

COMMISSION WORKSHOP MEETING CITY OF ST. PETE BEACH

155 Corey Avenue

Tuesday, November 18, 2008

6:30 PM

Call to Order
Pledge of Allegiance
Invocation
Roll Call

WORKSHOP MEETING

- 1. Wastewater Rate Adjustment**
- 2. Adjournment**

APPEALS

If a person decides to appeal any decision made at this hearing, they will need a record of the proceeding and, for such purpose, may need to ensure that a verbatim record of the proceeding is made, which record includes the testimony and evidence upon which the appeal is to be based. (F.S. 286.0105) The City does not furnish verbatim transcripts; interested parties should make the necessary arrangements for verbatim transcripts.

Agenda Material is available for review at City Hall on the Friday preceding the meeting. In accordance with the Americans with Disabilities Act and F.S. 286.26, persons with disabilities needing special accommodation to participate in this proceeding should contact Ed Pickhardt at (727) 363-9243 no later than four (4) days prior to the proceeding for assistance.

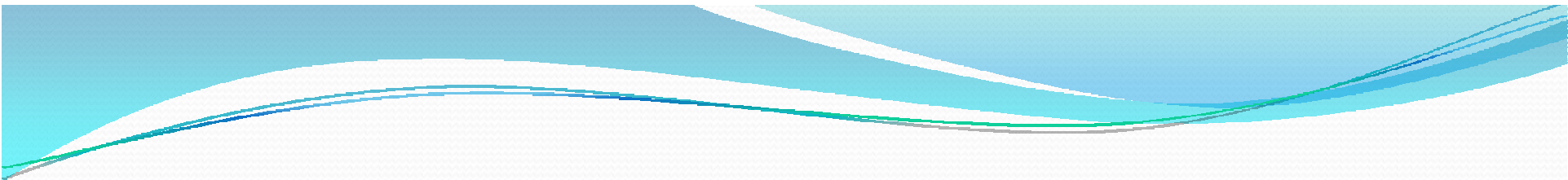
City of St. Pete Beach Wastewater System History

October 28, 2008



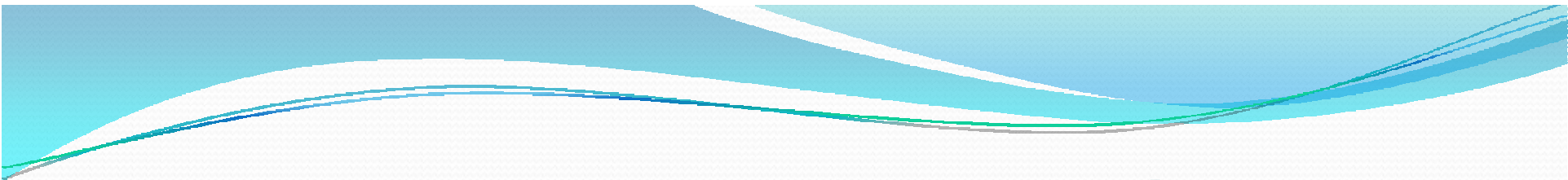
City Wastewater Collection System





1957 – Long Key Sewer District

- The Wastewater Collection System was created in 1957 by the Long Key Sewer District .
- The system consists of 38.7 miles of gravity lines, 751 manholes, 2.8 miles of force main, 3 pump stations (red), 14 lift stations (green) and a new Master Pump Station #1 at 87th Ave. and Boca Ciega Drive.
- Lift Stations flow to Pump Stations. Pump Stations flow to Master Pump Station and discharges to regional treatment facility in St. Petersburg.



1985 – State Mandate

- In 1985, the State of Florida required the barrier islands to discharge their effluent to a regional treatment plant located in St. Petersburg. This has resulted in rising costs to SPB.
- In 2004 - \$1,751,731
- In 2005 - \$2,195,437
- In 2006 - \$2,379,183
- In 2007 - \$2,422,042
- Wastewater treatment and capital improvement charges by the City of St. Petersburg fluctuate but have and will continue to trend upward to cover operating and capital costs.



Wastewater Collection System

- SPB has made significant repairs to the collection system over the years to improve operation and minimize risk. However, several sections and structures have now reached their functional life expectancy and require replacement.
- Approximately \$3.7 million was invested in capital improvement projects (CIP) since 2002 for needed repairs with the majority of the investment being Master Pump Station #1.
- CIP projects currently on hold due to lack of funding. Several major projects will need to be done in the coming years to ensure the integrity of the collection system.

Gulf Blvd FM #2 Repair

March 2002

Gulf Blvd. & 55th Ave. North



Excavation at Night



14" Old Cast Iron Force Main Break / \$45,000 Repair.

Two Additional Repairs Required Along This Force Main in 2003 and 2005.

Gulf Blvd FM #2 Repair

March 2002

Damaged Section Removed



Major Pipe Failure

Turbidity Barrier Installed



Spill Containment at Outfall

24 inch Gravity Repair

January 2003

C.I. Conflict Box Sewer Pipe

\$35,000 Repair w/PVC Pipe



Gulf Winds Drive/Second Street East
Sewer Line Collapsed Inside Storm Sewer Conflict Structure

Lift Station #12 Valve Vault

93rd Avenue / 2003

Replacement Cost: \$25,000



Completed Valve Vault



LS12 Valve Box repaired and updated to provide protection and access to valves and pump out connections during emergencies and power outages.

