



St. Lucie West Services District

WATER, WASTEWATER, AND IRRIGATION SYSTEM 2019 REVENUE SUFFICIENCY UPDATE AND REVIEW

Presentation to the Board of Supervisors

September 10, 2018



Public Resources Management Group, Inc.
Utility, Rate, Financial, and Management Consultants





Agenda – Purpose of Update

- ❖ Evaluate Current Rate Adequacy and Financial Compliance
 - Monitor System Trends / Support Budget Process
 - Promote Full Cost Recovery
 - Rate Covenant Compliance
 - Financial Position Consideration
- ❖ Identify Potential Future Rate Adjustments
- ❖ Other Issues for Board Discussion



Basis for Financial Forecast

- ❖ Five-Year Financial Forecast – Fiscal Years 2019-2023
- ❖ Proposed 2019 Budget
- ❖ 2017 and Year-to-Date 2018 Operating Results
- ❖ District's Six-Year Capital Improvement Program
- ❖ District's Financial Policy / Debt Service Schedules
- ❖ Trust Indenture Covenants
 - 110% Coverage Requirement (Minimum)
 - Maintenance / Flow of Funds

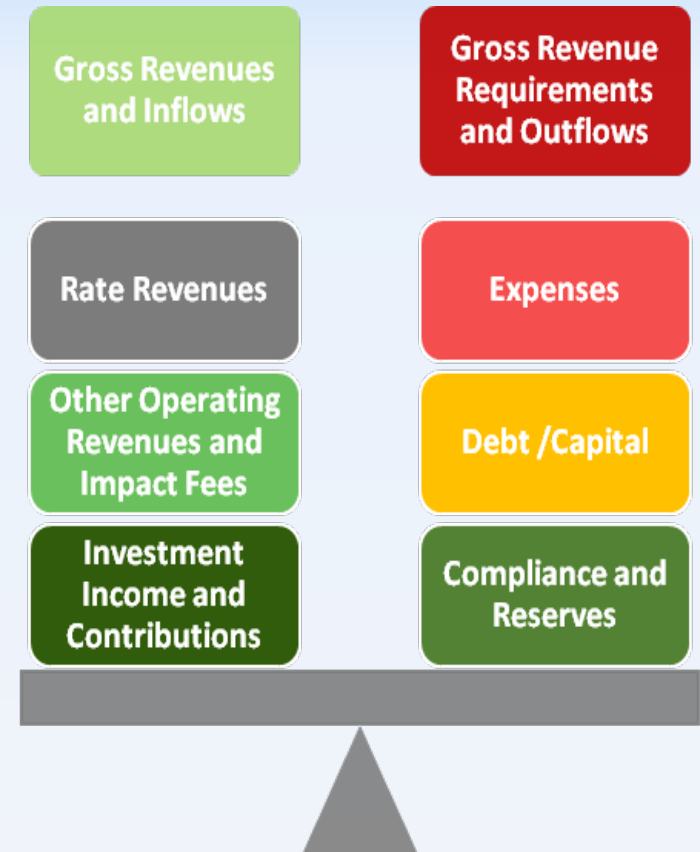


Revenue Sufficiency Determinants

❖ Revenue Requirements – Total Expenditures Funded from Operations

❖ Revenue Sufficiency Determination:

- + Operation and Maintenance
 - + Debt Service
 - + Transfers (R&R, Rate Stabilization)
 - Other Operating Revenue
 - Interest Income
-
- = Net Revenue Requirements
(Funded from Rates)





Major Assumptions

❖ Limited District Customer Growth of 0.05% per Year

Summary of SLWSD Accounts and Usage			
Water System	<u>Actual 2017</u>	<u>Estimated 2018</u>	<u>Projected 2019</u>
Average Annual Accounts Served	6,791	6,793	6,795
Retail Water Sales (000s)	435,976	432,431	430,054
Bulk Water Sales (000s)	89,278	89,322	91,868
Wastewater System			
Average Annual Accounts Served	6,734	6,735	6,736
Retail Wastewater Sales (000s)	421,935	419,844	417,124
Bulk Wastewater Sales (000s)	94,560	94,607	94,655

- Increased Fiscal Year 2018 Bulk Sales
- Conservative Sales Forecast - Based on Historical Trends



Major Assumptions (cont'd.)

- ❖ Continued Inflationary Impacts on Operating Expenses (Higher Percent Change than Revenue Growth)
 - Increasing Demands for Goods and Services – Higher Construction / Contract Services / Maintenance Costs
 - 3.5% Average Annual Projected Increase in Operating Expenses During Forecast Period
 - General Inflation CBO Projection 2.4% Per Year



Major Assumptions (cont'd.)

- ❖ Operating Expense Projections
 - Adjusted for Inflation and Growth
 - Includes Contingency Allowance (1.5%)
 - Recognizes Increase to Health Insurance Expense
 - No Incremental Expenses (Capital- or Regulatory-Driven) Other than Labor

Summary of Operating Expenses			
Description	<u>Actual 2017</u>	<u>Estimated 2018</u>	<u>Projected 2019</u>
Annual Operating Expenses	\$4,863,583	\$5,285,836	\$5,515,284



Major Assumptions (cont'd.)

