September 28, 2020

CITY OF DELTONA, FLORIDA

WATER AND WASTEWATER RATE STUDY

Preliminary Results

GovRates, Inc.
Utility, Financial, Rate, and Management
Consultants for Governments
www.govrates.com

PUBLIC WORKS
AND FINANCE

Water and Wastewater Utility Overview

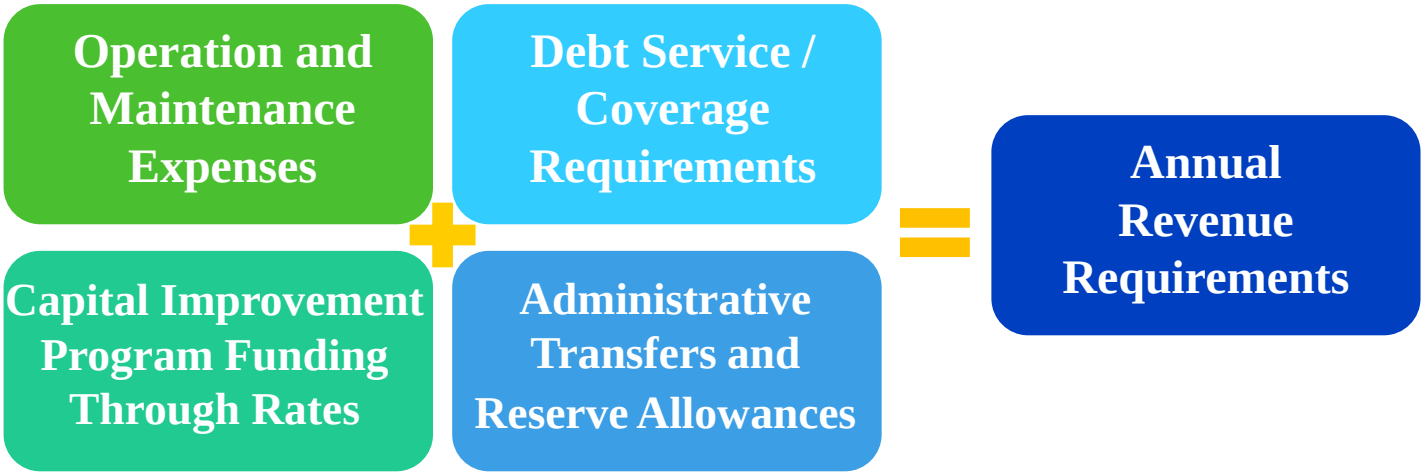
- **Utility Provides Essential Service on Continuous Basis**
  - **Public Health and Safety – Primary Objective**
  - **Highly-Regulated (FDEP / SJRWMD / Florida Department of Health / EPA)**
  - **Permits Require Compliance with Regulations**
- **Enterprise Fund: Operations Primarily Funded Through User Rates and Fees**
- **Large "Business" of City**
  - **Over $100 Million Installed Cost of Utility Assets Under City Management**

Primary Objectives of Current Rate Study

- **Update Financial Plan**
  - Financial Forecast Through Fiscal Year 2030
  - Recognize Opportunity to Refund Existing Utility Bonds to Achieve Cost Savings and Rate Relief
- **Review Existing Rate Structures**
- **Review Water and Wastewater Impact Fees**
  - Support Policy of "Growth Paying for Growth"
- **Recommend Automatic Rate Indexing Provision to Help Utility Keep Up With Inflation**
  - Common Among Utilities
  - Favored By Credit Rating Agencies

Revenue Requirements

- **Projected Through 2030**
- **Include the Following:**



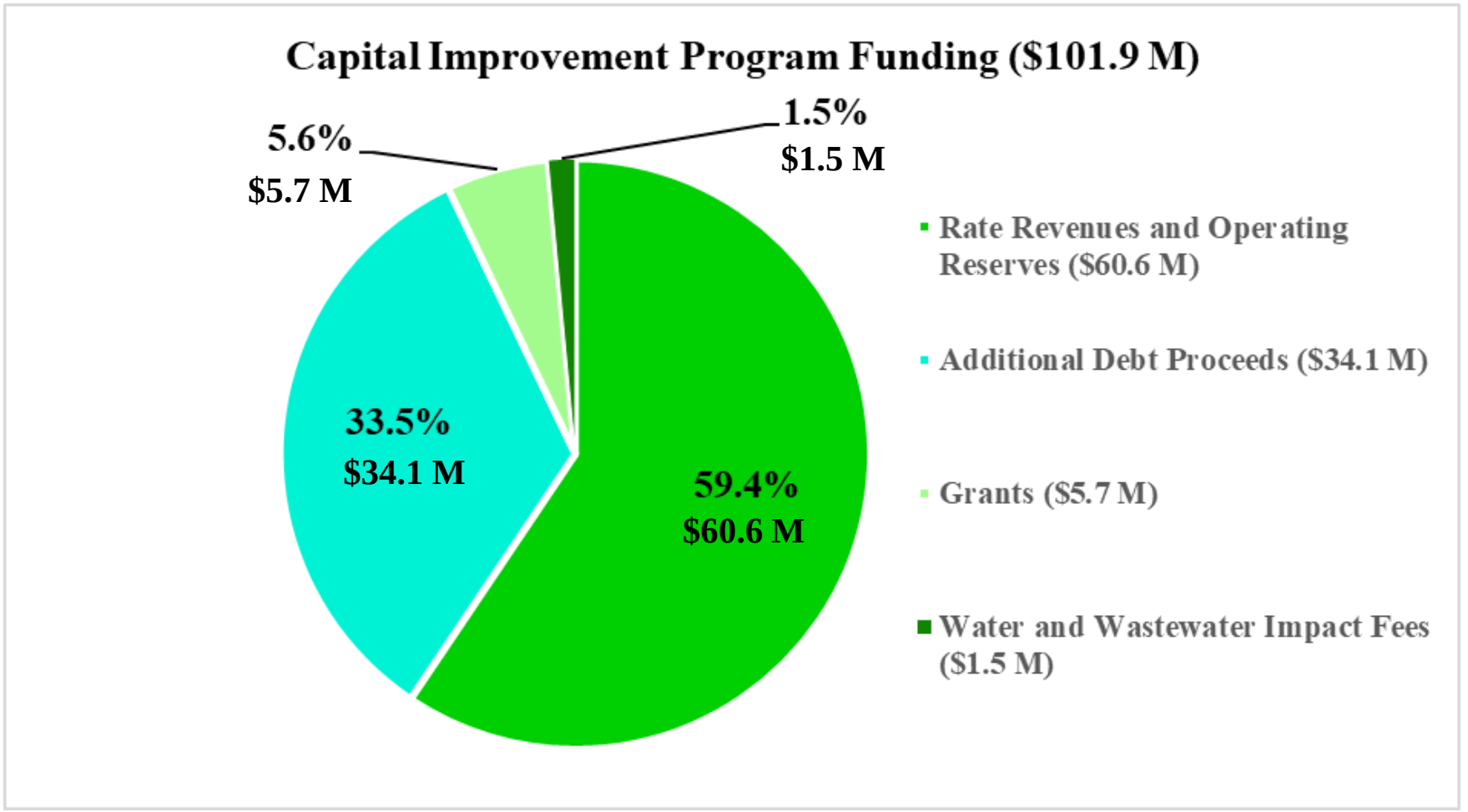
Major Cost Factors Affecting Water and Sewer Utility System