Vina Del Mar Bridge FM #6

January 2006

Severely Tuburculated
6" force main



Hydrogen Sulfide Damaged Pipe
Two Month Repair - \$47,000



Manhole Rehabilitation

2006-07

Deteriorating Manholes



Repair with Fiberglass Liners



Master Pump Station #1

Old Pump Station

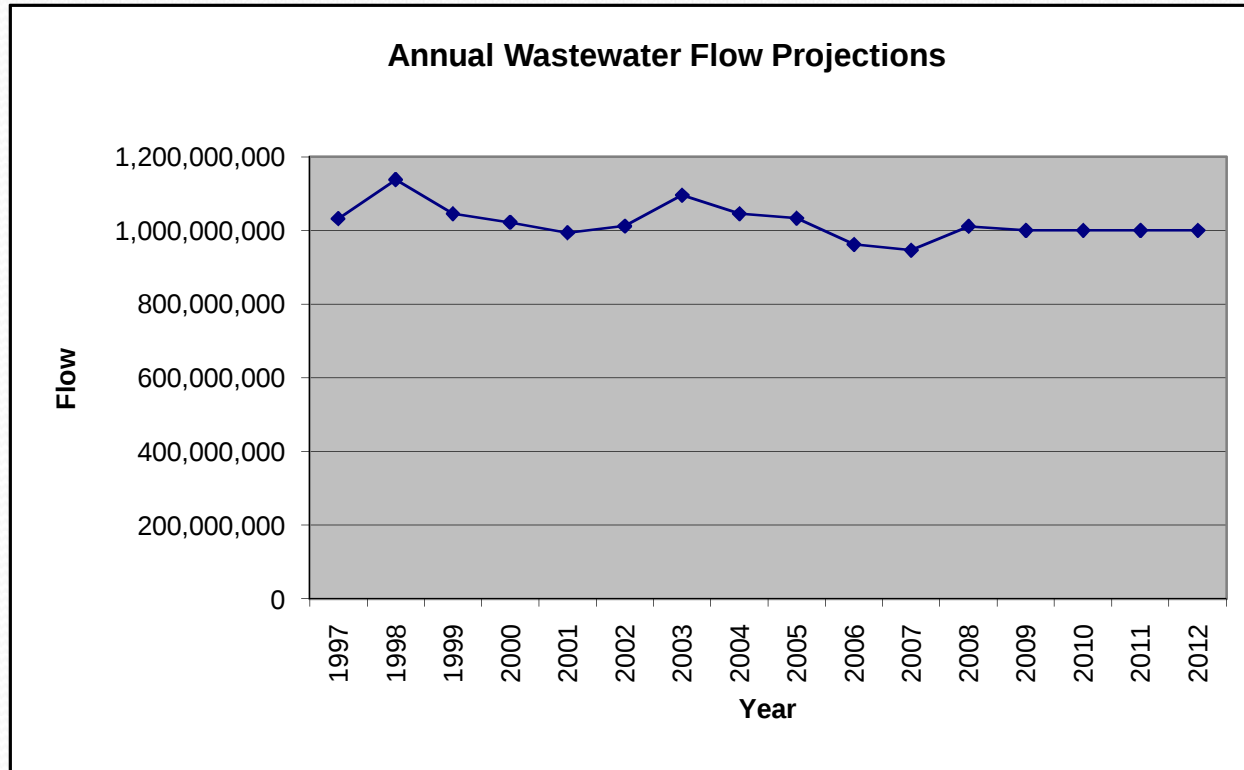


New Master Pump Station



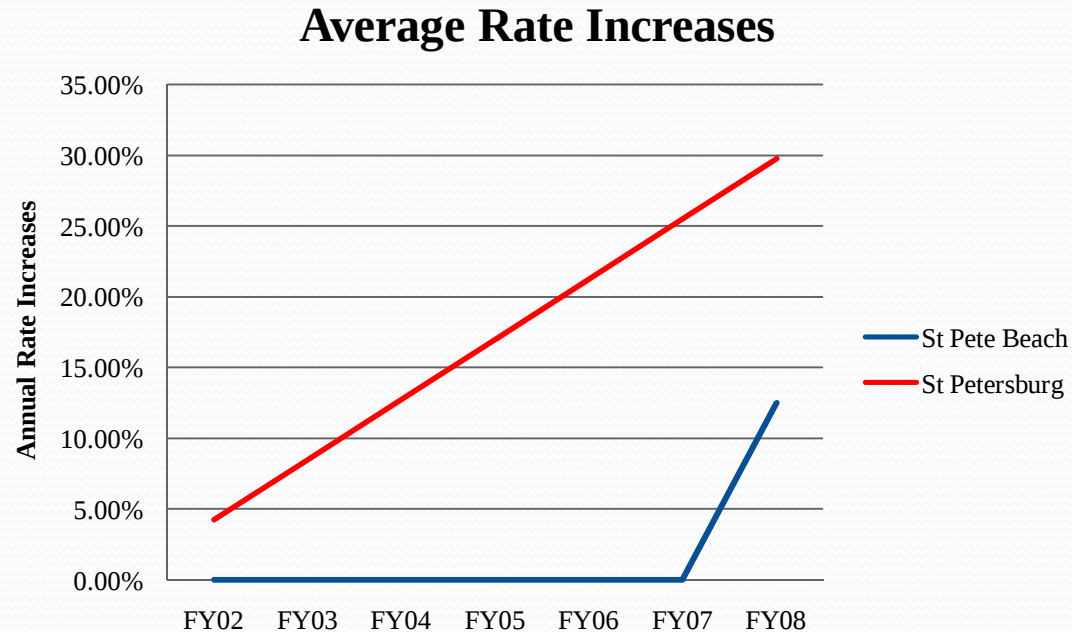
MPS #1 was replaced to prevent failure of severely deteriorated underground structures. MPS #1 collects and pumps the City's wastewater to the Northwest Treatment Facility in St. Petersburg. SPB invested \$3 million in reconstruction and did not raise rates.

Wastewater Flow History



SPB reduced average wastewater flows from 3.0 MGD to 2.62 MGD since 2003. However, treatment charges are based upon our percentage of treatment costs system wide and reduction in flow may not equal a reduction in treatment costs.

