

WATER FUNDS

Description

The Pinellas County Water System is responsible for providing quality, cost effective potable water service to County retail and wholesale customers. The Water System must adhere to State and Federal laws, rules and regulations while operating and maintaining this delivery system. The Water System is continually being upgraded to provide customers with a safe and sufficient water supply for domestic needs as well as an ample supply for fire protection. The Water System also continues to educate its customers on important water conservation issues.

The Water Funds are enterprise funds, and are committed solely to support Water System functions. The Pinellas County Water System utilizes four funds: Revenue and Operating, Renewal and Replacement (capital), Water Certificate, and Impact Fees. This forecast covers all four funds.

Summary

The forecast for the Water System Funds shows that the multi-year rate increases approved as part of the FY2012 budget process will provide sufficient revenues to maintain reserves and fund capital replacement needs through FY2015. The forecast revenues include an additional 2% per year annual increase in rates from FY2016 through FY2023, as recommended in the FY2012 Utilities Rates Study performed by Burton & Associates, the County's independent utility rates consultant. The Department of Environment and Infrastructure will again perform a comprehensive rate study in FY2014 to analyze the future rate structure. In FY2014, FY2017 and FY2018, recurring expenditures will exceed recurring revenues as fund balance is drawn down as major capital projects are completed. From FY2015 through FY2023 excluding FY2017 and FY2018, the Water Funds are structurally balanced.

Revenues

The Water Funds generate revenues budgeted in FY2014 totaling \$82.8 million. The Water Funds have two primary funding sources: retail water sales of \$61.9 million and wholesale water sales of \$15.5 million.

Retail Water Sales

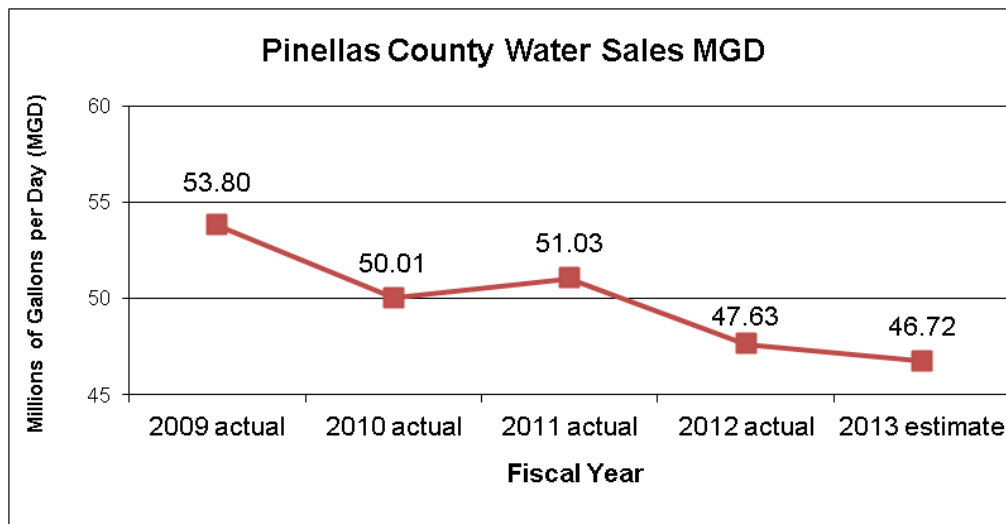
The Water System charges \$5.35 per month base rate, an increase of \$1.00 from FY2013, and \$5.78 per 1,000 gallons for retail water service. In FY2015, an additional base rate increase of \$1.00 will go into effect. The customer base for retail water sales are both commercial and residential properties in the Pinellas County Water service area. The volume of water purchased has declined 9% from FY2008 to FY2012. The amount of water purchased can be affected by economic conditions, housing and commercial vacancies, and levels of conservation.

