018 at 6:30 pm

Tuesday May 22, 2018 at 6:30 pm

Information on the proposed rate increases can be found on the City web-site at:

<http://www.ctsfl.us/>



CITY OF TARPON SPRINGS, FLORIDA

Water – Sewer Revenue Sufficiency Analysis 2018 and Future Rate Plan

Board of Commissioners Presentation
March 20, 2018 Regular Session

Water-Sewer Revenue Sufficiency Analysis 2018

Overview:

- Stantec - (formerly Burton) was contracted to perform the Water-Sewer Revenue Sufficiency Analysis (rate study).
 - Performed studies for the City for 20+ years.
- Staff updated current and future expenditure projections and provided the financial information necessary to perform the analysis.
- Stantec and staff held an interactive meeting to review analysis and make revisions.

Rate Study Considerations

CIP Highlights:

The CIP provides the necessary funding to invest in infrastructure rehabilitation and replacement and maintain the efficient operations of the Water Plant, Sewage Treatment Plant and Lift Stations.

➤ Key initiatives within the **10-year CIP** are:

➤ Water Pipe Replacement Program	\$8.0 million
➤ Sewer Lines Maintenance / Repair	\$3.5 million
➤ Lift Station Rehab	\$2.2 million
➤ Future Water Wells	\$1.6 million
➤ Hydrant Improvements	\$1.6 million
➤ Sewer Expansion	\$1.6 million
➤ Reclaimed Water Expansion	\$1.5 million
➤ Solar Energy Improvements at Water Plant	\$2.5 million
➤ Beckett Bridge Water/Sewer Lines	<u>\$1.0 million</u>
➤ Total	\$23.5 million

Rate Study Considerations (cont'd)

Personnel Highlights: Public Services Utilities: (5) proposed position additions and (3) upgrades and at the apprentice, technician, and mechanic level. Proposed to be effective upon passage of the rate plan.

1. Add (1) Water Service Worker (**apprentice**) position to increase **in-house water distribution system repair and maintenance** capability.
2. Add (1) Technician II position to perform primarily Utility Locator duties that would be the primary contact for identifying **locations of City owned underground utilities** and would assist with system mapping.
3. Add (1) Wastewater Service Worker (**apprentice**) position to increase **in-house sewage collection system repair and maintenance** capability.
4. Add (1) Technician II position to perform **sewage collection system repair** and maintenance.
5. Add one (1) Maintenance Mechanic II / Utilities position for **maintaining the City's utility equipment**, including wastewater pumping and transmission systems, water and wastewater treatment plant equipment, control and communication systems, and other electromechanical systems citywide.
6. Upgrade Technician I position to Technician II position to increase **crew leadership capabilities** in water distribution.
7. Upgrade Technician III position to new position of Lead Technician to increase **working leadership and administrative capabilities** in water distribution.
8. Upgrade Technician III position to new position of Lead Technician to increase **working leadership and administrative capabilities** in sewage collection.

Rate Study Considerations (cont'd)

Personnel Highlights: Project Administration . *Proposed to be effective in FY19.*

- One new position in Project Administration to assist with review, planning, construction oversight, and compliance of City projects.
- One half of this position is allocated to water-sewer, 30% to General Fund and 20% to Stormwater.

Background: Rate Adjustment History

- A 10-year rate plan was adopted for FY10 through FY19:
 - ❖ Provided for increased investment in infrastructure including Alternative Water Supply Facility Construction
 - ❖ Final year of approved rate plan is FY19; 6.75%
- One goal of the Alternative Water Supply plan was to develop water supply independence and associated increased control over rates
- It was understood that rates may not be decreased with the new RO facility (costs are generally higher with higher treatment of reverse osmosis)
- However, the *annual increases could be reduced* once the facility began operation

Past and Current 10-Year Rate Plan

	WATER	SEWER
FY10	8.75%	1.00%
FY11	10.50%	3.00%
FY12	10.25%	3.00%
FY13	10.00%	3.00%
FY14	9.75%	3.00%
FY15	9.50%	3.00%
FY16	9.50%	3.00%
FY17	9.50%	3.00%
FY18	6.75%	6.75%
FY19 *	6.75%	6.75%

