

June 11, 2019

CITY OF NORTH PORT, FLORIDA UTILITY **RATE** ANALYSIS



GovRates, Inc.

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Utility Overview

- **Utility Provides Essential Service on Continuous Basis**
 - Public Health and Safety – Primary Objective
 - Highly-Regulated (FDEP / SWFWMD / Florida Department of Health)
 - Permits Require Satisfactory Operating Performance
- **Enterprise Fund: Operations Primarily Funded Through Monthly User Rates**
- **City's Largest "Business"**
 - Over \$180 Million Original Cost of Installed Assets Under City Management



Major Cost Drivers Affecting Utility System

- **Operating Expenses Projected to Continue Increasing**
 - **Congressional Budget Office National CPI Projections: 2.3% to 2.6% Increase Per Year Through Forecast Period of Fiscal Year 2019 to 2029**
 - **Due to Regulatory Environment, Capital-Intensive Nature of Utility Operations, and Commodity Cost Increases (Electricity, Chemicals, Fuel, etc.), Utility Costs Typically Increase at Higher Rate Than General Inflation**
 - **Increases in Wholesale Rates from Peace River / Manasota Regional Water Supply Authority Which Supplies Portion of Utility's Water**
 - **Twelve (12) Additional Personnel Above Fiscal Year 2020 Budgeted Employees During Following Nine (9) Years (Fiscal Year 2021 to 2029)**
 - **Incremental Operating Expenses Associated with Developer-Contributed Treatment Facilities**





Major Cost Drivers Affecting Utility System (cont.)

- **Approximately \$161.1 Million in Capital Projects Recognized Through Fiscal Year 2029**
 - **\$65.8 Million for Water and Wastewater Treatment Facilities Being Contributed By Developers**
 - **Upgrades to Treatment and Transmission Utility Infrastructure to Continue Providing Reliable Water and Wastewater Service**
 - **Replacements or Rehabilitations of Utility Assets Reaching the End of Their Service Lives**
 - **Vehicles, Equipment, and Other Departmental Capital**
- **Over 40% of Capital Needs Projected to Be Funded Through Developer Contributions and Surtaxes**
 - **Remainder to Be Funded Primarily Through Capacity Fees, Rates, and Fund Balances**

Revenue Requirements

- **Projected Through Fiscal Year 2029**
- **Include the Following:**



- **Ongoing – Allows Assets to Meet Useful Service Lives**
- **Major – Extends Useful Service Lives of Assets**



Projected Need for Revenue Adjustments

➤ Recommendations for Next Three (3) Fiscal Years:

Summary of Recommended Water and Wastewater User Rate Revenue Adjustments

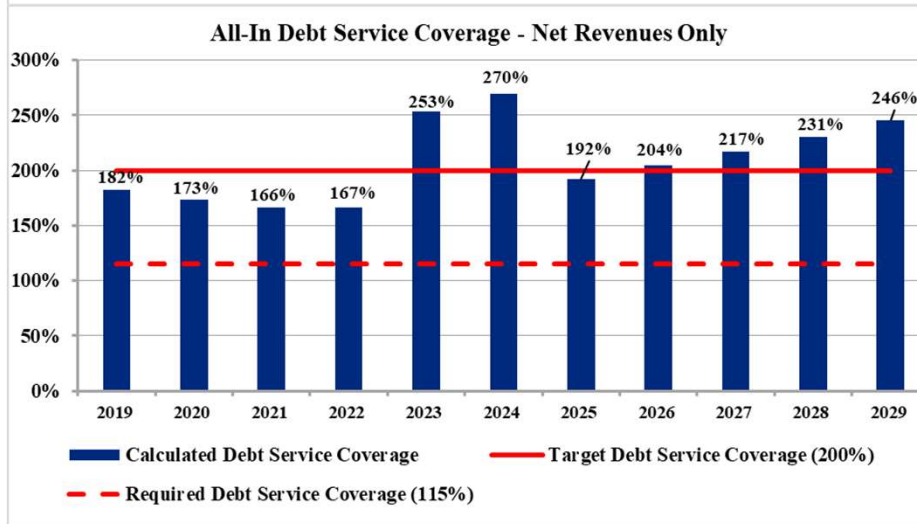
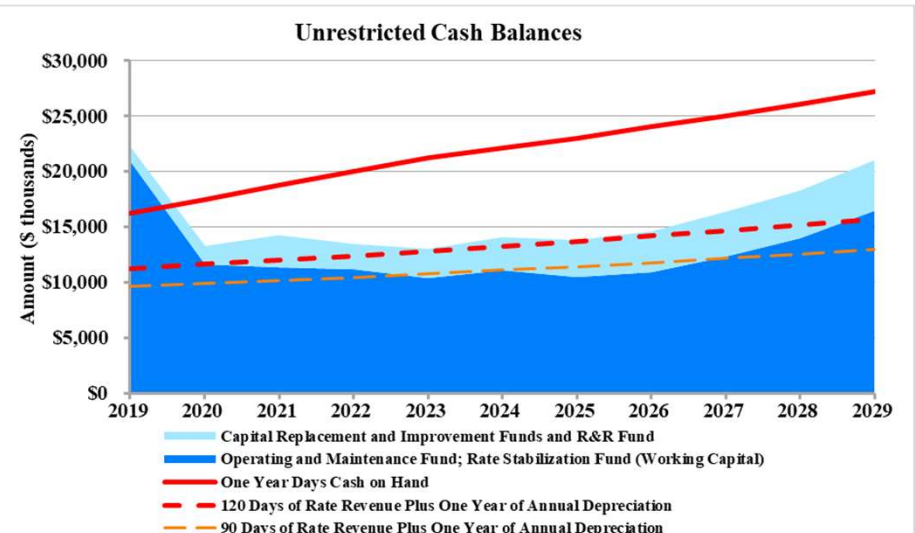
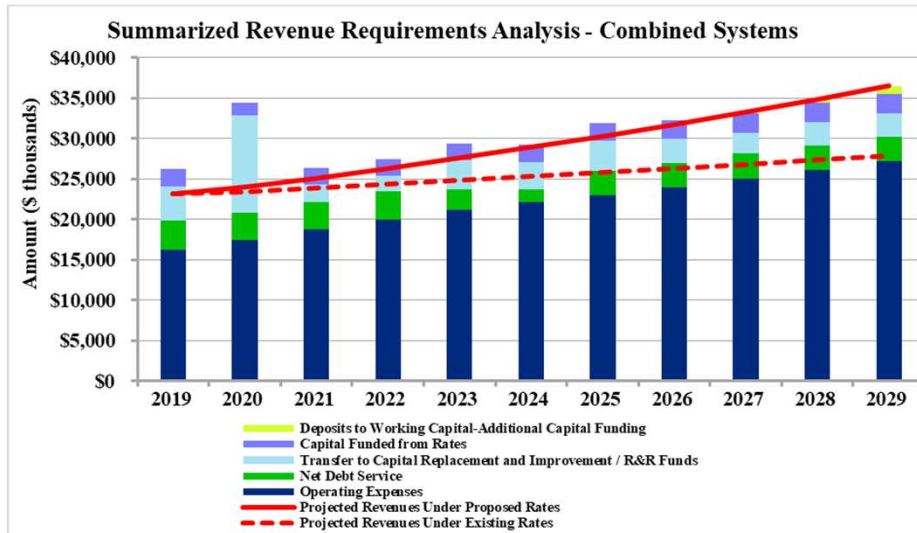
Fiscal Year	Effective Date	Water System Adjustment	Wastewater System Adjustment	Combined System Adjustment	Increase in Average SFR Customer Monthly Bill [*]	Total Cost Per Gallon of Water and Wastewater Service [*]
2020	October 1, 2019	4.0%	2.0%	3.0%	\$2.20	2.7¢
2021	October 1, 2020	4.0%	2.0%	3.0%	2.27	2.8¢
2022	October 1, 2021	4.0%	2.0%	3.0%	2.31	2.8¢