- ❖ Identified Capital Needs of Utility (\$10.9M)
 - New Office Complex
 - Improvements to the Reuse Irrigation Distribution System (Pump Stations)
 - Lift Station, Manhole, and Other R&R Projects
 - Significant Existing Utility Investment
 - Meter Replacement
 - Continued Water and Wastewater Renewals and Replacements



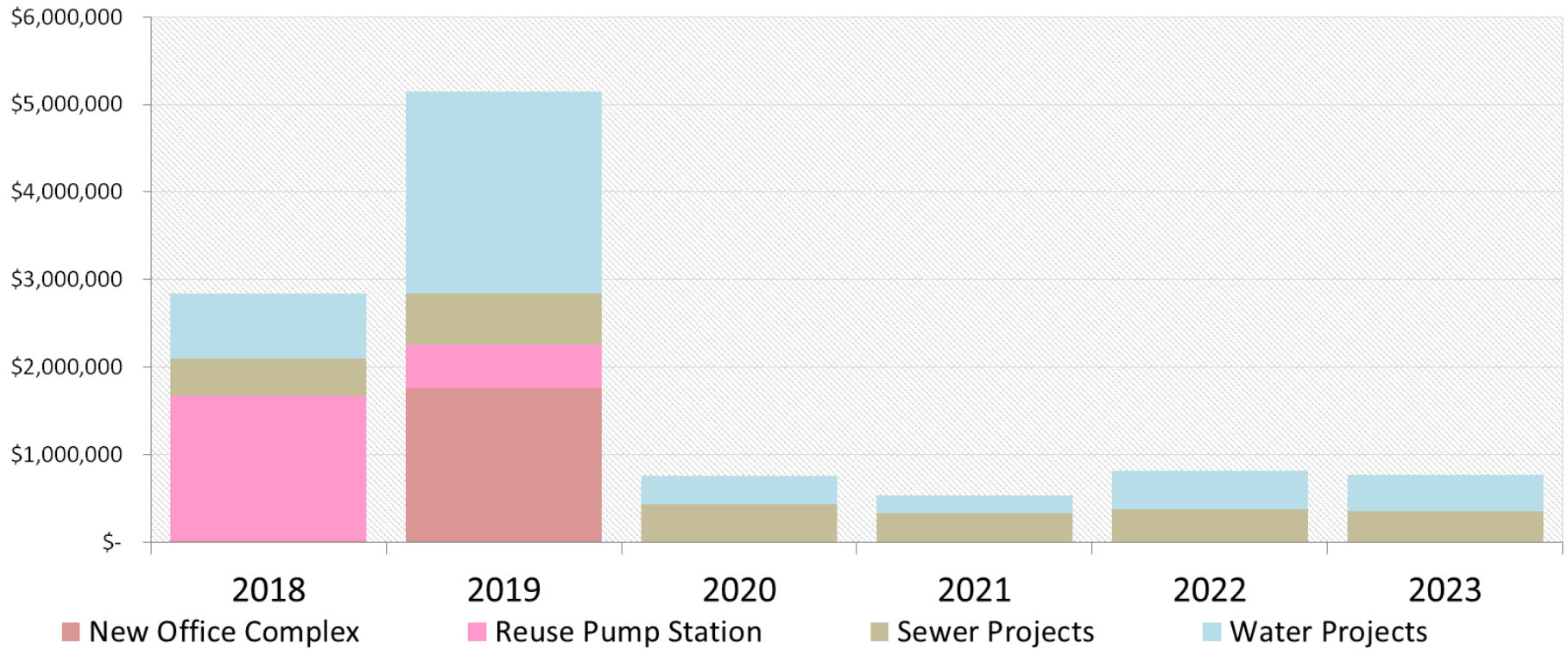
Capital Expenditures and Funding

Capital Improvement Plan – Fiscal Years 2017-2022		
PROJECTS	<u>Amount</u>	<u>Major Projects</u>
Water	\$4,425,355	Meters, Transfer Pump
Wastewater	2,499,509	Lift Station Repairs, Manholes
Irrigation	2,152,000	Irrigation Pump Station
New Office Complex	<u>1,780,000</u>	Building Construction
TOTAL PROJECTS	<u>\$10,856,864</u>	
FUNDING SOURCES		
Water and Sewer Fund	\$1,930,450	New Office Complex, Equipment
Renewal and Replacement Fund	6,883,199	Meters, Lift Stations
Water System Connection Fees	1,200,000	Transfer Pump, Water Mains
Wastewater System Connection Fees	0	
General Fund Transfer	843,215	New Office Complex
Rate Revenue	<u>0</u>	
TOTAL FUNDING SOURCES	<u>\$10,856,864</u>	



Capital Expenditures Graph

Capital Improvement Program = \$10,856,864





Debt Service Requirements

- ❖ No Additional New Debt Assumed for Forecast Period
- ❖ Total Annual Debt Service = LDS Approximately \$2,520,000
 - Matures in 2035
- ❖ Projected Coverage Calculation Declines Throughout Forecast
 - Considered Acceptable Because of Strong Reserve Balances
 - Coverage Provides Rate Flexibility
 - Capital Re-investment
 - Maintenance of Revenues
 - Fund Rate Stabilization Fund



