

SEWER FUNDS

Description

The Pinellas County Sewer System is responsible for quality, cost effective, sewer service to the citizens and business owners within the County sewer service areas. The Sewer System must adhere to State and Federal laws, rules and regulations while operating and maintaining this system. The System provides an environmentally safe and sanitary means of collecting and transmitting discharged domestic waste from residential, commercial, and industrial users. The Sewer System provides for the treatment and disposal of objectionable materials and organisms from the waste in order to protect public health, property, and environment.

The Sewer Funds are enterprise funds, and are committed solely to support Sewer System functions. The Pinellas County Sewer System utilizes four funds: Revenue and Operating, Renewal and Replacement (capital), Interest and Sinking (Debt Service), and Sewer Construction. The Sewer System is required to maintain a debt service coverage ratio of 1.25x per the bond covenants, however the fund is maintained at a debt service coverage ratio of at least 1.50x to sustain the current bond ratings.

Summary

The Pinellas County Sewer Funds are proprietary funds dedicated solely to supporting the Pinellas County Sewer System (Sewer System).

The forecast for the Sewer System Funds shows that the multi-year rate increases approved in FY2012 will provide sufficient revenues to maintain reserves, sustain the recommended debt service coverage ratio of 1.50x, and fund capital replacement needs through FY2015. The forecast revenues include an additional 2.75% 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 perform a comprehensive rate study in FY2014 to analyze the future rate structure. In FY2013, recurring expenditures will exceed recurring revenues as fund balance is drawn down as major capital projects are completed. From FY2014 through FY2023, the Sewer Funds are structurally balanced as recurring expenditures are in line with recurring revenues.

Revenues

The Sewer Funds generate revenues budgeted in FY2014 totaling \$66.4 million. The Sewer Funds have four primary funding sources: retail sewer charges of \$53.1 million, wholesale sewer charges of \$7.7 million, retail reclaimed water charges of \$3.7 million, and wholesale reclaimed water charges of \$0.3 million.

Retail Sewer Charges

In 2012, a rate increase was adopted that will set the FY2014 rate for retail customers at a base rate of \$12.51 per month and \$4.57 per 1,000 gallons. The customer base for retail sewer service is both commercial and residential properties in the Pinellas County Sewer service area. Total billed retail demand has declined 3% from FY2008 to FY2012. The amount of sewage processed is affected by economic conditions, housing and commercial vacancies, and levels of

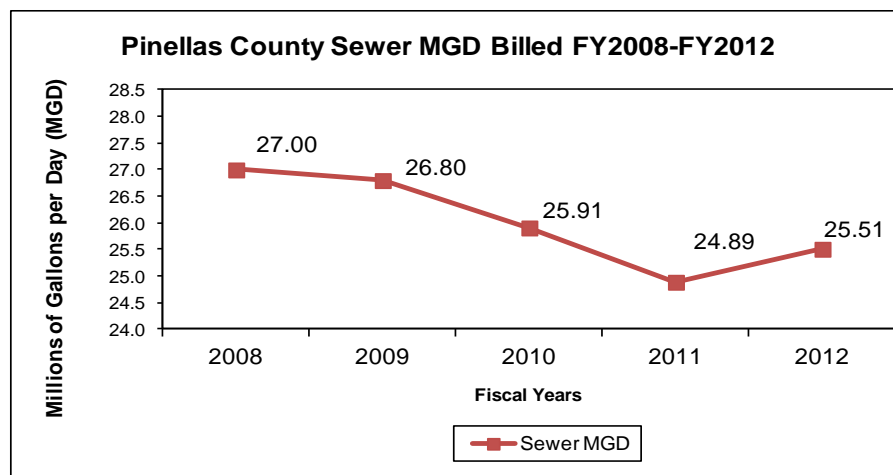
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water conservation. Prior to this approved rate increase, there was a 6% increase in 2012, a 1.5% increase in FY2011, a 3.5% increase in FY2010 and no rate increases from FY2004 thru FY2009.

Wholesale Sewer Sales

The Sewer System charges \$3.5168 per 1,000 gallons for wholesale sewer service. Wholesale customers are four cities within Pinellas County that purchase sewer service from the Sewer System in bulk after collecting it from their retail sewer customers. The cities of North Redington Beach, Redington Shores, Indian Rocks Beach, and Pinellas Park are the wholesale customers of the Sewer System. Similar to retail sewer sales, the total billed wholesale demand has declined 12% from FY2008 to FY2012. The amount of waste processed is affected by economic conditions, housing and commercial vacancies, and levels of water conservation.

