

The Fort Pierce Utilities Authority



Fiscal Year 2008 Utility Rate Study

Prepared on February 21, 2008



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Utility, Rate, Financial and Management Consultants



Summary Results of the Fiscal Year 2007 Rate Study

- ❖ Ensure growth pays its way
 - ◆ Increased Capital Improvement Charges
 - ◆ Adopted New Accrued Guaranteed Revenue Charges
 - ◆ Adopted New Inactive Account Fees (Reservation Fees)

- ❖ Review revenue sufficiency
 - ◆ Based on Adopted 2007 Budget & Capital Improvement Plan
 - ◆ Inability to meet operating and transfer obligations
 - Adopted 6% electric rate increases (Jan. 07)
 - Adopted 7% and 5% water rate increases (Apr. / Sep. 07)
 - Adopted 6% and 4% wastewater rate increases (Apr. / Sep. 07)



Financial Condition as of September 30, 2007

- ❖ Reduction in Sales from 2006
 - ◆ Electric Sales (kWh) down 4%
 - ◆ Water Sales (kgal) down 8%
 - ◆ Wastewater Sales (kgal) down 8%
 - ◆ Natural Gas Sales (ccf) down 6%
 - ◆ Reflects slowing of new construction
 - ◆ Reflects conservation and price elasticity
- ❖ PCA charges less than current power costs
- ❖ Unrestricted Cash - \$10.5 million or 40 days O&M



Estimated City Distribution

- ❖ Amount available for City Distribution in Fiscal Year 2008 based on 2007 operating results
 - ◆ \$4,951,964 Calculated Distribution
 - ◆ \$4,985,920 Allowable Distribution
 - Annual maximum authorized based on the 40% limitation of annual net cash flows as defined in the Bond Resolution
 - ◆ Cash flow remaining of \$7.5 million is available for System annual capital expenditures that are projected to exceed \$10.0 million annually
 - The Authority has used debt proceeds from the Series 2007 FMPA Note which are projected to be fully depleted by the end of Fiscal Year 2008



Current Rate Study Objectives and Tasks

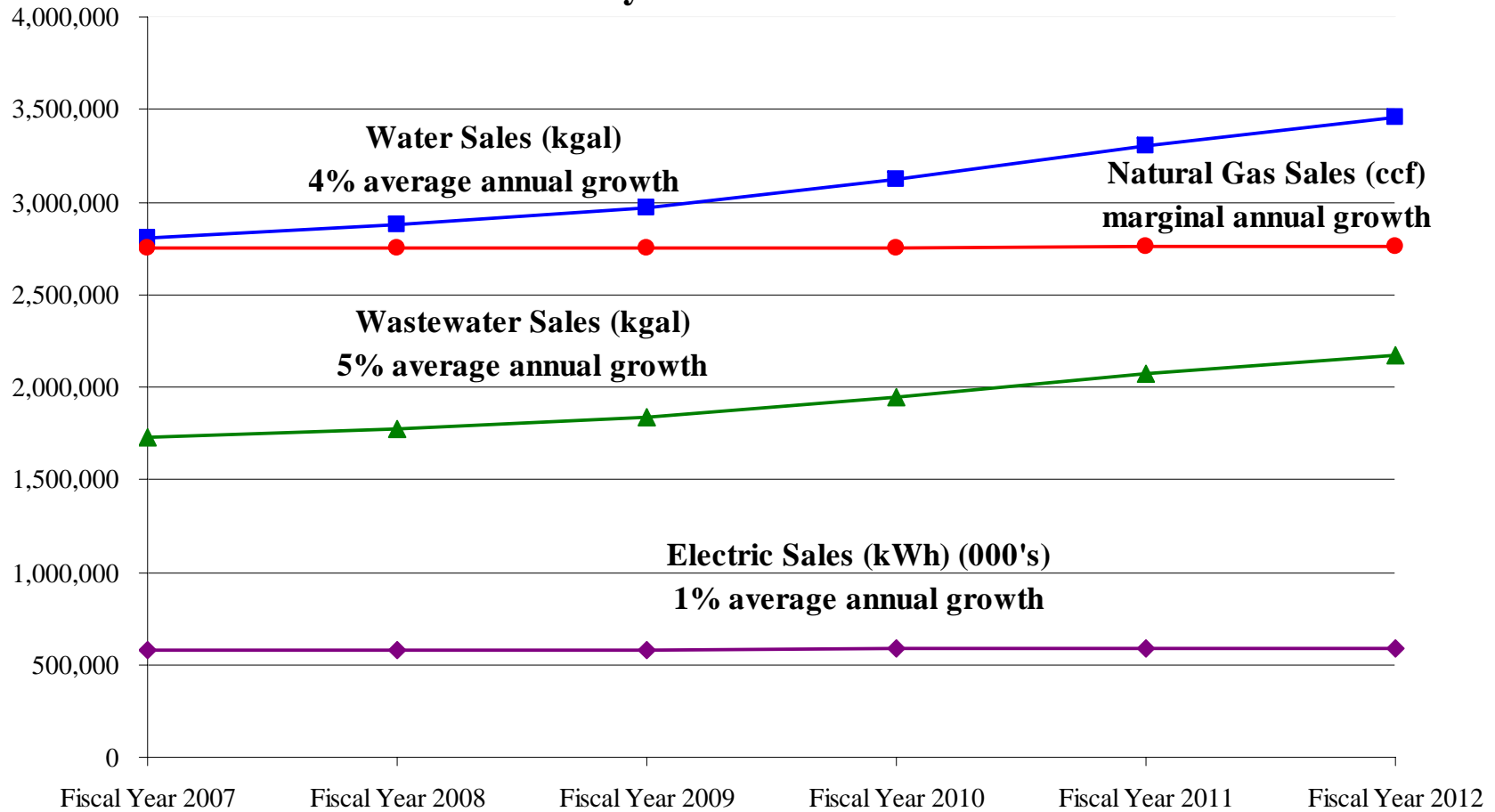
- ❖ Conduct Fiscal Year 2008 Rate Study Update
 - ◆ Determine Fiscal Year 2008 Revenue Sufficiency
 - ◆ Fund operating costs and capital replacements
 - ◆ Phase-in rate increases, as necessary