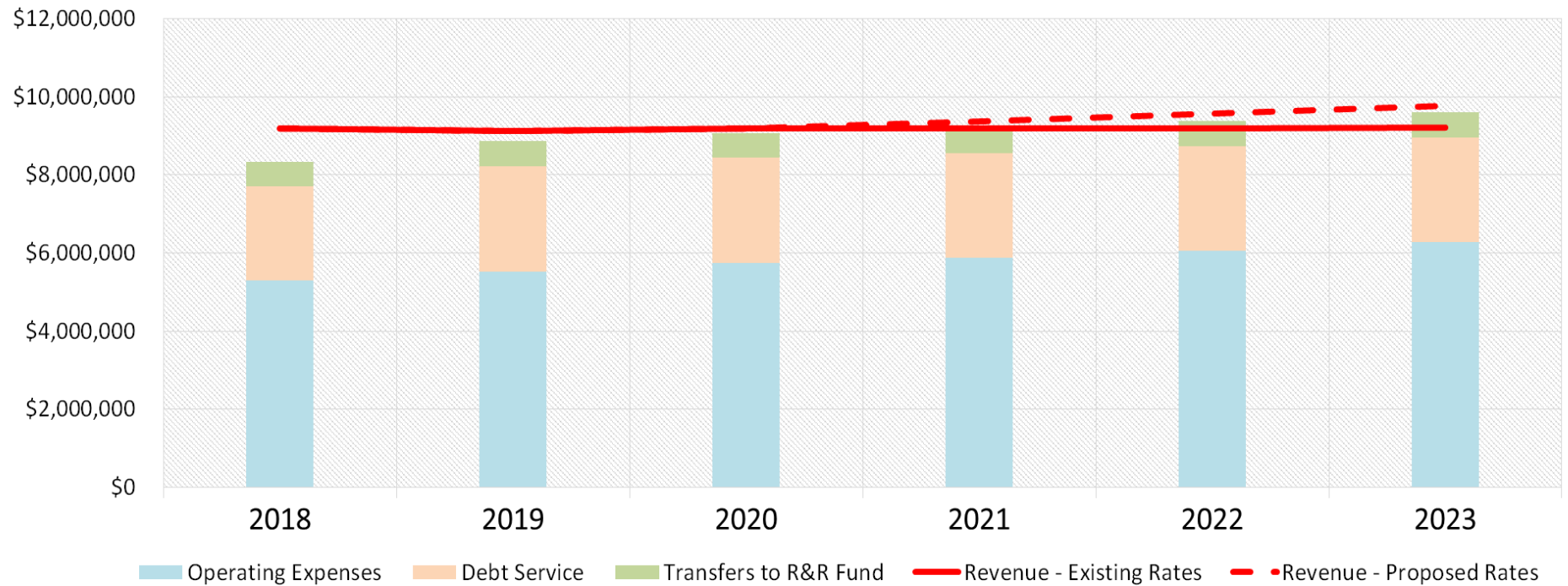
Results of Analysis

- ❖ Increased Annual Budgeted O&M for FY 2019
 - Primarily Due to Increased Health Insurance and Inflation (Higher Cost to Provide Service)
- ❖ Continued Inflationary Pressure on O&M During Forecast Period
 - Reductions in Operating Margins
 - Compound Annual Increase Between Fiscal Years 2019-2023 O&M – 3.5%