The graph below shows the recent history of the volume of waste billed by the Sewer System.



Source: Pinellas County Department of Environment and Infrastructure

Retail Reclaimed Water Charges

The Reclaimed Water System charges \$18.00 per month rate for unfunded un-metered service (systems without existing distribution lines) and a \$7.00 per month availability charge and \$0.88 per 1,000 gallons for retail reclaimed water service for metered service unfunded systems (systems without existing distribution lines) and \$17.60 per month base rate for funded un-metered service (systems with pre-existing distribution lines) and \$0.88 per 1,000 gallons for metered funded systems (systems with pre-existing distribution lines). Rates for unfunded systems are higher as the Sewer System must recover the cost of constructing the reclaimed water distribution lines. Only those accounts that have metered service pay the volumetric rate, with most paying only the flat monthly rate. The FY2014 budget includes approved rate increases of \$1.00 per year for un-metered service and a user fee per 1,000 gallon increase of \$.08 per year for metered service.

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Wholesale Reclaimed Water Charges

The Reclaimed Water System charged volumetric rates by contract for wholesale reclaimed water service. Wholesale customers are four cities within Pinellas County that purchase reclaimed water service from the Reclaimed Water System in bulk and distribute it to their retail customers. The cities of St. Petersburg Beach, South Pasadena, Belleair, and Pinellas Park are the wholesale customers of the Reclaimed Water System.

Expenditures

The Sewer Funds support budgeted expenditures and reserves in FY2014 totaling \$91.3 million. The primary expenditures in the funds are \$17.7 million for personal services costs, \$23.3 million for operating expenses, \$14.5 million for debt service, \$12.7 million for capital outlay, and \$23.1 million in reserves.

Personal Services

The Sewer System employs 231 full-time employees in FY2014. The Personal Services expenses of \$16.3 million are for the salaries and benefits of those positions needed to operate the Sewer System. Sewer 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. This cost is included in the calculation of the debt service coverage ratio.

Debt Service

The Sewer System has \$177.3 million of bond principal outstanding as of June 30, 2013. The bonds were issued to fund various sewer system capital projects and require annual principal and interest payments to the holders of those bonds. From FY2014 through FY2028, the debt service requirement is between \$14.5 million and \$14.8 million. From FY2029 through FY2032, debt service payments fall to between \$5.0 million and \$5.5 million. The bonds mature between 2017 and 2032.

Operating Expenses

The Sewer System incurs annual recurring costs for repair and maintenance, supplies, fuel, and communications. In addition, utilities to run the facilities and chemicals to treat the waste are major components of the Sewer System's operating expenses.

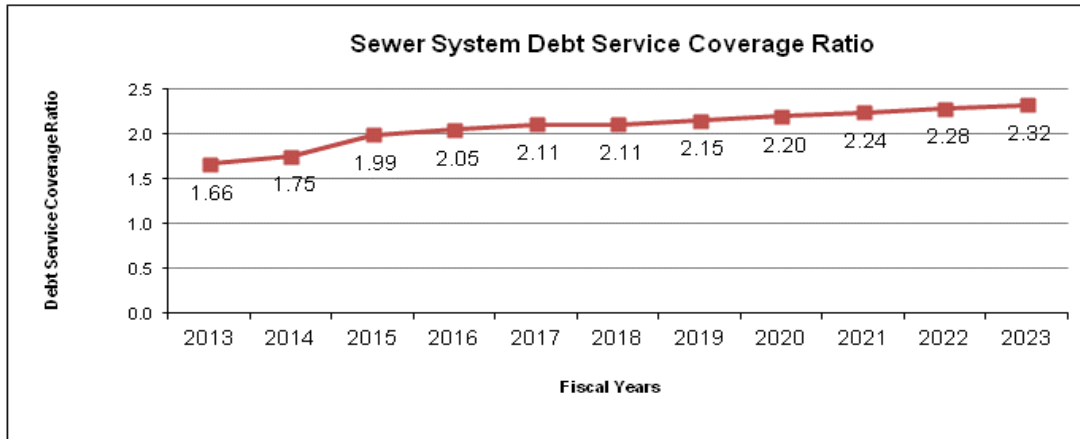
Capital Outlay

The Sewer System must maintain its equipment, facilities, pipelines, and plants in good working order, using revenues generated within their proprietary funds. Capital outlay reflects the construction and purchase needs as estimated by the Department of Environment and Infrastructure Engineering Division in the CIP ten-year work plan and beyond.

