

Loxahatchee River District

Water Reclamation | Environmental Education | River Restoration

2500 Jupiter Park Drive, Jupiter, Florida 33458-8964

Telephone (561) 747-5700 • Fax (561) 747-9929 • www.loxahatcheeriver.org



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

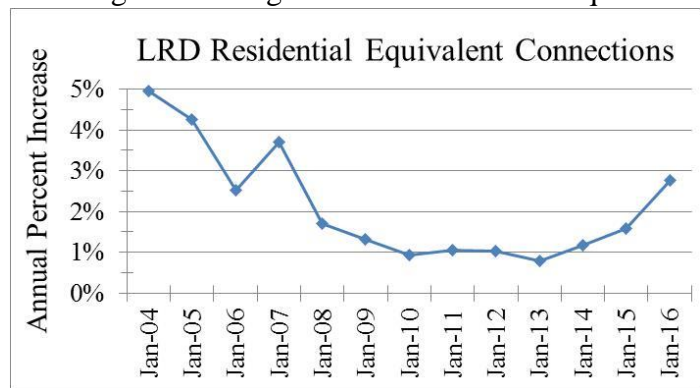
MEMORANDUM

TO: GOVERNING BOARD
FROM: D. ALBREY ARRINGTON, Ph.D.
DATE: FEBRUARY 12, 2016
SUBJECT: PROPOSED REVISION OF RULE 31-10 RATES, FEES, CHARGES

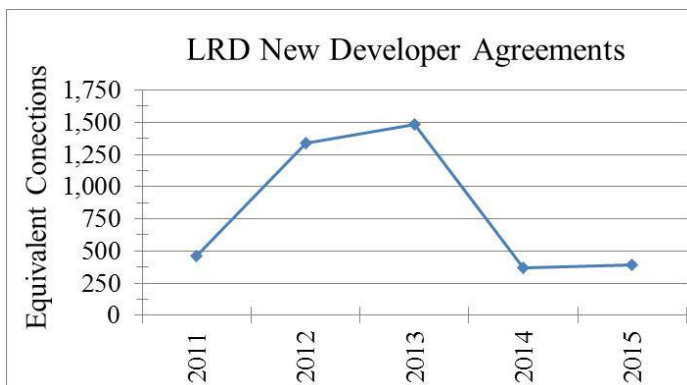
This is the time of year we discuss our annual rate study. Through the Rate Study process, your staff looks forward to working with you to maintain both our sound financial position and quality customer service through implementation of a reasonable rate structure.

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:

- Revenue from Quarterly Service Charges** – is projected to increase at a rate of 3% to 8% for the next several years based on adopted District Rule 31-10 scheduled rate increases and growth within the customer base. The figure on the right shows growth in residential equivalent connections is increasing as the economy recovers. Once the remaining developable land is consumed (within 5 years), this pattern is anticipated to abruptly decline. However, significant re-development projects (e.g., Love Street, Suni Sands, and etc) or a systematic effort to sewer the remainder of the District could extend this pattern for several additional years.



- Revenue from New Development (Plant and Line Charges)** – is anticipated to remain relatively flat for the next five years based on the rate at which new developer agreements are executed (see chart below). While the rate of new residential connections is increasing (see chart above), many of these new connections are derived from developer agreements that were executed in 2012 and 2013 or before. In fact, new developer agreements in 2015 only accounted for 390 equivalent connections. While developer agreements may spike again, once the remaining developable land is developed or preserved Plant Charge revenues are expected to abruptly decline.