St. Petersburg vs. SPB Rates

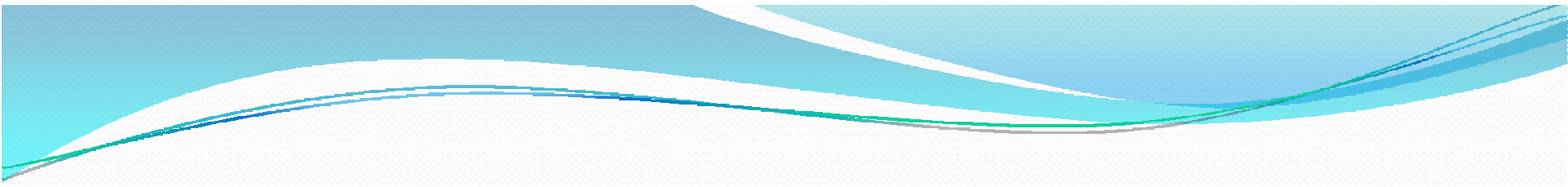


SPB has not raised rates in over 7 years until a 12.5% increase was implemented in FY08. City of St Petersburg treatment costs for SPB fluctuate (i.e. FY07 = 10.44%, FY08 = 4.93%, FY09 = 3.57%) and averages an annual increase of approximately 4.25%.



REQUIRED TIME LINE FOR PROPOSED WASTEWATER RATE CHANGE NOTIFICATION

- Proposed wastewater rate increase requires 60 days public notice.
- December 4, 2008 – Notice of proposed increase sent in customer billing statements.
- December 23, 2008 - First reading of proposed increase at City Commission meeting.
- January 13, 2009 – Final reading of proposed increase at City Commission meeting.
- City Commission vote is essential by January 13, 2009.
- Goal is to get the rate adjustment within the February 2009 bills.



Conclusion

- SPB wastewater system continues to deteriorate and requires significant improvements to Force Mains 1, 2 and 3, as well as Lift Stations 2, 3, 4, 7 and 9.
- SPB is now faced with continuous pass through costs from the City of St. Petersburg for treatment.
- Operation and maintenance costs continue to rise.
- A rate study was conducted by PRMG to ensure revenue could cover needed expenditures in the future.

CITY OF ST. PETE BEACH

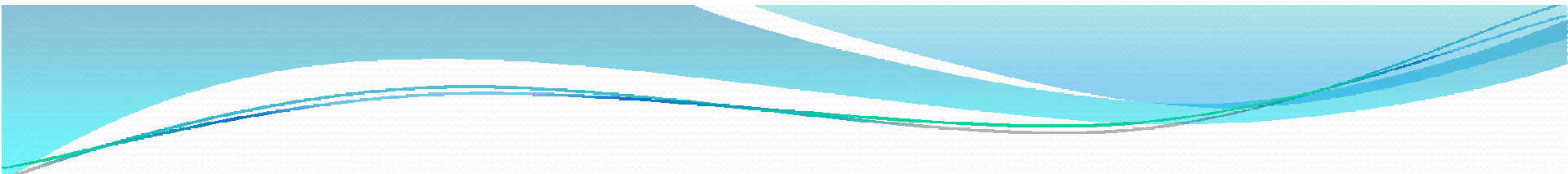
WASTEWATER REVENUE SUFFICIENCY AND RATE STUDY

October 28, 2008

Presented by



Public Resources Management Group, Inc.



Agenda

- Overview of Where We Are Today
- Discuss Financial Forecast
- Present Rate Recommendations
- Customer Impact/Comparisons
- Questions and Discussion/Identify Plan of Action

Purpose of Revenue - Sufficiency Study

- Evaluate Ability of Rates to Fund Net Revenue Requirements
- Net Revenue Requirements Defined as:
 - + Cost of Operation and Maintenance
 - + Debt Service
 - + Capital Funding
 - + Deposits to Renewal and Replacement Fund (Capital)
 - + Payment of General Fund Liability
 - + Working Capital
 - Other Operating Revenue
 - Interest Income
 - = Net Revenue Requirements (Funded from Rates)
- Comply with Rate Covenants of Loan Agreements
- Promote Creditworthiness of System



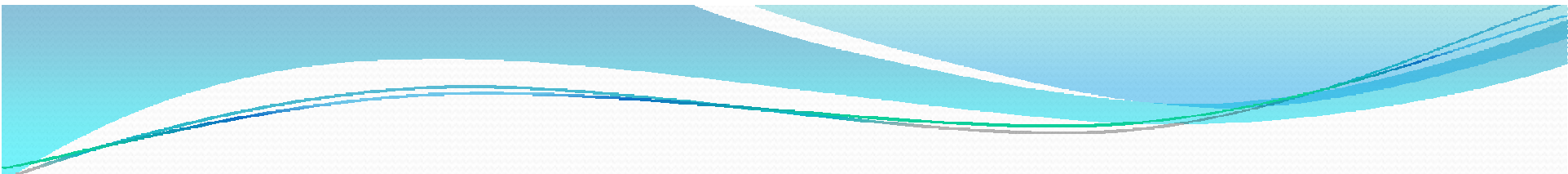
Where We Are Today

- Wastewater Service – FY 2008
 - 2,787 Residential Customers
 - 5,152 Multi-Family Units
 - 344 Commercial Accounts
 - Minimal Growth Projected



Where We Are Today (cont'd.)

- System Accounted for as “Special Revenue Fund”
- Propose to Account as “Enterprise Fund”
 - Promote Full Cost Recovery (Expenses/Assets)
 - Per Governmental Accounting Standards Board:
 - Account for Operations Similar to Private Business
 - Costs Financed Primarily Through User Charges
 - Users Responsible for Costs / System Must “Stand on Its Own”
 - No General Fund Revenue Should be Used
- Currently Using General Fund Reserves to Fund Needs



Where We Are Today (cont'd.)