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Wholesale Water Sales

The Water System rate for FY2014 will be \$3.7074 per 1,000 gallons for wholesale water service. In FY2015, rates are scheduled to increase by 4% resulting in a revised rate of \$3.8557. Wholesale Water Sales provide water to the cities of Clearwater, Tarpon Springs, Safety Harbor, Belleair and Pinellas Park. The volume of water purchased has declined 30% from FY2008 to FY2012, which can be attributed to the same economic and conservation pressures seen in retail water sales.

The graph below shows the recent history of the volume of Water sales by the Water System.



Source: Pinellas County Department of Environment and Infrastructure

Expenditures

The Water Funds support budgeted expenditures and reserves in FY2014 totaling \$159.9 million. The primary expenditures in the fund are \$46.6 million for the purchase of water, \$14.9 million for personal services, \$13.4 million for operating expenses (excluding the purchase of water) and \$21.7 million for capital outlay.

Purchase of Water

Under Section 373.1963 of the Florida Statutes, the Water System is required to purchase water from Tampa Bay Water, the regional water supply authority. In 1997, an Interlocal Agreement and the Master Water Supply Contract was signed under which Tampa Bay Water provides water to their members: Pinellas County, Hillsborough County, Pasco County, City of St. Petersburg, City of Tampa, and City of New Port Richey. Tampa Bay Water sets their rates according to the adopted budget and collects those rates from all members, according to the Master Water Supply Contract.

Capital Outlay

The Water System must maintain its equipment, facilities, pipelines, and plants in good working order, utilizing revenues generated within its proprietary funds. Capital outlay reflects the

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construction and purchase needs as estimated by Pinellas County Department of Environment and Infrastructure Engineering Division in the CIP ten-year work plan and beyond.

Personal Services

The Water System employs 198 full-time employees in FY2014. The Personal Services expenses of \$13.8 million are for the salaries and benefits of those positions needed to operate the Water System. Water System benefits include the \$1.4 million cost of Other Post Employment Benefits (OPEB), as proprietary funds are required by GASB #45 to record the entire annual required contribution (ARC) accrual.

Operating Expenses

The Water System incurs annual recurring costs for repair and maintenance, supplies, fuel, and communications. The Water System also pays for electrical power to run its facilities and for chemicals to treat the water.

Reserves

The reserve level in the Water System is 39%, which is above the 5-15% reserve level budget policy adopted by the Board. The Water System maintains these reserves for cash flow and future capital needs.