Infrastructure investment

- Numbers shown are annual increase percentages over the previous fiscal year

* Effective Oct 1, 2018

Water-Sewer Revenue Sufficiency Analysis 2018

Financial Highlights:

- Funds \$58 million of CIP FY 2018 thru 2028.
- Unrestricted Fund Balance above 25% minimum.
- Debt Service Coverage above requirements.
- No financing is required.
- Reduces rate of increases, even previously approved FY 2019 increase.



City of Tarpon Springs, FL
FY 2018 Water & Sewer
Revenue Sufficiency Analysis
and Future Rate Plan

Study Objectives

Update multi-year financial plan; FY19-FY28

- Perform revenue sufficiency analysis to:
 - Evaluate sufficiency of rate revenues generated by adopted rate plan to meet future system needs
- If necessary, identify rate adjustments to:
 - Fund projected operating and capital requirements
 - Maintain adequate levels of operating reserves
 - Comply with terms of existing debt covenants

Compare area utility rates; FY18 & beyond

Key Data & Assumptions: Funding Sources

Plan of Rate Revenue Adjustments:

- Final year (FY19) of approved rate plan for water & sewer is 6.75%

Operating Fund Balance:

- FY18 beginning fund balance is \$5.8M as of Sept 30, 2017

System Connection/Usage Growth:

- 25 new water connections per year; 0.23% per year
- 25 new sewer connections per year, plus:
 - System expansion: 90 additional connections by FY19
 - Represents growth ranging from 0.3% to 1.0% per year

Key Data & Assumptions: Funding Needs

Operating Expense Requirements:

- Average annual cost escalation of 4.3%
 - Including proposed staff re-org, beginning mid-FY18
 - 100% spending execution of budget/projections

Capital Expense Requirements:

- Average annual capital spending of \$5.2M
 - Including 3.0% annual cost inflation (per ENR-CCI)
 - 88% execution through FY25, and 75% thereafter

Key Data & Assumptions: Financial Policies

Working Capital Reserve Target:

- 25% of annual operating expense budget/projections
- Ranges from approximately \$2.3M in FY18 to \$3.6M by FY28

Debt Service Coverage Requirements:

- Must generate net revenue that is at least:
 - 1.10 times greater than annual debt service, OR
 - 1.05 times greater than annual debt service, if net revenue plus impact fee revenue is at least 1.20 times greater than annual debt service
- Minimum target set to 1.50 times debt service on net revenue only, general accounting standards **best practice is above 2.0** for emergency contingencies, etc.
 - Est. FY18 coverage meets best practice standards and emergency contingencies at 3.56 times debt service on net revenue only