- ❖ Analyze Existing Operations
 - ◆ Customers, Sales and Revenues
 - ◆ Net Revenue Requirements (as defined in Bond Resolution)
 - Operating Expenses
 - Capital Improvement Requirements & Funding
 - Other Revenue Requirements (Distribution to City)
 - ◆ Adequacy of Existing Rates



Customers, Sales and Revenues

Authority's Annual Sales Trend





Net Revenue Requirements

- ❖ Based on cash expenditures requirements of the Fiscal Year 2008 Budget
 - ◆ Includes:
 - Operating Expenses
 - On-going Capital Expenditures
 - Renewals and Replacements
 - On-going Capital Equipment
 - Debt Service Payments
 - Distribution to the City
 - Less Other Revenue Sources
 - Miscellaneous Services Charges
 - Interest Income
 - ◆ Excludes:
 - Depreciation and Amortization Expenses



Reconciliation of Net Revenue Requirements (Test Year)

Description	Fiscal Year 2008	Description	Fiscal Year 2008
Net Revenue Requirements	\$107,569,195	Subtractions:	
Additions:		Debt Service	(9,861,000)
Use of Unrestricted Operating Reserves	0	Capital Funded from Rates	(9,311,243)
Other Revenues and Income	4,652,501	Supplemental Budget Additions	0
Depreciation Expense	13,468,000	Subtract Additions Made to Budget [**]	(231,436)
Interest - Bonds	5,834,135	Reconciled Operating Expenses	\$117,829,061
Capitalized Interest	(352,000)	Adopted Budget	\$117,829,061
Amortization - Bond Discount	(433,912)	Variance, if any	\$0
MOEC Expenses	411,140		
City, Capital or Un-allocable Expenses	1,993,733	[*] Amounts includes the following reductions in expenses:	
Add back reductions made to budgeted expenses [*]	4,091,697	Purchase Power Costs	\$3,770,020
		Purchased Natural Gas Costs	180,628
		Gross Receipts Tax Payments	141,049
		Total reductions made to the Adopted Budget	\$4,091,697

[**] Increase to City Distribution Recognized.



Projected Wholesale Energy Costs

- ❖ Purchased Power Costs
 - ◆ Based on estimated energy sales and a schedule of rates provided by FMPA through Fiscal Year 2009
 - ◆ PCA will increase to \$0.04200 per kWh on Apr. 1
 - ◆ PCA will decrease to \$0.03800 per kWh on Oct. 1
 - ◆ FMPA may pass-through increased fuel costs monthly
 - ◆ Proposed PCA subject to incremental changes by the Authority, as necessary

- ❖ Purchased Gas Costs
 - ◆ Based on estimated gas sales and FGU's current schedule of rates
 - ◆ No increase in rates forecasted during the study period



Other Operating Expenses

- ❖ Based on the Adopted Fiscal Year 2008 Budget
 - ◆ Increased amounts beyond Fiscal Year 2008:
 - Salaries & Other Personnel Services – 5.0% per year
 - Health & Worker's Comp Insurance – 10.0% per year
 - Property & Liability Insurance – 5.0% per year
 - Repair & Maintenance – 4.5% per year
 - General Inflation – 3.0% per year
 - Commodities such as chemicals for treatment increased based on growth in demand plus inflation