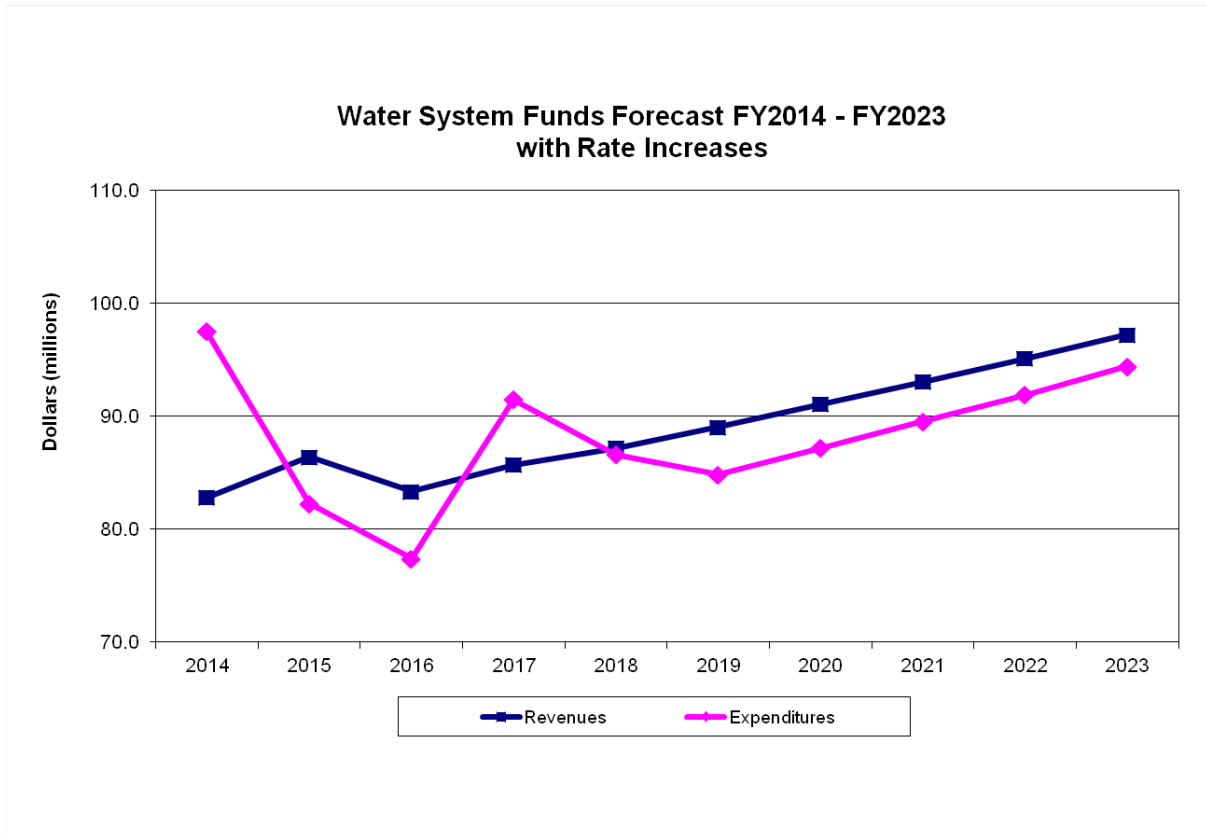
Ten-Year Forecast

Key Assumptions

Due to expected slow growth in the economy, the forecast assumes a 1% decrease in revenue in FY2014 and a 4.0% increase in FY2015. In FY2016 revenues return to negative growth, with a 4% decrease. FY2017 to FY2023 are projected to increase 3.0% (FY2017) and 2.0% (FY2018 to FY2023). The wholesale water demand projections reflect a decline in revenues from FY2015 through FY2016 due to the projected loss of sales of three cities (Clearwater, Tarpon Springs, and Oldsmar), as they develop their own water sources. For expenditures, Personal Services and Operating Expenses reflect the forecast trends described in the Key Assumptions section of this document. Electricity and chemicals costs are projected to increase by 0% and 7% respectively for 2014; both are projected to increase 5% and 7% respectively per year through the remaining forecast period. The capital outlay forecast reflects the construction and purchase needs as estimated by the Pinellas County Department of Environment and Infrastructure Engineering Division. An increase to \$20.3 million in FY2017 is anticipated to support capital outlay water line projects with Florida Department of Transportation (FDOT) as well as other major capital outlay improvement projects.

To balance revenues with projected expenditures, the forecast includes future rate increases that will be necessary for both retail and wholesale rates. Burton & Associates, DEI Finance, and Economics Independent Consultants computed that rate increases for FY2016 through FY2023 are needed at 2% per year, based on a blend of growth and consumption assumptions, inflationary cost increases, and capital needs at the projected water demand levels.

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Source: Pinellas County Department of Environment and Infrastructure

Key Results

The forecast for the Water System Funds shows that the approved rate increases, and rate increases starting in FY2016 as recommended in the FY2012 Utilities Rate Study by Burton & Associates, will provide sufficient revenues to maintain reserves and fund capital replacement needs. In FY2014, FY2017 and FY2018, recurring expenditures will exceed recurring revenues as fund balance is drawn down as major capital projects are completed. From FY2015 through FY2023 excluding FY2017 and FY2018, the Water Funds are structurally balanced.