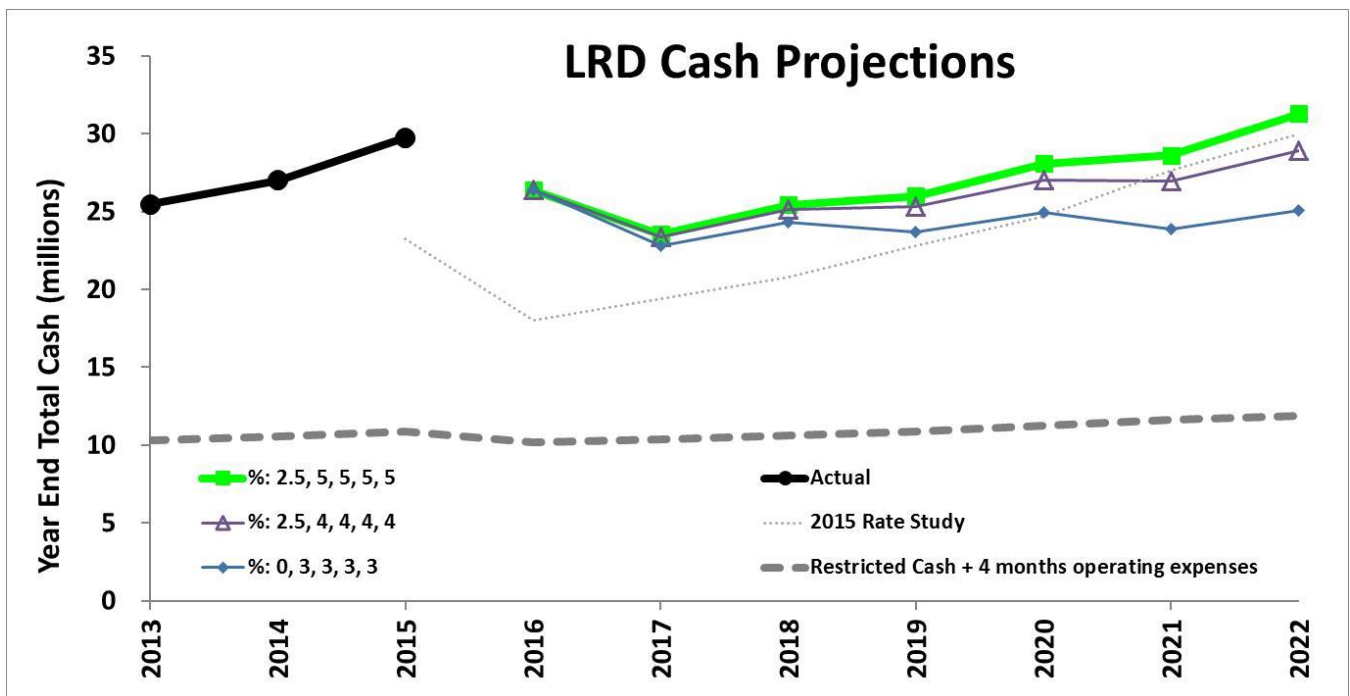


3. **Revenue from Neighborhood Sewering Assessments** – Significant neighborhood sewerage projects have been ongoing for over 20 years, so we are starting to experience a decline in assessment revenues. For example, based on completed sewerage projects FY2016 projected sewer assessment payments equal \$1,326,717. This amount declines to \$ 762,127 in 2023 and \$56,460 in 2035. Repayment of the Jupiter Inlet Colony sewer assessment is projected to occur as a lump sum payment of approximately \$4,200,000 at the end of FY2017.
4. 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.
5. Revenue from the sale of IQ water will increase proportionate to CCI (Construction Cost Index) per our existing contracts. CCI is projected to increase about 2.5% per year.
6. Grant revenues are expected to increase based on anticipated legislative priorities; however, neighborhood sewerage grant funds merely offset homeowner's connection fees.
7. 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.
8. **Operating Expenses** – are projected to increase by 4.5% per year, which is less than the U.S. Department of Labor Statistics' Water and Sewerage Maintenance Index (WSMI). For the period FY2006 through FY2015 LRD's actual operating expenses increased by an average 4.4% per year, while the Water and Sewerage Maintenance Index for the same period increased by an average 5.7%. More recently, for the period FY2011 through FY2015 LRD's operating expenses increased by an average 4.1% per year (WSMI was 5.2%). Staff continue working to improve efficiencies and expect to outperform the WSMI.
9. **I.Q. Expenses** – Beginning in 2020, I.Q. operating expenses could be increased by approximately \$750,000 if we have to pay market rate for Seacoast's I.Q. water once the Seacoast/MacArthur Agreement expires (expiration date is April, 2020). Staff are actively exploring alternative water supply projects and other options by which this volume of water could be acquired on a long-term basis.
10. **Neighborhood Sewering Expenses** – Neighborhood sewerage programs are ongoing with construction of the Jupiter Inlet Colony Neighborhood Rehabilitation project beginning in April, 2016 and lasting approximately 16 months. This project will rehabilitate potable water system and stormwater system, and install new sanitary sewers in the community at a cost of approximately \$9.3 million. The sewer assessment for this project is projected to be \$4.2 million. Otherwise, the rate study assumes neighborhood sewerage will continue at an annual cost of approximately \$1 million per year through 2019 (i.e., completing Turtle Creek, Imperial Woods, Whispering Trails, and other scheduled areas). At some point in the next 12 to 24 months, it will be beneficial for the Governing Board to convene a workshop to discuss potential strategies to improve water quality throughout the remainder of the District. Such decisions/directions could have far reaching effects on the District's finances.
11. **Capital Collection & Transmission System Expenses** – include construction of a new emergency bypass system for the wastewater force main that crosses the Loxahatchee River adjacent to the railroad bridge (\$450k). This force main is the single point by which nearly all the wastewater from north of the river flows under the river on its journey to our wastewater treatment facility. The force main is particularly critical, and it is nearing the end of its useful life. So, a full replacement of this force main is anticipated to occur in FY 2018 at a cost of approximately \$1 million. A new force main to connect Jupiter Farms Elementary is planned pending grant funding. Significant improvements to remote monitoring of wastewater pumping stations are also planned.
12. **Renewal & Replacement Collection & Transmission System Expenses** – Over the next 5 years approximately \$1.5 million is budgeted for condition assessment and renewal and replacement of