- **Approximately $102 Million in Capital Needs Recognized Through Fiscal Year 2030**
  - **Based on Recent Utility Master Plan Findings**

Summary of Capital Needs Through Fiscal Year 2030

Description	Amount
Wastewater Treatment Plant Upgrades / Expansions	$19,261,100
Alternative / Reclaimed Water System Expansions	17,201,200
Well, Aquifer, and Water Treatment Plant Upgrades / Replacements	12,956,975
Water Main Rehabilitations and Replacements	11,591,300
Meter Upgrades and Replacements	9,210,000
Force Main / Sewer Main Rehabilitations and Replacements	8,712,630
Vehicles, Equipment, and Minor Capital Outlay	8,028,600
Lift Station Upgrades / Replacements	4,168,300
Development-Driven Projects	3,100,000
SCADA System Upgrade	2,495,200
Manhole Replacements	352,000
Other	4,827,425
Total Major Capital Needs	$ 101,904,730

Major Cost Factors Affecting Water and Sewer Utility System (cont.)



Major Cost Factors Affecting Water and Wastewater Utility System (cont.)

- **Operating Expenses Projected to Continue Increasing**
  - **Permanent Increases in Costs Must Ultimately Be Passed Through to Ratepayers**
  - **Congressional Budget Office National CPI Projections: 2.2% to 2.6% Increase Per Year Through Forecast Period of Fiscal Year 2020 to 2030**
  - **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**

Major Cost Factors Affecting Water and Wastewater Utility System (cont.)

- **Need to Maintain Adequate Debt Service Coverage (Net Revenues / Annual Debt Services)**
  - **Rate Covenants Are Formal Agreements Between City and Bondholders / FDEP**
  - **Should Target More Than Required Coverage Percentage to Provide More Pay-As-You-Go Funding for Routine / Recurring Capital Needs**

Projected Need for Revenue Adjustments Assuming Refunding of Utility's Series 2013 and 2014 Bonds with "30-Year Stretch"

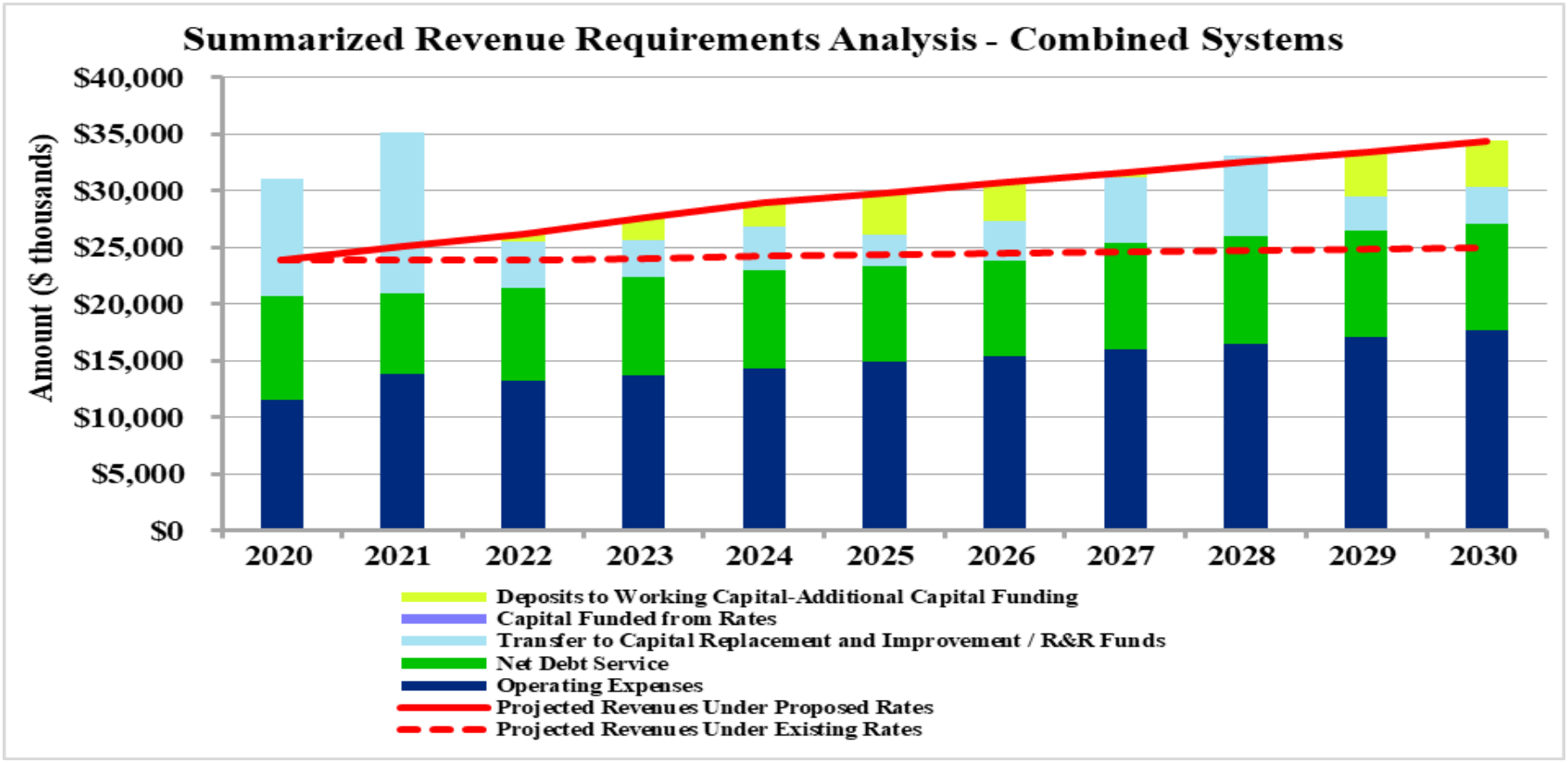
Summary of Projected Water, Wastewater, and Reclaimed Water User Rate Revenue Adjustments