Other Operating Expenses

- ❖ No new employees above current levels
- ❖ Allows for a contingency of 1% of total operating expenses based on existing financial planning policies
- ❖ Amounts allocated among electric, water, wastewater and natural gas services



Capital Improvement Requirements & Funding

- ❖ \$172.3 million for Capital Improvements, Replacements, Extensions (Fiscal Year 2008 to 2012)
 - ◆ Includes Hartman Substation & Mainland WRF
 - ◆ Does not include decommissioning King Plant or removing existing WRF from South Hutchinson Island
 - ◆ Sources of Project Funding
 - Annual Revenues - \$58.0 million
 - Developer Contributions & CICs (Impact Fees) - \$30.7 million
 - MSBU - \$3.2 million
 - FPRA - \$5.5 million
 - FMPA - \$1.4 million
 - FEMA - \$0.9 million
 - Grants - \$3.8 million
 - 2007 Note Proceeds - \$8.3 million
 - New Debt - \$60.5 million



Annual Debt Service Payments

- ❖ Existing Debt
 - ◆ Series 1991, 1999, 2002 & 2003 Bonds
 - ◆ Series 2004, 2006 and 2007 FMFA Notes
 - ◆ Annual Average Payments - \$9.8 million

- ❖ Proposed Debt to fund Capital Plan
 - ◆ Junior Lien Bank Note
 - \$12.8 million
 - Issuance after April 1, 2008
 - 15 years at 5.5%
 - \$1.3 million average payment
 - ◆ Senior Lien Bonds – Series 2010
 - \$56.6 million
 - 18 months capitalized interest
 - Issuance after October 1, 2009
 - 30 years at 5.75%
 - \$4.1 million average payment



Other Revenue Requirements

- ❖ Capital Outlay and Renewals & Replacements to fund Capital Plan - \$11.6 million per year on average

- ❖ Distribution to the City of Fort Pierce
 - ◆ 6% of Gross Revenues
 - ◆ 100% transferable beginning in Fiscal Year 2010 based on adopting all proposed annual rate increases
 - Otherwise, transfer remains limited to 40% of cash flow



Less Other Revenue Sources

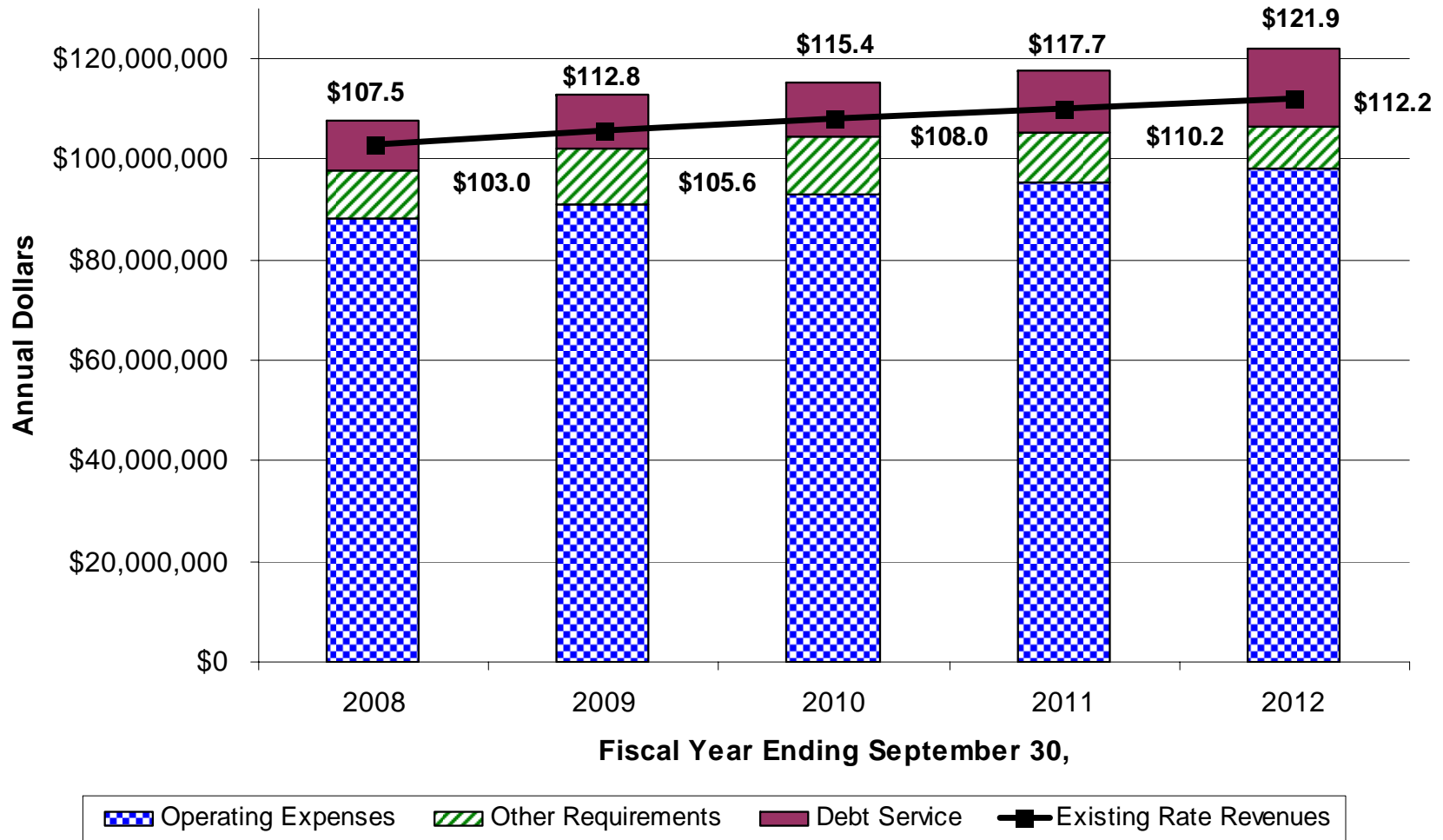
- ❖ Miscellaneous Charge Revenue
 - ◆ Accrue Guaranteed Revenue Charges
 - ◆ Guaranteed Revenue Charges
 - ◆ Inactive Accounts Fees
 - ◆ Reconnection Fees
 - ◆ Late Payment Fees
 - ◆ Meter Re-reads