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Reserves

The reserve level in the Sewer System is 25.2%, which is higher than the 5-15% reserve level budget policy adopted by the Board. The Sewer System maintains \$12.5 million of reserves for cash flow and \$10.4 million to fund future capital needs. In addition, the 2008 bond issue requires a debt service reserve of \$1.9 million to maintain the recommended debt service ratio of 1.50x.



Source: Pinellas County Department of Environment and Infrastructure

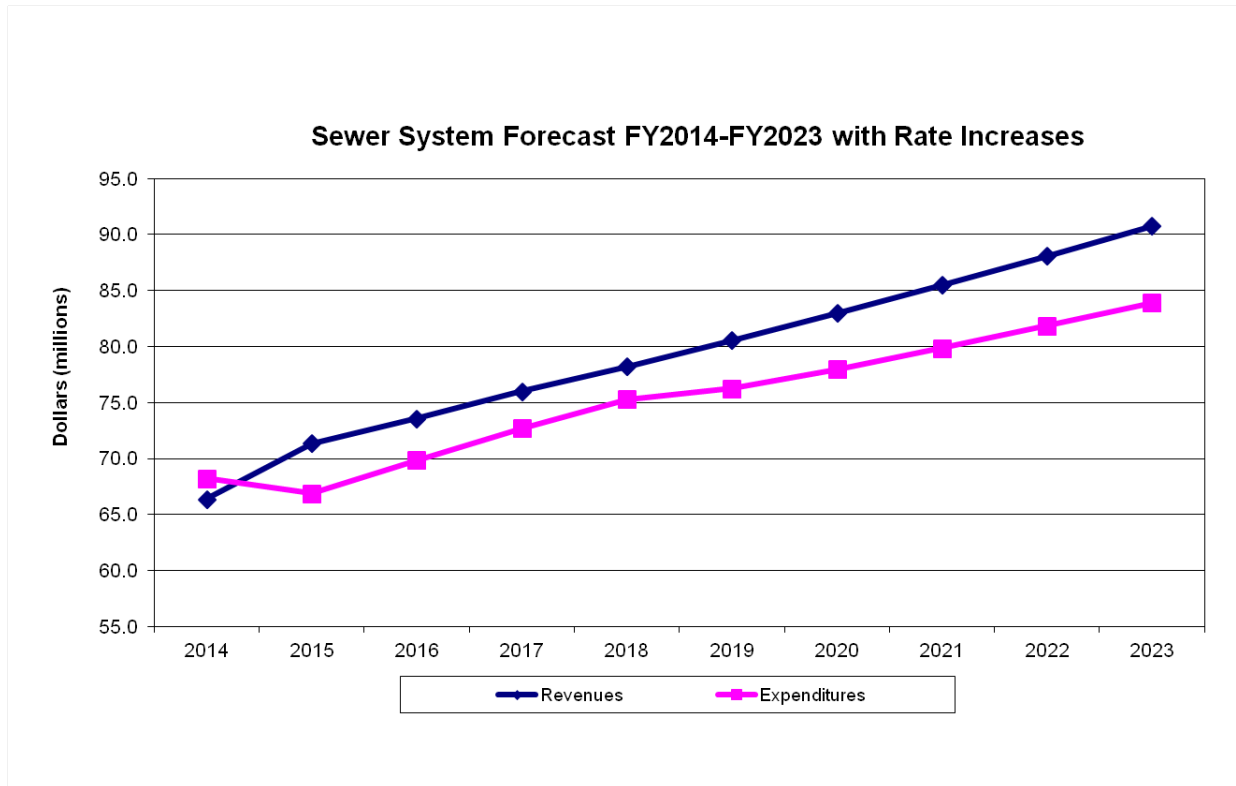
Ten-Year Forecast

Key Assumptions

The forecast assumes a 6.2% increase in revenue in FY2014 compared to FY2013 estimate and 7.5% in FY2015. From FY2016 through FY2023, revenues are projected to increase 3.0% each year. For expenditures, Personal Services and Operating Expenses reflect the forecast trends described in the Key Assumptions section of this document. Electricity and chemical 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 Department of Environment and Infrastructure Engineering Division.

