

Loxahatchee River District

Water Reclamation | Environmental Education | River Restoration

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D. Albrey Arrington, Ph.D., Executive Director

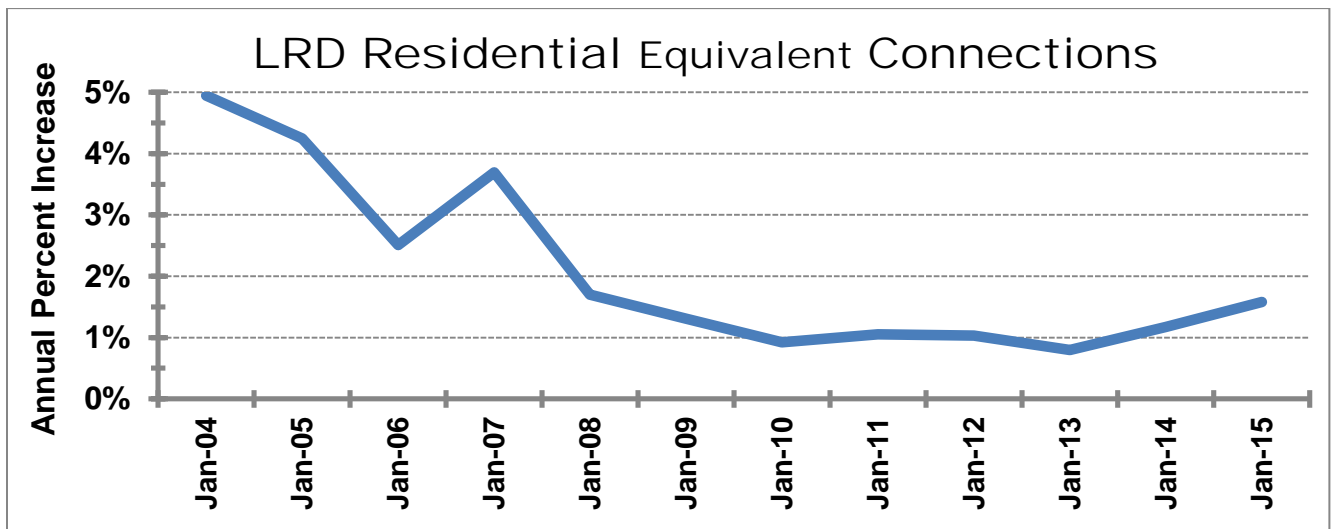
MEMORANDUM

TO: GOVERNING BOARD
FROM: D. ALBREY ARRINGTON, Ph.D.
DATE: FEBRUARY 12, 2015
SUBJECT: PROPOSED REVISION OF RULE 31-10 RATES, FEES, CHARGES

Staff has been working on our annual rate study. This year more than ever LRD is in excellent financial standing, as we just paid off our last outstanding bond. Through the Rate Study process, Staff looks forward to working with you to maintain both our sound financial position and quality customer service through implementation of a reasonable rate structure.

The annual Rate Study Model is a spreadsheet model that we use to assess the long-term fiscal position of LRD. The model uses an annual time step and includes terms for expected development within our service area (i.e., customer growth), and the model has explicit terms for operational and capital revenues and expenses. The Rate Study model provides useful estimates of future budgetary conditions. This year, the Model is based on the following general assumptions:

1. Budgeted FY2015 revenue from sewer rates has been adjusted up by \$600,000 (4%).
2. Service Availability Standby (SAS) revenues are projected to continue a slow, gradual decline, which has been occurring as our service area is nearing built-out conditions.
3. New connections are projected to increase by an average of 1% per year through 2018 and by 0.75% thereafter (see chart below for historical context).
4. Revenue from the sale of IQ water will increase (or decrease) proportionate to CCI (Construction Cost Index) per our existing contracts. CCI is projected to increase about 2.5% per year, though deflationary pressures may be emerging in the market.
5. Grant revenues are expected to increase based on anticipated legislative priorities; however, neighborhood sewerage grant funds merely offset homeowner's connection fees.
6. Investments are expected to earn an interest rate of 1% through 2016 and 2% in 2017 and beyond, though deflationary pressures may be emerging in the market.