- Rating Agency Considerations – Strong Credits Include:
 - Maintenance of System (No Deferred Maintenance)
 - Capital (Pay-As-You-Go vs. Debt Relationships)
 - Maintenance of Reserves – Operating Cash / Capital Funds / Overall Liquidity
 - Coverage and Financial Performance
 - Proactive Planning (Management)



Where We Are Today (cont'd.)

- Financial Position
 - Reported Essentially “Zero” Cash Balance – EOY 2007
 - Negative Fund Balance – Liabilities Exceed Assets
 - General Fund Supporting Operations
 - Continued Financial Support (Advances or Loans) from General Fund in FY 2008
 - Fiscal Year 2008 - \$604,400
 - Cumulative Through 2008 - \$1,092,600
- Need to “Correct the Course”

Financial Observations

Operating Results – Wastewater System

	Actual FY 2007	Estimated FY 2008	Estimated FY 2009	
			Without Rate Increase	With Rate Increase
Total Sales Revenue	\$2,944,746	\$3,146,833	\$3,268,404	\$ 4,371,504
Income & Funds From Other Sources	59,237	12,800	11,600	11,600
Total Revenues	3,003,983	3,159,633	3,280,004	4,383,104
Total Operating Expenses	3,467,438	3,441,953	3,308,020	3,308,020
Net Revenues	(\$463,455)	(\$282,320)	(\$28,016)	\$1,075,084
Net Revenue Margin	-15.43%	-8.94%	-0.85%	24.53%
Debt Service	272,130	262,077	262,077	262,077
Capital Funded from Rates	242,775	60,000	0	0
General Fund Loan Payment	0	0	238,566	238,566
Transfer to R&R Fund	0	0	301,747	301,747
Net Revenue Surplus/(Deficit)	(\$978,360)	(\$604,397)	(\$830,406)	\$272,694
Debt Service Coverage				
Net Revenues	(\$463,455)	(\$282,320)	(\$28,016)	\$1,075,084
Debt Service	272,130	262,077	262,077	262,077
Debt Service Coverage Calculation				
Calculated	-170.31%	-107.72%	-10.69%	410.22%
Minimum Required	115.00%	115.00%	115.00%	115.00%



Financial Forecast

- Prepared Five-Year Forecast – FY 2009 to 2013
- Fiscal Year 2009 – Served as Test Year
- Financial Forecast Considered:
 - Customer Growth
 - Operating Expenses
 - Purchased Wastewater – St. Petersburg (SP)
 - Debt Requirements
 - Programmed Funding of Capital Program
 - Working Capital Requirements
 - Loan Agreement Compliance and Financial Targets
- Goal – Improve Financial Position of System



Major Assumptions and Issues

- Limited Growth of System – Less than 1%
- Purchased Wastewater Costs from St. Petersburg
 - Accounts for 66% of Total Operating Expenses
 - Uncontrollable Cost to City
 - Rates Anticipated to Increase (Age of SP System/ Increased Costs)
 - High Inflow / Infiltration Increases City Cost
- Continued Inflation on Cost of Operations
 - Example – Progress Energy Increasing Rates Over 20% January 2009
- System is Aging and Requires Capital Improvements



Major Assumptions and Issues (cont'd.)

Observations and Recommendations:

- Must Remove Inflation Risk from Rates
 - Beneficial for No / Slow Growth System
 - Maintains Revenue Margins
- Implement a Price Index Adjustment Applied Annually



Purchased Wastewater Costs

- Accounts for 66% of Total Operating Expenses
- Expected to Increase During Forecast Period
- Inflow and Infiltration Increasing Cost
 - Annual Billed Wastewater Flow from SP = Approximately 1,000,000,000 Gallons
 - Annual Billed Flow per City (Links to Water Sales) = Approximately 500,000,000 Gallons



Purchased Wastewater Costs (cont'd.)

Observations and Recommendations:

- Must Remove Risk in Rates Due to Cost Changes
- Implement a Pass-Through Adjustment to Annually Capture Changes in Cost
- Consider Programs to Reduce Inflow and Infiltration
 - Each 1,000,000 Gallons Annually Avoided =
 - Approximately \$1,800 in Reduced Annual Purchase Cost
 - Approximately \$25,000 Increase in Bondable Capacity



Capital Improvement Program (CIP) – Expenditure Requirements

- Six-Year Capital Plan = \$8,297,000
- Primary Capital Expenditures Include:
 - Lift Station No. 1 and Sub-Aqueous Crossing \$1,500,000
 - Lift Station No. 2 & 3 Force Main \$2,000,000
 - Treasure Island/SPB Force Main \$2,452,000
 - Miscellaneous I/I Program \$1,125,000
- Projects Are Necessary and Should Not Be Delayed

CIP – Funding Plan

- Financial Forecast Assumes Fully Funded Program
- Capital Funding Plan

	<u>Amount</u>	<u>Percent</u>
Total Capital Program	<u>\$8,296,653</u>	<u>100.0%</u>
Identified Funding Plan:		
Renewal & Replacement Fund	\$2,325,000	28.0%
Additional Borrowing	5,901,653	71.1%
Annual Rate Revenue	70,000	0.9%
Grants and Contributions	<u>---</u>	<u>---</u>
Totals	<u>\$8,296,653</u>	<u>100.0%</u>



CIP – Funding Plan (cont'd.)

- Renewal and Replacement Fund
 - A Dedicated Capital Fund
 - Generally Component of Bond Resolution / Favored by Rating Agencies
 - Funded Annually From Rates
 - Increases Equity in System / Avoid Future Debt
 - To Fund Capital Needs – Benefits Existing Rate Payer



CIP – Funding Plan (cont'd.)