[*] Based on rates applied to single family residential ("SFR") customer with 3,000 gallons of monthly usage. For a customer with only water service, the monthly increase would be \$1.23 in Fiscal Year 2020, \$1.29 in Fiscal Year 2021, and \$1.32 in Fiscal Year 2022.

➤ Best Financial Management Practices: Smaller, Incremental Increases Over Time Help to Avoid Future “Rate Shock” and Higher “Catch Up” Rate Increases



Projected Financial Position



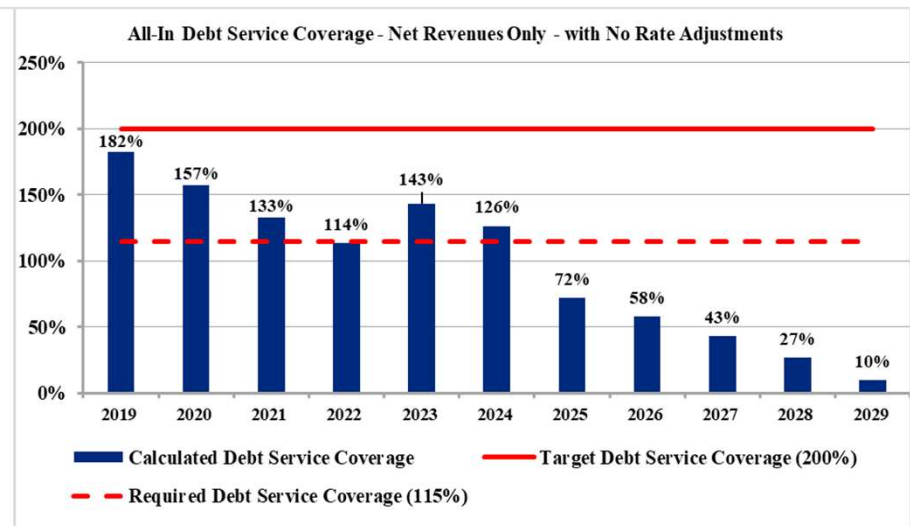
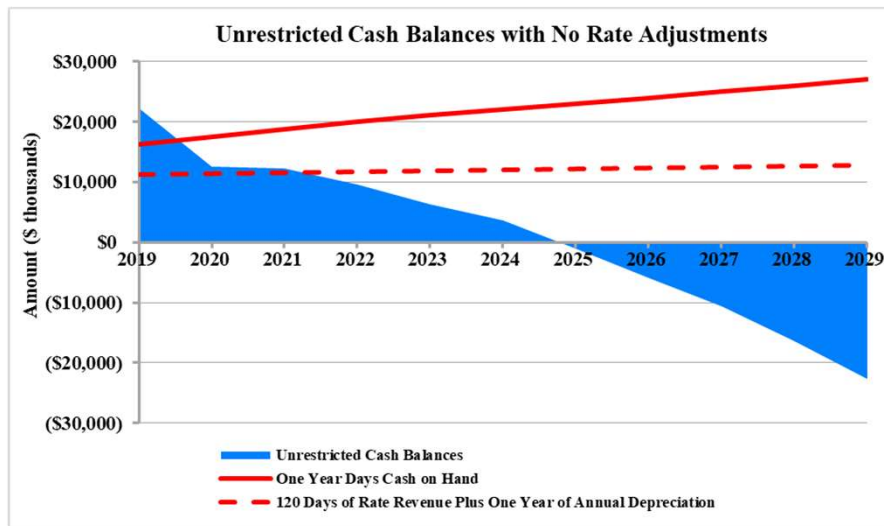
Financial Targets Recognized:

- **Working Capital: Minimum 120 Days of Rate Revenue**
- **All-In Debt Service Coverage: 200%**
 - Minimum 150% in Any Fiscal Year
 - 115% Required Per Rate Covenants Associated with Existing Debt



Financial Risks of Not Adjusting Rates at This Time

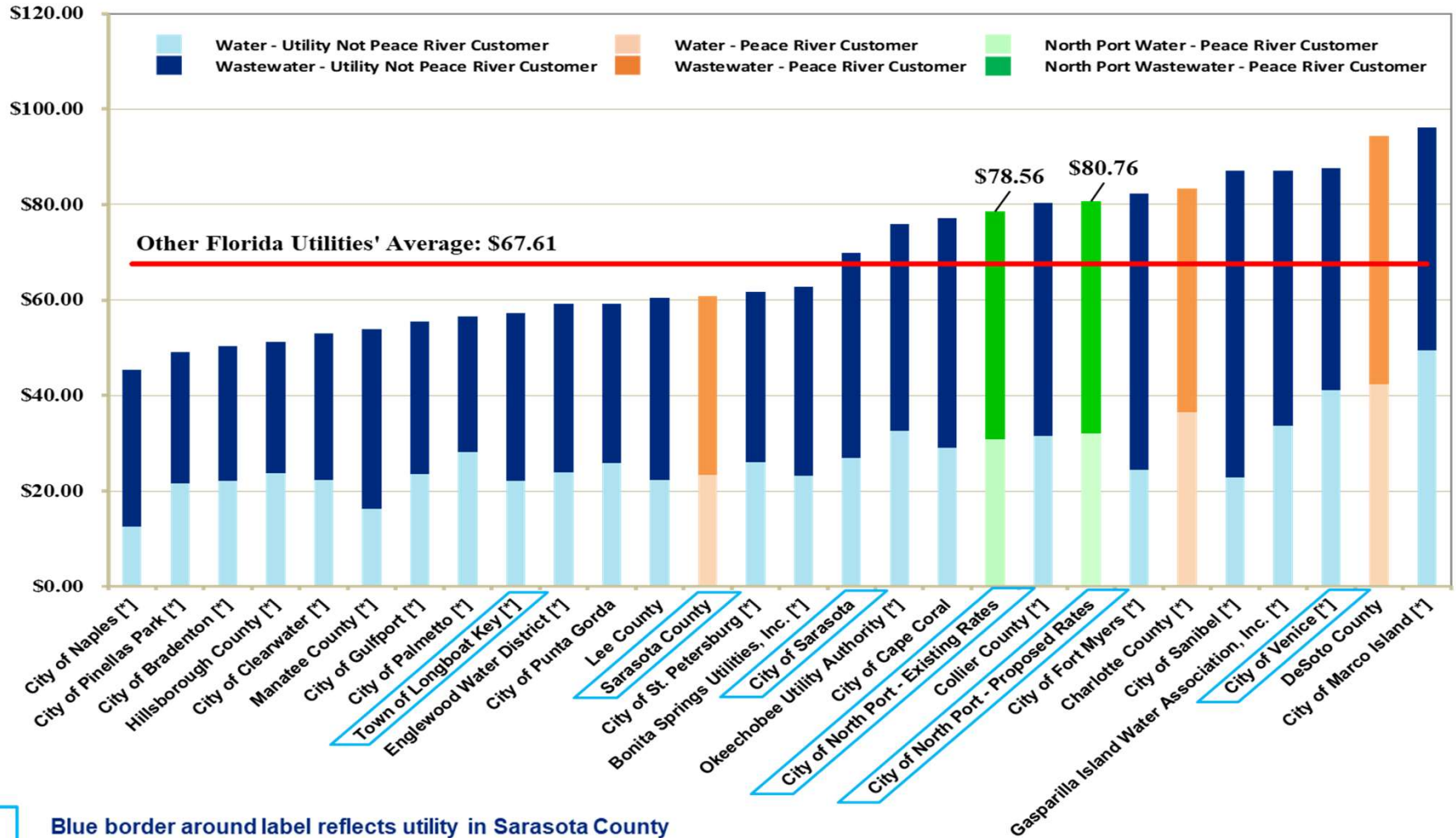
- **Inability to Fund All Revenue Requirements, Fund Capital Program, Meet Debt Service Coverage Requirements, and Meet Financial Targets**
 - Departmental Capital
- **User Rates May Be Even Higher in the Future**
 - Capital Needs for System Not Anticipated to Go Away, But May Be More Expensive to Address in the Future
 - Inflation and Costs of Construction Continue to Affect System Costs





