

Water & Sewer Utility Fund Revenue Sufficiency Analysis

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City Council ~ Aug. 1, 2016



Financial Planning & Rate-Setting History

- **City's practice - Adopt multi-year rate plans for water, irrigation, sewer & reclaimed
 - **Current rate plan - 4.5% increases/year thru FY 2016****
- **City conducts annual or bi-annual revenue sufficiency studies for utility enterprise funds
 - **Interactive model & decision support process****

Summary of FY 2015 Study

- **Key issues:**
 - **Sustainable funding of capital needs**
 - **Maintaining adequate reserves**
 - **Strong debt coverage ratios**
- **Study identified 4.0% annual rate increases to meet system needs starting in FY 2017**

Overview of the Analytical Process

INPUTS

- ✓ Historical Financial Data
- ✓ Customer & Demand Forecast
- ✓ Capital & Operating Plans
- ✓ Policy Considerations
- ✓ Regulatory Requirements

*Interactive Modeling
Process with FAMS-XL®*



OUTPUTS

- Revenue & Operating Cost Projections
- Capital Funding Plan
- Reserves, Debt Coverage Ratios, KPIs
- Rate Adjustment Requirements
- Customer Impacts

**FINANCIAL
MASTER PLAN**

Key Financial Performance Objectives

- **Balanced Funding of Infrastructure**
 - **Target: 50/50 mix of debt vs. cash funding**
 - **Action: Requires increase in annual cash funding of CIP of \$1M/yr**
- **Maintaining Sufficient Operating Reserves**
 - **Target: 6 months of operating & maintenance expenses**
 - **Indicative of strong systems per rating agencies and industry organizations**

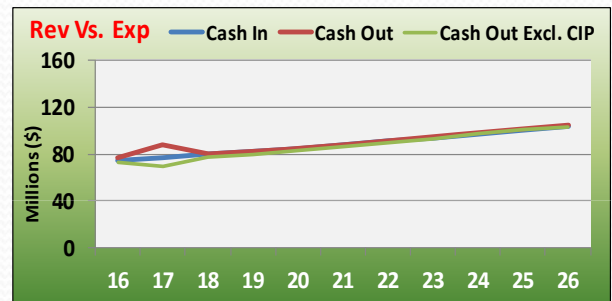
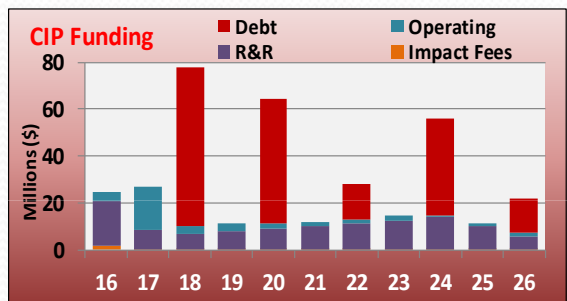
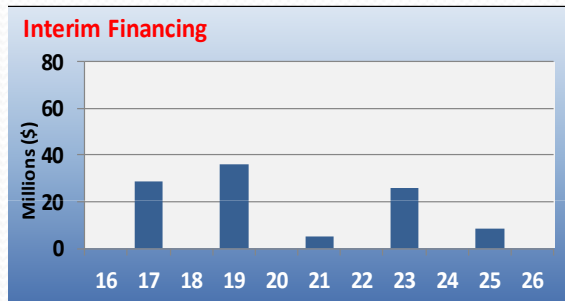
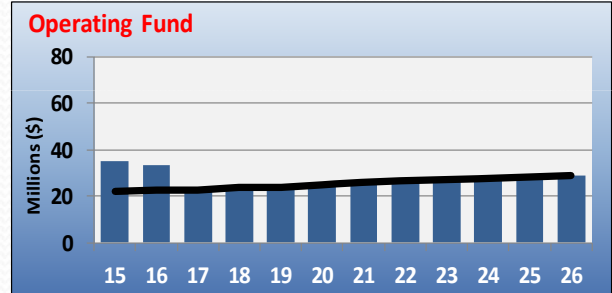
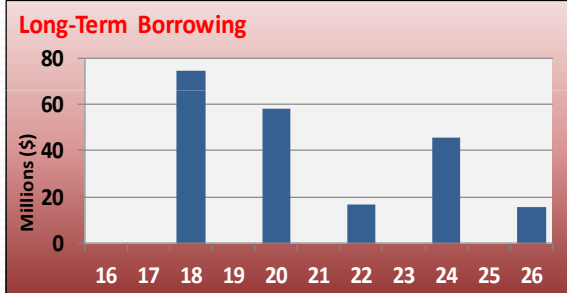
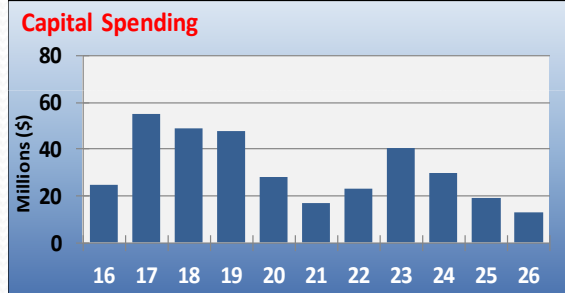
Key Performance Objectives Cont'd