- ❖ Investment Income

- ❖ Management Fees from FMPA
 - ◆ Estimated direct reimbursement for labor and other operating costs to run the FMPA generation plant



Adequacy of Existing Rates





Cost Recovery Plan



Study Goals

- ❖ Goals identified by Authority Management
 - ◆ Adopt rates to target a minimum unrestricted cash reserves at 60 days of O&M over time
 - ◆ Phase-in rate increases to the extent possible:
 - Delay of capital projects and system replacements
 - Use of existing unrestricted cash reserves in the short-term
 - Minimum allowable unrestricted cash of 30 days O&M or approximately \$8.0 million
 - Recover working capital as additional increases become effective



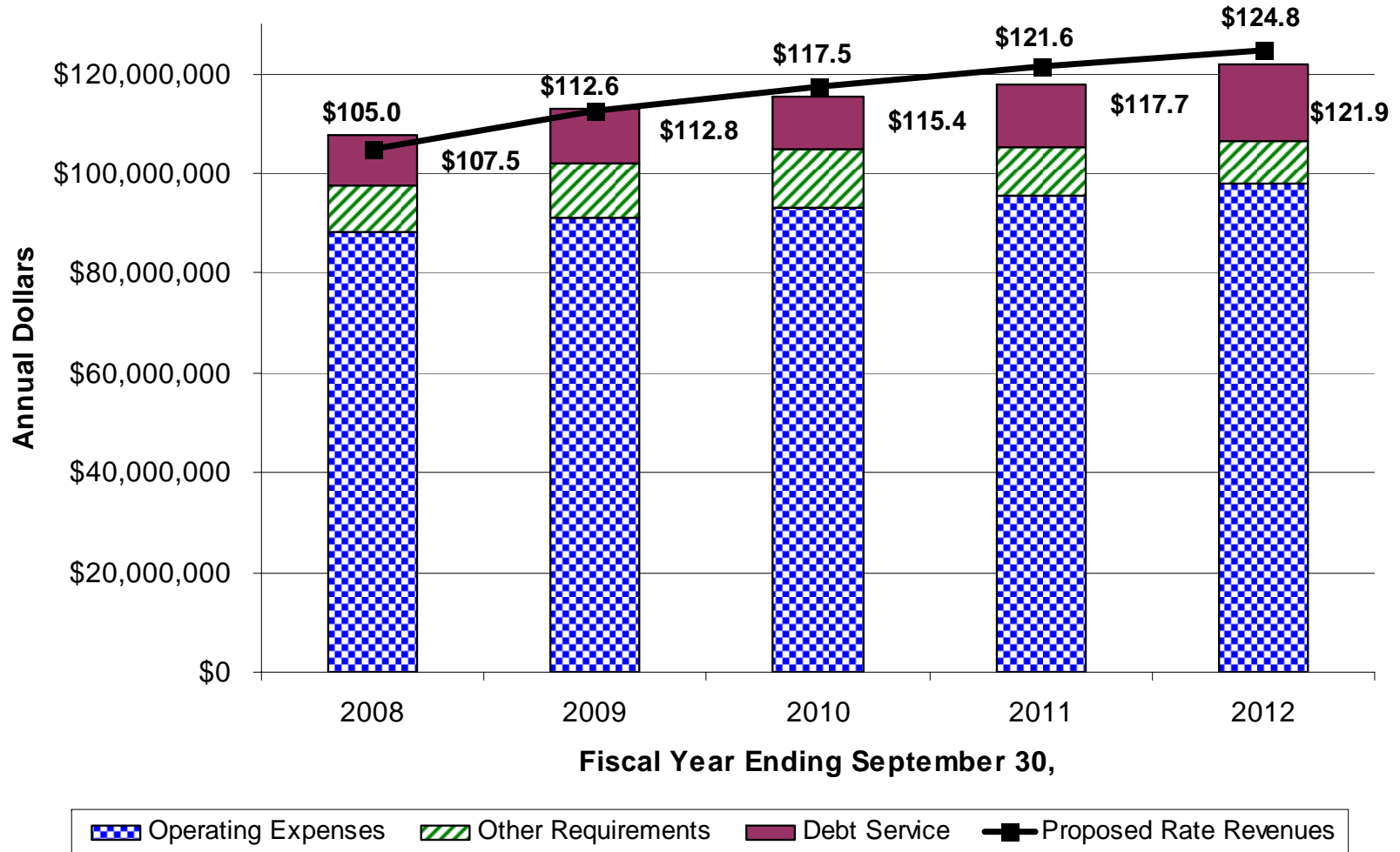
Cost Recovery Strategy

Description	Fiscal Year Ending September 30, [*]				
	2008	2009	2010	2011	2012
Required Annual Increases					
Electric System	3.0%	3.0%	1.0%	1.0%	0.0%
Water System	3.0%	2.0%	2.0%	2.0%	2.0%
Wastewater System	9.0%	6.0%	3.0%	2.0%	2.0%
Natural Gas System	9.0%	9.0%	5.0%	2.0%	2.0%
System-wide	3.9%	3.5%	1.5%	1.3%	0.6%
Effective Date	Apr. 08	Jan. 09	Jan. 10	Jan. 11	Jan. 12
Combined Surplus / (Deficiency)	(\$2,504,610)	(\$231,381)	\$2,019,930	\$3,900,956	\$2,819,283
Percent of Revenues	(2.38%)	(0.21%)	1.72%	3.21%	2.26%
Unrestricted Cash Balances	\$8,016,115	\$7,778,562	\$9,773,084	\$13,628,370	\$16,380,629
Days of O&M	33	31	38	52	61
Transfer Earned Prior Year	\$4,951,964	\$5,234,476	\$5,742,390	\$6,035,711	\$6,295,237
Authorized Transfer (40% Max)	4,985,920	4,703,439	5,742,390	6,035,711	6,295,237