Fiscal Year	Prior Rate Study	Current Projections with Bond Refunding	Status
2021	5.0%	5.0%	Already Adopted
2022	5.0%	5.0%	Already Adopted
2023	5.0%	5.0%	Already Adopted
2024	5.0%	5.0%	Already Adopted
2025	5.0%	2.5%	Proposed to Be Change in ENR Construction Cost Index [*]
2026	5.0%	2.5%	Proposed to Be Change in ENR Construction Cost Index [*]
2027	5.0%	2.5%	Proposed to Be Change in ENR Construction Cost Index [*]
2028	5.0%	2.5%	Proposed to Be Change in ENR Construction Cost Index [*]
2029	5.0%	2.5%	Proposed to Be Change in ENR Construction Cost Index [*]
2030	N/A	2.5%	Proposed to Be Change in ENR Construction Cost Index [*]

[*] Recent increases in the *Engineering News-Record* (ENR) Construction Cost Index have averaged between 2.5% and 3.0% per year.

- **Best Financial Management Practices: Smaller, Incremental Increases Over Time Help to Avoid Future "Rate Shock" and Higher "Catch Up" Rate Increases**
- **Other Bond Refunding Alternatives May Require Higher Rate Adjustments**

Projected Financial Position Should Enable Utility to Accomplish Multiple Key Objectives



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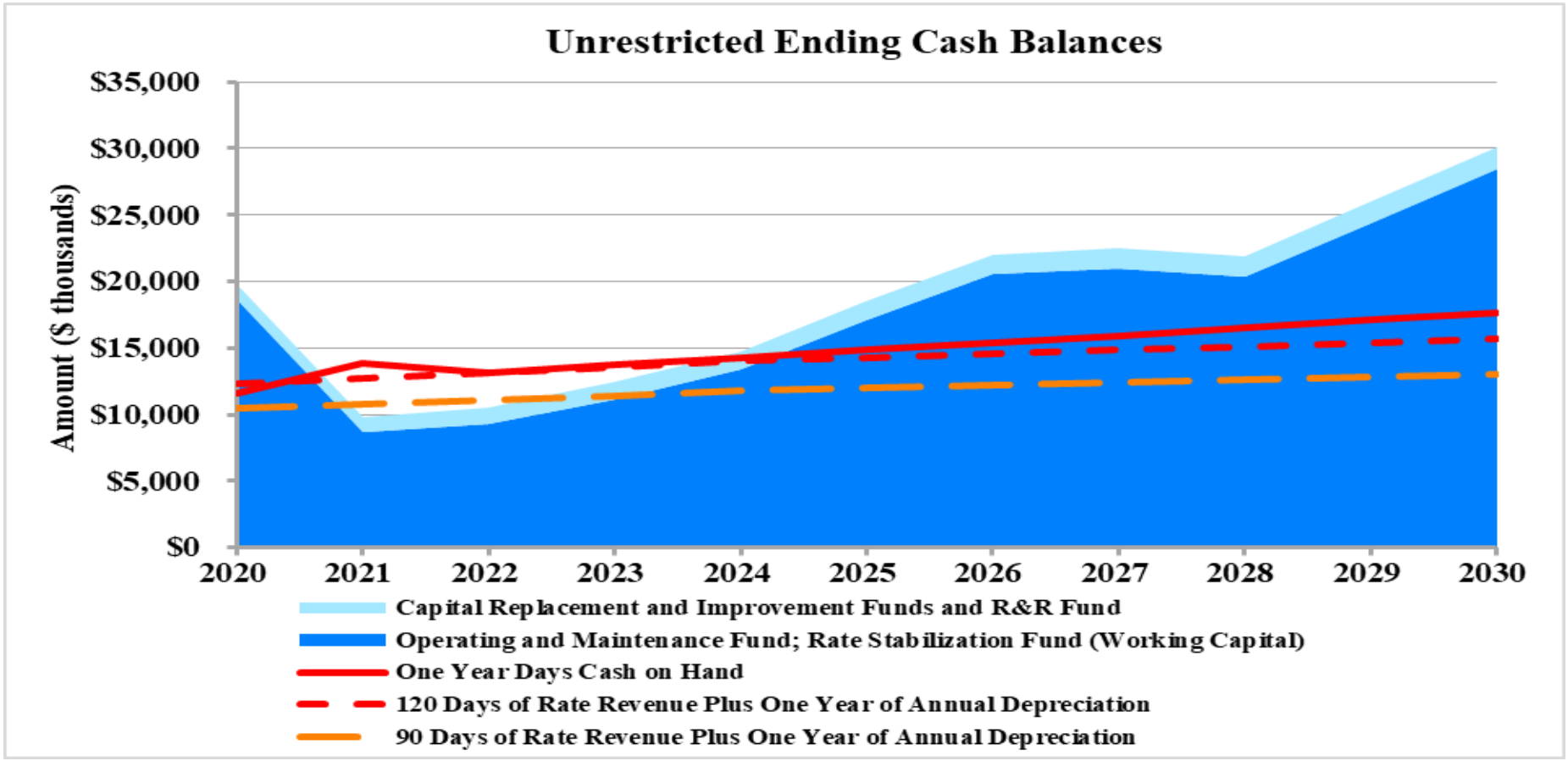