Comparison of Monthly Charges

For Combined Water and Wastewater Service Monthly Usage of 3,000 Gallons
(Historical Average Usage of Single Family Residential Customer in System)



Blue border around label reflects utility in Sarasota County

Utility is currently involved in a rate study, is planning to conduct a rate study, or plans to implement a rate revision or price index / pass-through adjustment within the next twelve months following the comparison preparation date





Water and Wastewater Capacity Fees

➤ Calculated Based on:

- Cost of Installed Assets Available to Serve New Growth
- Multi-Year Capital Program
- Recommended Reduced Level of Service (LOS) Standards
 - Water LOS = 170 gpd per ERC
 - Wastewater LOS = 155 gpd per ERC

➤ Cost Per Unit of Capacity Is Higher, But Overall Calculated Fees Are Lower Due to Lower LOS Standards:

Existing and Proposed Water and Wastewater Capacity Fees Per ERC

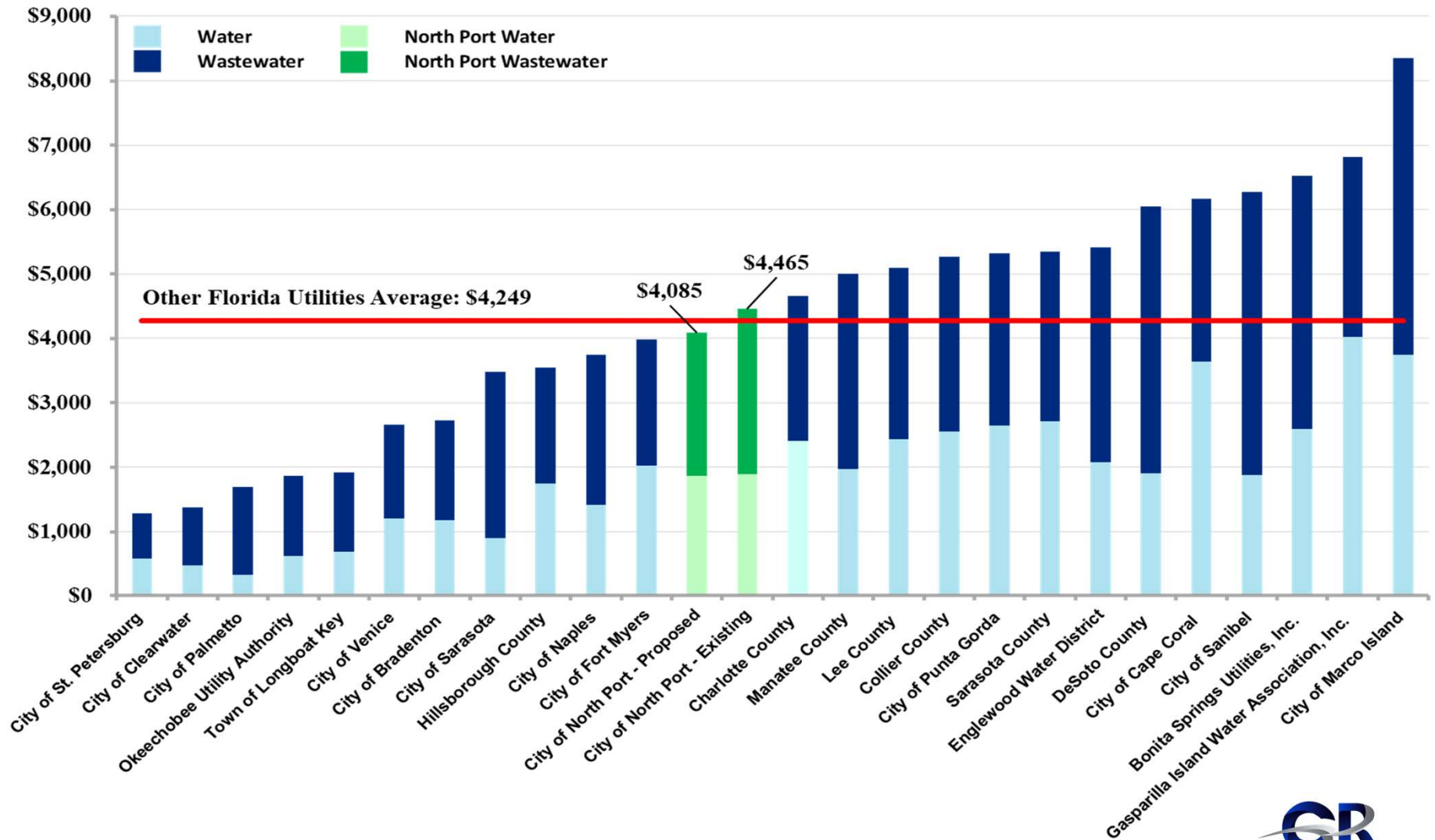
<u>System</u>	<u>Existing Fee</u>	Current Study	Difference from Existing	
		<u>Calculation</u>	<u>Amount</u>	<u>Percent</u>
Water	\$1,890	\$1,872	(\$18)	-1.0%
Wastewater	2,575	2,213	(362)	-14.1%
Total	<u>\$4,465</u>	<u>\$4,085</u>	<u>(\$380)</u>	<u>-8.5%</u>

ERC = Equivalent Residential Connection





Capacity (Impact) Fee Comparison



Other Charges

- **Considerations for Determining Proposed Other Charges:**