Amount of Transfer Not Allowed	\$0	\$531,037	\$0	\$0	\$0

[*] Based on the adoption of all rate increases through Fiscal Year 2012.



Adequacy of Proposed Rates





Debt Service Coverage at Proposed Rates

<u>Fiscal Year</u>	<u>Total Debt Coverage</u>	<u>Minimum Coverage</u>
2008	2.46	1.25
2009	3.18	1.25
2010	3.58	1.25
2011	3.19	1.25
2012	2.57	1.25

[*] Debt Service Coverage based on existing and proposed debt service payments as outlined in this study and the adoption of proposed annual rate increases.



Financial Impacts of Delaying Rate Increases

Description	Effective Date - Proposed Fiscal Year 2008 Increases ^[*]			
	Apr. 08	May. 08	Jun. 08	Jul. 08
Required Annual Increases				
Electric System	3.0%	3.0%	3.0%	3.0%
Water System	3.0%	3.0%	3.0%	3.0%
Wastewater System	9.0%	9.0%	9.0%	9.0%
Natural Gas System	9.0%	9.0%	9.0%	9.0%
System-wide	3.9%	3.9%	3.9%	3.9%
Combined Surplus / (Deficiency)	(\$2,504,610)	(\$2,838,838)	(\$3,173,066)	(\$3,507,298)
Percent of Revenues	(2.38%)	(2.71%)	(3.04%)	(3.37%)
Unrestricted Cash Balances	\$8,016,115	\$7,681,888	\$7,347,659	\$7,013,428
Days of O&M	33	32	30	29
2009 Transfer Earned in Fiscal Year 2008				
Transfer Earned Prior Year	\$5,234,476	\$5,214,422	\$5,194,369	\$5,174,315
Authorized Transfer (40% Max)	4,703,439	4,569,748	4,436,057	4,302,364
Amount of Transfer Not Allowed	\$531,037	\$644,674	\$758,312	\$871,951
Percent Not Allowed	10.1%	12.4%	14.6%	16.9%

[*] If the Fiscal Year 2008 increases are adopted beyond April 2008, subsequent rate increases will be higher to achieve a similar financial performance outlined in the Cost Recovery Plan.