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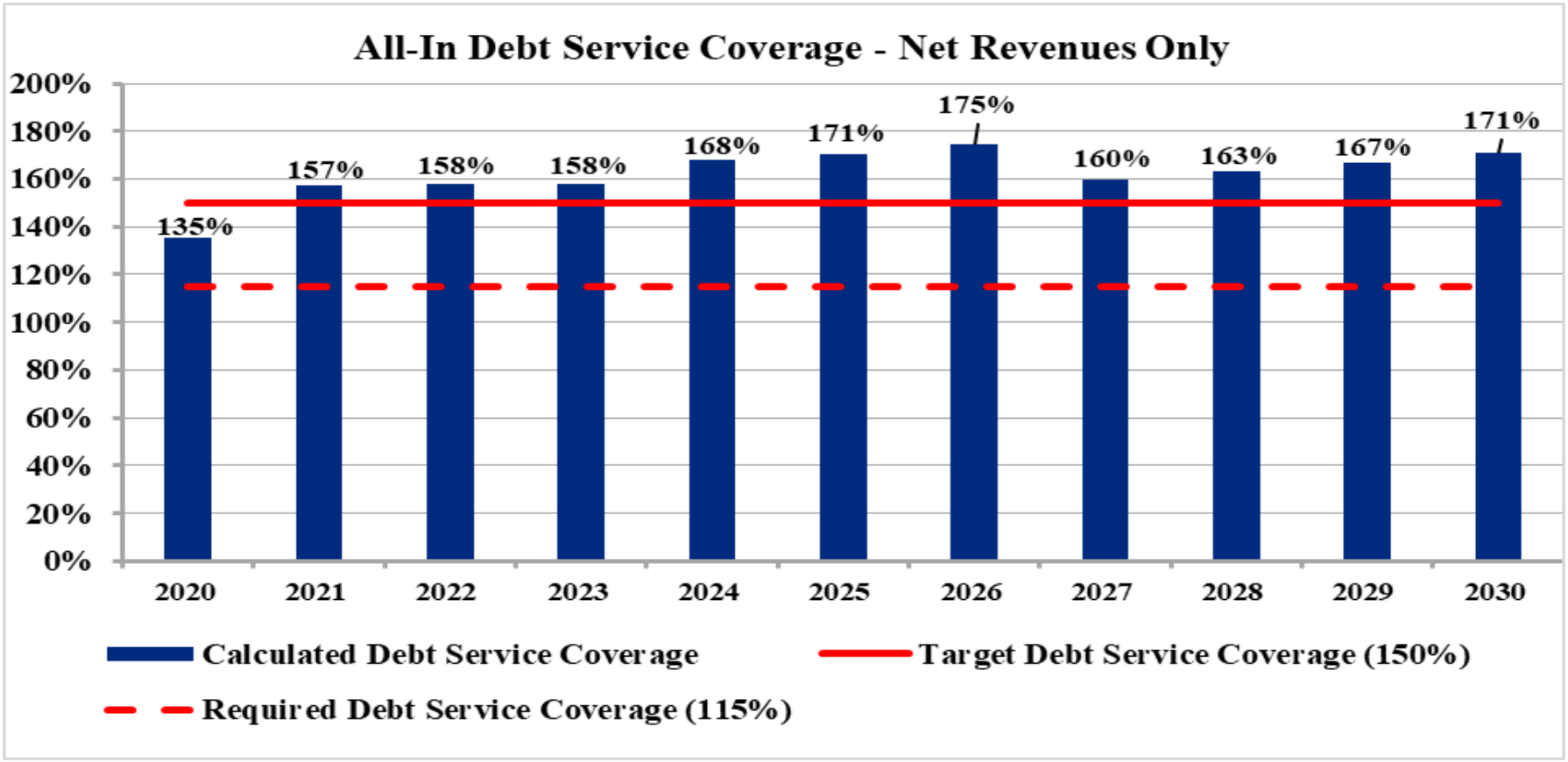


Projected Financial Position Should Enable Utility to Accomplish Multiple Key Objectives

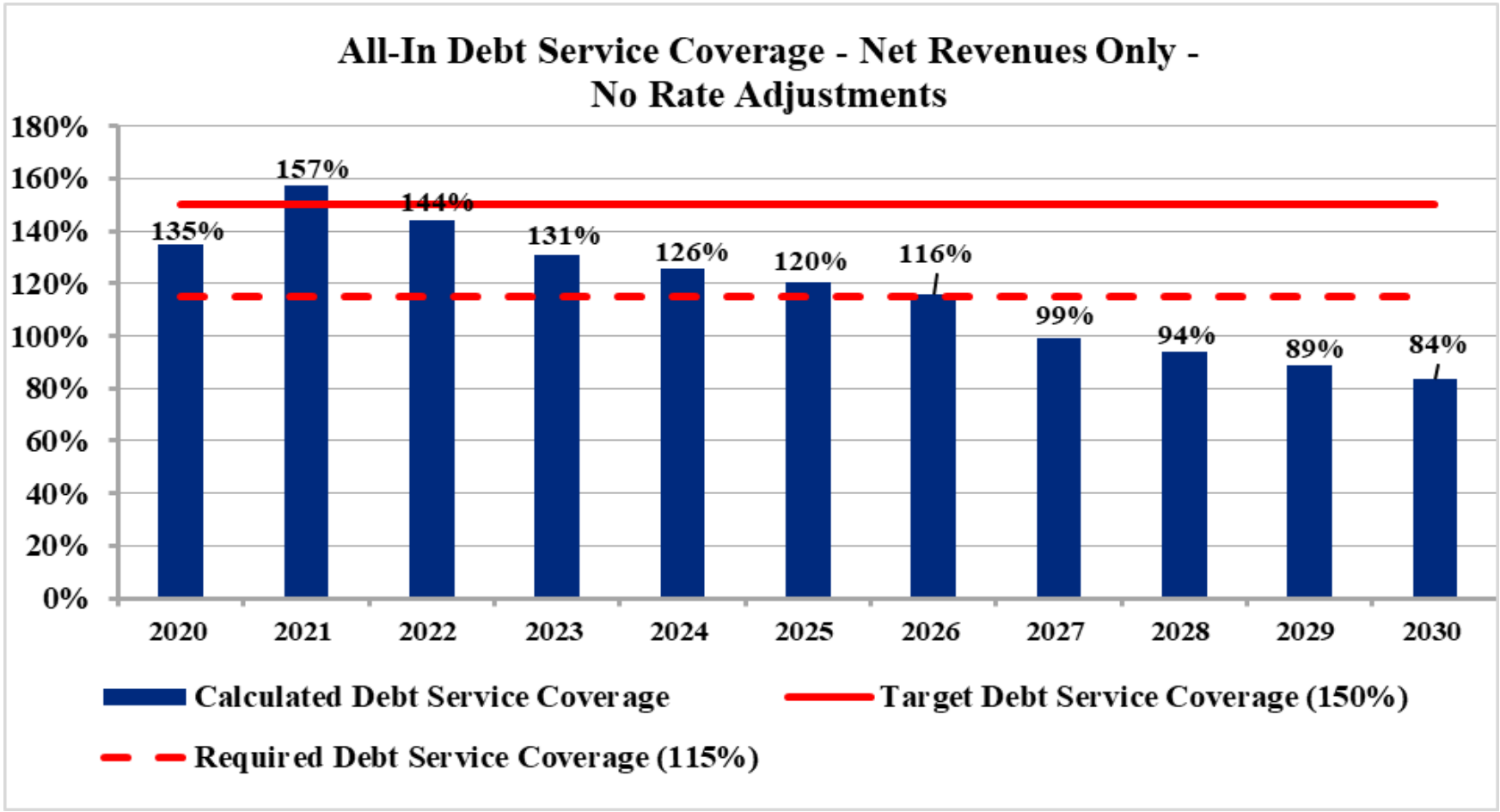
Key Objectives:

- **Fund Projected Operating Expenses and Capital Needs Identified in Recent Utility Master Plan**
- **Lock-In Debt Service Savings Through Refunding of Series 2013 and 2014 Bonds**
- **Enable Utility to Secure State Revolving Fund (SRF) and Bank Loans to Finance Major Capital Projects**
- **Maintain Affordable Rates**

Financial Risks of Not Adjusting Rates

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

Financial Risks of Not Adjusting Rates



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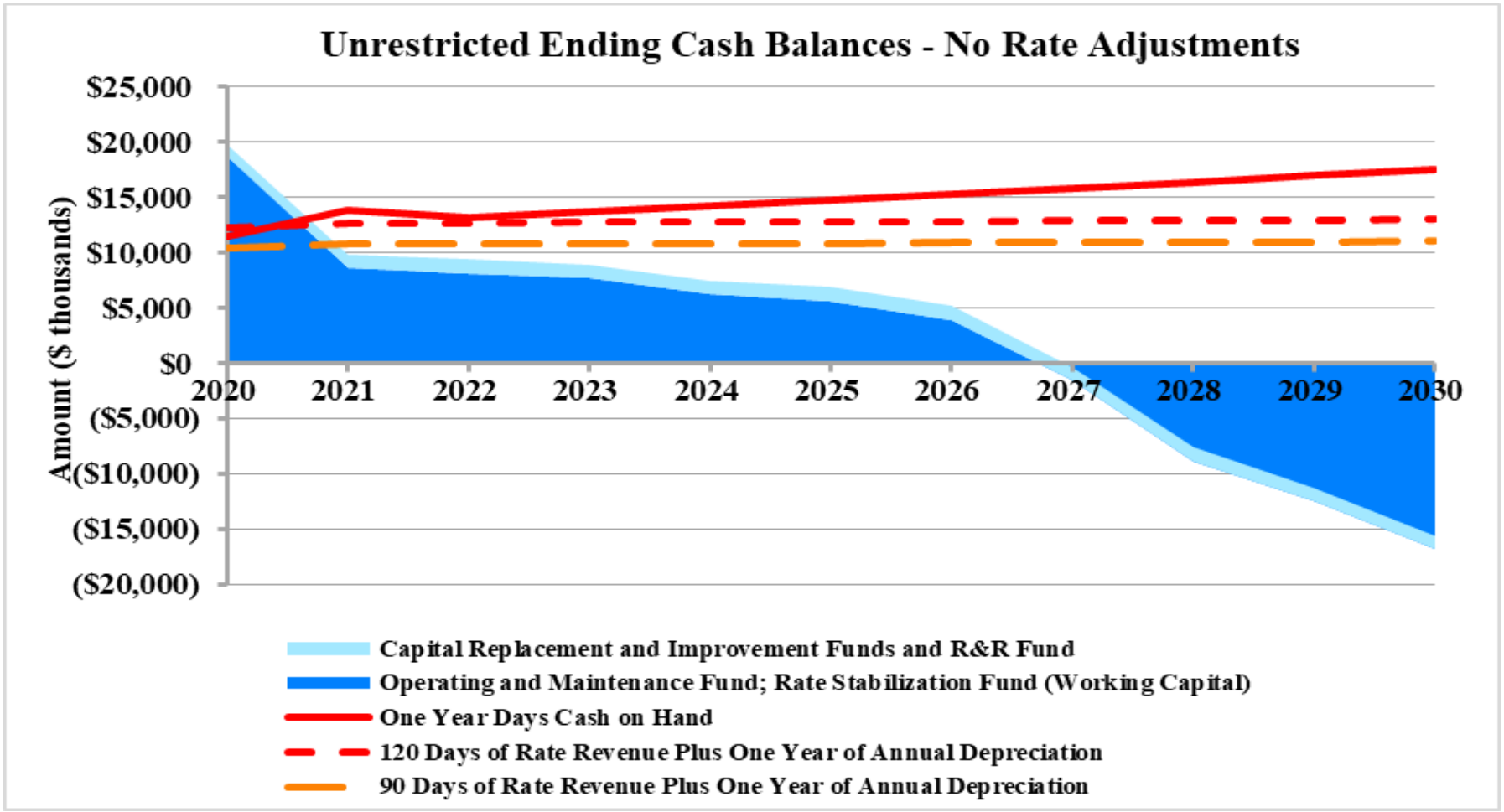


Rate Structure Recommendations

- **Recommend Maintaining Existing Water Rate Structure and Applying Uniform / Across-the-Board Increases**
  - Over 80% of Utility Customers Have Only Water Service
- **Recommend Gradually Increasing Base Charge Recovery for Wastewater System and Reclaimed Water System to Promote Revenue Stability**
  - Most Operating Expenses and All Debt Service Are Fixed
  - Effects of COVID-19 and Anticipated Additional Debt Financing (Fixed Costs) Support Increasing Base Charge Recovery
  - Current Base Charge Recovery: 22% Wastewater, 24% Reclaimed Water; Utility Industry Recommended: Minimum 30%
  - For Wastewater, Recommend Including First 2,000 Gallons of Usage in Residential Base Charge
  - For Reclaimed Water, Recommend Increasing Monthly Base Charge for Fiscal Year 2021 at Higher Rate Than Volumetric Charge to Achieve Overall 5% Increase in Reclaimed Water User Rate Revenue

Rate Structure Recommendations (cont.)

- **Recommend Eliminating 10,000-Gallon Residential Wastewater Billing Cap**
  - **Would Provide Rate Relief to Users of 2,000 to 10,000 Gallons Per Month**
  - **Shifts Cost Recovery to Larger Users**
  - **"Neighboring" Utilities with No Residential Wastewater Billing Cap: City of Casselberry, City of Longwood, City of Maitland, City of St. Cloud**

Proposed Wastewater Rates for
Single Family Residential Customer with Typical 5/8" Meter

Rate Component	Existing Fiscal Year 2020 Rates	Proposed Fiscal Year 2021 Rates [*]
Base Rate	$20.67	$53.92
Usage / Volume Charge Per 1,000 Gallons		
0 to 2,000 Gallons	$17.30	$0.00
2,001 to 5,000 Gallons	17.30	16.11
5,001 to 10,000 Gallons	22.50	20.95
Over 10,000 Gallons	0.00	20.95
Bill for 2,000 Gallons of Usage	$55.27	$53.92
Difference		(1.35)

[*] ($20.67 Base Charge in FY 2020 * 1.05) + ($16.11 * 2 kgal) = $53.92

Rate Structure Recommendations (cont.)