Gordon M. Boggie
Board Member

Stephen B. Rockoff
Board Member

Dr. Matt H. Rostock
Chairman

Harvey M. Silverman
Board Member

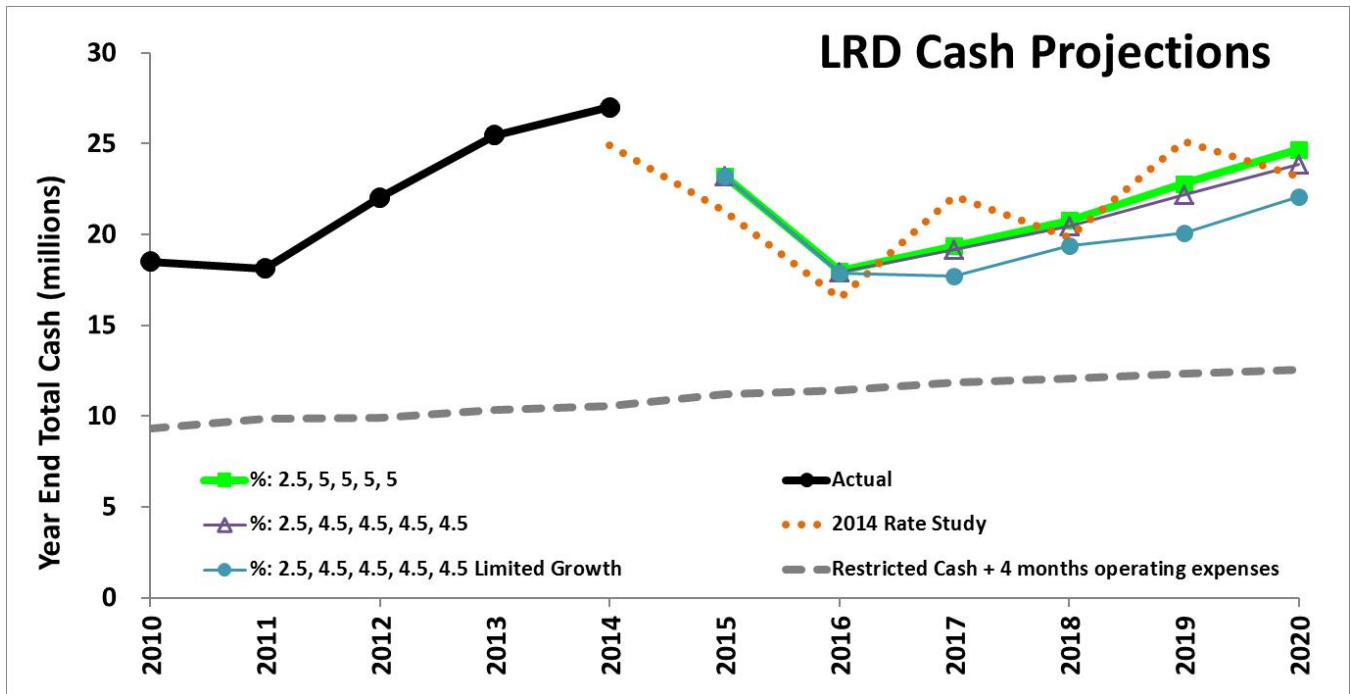
James D. Snyder
Board Member

7. Operating expenses are projected to increase by 4.5% per year. For the period 10/1/2009 through 9/30/2014 LRD's operating expenses increased by 4.7% per year. Over this same period the total number of residential customers served by LRD increased by 4% per year, while the number of low pressure sewer systems increased by nearly 9% per year.
8. Neighborhood sewerage will continue at an annual cost of approximately \$1 million per year through 2018. Gravity sewers will be constructed in Jupiter Inlet Colony and Little Oaks/River Oaks. Repayment of the sewer assessment for JIC is expected to occur as a lump sum payment in 2017.
9. Renewal and replacement costs anticipate increased efforts to maintain our aging infrastructure. For example, over the next 5 years approximately \$1.2 million is budgeted for condition assessment and renewal and replacement of existing collection and transmission system features.
10. All of our bond debt has been retired, and no additional bond is projected at this time.
11. Minimum cash balance should remain \geq restricted cash + 4 months operating budget.
12. Replacement of our traveling bridge filters with deep bed sand filters is projected to cost approximately \$11 million, and will include an important upgrade to electrical connectivity between our emergency generators, which will increase our resiliency during power outages.
13. In the Rate Study Model we continue to 'set aside' \$250,000 per year towards the construction of a new deep well, or alternatively an Aquifer Storage and Recovery (ASR) well that could temporarily store unused reclaimed water during the wet season and recover some portion of it during the dry season. While this money remains in our enterprise account, the Year End Total Cash from the Rate Study does not include the funds 'set aside' for the Deep Well. The Deep Well funds accumulate in the New Deep Well \$ Available column of the Rate Study.

The largest capital and R&R projects in the near term included in the rate study are:

1. Replace traveling bridge (sand) filters with deep bed filters and upgrade connectivity between emergency generators (\$11M)
2. Construction of gravity sewers in Jupiter Inlet Colony is anticipated to cost \$4.9 million. Repayment of the JIC sewer assessment is expected to occur as a lump sum payment in 2017.
3. Continued rehabilitation of lift stations (~\$350 per year).
4. Planning & construction of a new force main river crossing adjacent to Alternate A-1-A (\$900K)
5. Continued rehabilitation of our biosolids building (\$750); this is down from the \$3 million construction bid.
6. Complete significant rehabilitation of clarifier #3 (\$550).
7. Add an additional biosolids press (\$500).

Given the various assumptions in the Model, the chart below shows our projected year end available cash through 2020. Actual values are shown for the period 2010 through 2014. Budgeted values are shown for 2015, and model projections are shown through 2020. Of course, the further into the future we look the greater our uncertainty. It is quite interesting to compare this year's projections to last year's projections (i.e., 2014 Rate Study orange dotted line). We are in similar, but better financial condition than expected.



Looking forward, we continue to maintain our projected annual operating expense at 4.5% per year. This is a significant improvement over historical averages, and we hope to move this below 4% as we work on internal efficiencies.

Presently, Chapter 31-10 includes 5% annual rate increases for the years 2015 through 2018. Given the assumptions in the Rate Study model and results of the model, I believe we can lower the 2015 rate increase from 5% to 2.5%. Furthermore, I believe we can lower the predicted annual rate increases for future years from 5% to 4.5%. Of course, as future uncertainties are better understood we will have the opportunity to incrementally adjust our rates as needed.

Your staff takes pride in providing excellent service to our rate payers. We understand your desire to operate as efficiently as possible, but we also recognize the expectation to provide award-winning service. I believe our planned rate increases attempt to balance these competing demands, and provide for the increasing costs of treating and recycling wastewater in the face of increasing regulations and expenses.

Staff looks forward to discussing the rate study with you, and answering any questions you may have. No action is necessary this month, but we will need to take action at your March meeting.

Thank you, and please feel free to call Clint or me if you have any questions.