Fiscal Position

Projected Revenue Requirements and Revenues

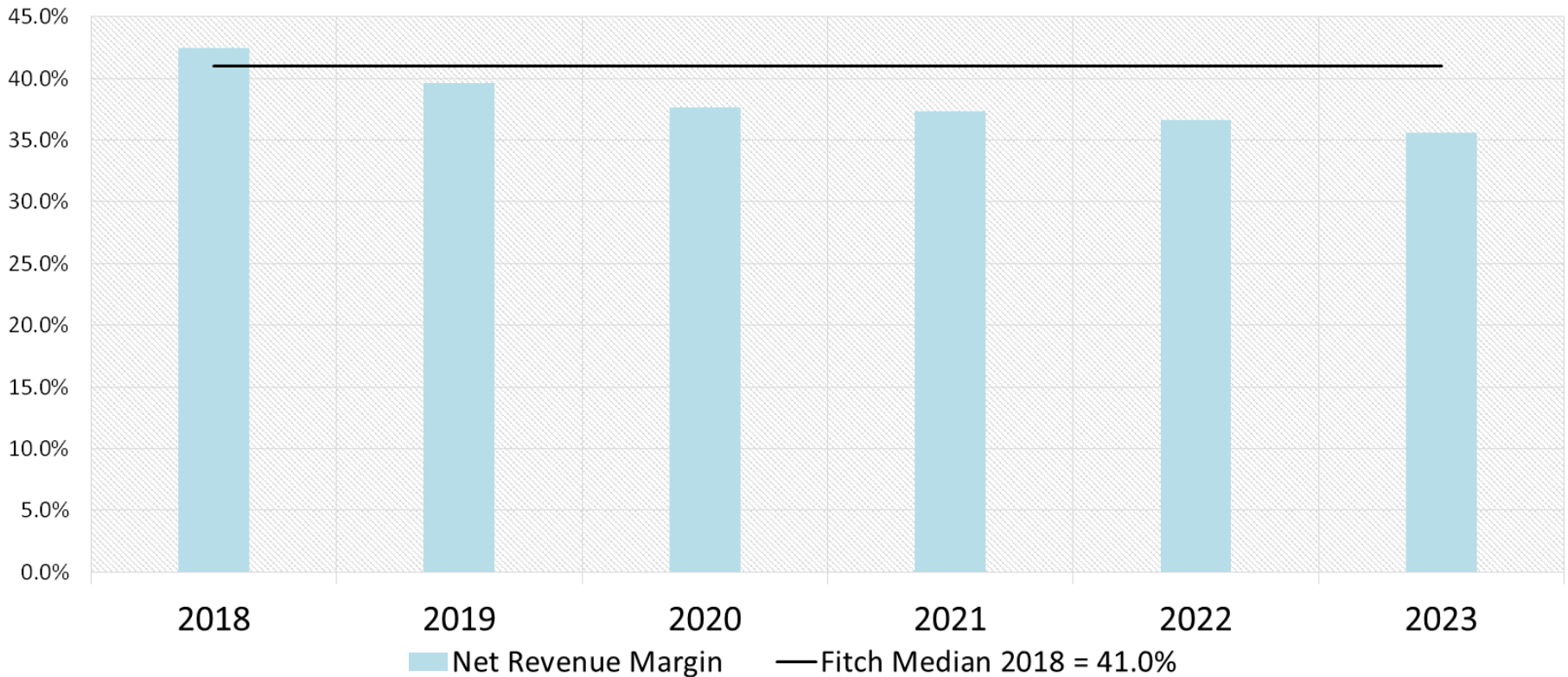


*** Rates Projected to be Sufficient Through Fiscal Year 2020**



Fiscal Position (cont'd.)

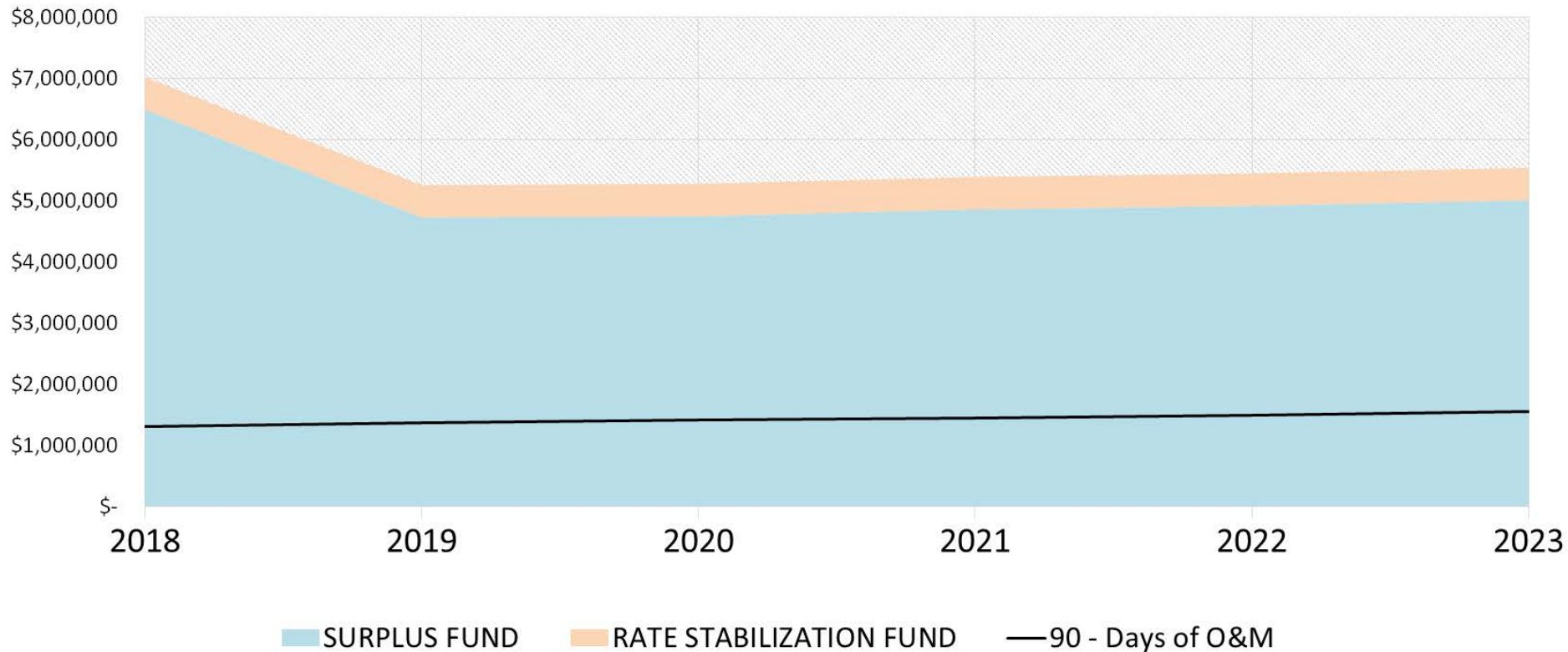
Net Revenue Margin





Fiscal Position (cont'd.)