Potential Risks

There are some impacts that can alter the ten-year forecast of the Water System. Any future economic decline would reduce water demand, which would impact revenue more than expenses. Operating costs (including the purchase of water from Tampa Bay Water) could increase more than projected. The Water System could experience a need for more maintenance than anticipated, causing increased operating and capital costs. Regulatory pressures could cause an increase of expenditures to maintain the system.

Balancing Strategies

With the multi-year rate increases approved during the FY2012 budget process and future rate increases as recommended by Burton & Associates, Water System revenues will be sufficient to cover projected expenditures and maintain sufficient reserves over the forecast period.

WATER FUNDS FORECAST
Fund 4031, 4033, 4034 & 4036

Forecast Assumptions	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
REVENUES										
Water Sales-Retail *	0.0%	9.8%	2.0%	2.1%	2.2%	2.3%	2.3%	2.3%	2.3%	2.3%
Water Sales-Wholesale *	-5.2%	-12.0%	-37.3%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Other revenues	0.0%	-19.9%	-1.1%	-2.7%	-0.9%	2.0%	2.0%	2.0%	2.0%	2.0%
EXPENDITURES										
Personal Services	6.8%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Operating Expenses	2.0%	2.3%	1.8%	1.7%	1.7%	1.8%	1.7%	1.9%	2.1%	2.1%
Purchase of Water **	1.0%	2.1%	0.8%	1.6%	1.0%	2.5%	2.5%	2.5%	2.5%	2.5%
Power	0.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Chemicals	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%
Projected Economic Conditions / Indicators:										
Consumer Price Index, % change	1.5%	1.8%	1.7%	2.0%	1.9%	2.1%	2.0%	2.0%	2.0%	2.0%
FL Per Capita Personal Income Growth	2.0%	2.2%	2.2%	1.8%	1.4%	1.5%	1.7%	1.6%	1.6%	1.6%
* Revenue percentages reflect the combined impact of changes in rates and/or levels of consumption. ** Purchase of water percentages reflect the combined impact of changes in Tampa Bay Water rates and/or changes in consumption including decreases in wholesale customer base.										