Rate Study Alternative

Adopt Rates to Support 100% of City Distribution



Alternative Strategy

Description	Fiscal Year Ending September 30, [*]				
	2008	2009	2010	2011	2012
Required Annual Increases					
Electric System	6.0%	1.0%	1.0%	0.0%	0.0%
Water System	3.0%	2.0%	2.0%	2.0%	2.0%
Wastewater System	15.0%	2.0%	2.0%	2.0%	2.0%
Natural Gas System	15.0%	5.0%	5.0%	2.0%	2.0%
System-wide	6.9%	1.4%	1.4%	0.6%	0.6%
Effective Date	Apr. 08	Jan. 09	Jan. 10	Jan. 11	Jan. 12
Combined Surplus / (Deficiency)	(\$915,276)	\$752,634	\$2,926,065	\$4,205,225	\$2,963,931
Percent of Revenues	(0.86%)	0.66%	2.47%	3.45%	2.37%
Unrestricted Cash Balances	\$9,605,450	\$10,351,912	\$13,252,569	\$17,412,124	\$20,309,032
Days of O&M	40	42	52	67	76
Transfer Earned Prior Year	\$4,951,964	\$5,329,836	\$5,839,015	\$6,095,877	\$6,317,104
Authorized Transfer (40% Max)	4,951,964	5,329,836	5,839,015	6,095,877	6,317,104
Amount of Transfer Not Allowed	\$0	\$0	\$0	\$0	\$0

[*] Based on the adoption of all rate increases through Fiscal Year 2012.



Conclusions & Recommendations

- ❖ The Authority's existing rates are not sufficient to meet the adopted revenue requirements
- ❖ The Board should consider adopting the proposed cost recovery plan which provides for the following rate increases effective April 1, 2008:
 - ◆ Electric System – 3%
 - ◆ Water System – 3%
 - ◆ Wastewater System – 9%
 - ◆ Natural Gas System – 9%
- ❖ The Authority should continue to review its rates annually