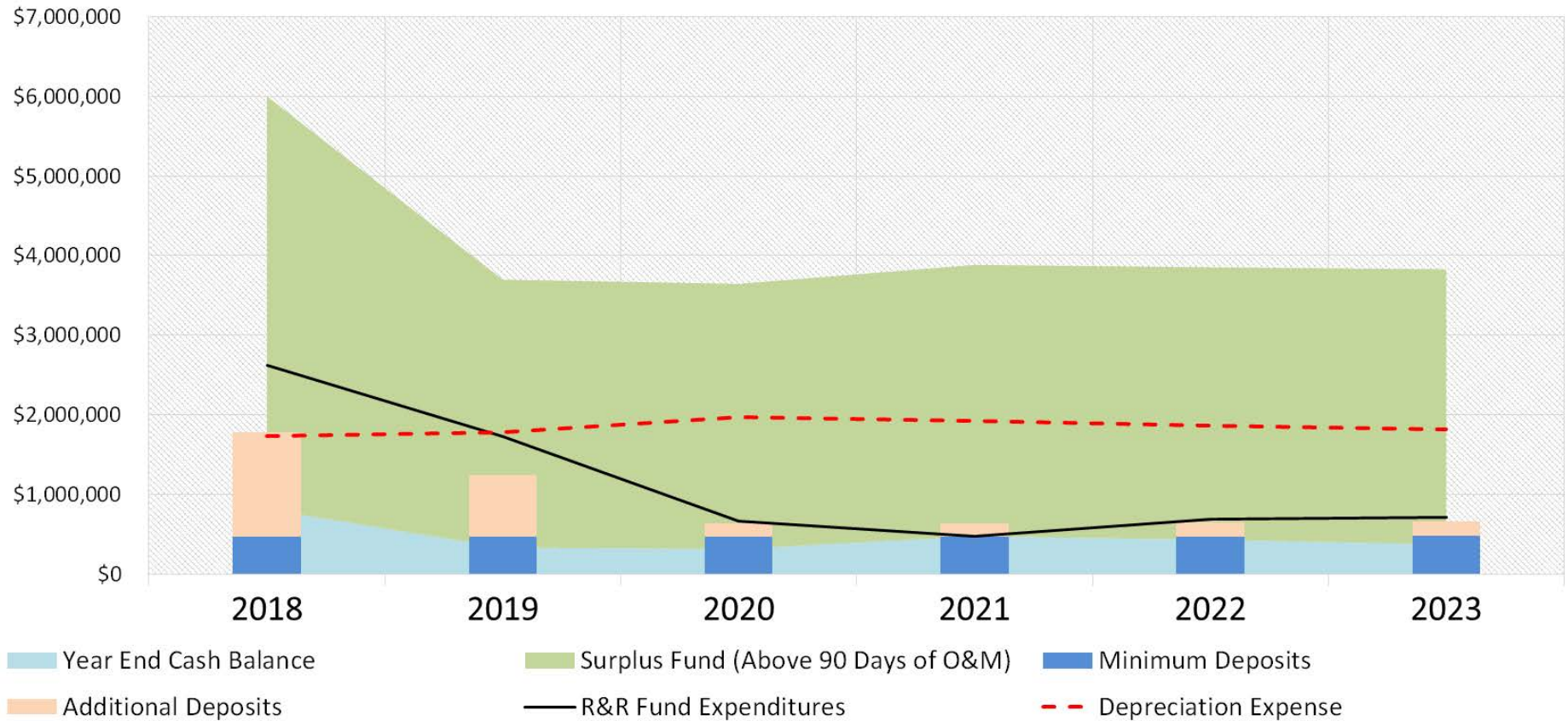
Operating Reserves Ending Cash Balance





Fiscal Position (cont'd.)

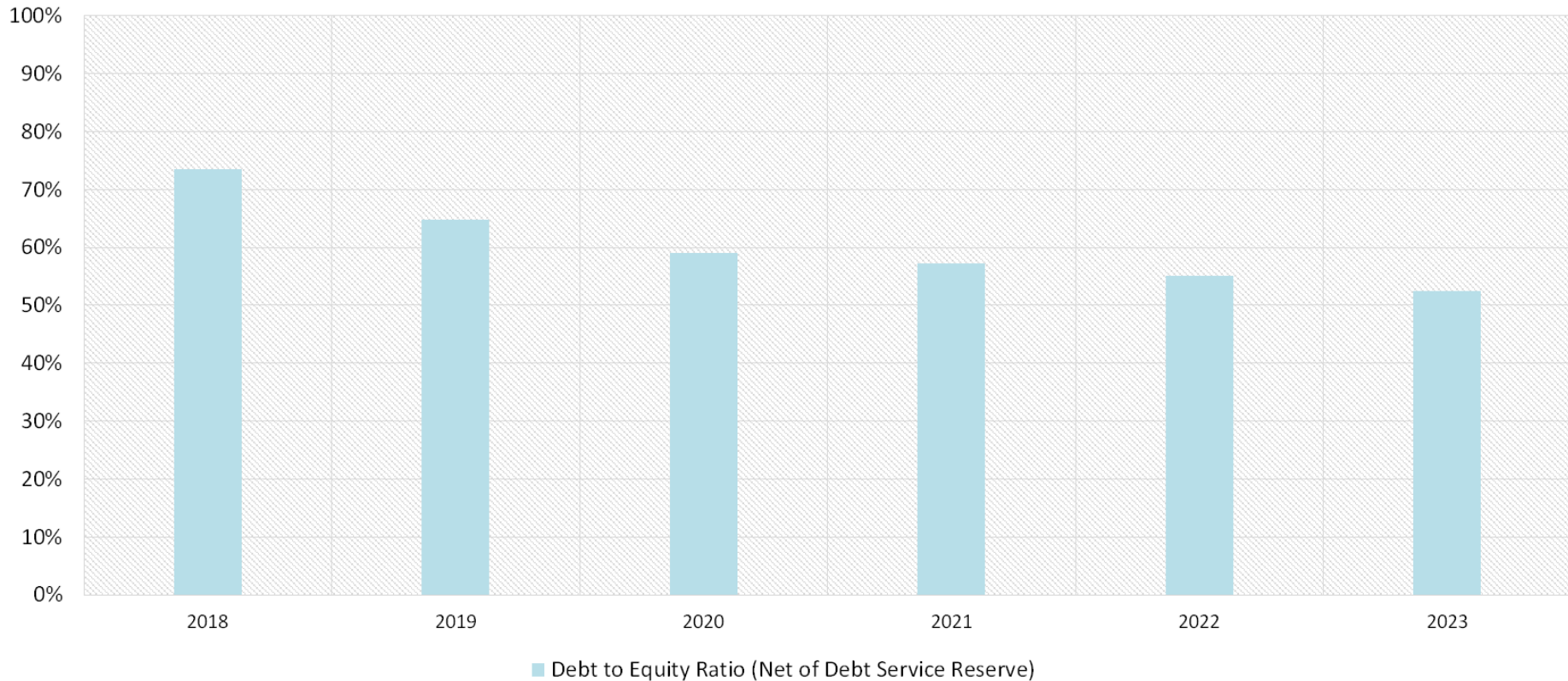
Renewal and Replacement Fund





Fiscal Position Debt to Equity (cont'd.)