- **Maintained 25% Outside-City Surcharge as Allowed Per Florida Statute 180.191**
- **Effect of Rate Recommendations on Single Family Residential Customer with Average Usage**
  - **Single Family Residential Customers Comprise Over 95% of Water Customer Base and About 90% of Wastewater Customer Base**

Effect of User Rate Recommendations on Single Family Residential Customer with Average Usage of 5,000 Gallons

			Combined Bill [2]		
	Water Bill [1] (Already Adopted)	Wastewater Bill [2] (Proposed)	Combined Bill [2] (Proposed)	Cost Per Gallon	% of Median Household Income [3] (EPA: <4.5% Considered Affordable)
FY 2020 Rates	$24.97	$107.17	$132.14	2.64¢	3.25%
FY 2021 Rates	$26.21	$102.25	$128.46	2.57¢	3.16%
Difference	$1.24	($4.92)	($3.68)	-0.07¢	

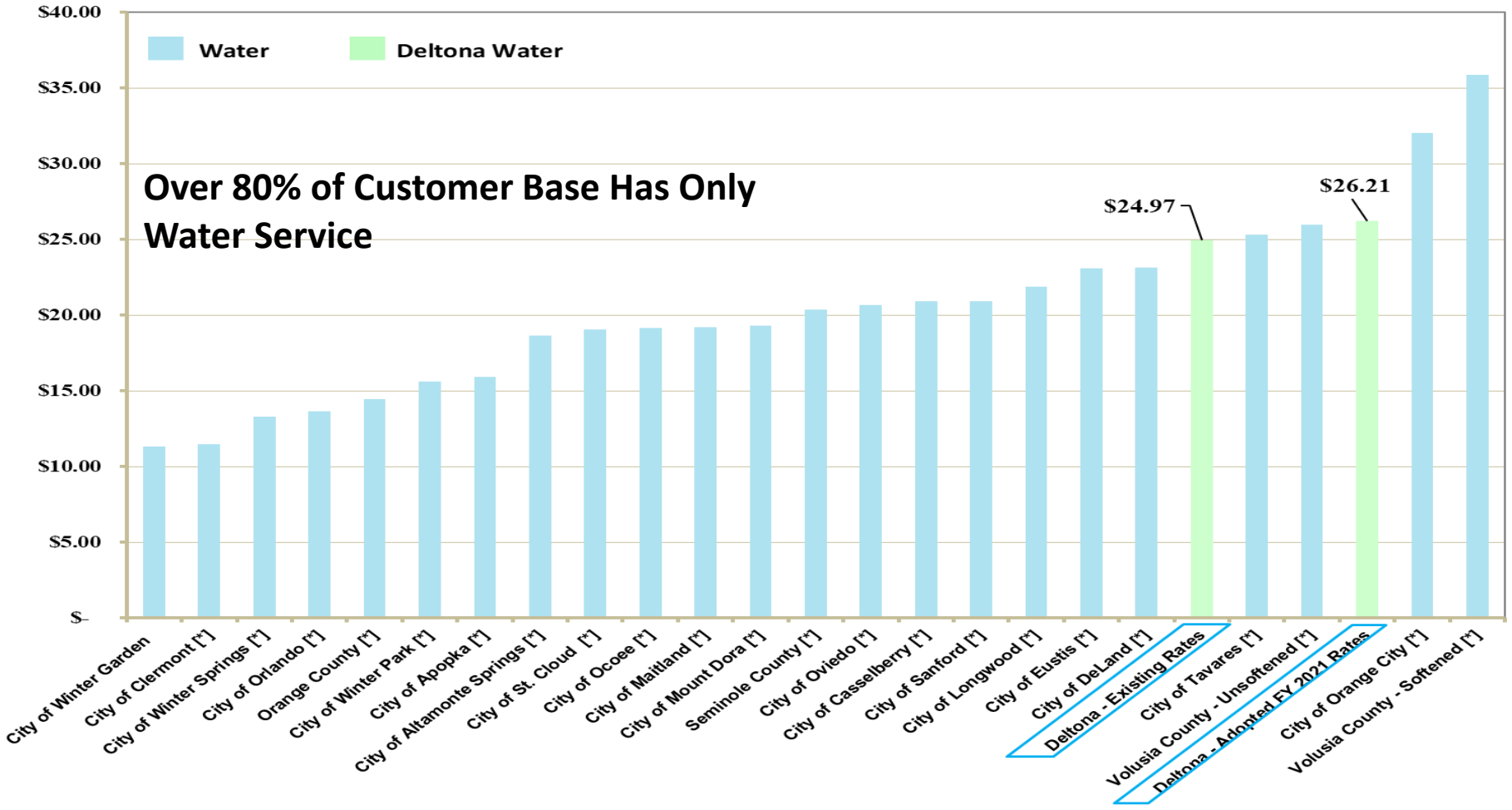
[1] Over 80% of customer base has only water service.

[2] Less than 20% of customer base has both water and wastewater service.

[3] United States Census Bureau: Median Household Income for Deltona = $48,839 per year or $4,070 per month.