Existing and Proposed Monthly Bill Comparisons Effective April 1, 2008



Existing and Proposed Electric Bill Comparison

Estimated Existing and Proposed Electric Rates – 1,000 kWh Monthly Bill

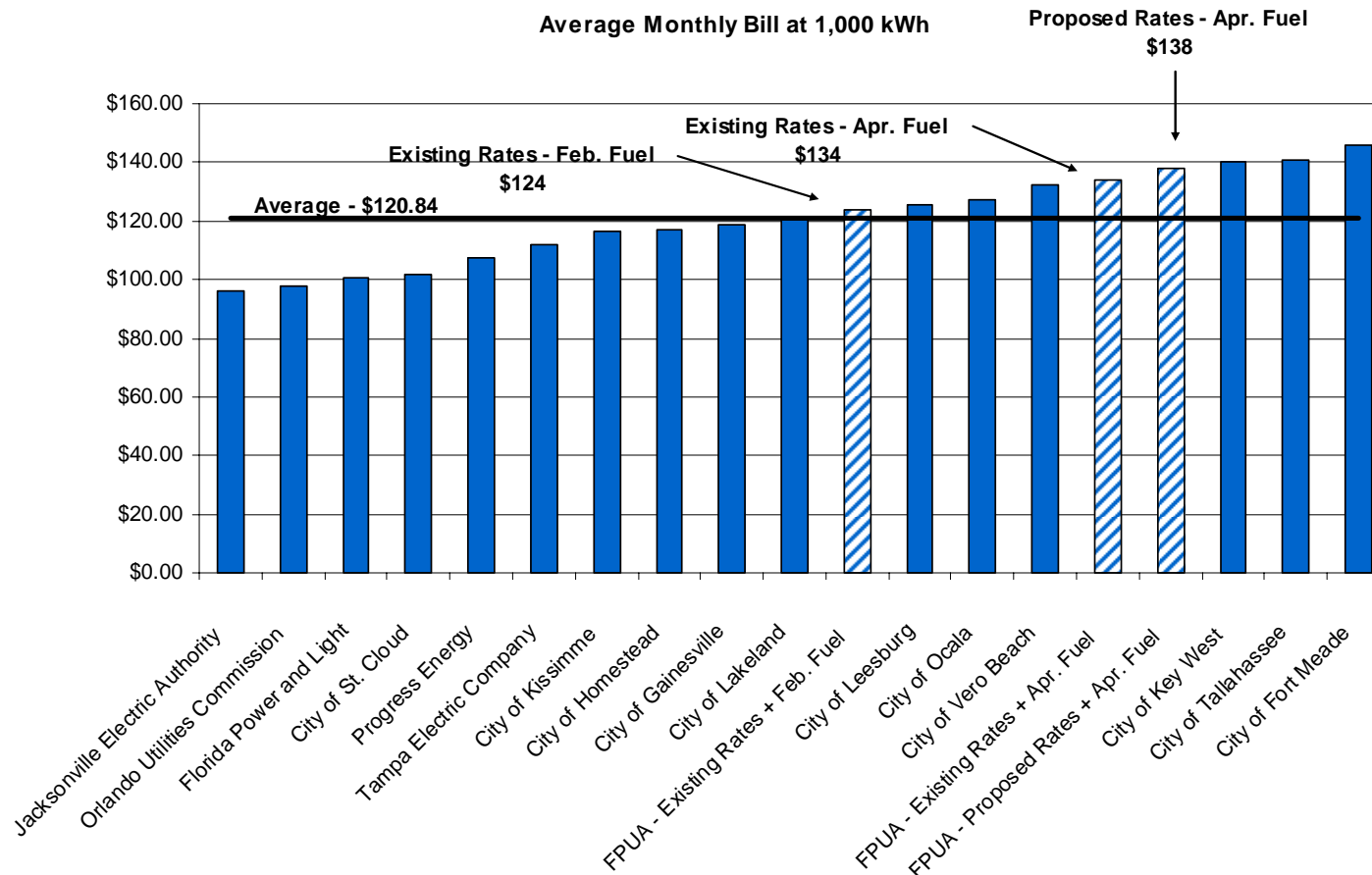
	<u>Existing (Feb. 2008)</u>	<u>PCA Increase (Apr. 2008)</u>	<u>Proposed (Apr. 2008)</u>
Electric System			
Cust Charges	\$5.77	\$5.77	\$6.01
Energy Charges			
	750kwh @ \$0.08373 250kwh @ \$0.09373 or \$86.23	750kwh @ \$0.08373 250kwh @ \$0.09373 or \$86.23	750kwh @ \$0.08722 250kwh @ \$0.09764 or \$89.83
Sub-total	\$92.00	\$92.00	\$95.84
PCA	1,000kwh @ \$0.032 or \$32.00 [*]	1,000kwh @ \$0.042 or \$42.00 [**]	1,000kwh @ \$0.042 or \$42.00 [**]
Sub-total	\$124.00	\$134.00	\$137.84
Rec. Tax	\$3.17	\$3.43	\$3.53
Total Bill	\$127.17	\$137.43	\$141.37
Increase		<u>\$10.26 (8%)</u>	<u>\$3.94 (3%)</u>

[*] Amount reflects the Power Cost Adjustment (PCA) as adopted by the Board to become effective February 1, 2008. The PCA will further increase to \$0.034 per kWh on March 1, 2008 as adopted by the Board.

[**] Based on rising purchased power costs forecasted through Fiscal Year 2009, Authority staff recommend raising the PCA to \$0.042 per kWh with bills rendered on or after April 1, 2008 and subsequently lowering the PCA to \$0.038 per kWh with bills rendered on or after October 1, 2008 based on projected rates from FMPA. Should FMPA's forecast change or actual operating results differ from such energy forecast, the proposed PCA's will be considered for additional adjustment by the Board.



Residential Electric Comparison



[*] Amounts reflect charges on or after December 1, 2007 and exclude all taxes and/or surcharges, if any.



Existing and Proposed Water & Wastewater Bill Comparison

Estimated Existing and Proposed Water and Wastewater Rates – 6,000 Gal. Monthly Bill