- Issue of Additional Debt / Loan
 - Required Due to Limited Cash Reserves
 - Funds Large / Critical Projects
 - Lift Stations, TI/SPB Force Main, and Sub-Aqueous Crossing
- Must Be in Good Financial Position to Issue Debt – Credit Issues



Debt Service Requirements

- Existing Debt = Two State Revolving Fund (SRF) Loans
 - Annual Payments 2003 SRF Loan = \$19,449
 - Annual Payments 2005 SRF Loan = \$242,628
 - Final Maturity 2022 to 2023 Timeframe
- Proposed Debt to Fund Capital Program
 - Total Loan Principal of \$7,125,000
 - Assumed 25-Year Term at 7.0% Average Interest Rate
 - Issue Date of October 1, 2009
 - Annual Debt Payments = \$654,265
 - First Year Interest Only
- Must Raise Rates to Finance Capital Program



Other Financial Considerations

- Repayment of General Fund
 - September 30, 2008 estimated Liability = \$1,092,562
 - Repaid Over 5 Years / Interest Rate of 3%
 - Annual Payment = \$238,566
 - Ends Fiscal Year 2013
- Working Capital
 - Increasing Reserves to Balance = 90 Days of Operating Expenses

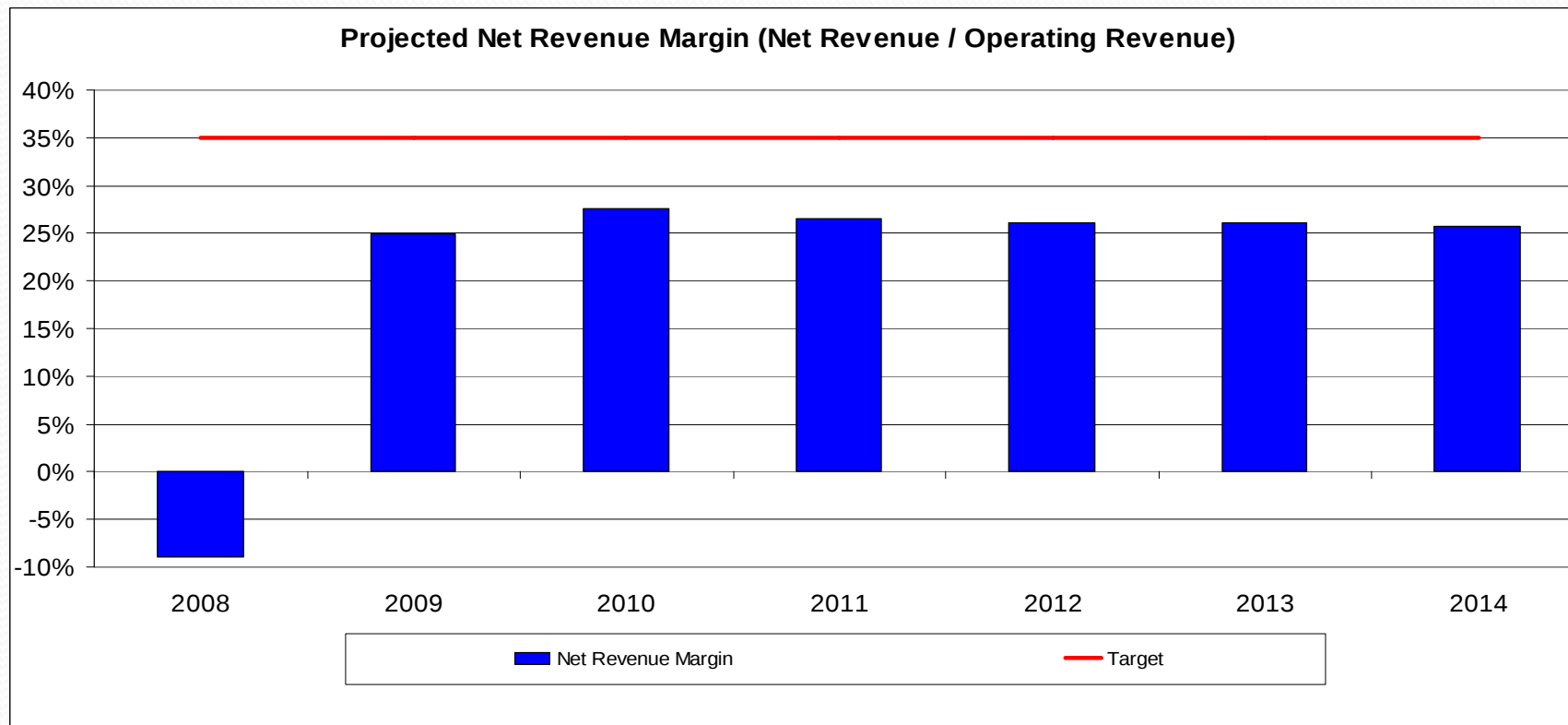


Rate Recommendation and Financial Impact

- Adjust Rates 45% Effective January 1, 2009
- Implement Price Index and Pass-Through Adjustment Effective October 1, 2009
- Financial Forecast (With All Adjustments):