Comparison of Monthly Charges

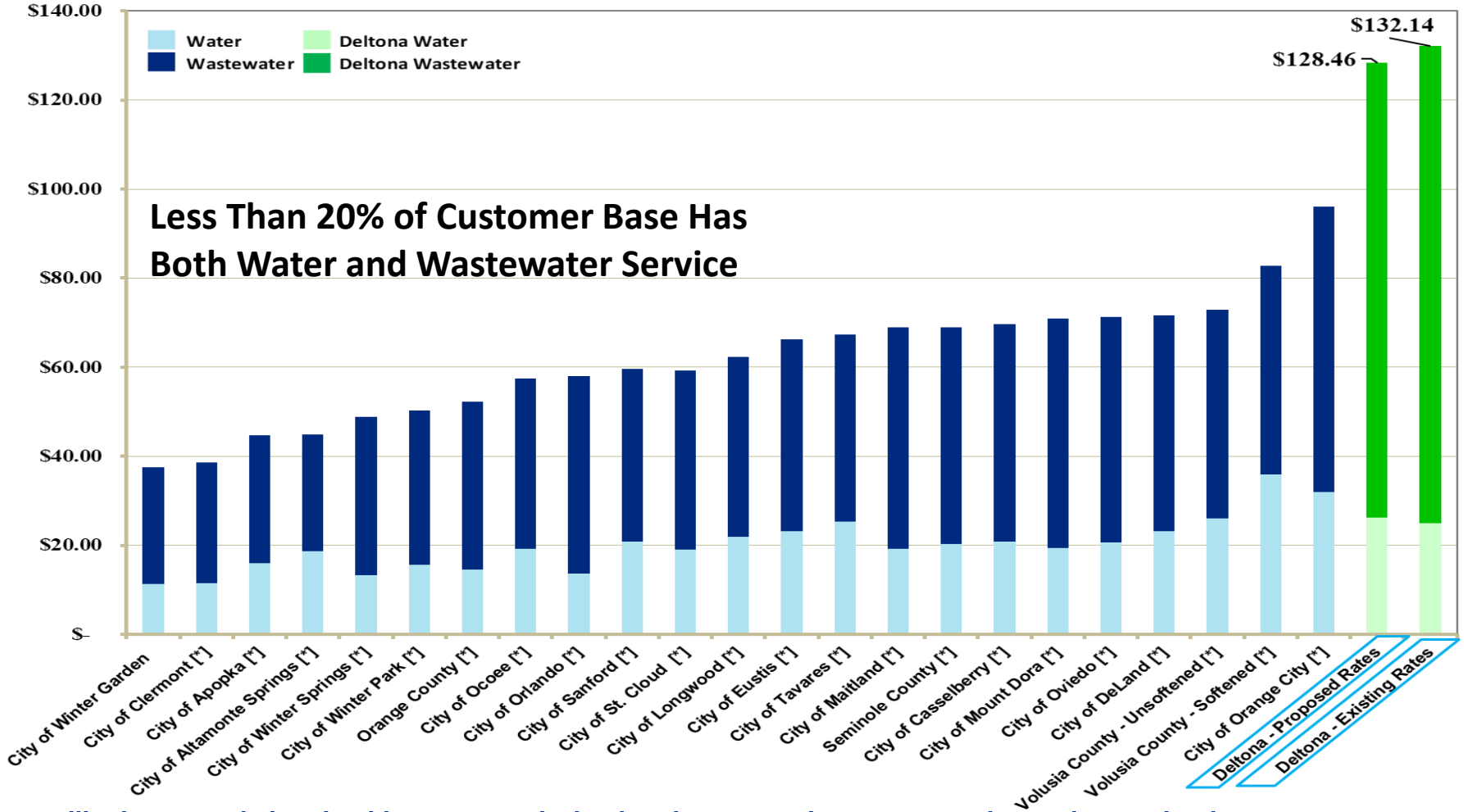
For Water Service with Monthly Usage of 5,000 Gallons
(Historical Average Usage of Single Family Residential Customer in System)



[*] 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

Comparison of Monthly Charges

For Combined Water and Sewer Service with Monthly Usage of 5,000 Gallons (Historical Average Usage of Single Family Residential Customer in System)



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Rate Comparison Not a "Report Card" on How Well Utility Is Performing

- **Some Reasons Why User Rates Differ Among Utilities**
  - Size of Existing Customer Base / Available System Growth
  - Demographics (e.g., Customers Spread Out vs. Close Together, Types of Customers Served)
  - Level of Capital Improvements to Meet Service Area Growth
  - Amount of Needed Renewals and Replacements / Remaining Service Life of Assets
  - Differences in Bond Covenants
  - Source of Water Supply and Treatment Process Costs
  - Plant Capacity Utilization and Assistance in Funding of Such Capacity (e.g., Grants, Impact Fees)
  - Time of Last Rate Review
  - Amount of General Fund and Administrative Fee Transfers

Water and Wastewater Impact Fees

- **Charged to Development to "Buy-In" to Proportionate Share of System Capacity**
  - Support Policy of "Growth Paying for Growth"
  - Reduce Cost Burdens on Monthly User Rates (Help to Reduce Need for User Rate Increases)
  - Last Reviewed in 2015

- **Calculated Based on:**
  - Cost of Installed Assets Available to Serve New Growth
  - Multi-Year Capital Program
  - Utilized Level of Service (LOS) Standards Based on Per Capita Usage Assumptions Reflected in Most Recent Utility Master Plan
    - Water LOS = 270 gpd per ERC
    - Wastewater LOS = 215 gpd per ERC

Water and Wastewater Impact Fees (cont.)

- **Recommend That Financing Portion (Interest Associated With Debt) Be a Separate "Capital Financing Recovery Fee" (CFRF)**
  - **Prior Impact Fee Analysis Included This Component as Part of Fees**
  - **CFRF (Sometimes Known as "Accrued Guaranteed Revenue Charge" and Other Names) Charged By Some Utilities as Reimbursement to Existing User Rate Payers for "Carrying" Capacity in Advance of Growth**
  - **CFRF Considered to Be Operating Revenue and Helps Utility Meet Net Revenues Debt Service Coverage Requirement**

Water and Wastewater Impact Fees (cont.)

Existing and Proposed Water and Wastewater Impact fees Fees Per ERC

System	Fees Currently Charged [1]	Previous Study Calculation [2]	Current Study Calculation [3]	Difference from Previous Study Calculations	
				Amount	Percent
Water	$1,872	$1,872	$1,944	$72	3.8%
Wastewater	3,817	5,090	4,531	(559)	-11.0%
Total	$5,689	$6,962	$6,475	($487)	-7.0%

ERC = Equivalent Residential Connection

[1] Only 75% of calculated wastewater impact fee was adopted.