Results: Adopted FY19; Nothing thereafter

Adopted FY19: 6.75%

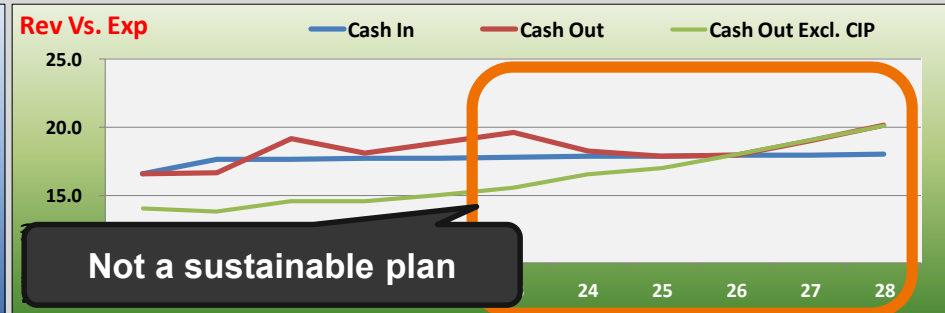
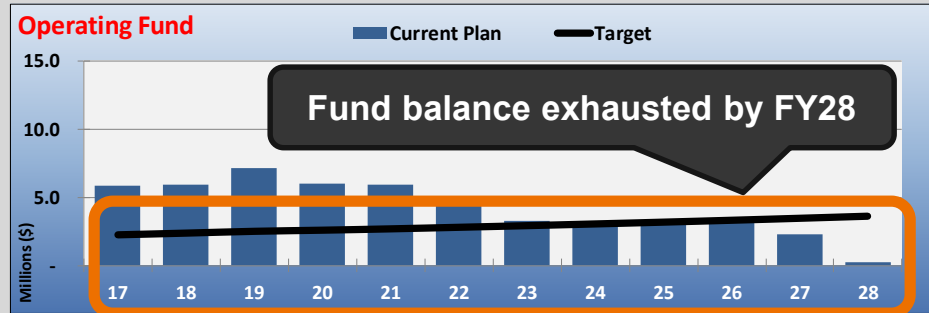
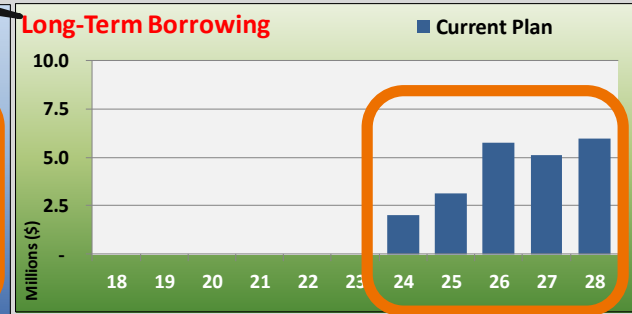
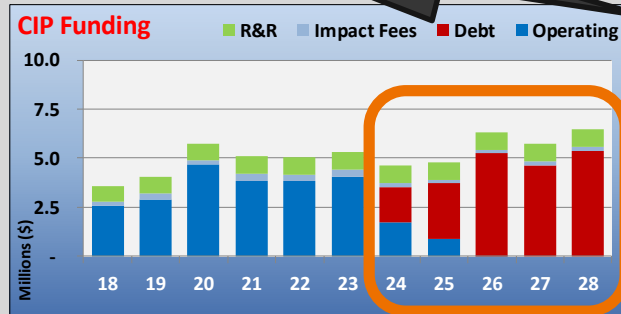
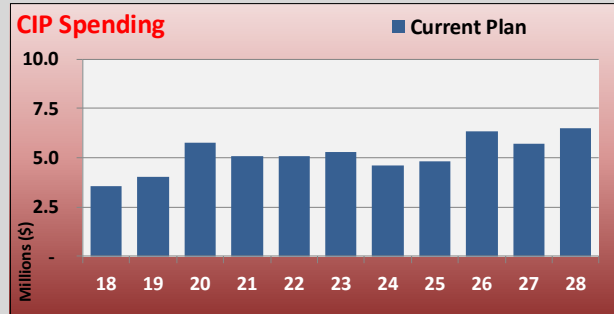
Status Quo: No future adjustment

FINANCIAL ANALYSIS AND MANAGEMENT SYSTEM

		FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	Cumulative Change	
Override ▶			6.75%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	FY 2023	FY 2028
Water Rate Increases	6.75%	6.75%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	6.76%	6.76%
Override ▶			6.75%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%		
Sewer Rate Increases	6.75%	6.75%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	6.79%	6.79%
Rate Covenant		3.56	3.84	3.71	3.54	3.34	3.12	2.74	2.27	1.76	1.35	1.02	PS FY19 ▶	100%
CIP Execution % ▶		88%	88%	88%	88%	88%	88%	88%	88%	75%		75%	OM FY19 ▶	100%
Operating Reserve % ▶		25%	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%		
Water	\$53.07	\$53.07	\$52.17	\$52.17	\$52.17	\$52.17	\$52.17	\$52.17	\$52.17	\$52.17	\$52.17	\$52.17		
Sewer	\$52.17	\$52.17	\$52.17	\$52.17	\$52.17	\$52.17	\$52.17	\$52.17	\$52.17	\$52.17	\$52.17	\$52.17		
MONTHLY BILL @ 6500 Gal.		\$105.24	112.37	112.37	112.37	112.37	112.37	112.37	112.37	112.37	112.37	112.37	SPL0ST	0%