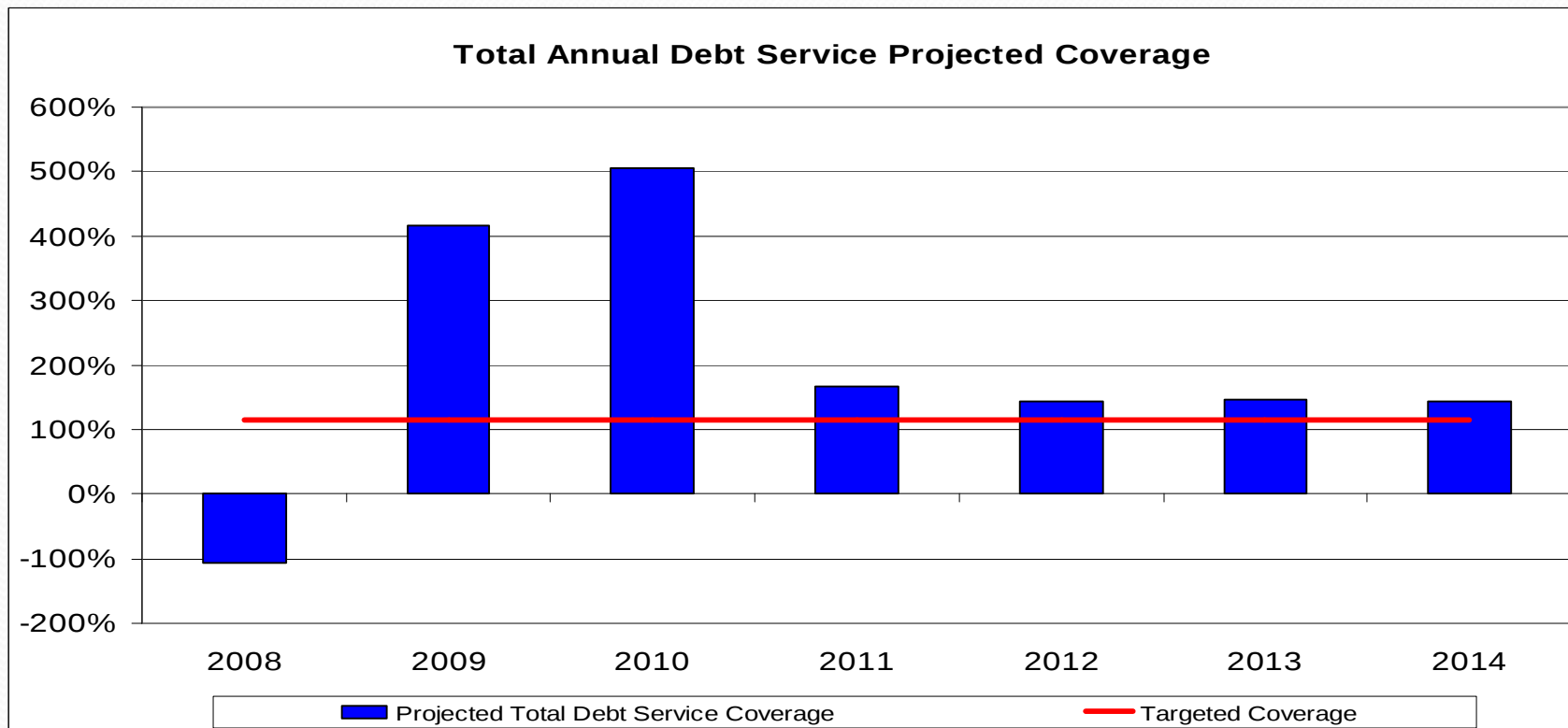
Rate Recommendation and Financial Impact (cont'd.)

— Financial Performance – Net Revenue Margin



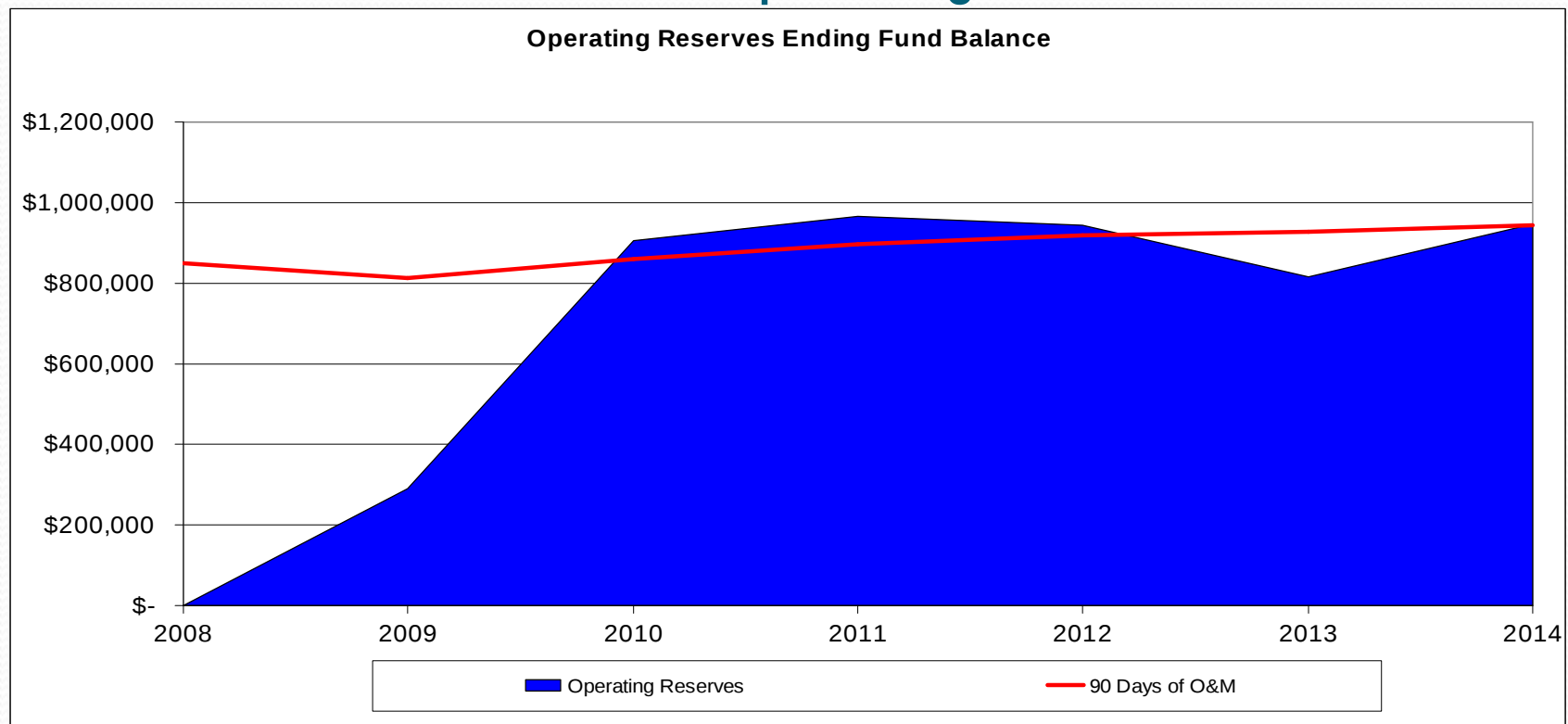
Rate Recommendation and Financial Impact (cont'd.)