 - Current Utility Costs to Provide Service
 - Comparison with Similar Charges of Other Florida Utilities
 - City Policies
- **To the Extent Charges Do Not Recover Cost of Providing Services, Cost Difference Must Be Paid Through Monthly User Rates**
- **Significant Changes:**
 - New West Villages Bulk Reclaimed Water Rate of \$0.21 per 1,000 Gallons
 - Average Approach Instead of Separate Short and Long Fees for Meter Installations with Tap
 - Guaranteed Revenue Charges Proposed to Link to Monthly Base Charges
 - Bulk Water Rate Increased By 1.6%; Added 15% Surcharge for Customers Outside City (Unless Otherwise Set By Contract)

Requested Commission Action

- **Direct Staff to Bring Back to Commission a Resolution and Ordinance Incorporating Utility Rate Analysis Recommendations**
- **Recommendation to Adopt Proposed User Rates for Fiscal Years 2020 Through 2022**
 - **Help Ensure Full Cost Recovery and Address Capital Needs**
 - **Continue Current Practice of Annual Rate Indexing in Absence of Utility Rate Analysis Recommendation**
- **Recommendation to Adopt Proposed (Lower) Capacity Fees**
- **Recommendation to Adopt Proposed Other / Miscellaneous Charges**
- **Monitor Actual Vs. Projected Financial Results**
- **Re-evaluate User Rates / Financial Forecast in Two to Three Years**
 - **Changes in Economic Conditions, Customer Usage Trends, Regulatory Environment, Etc.**