- **Maintaining Sufficient Debt Service Coverage**
 - **What it is: Net income / annual principal & interest expenses**
 - **Goal: Net revenues 2 x greater than annual debt service (min. target of at least 1.5 x)**
 - **Indicative of financially strong utility per rating agencies' published criteria**

Snapshot of Financial Management Plan

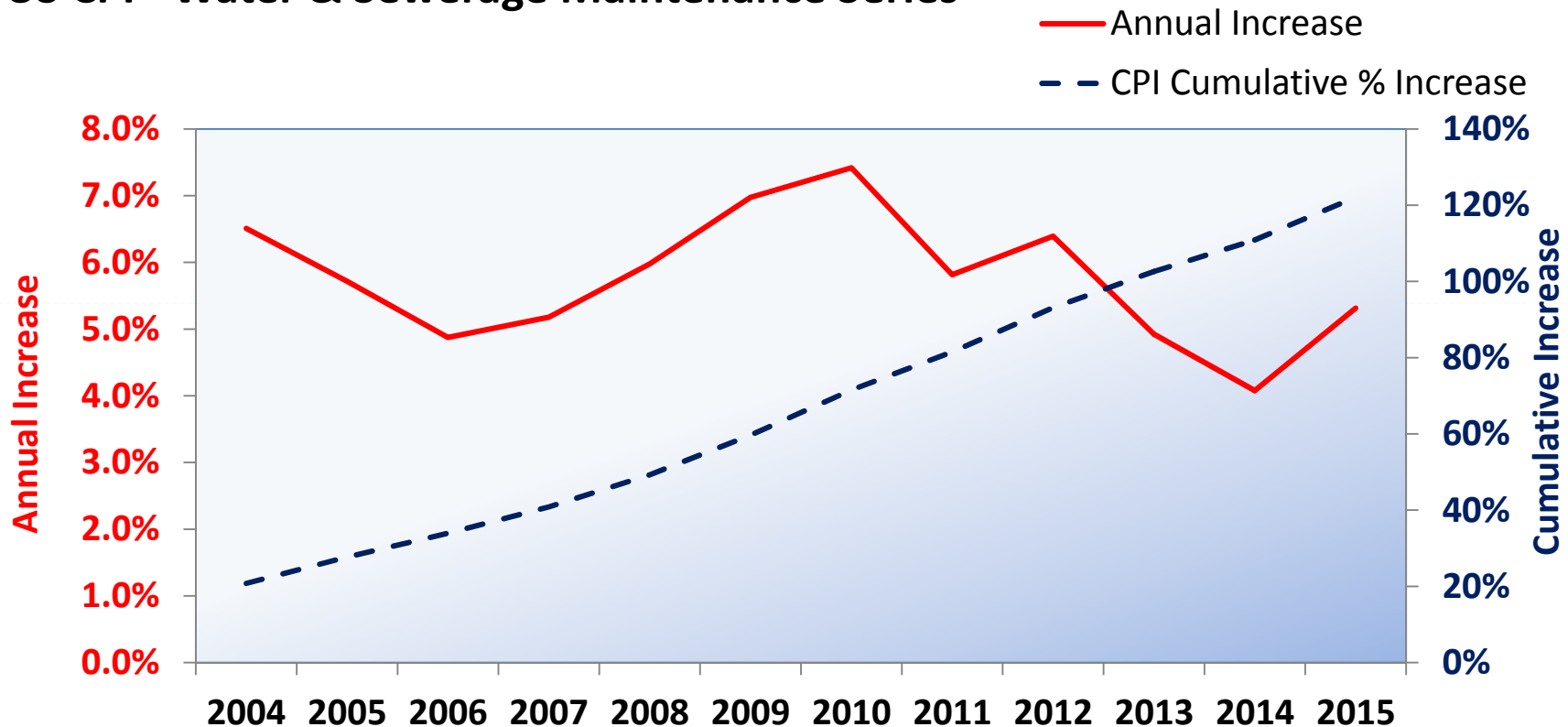
FINANCIAL ANALYSIS AND MANAGEMENT SYSTEM (FAMS) SUMMARY

SAVE	CALC	ROLL		FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	<u>Cumulative Change</u>	
															FY 2021	FY 2026
			Water Rate Increases	0.00%	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%	20.21%	44.56%
			Reclaimed Rate Increases	0.00%	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%	OMV FY17 ► PILOT	100.0%
			Sewer Rate Increases	0.00%	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%		5.5%
			Rate Covenant	2.19	2.31	1.87	1.88	1.98	1.95	1.96	2.02	1.91	1.95	1.98		
			CIP Execution % ►	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%		
			Operating Reserve Mo ►	6	6	6	6	6	6	6	6	6	6	6		
			Average Bill (4,000 gals.)	\$62.99	65.35	67.81	70.35	72.98	75.71	78.56	81.51	84.56	87.74	91.04		