To balance revenues with projected expenditures, multi-year rate increases were approved during the FY2012 budget process for both retail and wholesale rates. Burton and Associates, DEI Finance, and Economics Independent Consultants have computed that the following sewer rate increases were necessary to meet the projected expenses and reserve needs at the projected sewer demand levels: 6% each year FY2012–FY2015 for retail sewer; and 9% each year FY2012–FY2015 for wholesale sewer; Reclaimed water/retail customers: \$1.00 to the monthly charge each year FY2012–FY2015 for unmetered service and an increase of \$0.08 to the user fee per 1,000 gallons each year FY2012 to FY2015. These multi-year rates were approved by the Board of County Commissioners in September, 2011. Included in the forecast, are rate increases for FY2016 through FY2023, as recommended in the FY2012 Utilities Rate Study by Burton & Associates, assumed at 2.75%, based on a blend of growth and consumption assumptions, inflationary cost increases, capital needs, and minimum amount of reserves necessary to meet required debt service ratios.

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Key Results

The forecast for the Sewer System Funds shows that the multi-year rate increases approved in FY2012 and future rate increases starting in FY2016, as recommended by Burton & Associates, will provide sufficient revenues to maintain reserves, sustain the recommended debt service coverage ratio of 1.50x, and fund capital replacement needs over the forecast period. In FY2014, recurring expenditures will exceed recurring revenues as fund balance is drawn down as major capital projects are completed. From FY2015 through FY2023, the Sewer Funds are structurally balanced as recurring expenditures are in line with recurring revenues.

Potential Risks

There are some impacts that can alter the ten-year forecast of the Sewer System. Any future economic decline would reduce water demand, which reduces sewer revenue that is based on volume. Operating costs could increase more than projected. The Sewer System could experience a need for more maintenance than anticipated, causing increased capital costs.

Balancing Strategies

With the rate increases approved during the FY2012 budget process and anticipated future rate increases, Sewer System revenues will be sufficient to cover projected expenditures, maintain sufficient reserves, and sustain the recommended debt service coverage ratio of 1.50x.

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SEWER FUNDS FORECAST
Fund 4051, 4052, 4053, & 4055

Forecast Assumptions	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
REVENUES										
Sewer Charges - Retail *	6.0%	7.8%	2.8%	2.8%	2.9%	2.9%	2.9%	2.9%	2.9%	2.9%
Sewer Charges - Wholesale *	9.0%	9.0%	2.8%	2.8%	2.9%	3.0%	3.0%	3.0%	3.0%	3.0%
Reclaimed - Retail *	0.0%	25.2%	2.7%	2.8%	2.7%	2.8%	2.7%	2.8%	2.7%	2.7%
Reclaimed - Wholesale *	0.0%	-0.7%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Other revenues	16.2%	-60.6%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
EXPENDITURES										
Personal Services	4.1%	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%
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.										