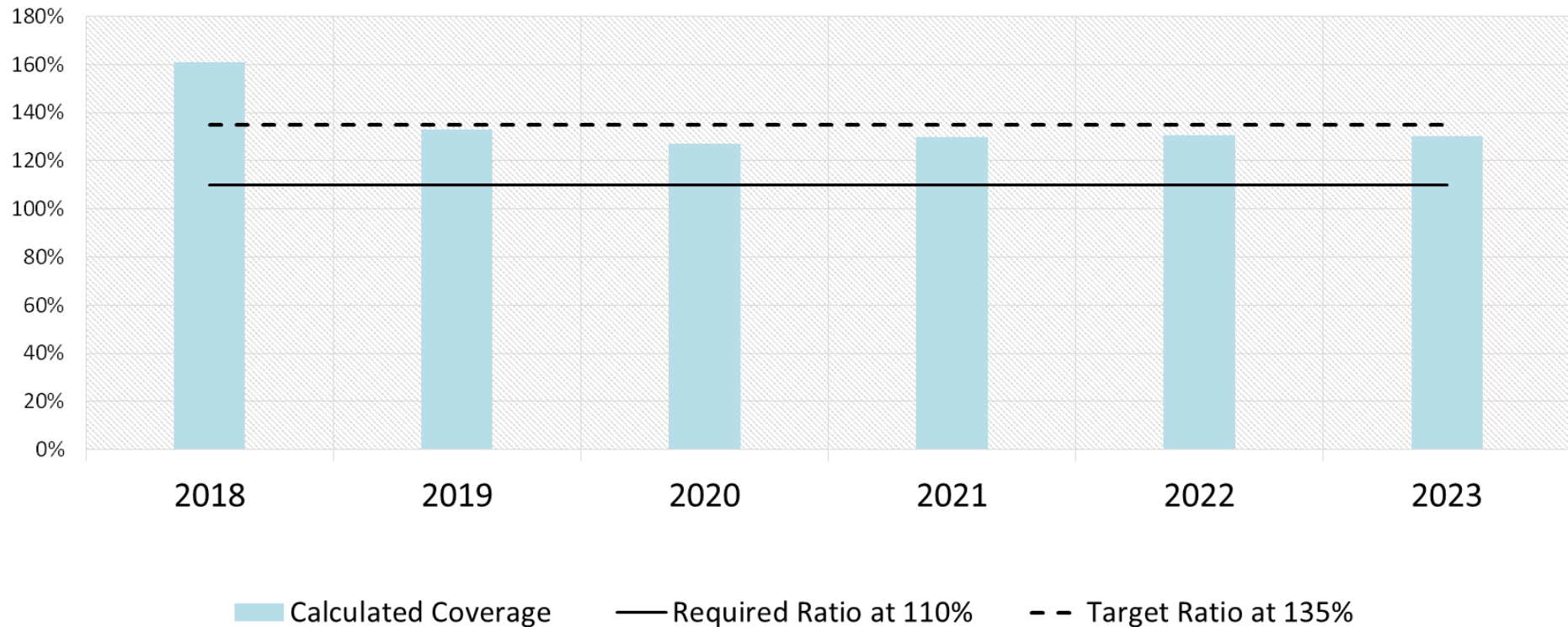
Debt to Equity Ratio





Fiscal Position (cont'd.)