WATER FUNDS FORECAST
Fund 4031, 4033, 4034 & 4036

(in \$ thousands)	FORECAST (@100%)												
	Actual 2012	Budget 2013	Estimated 2013	Estimated 2014	Estimated 2015	Estimated 2016	Estimated 2017	Estimated 2018	Estimated 2019	Estimated 2020	Estimated 2021	Estimated 2022	Estimated 2023
BEGINNING FUND BALANCE	88,334.9	45,496.3	88,557.7	77,090.7	62,354.7	66,488.8	72,437.6	66,636.9	67,230.6	71,443.5	75,307.2	78,822.7	82,021.9
REVENUES													
Water Sales - Retail	61,440.8	62,078.7	61,929.2	61,929.2	68,020.1	69,380.5	70,831.5	72,377.5	74,023.0	75,705.4	77,425.5	79,184.0	81,005.3
Water Sales - Wholesale	17,156.3	15,055.6	16,394.5	15,534.7	13,666.3	8,573.0	8,744.5	8,919.4	9,097.7	9,279.7	9,465.3	9,654.6	9,847.7
Interest	202.2	179.1	188.6	220.0	623.5	1,329.8	2,173.1	1,999.1	2,016.9	2,143.3	2,259.2	2,364.7	2,460.7
Other Revenues	6,051.4	4,092.5	5,110.6	5,110.7	4,095.4	4,049.5	3,942.0	3,906.0	3,906.9	3,907.9	3,908.8	3,909.8	3,909.8
TOTAL REVENUES	84,850.7	81,405.9	83,622.8	82,794.6	86,405.3	83,332.8	85,691.1	87,202.0	89,044.6	91,036.3	93,058.8	95,113.1	97,223.4
% vs prior year			-1%	-1%	4%	-4%	3%	2%	2%	2%	2%	2%	2%
TOTAL RESOURCES	173,185.6	126,902.2	172,180.5	159,885.3	148,760.0	149,821.7	158,128.7	153,838.9	156,275.2	162,479.8	168,366.0	173,935.8	179,245.3
EXPENDITURES													
Personal Services	12,305.4	12,677.2	12,770.7	13,538.4	14,079.9	14,643.1	15,228.8	15,838.0	16,471.5	17,130.4	17,815.6	18,528.2	19,269.3
OPEB	1,186.2	1,333.3	1,333.3	1,388.0	1,443.5	1,501.2	1,561.3	1,623.7	1,688.7	1,756.2	1,826.4	1,899.5	1,975.5
Operating Expenses	4,305.6	6,655.7	9,196.8	5,796.7	5,930.1	6,036.8	6,139.4	6,243.8	6,356.2	6,464.2	6,587.1	6,725.4	6,866.6
Purchase of Water	47,200.8	45,447.2	47,875.0	46,600.0	42,309.7	38,399.1	38,829.2	39,040.6	40,107.9	41,204.2	42,330.3	43,487.0	44,574.1
Power	1,743.9	1,862.8	1,742.3	1,917.3	2,013.2	2,113.8	2,219.5	2,330.5	2,447.0	2,569.4	2,697.8	2,832.7	2,974.4
Chemicals	677.7	774.5	850.0	823.5	881.1	942.8	1,008.8	1,079.4	1,155.0	1,235.9	1,322.4	1,414.9	1,514.0
Grants & Aids	978.2	938.8	938.8	959.3	919.8	970.4	1,021.8	1,078.2	1,139.7	1,230.8	1,293.7	1,376.7	1,459.3
Cost Allocation	8,612.5	5,711.7	5,557.2	5,610.9	5,739.9	5,843.2	5,942.6	6,043.6	6,152.4	6,257.0	6,375.9	6,509.7	6,646.5
Expenditure Lapse*	-	-	(802.6)	(766.3)	(733.2)	(704.5)	(719.5)	(732.8)	(755.2)	(778.5)	(802.5)	(827.7)	(852.8)
Debt Service	8.1	10.0	10.0	10.0	-	-	-	-	-	-	-	-	-
Capital Outlay	7,609.4	19,970.4	15,618.5	21,652.8	9,687.1	7,638.0	20,259.9	14,063.3	10,068.5	10,103.0	10,096.6	9,967.4	9,976.9
TOTAL EXPENDITURES	84,627.9	95,381.6	95,089.9	97,530.5	82,271.1	77,384.0	91,491.8	86,608.3	84,831.7	87,172.6	89,543.3	91,913.9	94,403.9
% vs prior year	-4%		14%	3%	-16%	-6%	18%	-5%	-2%	3%	3%	3%	3%
TOTAL ENDING FUND BALANCE	88,557.7	31,520.6	77,090.7	62,354.7	66,488.8	72,437.6	66,636.9	67,230.6	71,443.5	75,307.2	78,822.7	82,021.9	84,841.5
Ending balance as % of Resources	51%	25%	45%	39%	45%	48%	42%	44%	46%	46%	47%	47%	47%
TOTAL REQUIREMENTS	173,185.6	126,902.2	172,180.5	159,885.3	148,760.0	149,821.7	158,128.7	153,838.9	156,275.2	162,479.8	168,366.0	173,935.8	179,245.3
REVENUE minus EXPENDITURES (NOT cumulative)	222.8	(13,975.7)	(11,467.1)	(14,735.9)	4,134.2	5,948.7	(5,800.7)	593.7	4,212.9	3,863.7	3,515.5	3,199.2	2,819.5

* Expenditure lapse of 1% is calculated on all expenses excluding Debt Service and Capital Outlay.
Revenues reflect the combined impact of changes in rates and/or levels of consumption.
Estimated revenues forecasted at 100%.