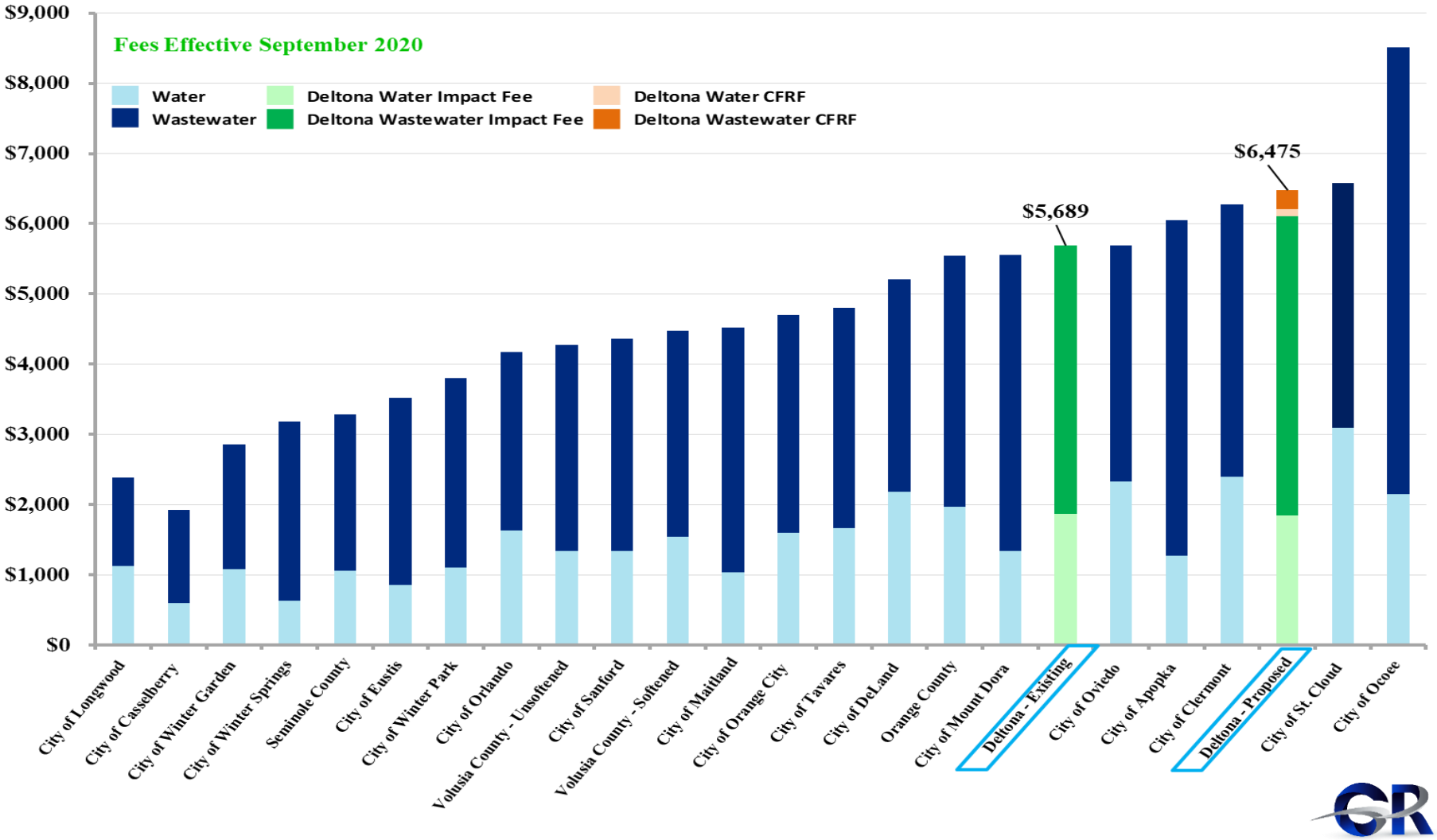
[2] Includes carrying (interest) cost component. Based on 350 gpd per water ERC and 300 gpd per wastewater ERC.

[3] Breakdown as follows:

Component	Water	Wastewater	Combined
Impact Fee	$1,846.00	$4,262.00	$6,108.00
CFRF	98.00	269.00	367.00
Total	$1,944.00	$4,531.00	$6,475.00

- **Calculated Cost Per Gallon of Capacity Is Higher, But Lower Level of Service Per ERC Results in Lower Calculated Wastewater Fee**

Water and Wastewater Impact Fees (cont.)



Rate Indexing Adjustment Clause

- **In Absence of Formal Rate Study Recommendation or Council Action, Recommend Automatic Rate Increases for Inflationary Effects on Costs of Operation**
  - **Recommended Index: ENR Construction Cost Index, Which Links More Closely to Utility Cost Increases Than Other Alternatives**
  - **Implemented Without Formal Public Hearing or Analysis**
  - **Effective October 1st of Each Applicable Fiscal Years**
  - **Help to Prevent Future Rate Shock and Catch Up Rate Increases**
- **Favored By Credit Rating Agencies**
  - **More Assurance That Rates Will Keep Up With Inflation**
  - **Less Implied Risk of Default on Debt Service Payments**
- **Smaller, Incremental Rate Increases Over Time Are a Utility Best Management Practice**

Rate Indexing Adjustment Clause (cont.)

- **Florida Local Governments with Rate Indexing Provisions:**

  (Also Allowed By the Public Service Commission in the Regulation of Private Utilities)

City of Apopka	City of Boca Raton	Charlotte County
City of Chipley	Citrus County	City of Clearwater
City of Coconut Creek	City of Cooper City	Town of Davie
City of Daytona Beach	City of DeLand	City of Dunedin
City of Eustis	City of Fellsmere	Florida Governmental Utility Authority
Florida Keys Aqueduct Authority	City of Fort Lauderdale	City of Fort Myers
Hillsborough County	City of Homestead	City of Jacksonville Beach
Town of Jupiter	Town of Jupiter Island	City of Lake City
Town of Lantana	Town of Mangonia Park	City of Marco Island
City of Margate	City of Miami	City of Miami Beach
City of Mount Dora	City of Naples	City of New Port Richey
City of North Port	City of Oakland	City of Oakland Park
City of Ocoee	City of Oldsmar	City of Orange City
City of Palatka	City of Palm Bay	City of Palmetto
City of Pembroke Pines	City of Plant City	City of Plantation
City of Port St. Lucie	City of St. Augustine	Seminole County
City of South Daytona	City of Stuart	City of Tallahassee
City of Tamarac	City of Tarpon Springs	Village of Tequesta
Volusia County	City of West Palm Beach	City of Winter Garden
City of Winter Haven	City of Winter Park	

Requested Council Action

- **Approve Updated Financial Plan**
  - **Smaller, Incremental Rate Increases Over Time Help to Avoid Future "Rate Shock" and "Catch Up" Increases**
  - **Rates Considered Competitive and Affordable**
    - **In All Fiscal Years, Combined Water and Sewer Bill for Average Usage of Single-Family Residential Customer Is Below 4.5% of Median Household Income – Historical Affordability Metric Used By Utility Industry**
- **Recommendation to Approve Refunding of Series 2013 and 2014 Bonds to Achieve Debt Service Savings and Rate Relief**
- **Recommendation to Approve Restructuring of Residential Wastewater Rates to Provide Rate Relief to Smaller Users and Promote Revenue Stability**

Requested Council Action (cont.)

- **Recommendation to Adopt Proposed Impact Fees and Capital Financing Recovery Fees to Fairly Shift Cost Recovery to Development and Reduce Cost Burden on Monthly User Rates**
- **Recommendation to Adopt Automatic Rate Indexing Provision Based on ENR Construction Cost Index in Absence of Formal Rate Study Recommendation or Council Action**
  - **Automatic Rate Indexing Is Common Among Utilities**
  - **Third-Party Evaluators Such as Credit Rating Agencies and Lenders Want to See That All Increases Needed to Support Debt Have Already Been Adopted**
- **Monitor Actual Vs. Projected Financial Results**
  - **Effects of COVID-19 as Well as Changes in Economic Conditions, Customer Usage Trends, Regulatory Environment, Capital Needs, Etc.**
  - **Update Financial and Rate Plan as Needed**