Borrowing required to fund capital

Declining debt service coverage; in violation of minimum requirement



Fund balance exhausted by FY28

Not a sustainable plan

Results: Reduced FY19; Indexing thereafter

Reduced FY19: 5.00%

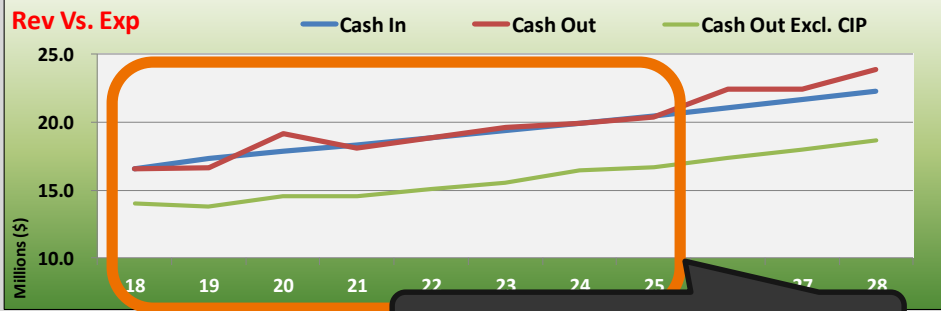
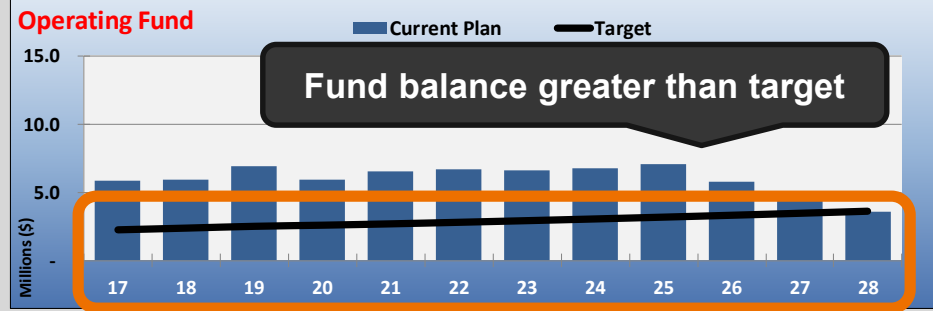
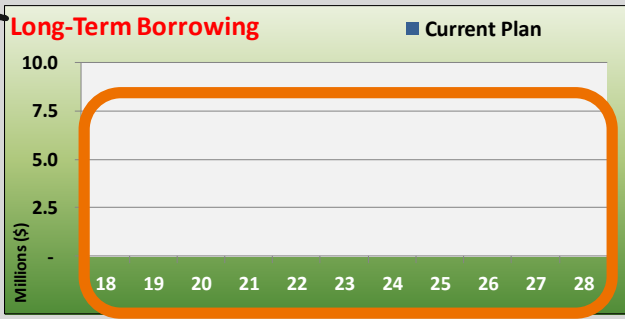
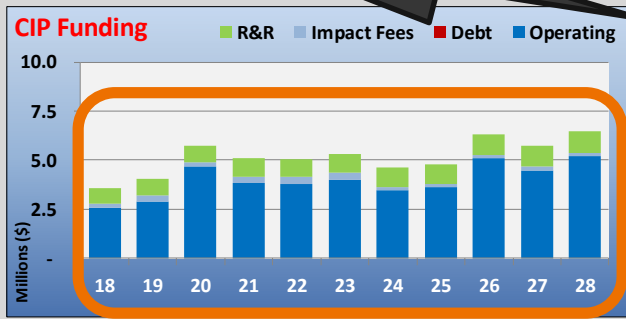
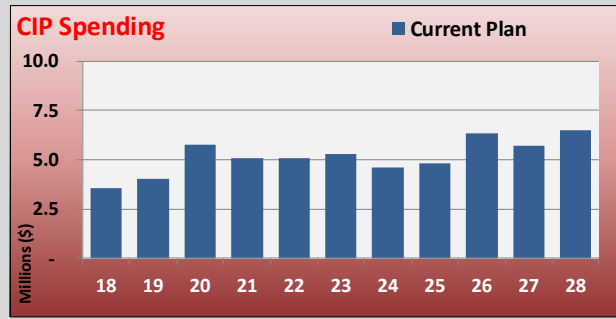
Future Inflationary Adjustments: 2.9% / yr.