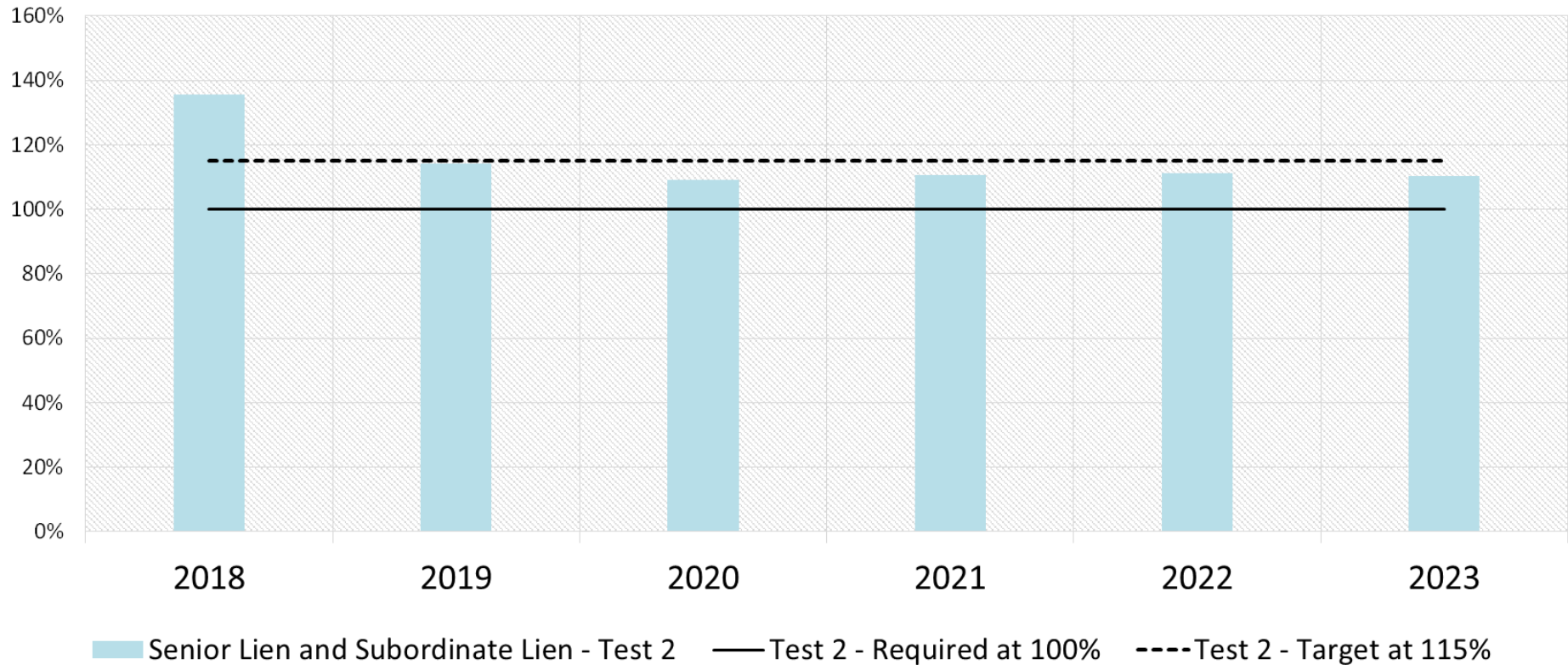
Test 1 - All-in Debt Coverage/Net Revenues/No Connection Fees or AFPI





Fiscal Position (cont'd.)

Test 2 - Total Debt Service Plus Required R&R Deposit/Net Revenues and AFPI





Results of Analysis (cont'd.)

❖ Financial Position

- Net Revenue Margin 42% in Fiscal Year 2018 – Projected Minimum Decline During Forecast Period
- Maintain Adequate Operating Reserves
- Projected Coverage Ratio – 160% Calculated / 110% Minimum
 - Provides Annual Capital Re-investment

❖ Last Rate Increase Effective Fiscal Year 2010

❖ No Rate Increase Proposed for Fiscal Year 2019



Results of Analysis (cont'd.)