— Financial Performance – Total Debt Service Coverage



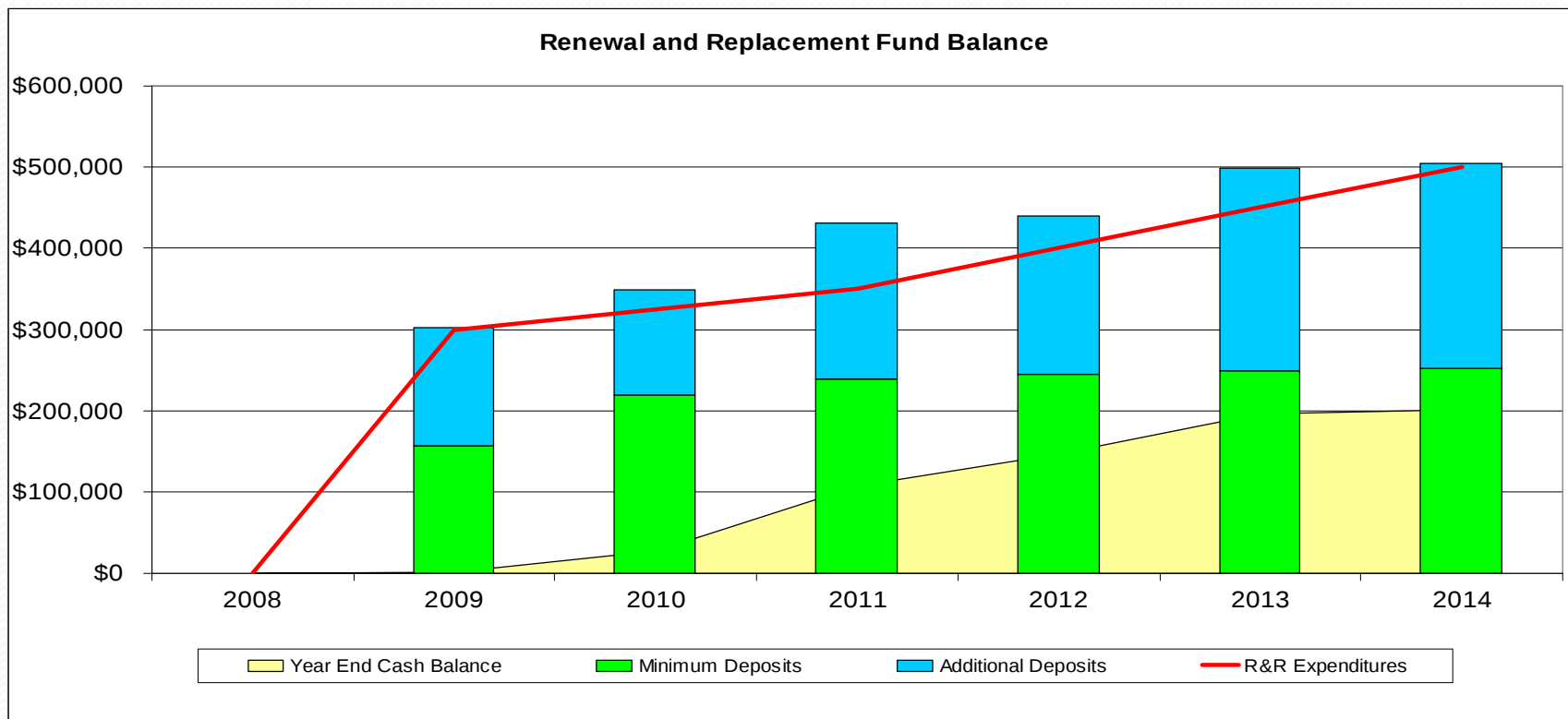
Rate Recommendation and Financial Impact (cont'd.)

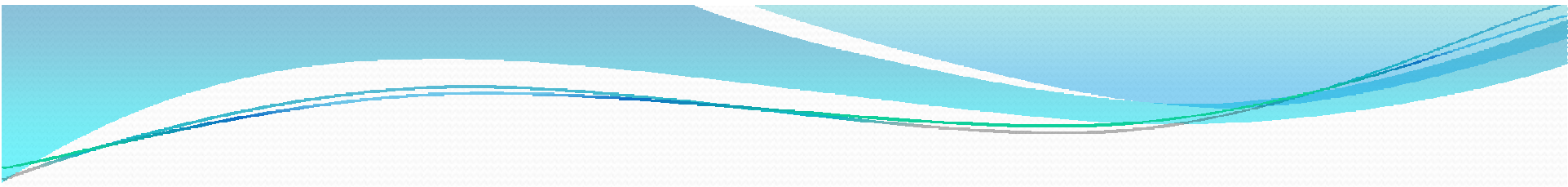
— Financial Performance – Operating Reserves



Rate Recommendation and Financial Impact (cont'd.)