Comparison to National Trends

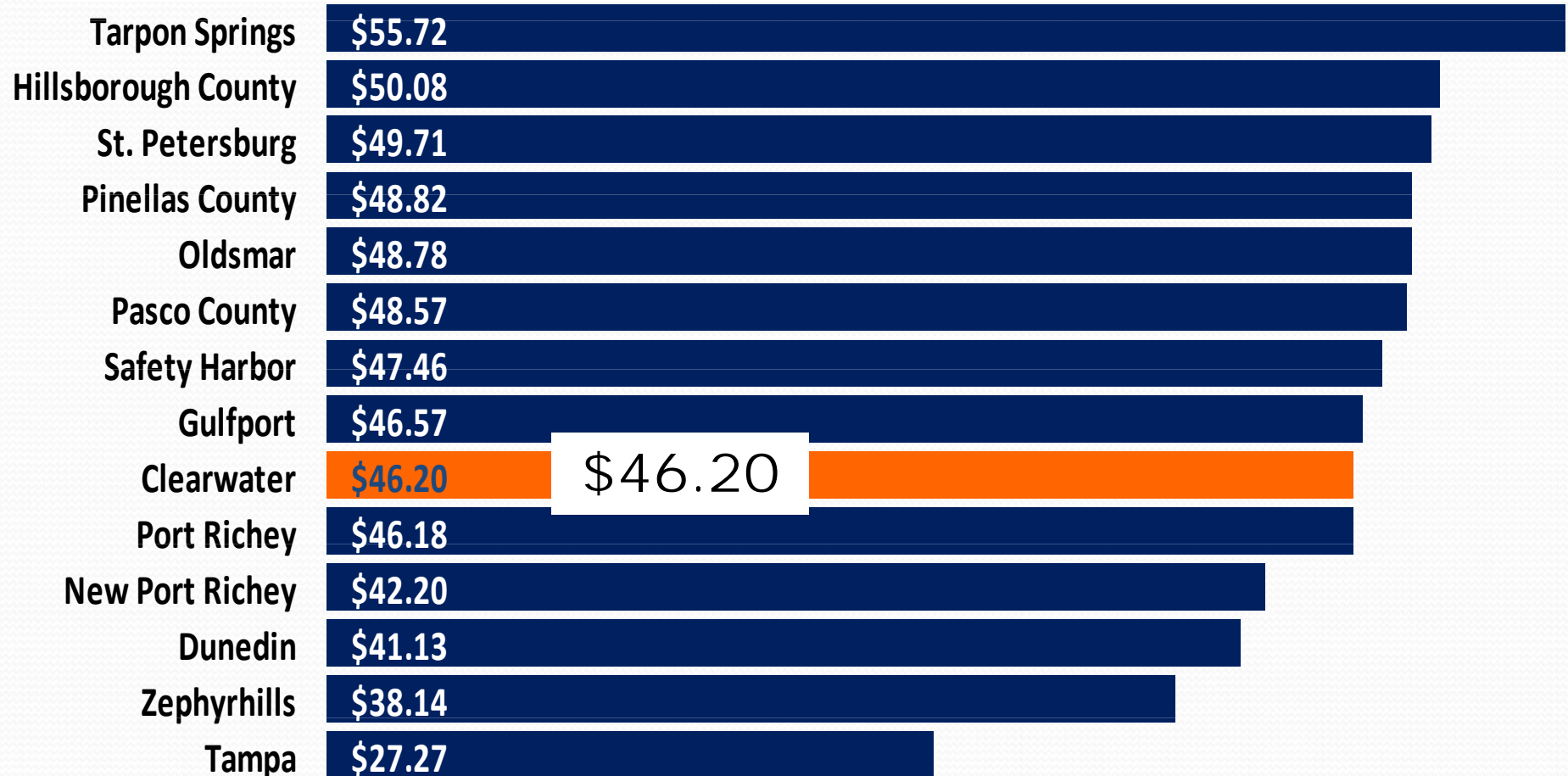
US CPI - Water & Sewerage Maintenance Series



- ▶ Measures the national average change in the cost of water and sewer service to households
- ▶ Much more specific and relevant to utilities than overall CPI; 10-year avg. annual increase = 5.7%

FY 2016 Residential Bill Comparison

Combined Water & Sewer Bill Survey at 3,000 Gallons per Month



Projected FY 2017 Bill Comparison

(Based upon current available information; actual rates may vary)

Combined Water & Sewer Bill Survey at 3,000 Gallons per Month



- 1) Safety Harbor is conducting a rate study – increases expected but unknown, so none are reflected
- 2) No information available on potential increases for Oldsmar, Gulfport, Tampa & Pasco County

Summary of Results & Recommendations

- **Current rates do not generate sufficient revenue for system costs**
 - **Exhausts fund balance and results in technical default on debt by FY 2021**
- **5-yr plan of rate increases (FY17–FY21):**
 - **3.75% per year to water, irrigation, sewer & reclaimed rates**
 - **Achieves key financial objectives**
 - **Comparable to national and local trends**

Results & Recommendations, Cont'd

- **Continue to perform annual revenue sufficiency studies**
 - **Modify rate adjustment plan as appropriate (up or down)**
- **Cost of service to typical residential user is comparable to local communities**
 - **Presently and into the future**

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