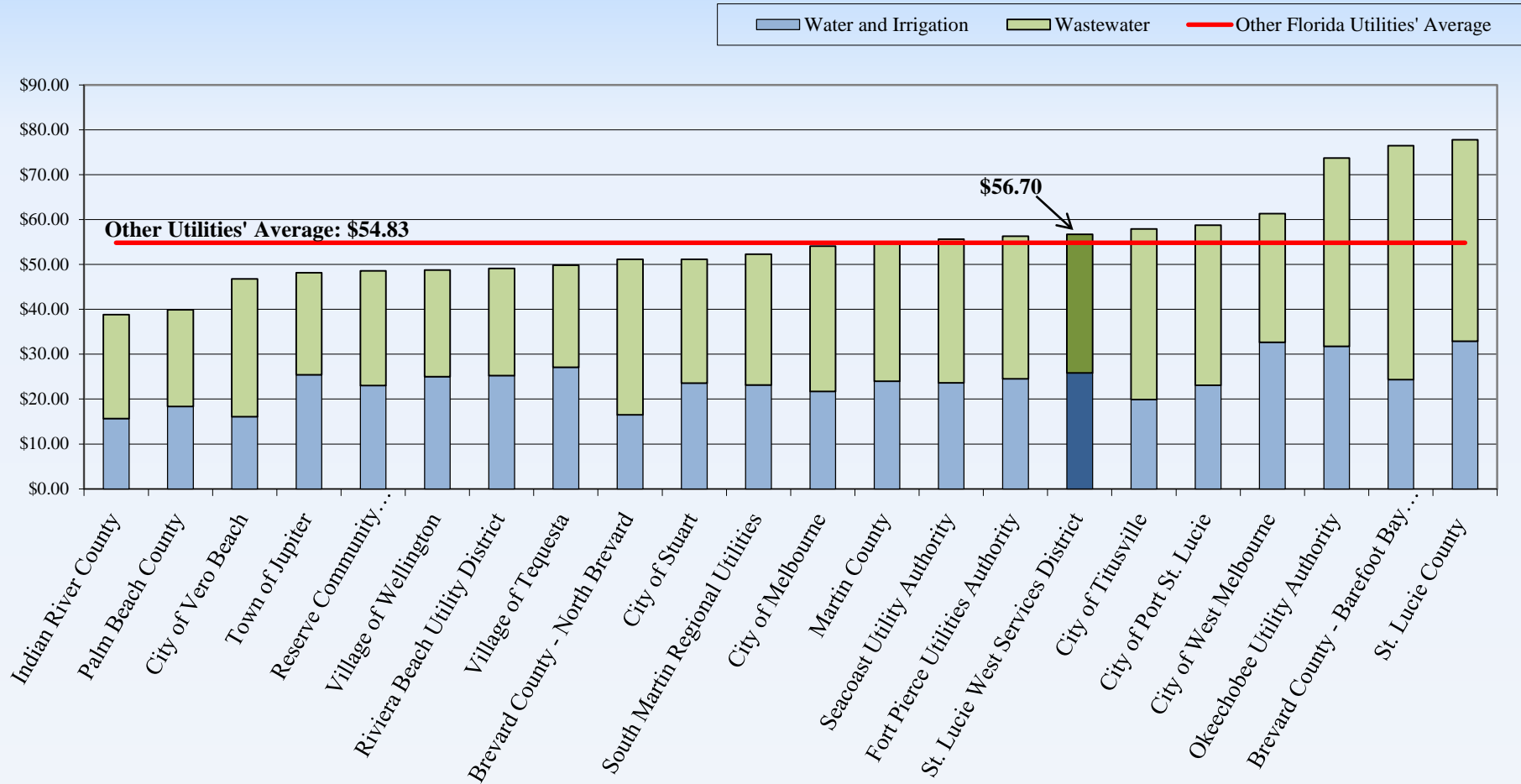
❖ Future Minimum Increases

- Fiscal Years 2021 and 2023 – Assumes Indexing Beginning 2021 (Approximately 2.0% Annually)
- No Additional Rate Adjustments Above Indexing Identified
- Re-evaluate Annually to Determine Need



Rate Comparison

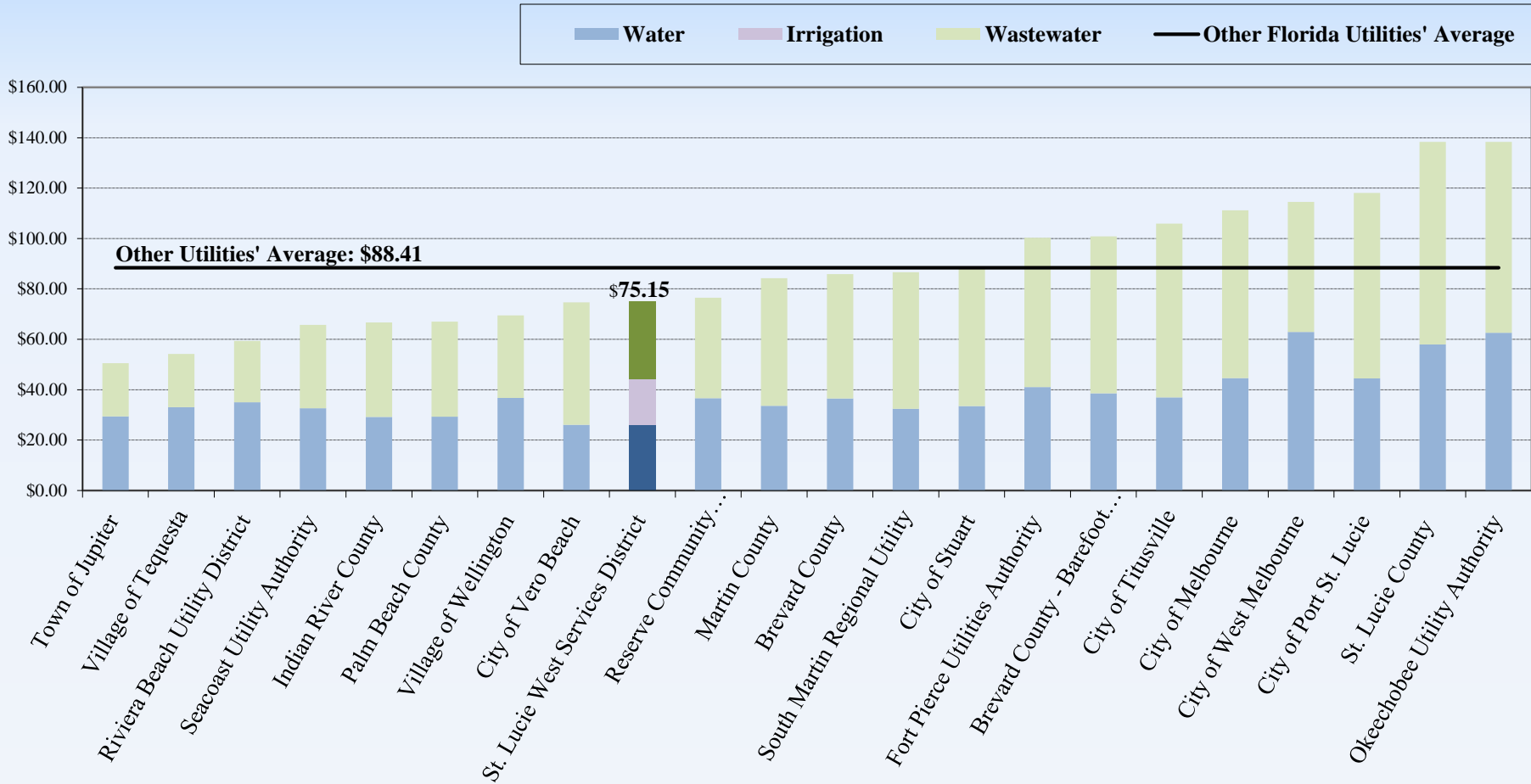
Combined Water and Wastewater Bill Comparison Assuming 3,000 Gallons Potable Water Usage





Rate Comparison with Irrigation

Combined Water and Wastewater Bill Comparison
Assuming 3,000 Gallons Potable Water Usage and 5,000 Gallons Irrigation Service





Recommendations

- ❖ Fiscal Year 2019 Utility Budget is Reasonable
- ❖ No Rate Increase for Fiscal Year 2019
- ❖ Annual Update and Evaluation of Revenue Sufficiency



Questions and Answers