SEWER FUNDS FORECAST
Fund 4051, 4052, 4053, & 4055

(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	47,465.9	50,303.1	43,701.8	24,929.8	23,098.2	27,568.6	31,295.1	34,600.8	37,524.1	41,837.2	46,827.8	52,462.8	58,713.5
REVENUES													
Sewer Charges - Retail	49,042.3	48,389.7	50,086.7	53,105.1	57,232.3	58,806.2	60,458.7	62,193.9	64,016.1	65,891.4	67,821.5	69,808.0	71,832.4
Sewer Charges - Wholesale	6,730.6	6,739.6	7,094.4	7,732.8	8,428.8	8,660.6	8,905.0	9,162.9	9,434.8	9,714.8	10,003.0	10,299.8	10,608.8
Reclaimed - Retail	3,850.5	3,925.5	3,690.1	3,690.1	4,618.3	4,745.3	4,875.8	5,009.8	5,147.6	5,289.2	5,434.6	5,584.1	5,734.8
Reclaimed - Wholesale	317.1	316.0	334.9	334.9	332.7	332.7	332.7	332.7	332.7	332.7	332.7	332.7	332.7
Interest	233.4	180.0	193.7	257.6	231.0	551.4	938.9	1,038.0	1,125.7	1,255.1	1,404.8	1,573.9	1,761.4
Other Revenues***	1,581.5	1,603.0	1,090.1	1,266.4	498.6	498.6	498.6	498.6	498.6	498.6	498.6	498.6	498.6
TOTAL REVENUES	61,755.3	61,153.9	62,489.9	66,386.8	71,341.6	73,594.6	76,009.6	78,235.8	80,555.4	82,981.7	85,495.2	88,096.9	90,768.6
% vs prior year	9%		1%	6%	7%	3%	3%	3%	3%	3%	3%	3%	3%
TOTAL RESOURCES	109,221.2	111,457.0	106,191.7	91,316.6	94,439.7	101,163.3	107,304.8	112,836.5	118,079.5	124,818.9	132,323.0	140,559.6	149,482.1
EXPENDITURES													
Personal Services	12,923.3	14,925.7	14,488.9	16,330.1	16,983.3	17,662.6	18,369.1	19,103.8	19,868.0	20,662.7	21,489.2	22,348.8	23,242.8
OPEB	1,299.2	1,352.4	1,352.4	1,407.9	1,464.2	1,522.8	1,583.7	1,647.0	1,712.9	1,781.4	1,852.7	1,926.8	2,003.9
Operating Expenses	8,244.6	10,214.3	11,213.0	11,544.8	11,810.3	12,022.9	12,227.3	12,435.1	12,659.0	12,874.2	13,118.8	13,394.3	13,675.6
Power	4,781.9	5,712.6	5,165.1	5,378.9	5,647.8	5,930.2	6,226.7	6,538.1	6,865.0	7,208.2	7,568.6	7,947.1	8,344.4
Chemicals	2,978.4	3,804.9	3,474.5	3,668.1	3,924.9	4,199.6	4,493.6	4,808.2	5,144.7	5,504.9	5,890.2	6,302.5	6,743.7
Cost Allocation	5,597.0	4,303.1	4,039.6	4,110.4	4,205.0	4,280.7	4,353.4	4,427.4	4,507.1	4,583.8	4,670.9	4,768.9	4,869.1
Expenditure Lapse**	-	-	(397.3)	(424.4)	(440.4)	(456.2)	(472.5)	(489.6)	(507.6)	(526.2)	(545.9)	(566.9)	(588.8)
Transfer from Water	-	(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)
Debt Service	14,939.9	14,798.8	14,502.3	14,469.2	14,394.8	14,374.7	14,367.5	14,634.5	14,643.8	14,630.7	14,615.5	14,606.4	14,600.8
			-										
Capital Outlay	14,755.1	24,534.8	28,362.1	12,692.7	9,801.0	11,301.2	12,577.0	13,286.0	12,489.0	12,502.2	12,494.0	12,495.0	12,485.0
TOTAL EXPENDITURES	65,519.3	78,707.7	81,261.9	68,218.4	66,871.2	69,868.1	72,704.0	75,312.5	76,242.3	77,991.1	79,860.3	81,846.2	83,917.1
% vs prior year	13%		24%	-16%	-2%	4%	4%	4%	1%	2%	2%	2%	3%
TOTAL ENDING FUND BALANCE	43,701.8	32,749.2	24,929.8	23,098.2	27,568.6	31,295.1	34,600.8	37,524.1	41,837.2	46,827.8	52,462.8	58,713.5	65,565.0
Ending balance as % of Resources	40%	29%	23%	25%	29%	31%	32%	33%	35%	38%	40%	42%	44%
TOTAL REQUIREMENTS	109,221.1	111,457.0	106,191.7	91,316.6	94,439.7	101,163.3	107,304.8	112,836.5	118,079.5	124,819.0	132,323.0	140,559.6	149,482.0
Debt Service Coverage	1.74		1.66	1.75	1.99	2.05	2.11	2.11	2.15	2.20	2.24	2.28	2.32
REVENUE minus EXPENDITURES (NOT cumulative)	(3,764.0)	(17,553.9)	(18,772.0)	(1,831.6)	4,470.4	3,726.5	3,305.5	2,923.4	4,313.1	4,990.6	5,634.9	6,250.7	6,851.5

* Operating Expenses net of Cost Allocation

** 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.