— Financial Performance – R&R Fund Balance





RATE IMPACT DUE TO PROPOSED INCREASES

Proposed Wastewater User Rates

- Maintain Existing Rate Structure
- Wastewater Rates
 - Base Facility Charge – 3,000 Gallon Minimum
 - Usage Charge – per 1,000 Gallons
 - Based on Metered Water (Provided/Billed by Pinellas County)
- Proposed Monthly User Rates:

	<u>Existing</u>	<u>January 2009 Proposed</u>
Monthly Base Facility Charge (Includes First 3,000 Gallons)	\$16.80	\$24.49
User Charge Per 1,000 Gallons	5.60	8.08

FY 2009 Customer Impact Analysis

- Average Single-Family Residential Customer Uses Approximately 4,000 Gallons Per Month

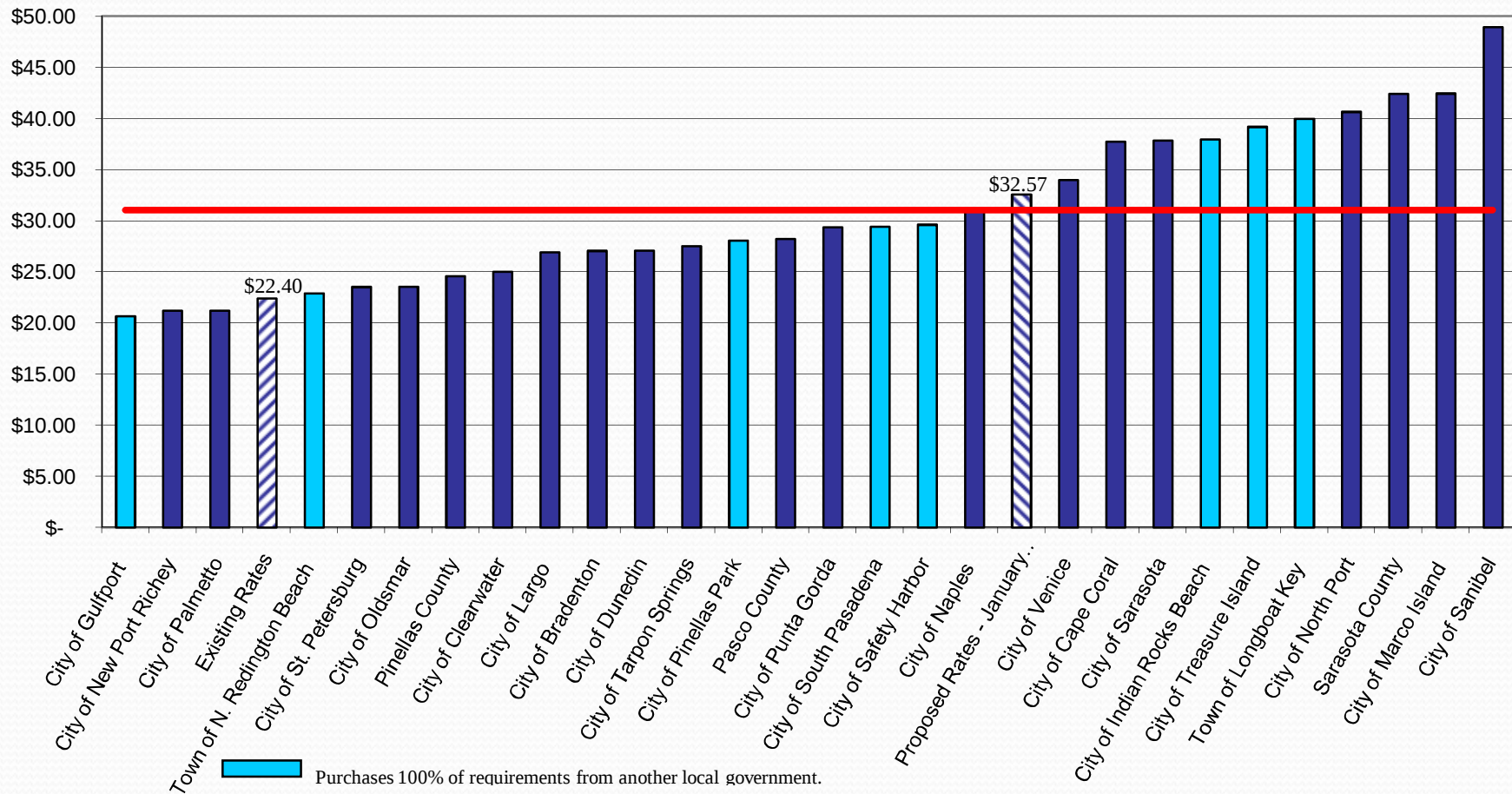
Monthly Bill For Single Family Residential Customer With 5/8" x 3/4" Meter Using 4,000 Gallons

Existing Rates	\$22.40
Proposed Rates - Effective January 2009	32.57
Difference from Previous Year - Amount	10.17
Difference from Previous Year - Percent	45.0%

- Rate Adjustments Assume January 1, 2009 Effective Date

Rate Comparison

City of St. Pete Beach Comparison of Existing and Proposed Wastewater Bills at 4,000 Gallon Monthly Usage with Other Neighboring Utilities





Observations and Recommendations

- Establish Enterprise Fund – Fully Recognizes Cost of Service
- Rates Not Sufficient to Meet Financial (Cash Flow) Needs
- Significant Amount of Capital Needs
 - Will Require Additional Borrowing
 - System Not in Position To Issue Debt



Observations and Recommendations (cont'd.)

- Commission Should Consider Adoption of the Following:
 - Rate Increase of 45%
 - Maintain Current Rate Structure
 - Implement Pass-through Adjustment for Purchased Services
 - Implement Price Index Adjustment for Inflation
 - Adopt Proposed Rates by January 1, 2009 (or as Soon as Practical)
- Re-Evaluate Financial Position Every Year to Maintain Course of Action

Questions and Discussion