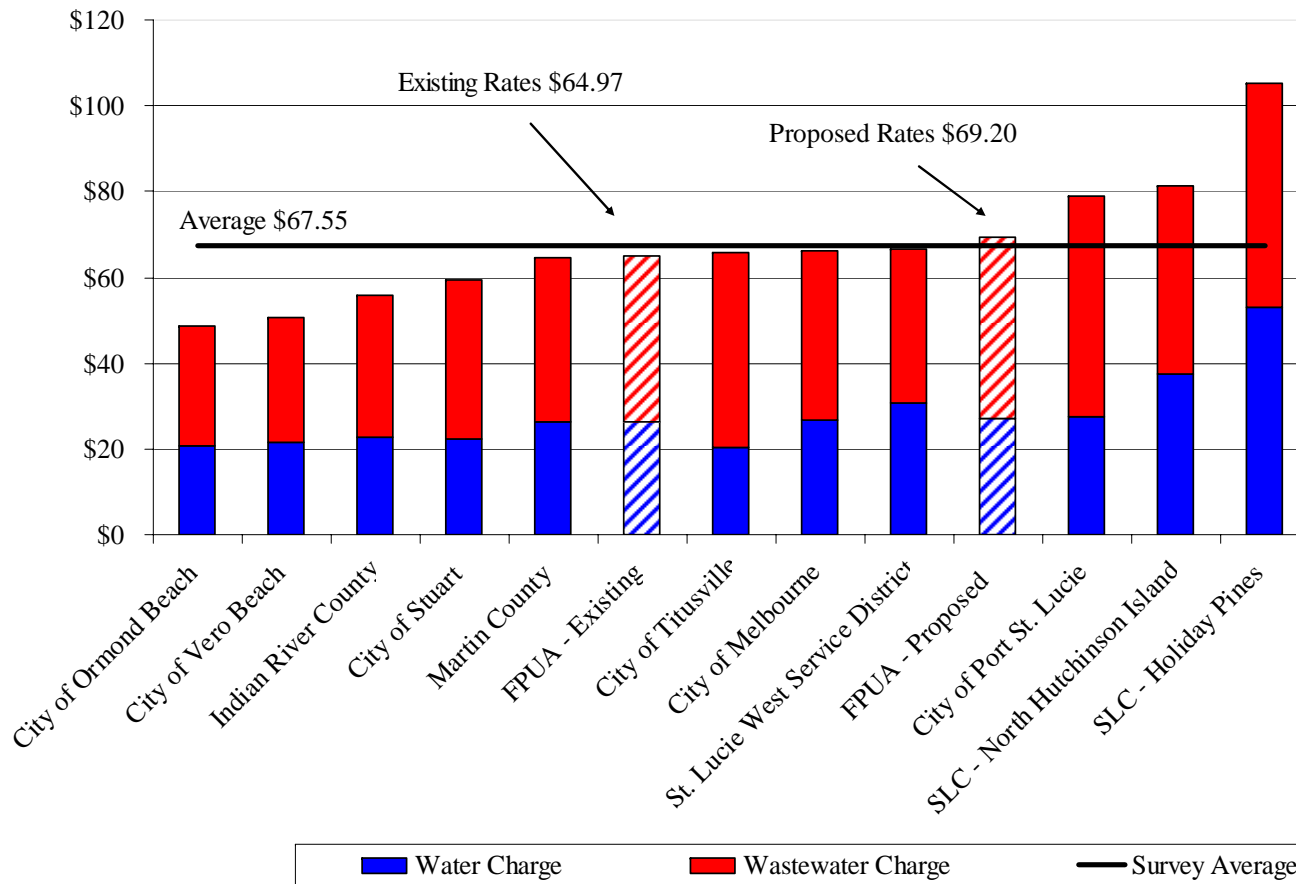
	<u>Existing (Sep. 2007)</u>	<u>Proposed (Apr. 2008)</u>
Water System		
Base [*]	\$18.45	\$19.00
Volumetric	3kgal @ \$2.67	3kgal @ \$2.75
Water Bill	\$26.46	\$27.25
Increase		<u>\$0.79 (3%)</u>
Sewer System		
Base	\$12.23	\$13.33
Volumetric	6kgal @ \$4.38	6kgal @ \$4.77
Sewer Bill	\$38.51	\$41.95
Increase		<u>\$3.44 (9%)</u>
Combined System		
Total Bill	\$64.97	\$69.20
Increase		<u>\$4.23 (7%)</u>

[*] Amount includes the first 3,000 gallons of consumption.



Residential Water and Wastewater Rate Comparison

Water and Wastewater Rate Comparison
6,000 Gallons Average Bill



[*] Amounts reflect charges on or after October 1, 2007 and exclude all taxes and/or surcharges, if any.



Existing and Proposed Natural Gas Bill Comparison

Estimated Existing and Proposed Natural Gas Rates – 13 CCF Monthly Bill

	<u>Existing (2008 PGA)</u>	<u>Proposed (2008 PGA)</u>
Gas System		
Base	\$10.00	\$11.17
Volumetric	13ccf @ \$1.0000	13ccf @ \$1.1165
Sub-total	\$23.00	\$14.51
PGA	13ccf @ \$0.5080 or \$6.60	13ccf @ \$0.5080 or \$6.60
Sub-total	\$29.60	\$32.28
Rec. Tax	\$0.76	\$0.83
Total Bill	\$30.36	\$33.11
Increase		<u>\$2.75 (9%)</u>