existing collection and transmission system features. We have budgeted \$450k to upgrade lift station 82 (US1 & Indiantown Rd), our last ‘can’ station, to a submersible pump station.

13. **Capital Treatment & Disposal System Expenses** – \$850k per year over the next 5 years is projected to provide new features/components within our wastewater treatment facility. These features include installation of a new press in the biosolids building, installation of aeration basin covers, moderate upgrades to odor control facilities, and improved remote (electronic) monitoring throughout the facility.
14. **Renewal & Replacement Treatment & Disposal System Expenses** – Replacement of our traveling bridge filters with deep bed sand filters is budgeted at \$8.5 million (\$2.5 million less than projected in last year’s rate study). Additional work anticipated in the rate study includes systematic rehabilitation of key components throughout the wastewater treatment facility (e.g., electrical, pumps, blowers, etc) as these systems age.
15. 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.
16. **Bonds** – All of our bond debt has been retired, and no additional bond is projected at this time.
17. Minimum cash balance should remain \geq restricted cash + 4 months operating budget.

Given the various assumptions in the Model, the chart below shows our projected year end available cash through 2022. Actual values are shown for the period 2013 through 2015. Budgeted values are shown for 2016, and model projections are shown through 2022. 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., 2015 Rate Study thin dotted line). The blue line with filled diamond symbols (%: 0,3,3,3,3) represents no rate increase this year followed by 3% rate increases in following years. This line also closely approximates the effect of a significant slowdown in development if we maintain our rate increases as generally projected. In all cases, we are projecting a strong financial position.



Looking forward, we continue to maintain our projected annual operating expense at 4.5% per year. This is a significant improvement over the Water and Sewerage Maintenance Index (as discussed above), and we expect to move this to 4% or below as we work on internal efficiencies. Nonetheless, external factors (like negotiating the Seacoast IQ Contract renewal) could significantly impact this number.

Presently, Chapter 31-10 includes 5% annual rate increases for the years 2016 through 2019. Given the assumptions in the Rate Study model and results of the model, I believe we can lower the 2016 rate increase from 5% to 2.5% or even 0% (because of lower than expected cost for the deep bed filters and the delays we have experienced in JIC sewerage). 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.

Loxahatchee River District

Water Reclamation | Environmental Education | River Restoration

2500 Jupiter Park Drive, Jupiter, Florida 33458

Telephone (561) 747-5700 • Fax (561) 747-9929 • www.loxahatcheeriver.org



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

MEMORANDUM

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

FROM: Bud Howard, Director of Information Services

DATE: February 11, 2016

SUBJECT: Board Discussion of Policy Updates for Customer Service

As part of our forthcoming updates to our Rule 31-10 for Rates, Fees and Charges we seek the Governing Board's guidance on several policy and procedural issues as it relates to managing our customers' accounts.