FINANCIAL ANALYSIS AND MANAGEMENT SYSTEM

		FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	Cumulative Change	
													FY 2023	FY 2028
Water Rate Increases		6.75%	5.00%	2.90%	2.90%	2.90%	2.90%	2.90%	2.90%	2.90%	2.90%	2.90%	17.62%	35.71%
Sewer Rate Increases		6.75%	5.00%	2.90%	2.90%	2.90%	2.90%	2.90%	2.90%	2.90%	2.90%	2.90%	17.69%	35.69%
Rate Covenant		3.56	3.71	3.80	3.86	3.89	3.92	3.93	3.95	3.95	3.96	3.95	PS FY19 ▶	100%
CIP Execution % ▶		88%	88%	88%	88%	88%	88%	88%	88%	75%		75%	OM FY19 ▶	100%
Operating Reserve % ▶		25%	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%		
Water	\$53.07	\$53.07	\$53.07	\$53.07	\$53.07	\$53.07	\$53.07	\$53.07	\$53.07	\$53.07	\$53.07	\$53.07		
Sewer	\$52.17	\$52.17	\$52.17	\$52.17	\$52.17	\$52.17	\$52.17	\$52.17	\$52.17	\$52.17	\$52.17	\$52.17		
MONTHLY BILL @ 6500 Gal.		\$105.24	110.50	113.66	116.94	120.34	123.74	127.14	131.09	134.87	138.78	142.81	SPL0ST	0%

No borrowing required to fund capital

Strong debt service coverage



Fund balance greater than target

Long-term sustainable plan

Comparison of Rate Adjustments for Others in our Area (Per research and inquiries)

- A review of future rate adjustments was performed to get a sense of potential area increases compared to our plan
 - ❖ 5 area utilities are considering future increases ranging between 4% and 11.5% per year
 - ❖ 4 other utilities are planning upcoming rate studies, with increases likely
- Our rates will remain comparable in future years by increasing at the inflationary level as proposed

Conclusions

- No future increases leaves insufficient funding
 - Borrowing and inadequate debt coverage targets
 - Operating fund balance exhausted by FY28
- Inflationary increases fund needs without debt
 - Reduce FY19 increase to 5.0%, then 2.9% thereafter
- The ***Budget Advisory Committee*** has reviewed and ***recommends the plan as proposed***

Recommendations

1. Prepare an ordinance to make specific changes to Chapter 20: Water and Sewer, including:
 - ❖ Increasing water & sewer rates for FY19 - FY28 per the plan
 - ❖ Applying increases to reclaimed water rates for same period
 - Currently \$0.95 per thousand gallons; not been revised in 25 years
 - Proposed rate plan would increase rate to \$1.29 by 10th year
 - ❖ Misc. administrative revisions (i.e. outdated references, general document maintenance, etc.)
 - ❖ Providing for an effective date immediately upon adoption
2. Hold public hearing for adoption of the ordinance
3. Perform periodic updates to financial management plan
 - ❖ Accounting for changes in costs, demands, regulations, etc...

Next Steps

- Advertise public hearing dates for proposed rate increases (through utility bills)
- Hold public hearing during Regular Sessions of:
 - ❖ May 8, 2018 (1st reading)
 - ❖ May 22, 2018 (2nd reading)
- Request approval of associated reorganizations, pending adoption May 22, 2018