The Customer Service Department is in the process of implementing a series of efficiency improvements that will: 1) enable us to be more responsive to our customers, 2) significantly reduce the amount of time the District and Attorney's staff spend managing delinquent accounts; and 3) provide consistency and clarity on how we manage delinquent accounts. Additional policy discussion is requested for managing credit card transaction costs. Below we summarize several items for the Board's discussion.

To review, the District bills our sewer customers quarterly (January, April, July, and October). We typically mail the bills the first week of the quarter and they are due roughly one and a half months later, near the midpoint of the quarter. Past Due notices are sent two weeks later (at the two month mark) and are due the week prior to the end of the quarter. Customers that have not paid prior to the next quarterly bill receive a second quarter regular bill showing a past due balance. After the customer is two full quarters behind (the 3rd quarter billing) we send a letter indicating the account is seriously past due. At the 4th quarter of delinquency we send a letter indicating we will forward their account to our attorney for lien processing. At the 5th quarter we send a letter indicating the account information has been sent to the attorney's office for lien processing. There are inconsistencies in the timing of perfecting liens because of a backlog. Approximate counts are:

	Total Active Customers	30,500	% of Active Customers
Print Bills	28,000		91.8 %
Email Bills	5,500		18.0 %
Past Due Print Bills	3,800		12.5%
Past Due Email Bills	700		2.2%
Seriously Past Due Letters	300		1.0 %
Final Notice Letter	80		0.3 %
Accounts presently at Attorney for Lien processing/mgmt.	500		1.6 %

Stephen B. Rockoff
Board Member

Dr. Matt H. Rostock
Board Member

Gordon M. Boggie
Chairman

Harvey M. Silverman
Board Member

James D. Snyder
Board Member

Late and Delinquent Charges. Late fees incentivize customers to pay their bills on time and reduce the time and costs associated with managing past due accounts. We seek the Board's guidance regarding a nominal Late Fee (ex. \$5.00 or a small percentage) to encourage our customers to pay on the Due Date, and a Delinquent Fee (ex. \$25.00 or appropriate percentage) to further incentivize our customers to pay their bill by the end of the quarter. These charges could apply to each quarter's bills. These charges are similar to other utilities (ex. Town of Jupiter).

Lien Processing. Historically, the District has been lenient in processing delinquent accounts. We believe that clear and consistent communication to our customers regarding the process and timeline to perfect a lien could reduce numbers of accounts that get to lien status. Further, improvements to data processing can free up staff time to research accounts that have changed ownership – the most common reason for non-payment. We seek the Board's guidance regarding an acceptable timeline for lien processing delinquent accounts (ex. 9 or 12 months).

Last Chance Payments Plan. For those customers making a good faith effort to satisfy their delinquent charges, we seek the Board's guidance on a payments option where the customer can pay delinquent fees over a fixed amount of time before we send the account for lien processing. The payments plan would require payments each month.

Standardized Attorney Charges. Computing past due charges, fees and interest in our billing software, rather than by the attorneys office, will significantly reduce the workload of District and Attorney's office staff. We believe we can further improve efficiency and clarity to our customers by having standardized lien processing fees by our Attorney's office. For example, the Attorney's fee to file the initial lien is \$xxx and the cost of annual lien amendment is \$xxx. Our Attorney's office is supportive of this approach with a fee schedule to be approved by the District.

Credit Card Convenience Fee or Payment Limit. Increasing numbers of our customers are paying by credit card over the phone or through our web page. We are now able to process those payments very efficiently which frees our Customer Service staff to spend their valuable time on other important tasks. However, credit card processing and interchange fees are meaningful - averaging 2.7 to 3% of the transaction. For the more than 91% of our customers with bills less than \$100, the *cost per transaction* versus the *efficiency of processing that transaction* is strongly in the District's favor. However, for those few large credit card payments, the transaction costs become significant and are not efficient for the District. The District's attorney is researching our options for applying convenience fee to recover some of the costs associated with higher dollar credit card payments. If permitted by law, we seek the Board's guidance regarding convenience charges (ex. 2.5% or 2.8%) for credit card payments over a specified amount (ex. \$1,000 or \$5,000); or limiting the amount that the customers can pay by credit card. Note that only 1.5% (~450) of our customers pay more than \$1,000, and 0.2% (~65) pay more than \$5,000.

We look forward to receiving the Board's guidance on these important policy and/or procedure decisions for possible inclusion into our amendments to Rule 31-10.