

This is a form letter and really doesn't have much to do with Ellisville.

FLORIDA RURAL WATER ASSOCIATION

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March 23, 2010

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Columbia County

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GARY WILLIAMS
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Mr. Dale Williams, County Manager
Columbia County
P.O. Box 1529
Lake City, FL 32056-1529
386-758-1005

Re: **Water Rate Study Findings and Recommendations
Columbia County Water System**

Dear Mr. Williams:

Florida Rural Water Association is pleased to provide this rate study and recommendations to the Utility Committee as a free membership benefit and through USDA Rural Development support. FRWA is dedicated to assisting water and wastewater systems provide Floridians with an ample affordable supply of high quality water and wastewater services, while protecting natural systems.

You and the Committee should be congratulated for your new water system and Public Works staff. With unfunded mandates continuing to roll down from state and federal government along with the aging of pipes, pumps and plants, you have risen to the challenge and will operate the system providing consistent services. To make a very difficult job, more difficult, revenues have lagged behind expenses. Utility operators have done more with less each year, as measured in real dollars. They have shouldered the responsibility of running the system in a responsible manner and in compliance with state rules and regulations.

Executive Summary: Florida Rural Water Association (FRWA) believes your customers are best served by self-sustained enterprises adequately financed with rates based on sound engineering and economic principles. The analysis should identify the true costs of providing services in the long-term. Rates and fees collected must be sufficient to maintain level of service, cover expenses, fund capital outlays, retire debt, and support reserves (debt-service, repair and replacement, minor capital projects, infrastructure reinvestment, and emergencies).

Florida Rural Water Association has included comments and recommendations in this report to allow your system to be financially sound if followed. The recommendations are based on the systems own data and is only as good as the data provided.

While this could have been posted to the county web site yesterday, the county management waited until just hours before the meeting to make this information available.



EMAIL
frwa@frwa.net

WEBSITE
www.frwa.net

The County hasn't figured out how to make all images readable. Posting them at the 12th hour is common practice for County management.

The revenues are made up of (4) four categories and if anyone of these categories has a problem it can make rates escalate and add a burden to existing ratepayers. The categories are 1) Rates, 2) Capacity Fees, 3) Connection Fees, and 4) Other Fees.

Finding – A Capital Facility charge was created and recommended by Eutaw Utilities and presented in the 2007 Facilities Plan. In Florid Rural Water Associations opinion the Capital Facilities Charges per Equivalent Residential Unit are standard, customary, justifiable and reasonable.

5/8" X 3/4"	Positive Displacement	10	1.0	\$1,300	\$600	\$1,900
1"	Positive Displacement	25	2.5	\$3,700	\$1,800	\$5,500
1-1/2"	Positive Displacement	50	5.0	\$7,400	\$3,600	\$11,000
2"	Positive Displacement	80	8.0	\$11,840	\$5,760	\$17,600
3"	Compound	160	16.0	\$23,680	\$11,520	\$35,000

Capacity Fees: Capacity Fees are one-time charges assessed to the new connection or reimburse your utility for capital infrastructure investments – install pipelines, construct lift stations, build plants, purchase property, and so forth paid for by existing ratepayers. Capacity charges are a new customer “buy-in” charge-- proportional to the capacity set aside for the new development or connection. This fee allows new growth to pay for growth. In some systems these charges are called Impact Fees while others may be called Benefit Assessments, User Fees, Contributions In Aid of Construction (CIAC) or Connection Charges.

Recommendation – Florida Rural Water Association recommends that a Capacity Fee study is performed every (5) five years from the completion date. Florida Rural Water Association can perform this study for you and is covered under your membership.

Recommendation – Florida Rural Water Association recommends that all meter requests larger than a 3” should be calculated by the systems engineer or utility professional. Commercial meter request should always be calculated by the systems engineer or utility professional.

Connection Fees: Charges for hooking up to the Counties water system and shall be sufficient to cover the operational cost of labor, travel and/or materials. Including, but not limited to the cost of the original, or future replacement meter, meter boxes, corporation stop, valves and appurtenances or replacement thereof, but with a minimum charge of the following:

5/8 -in	\$35	\$215	\$250
3/4-in	\$60	\$240	\$300
1-in	\$85	\$415	\$500
1.5-in	\$215	\$410	\$625
2-in	\$290	\$510	\$800
3-in Compound Meter	\$375	\$825	\$1,200

LAKE CITY, CITY OF	250	\$1,050	\$302
LAKE BUTLER, TOWN OF	250	\$1,002	\$250
COLUMBIA COUNTY	250	\$1,900	\$250
FORT WHITE, TOWN OF	300	\$1,229	\$750

Note: FORT White capacity fee does not include cost for distribution

Where is the county getting the money for the interest free loans?

Finding – The Utility Committee has requested that all properties in the water service area be required to hook up to the water service. Furthermore all connections will pay the Capacity Fee and Connection Fee.

Recommendation – Florida Rural Water Association agrees with the utility committee, such actions can cause hardship on property owners who cannot afford the associated fees. We suggest the following may help:

1. Property owners who can afford the fees at the time of application be given a discount.
2. Property owners who cannot, place the fees on a 10/year interest free payback program

Florida Rural Water Association can provide some suggested mathematical calculations on request.

Fees and Charges: Water and wastewater systems use a fee schedule to recoup certain costs associated with starting service and providing services beyond monthly water or wastewater service. In general, these fees can be classified into three categories: up-front fees, service fees and penalty fees.

Up-front fees (Start up fees) include meter installation, deposits, capital improvement or infrastructure fees, and impact fees.

Service fees are charged when the utility performs a service for a customer that goes beyond what is required for water or wastewater service. These fees, also called non-recurring charges, are intended to recover customer-specific costs, which would otherwise result in a monetary loss to the utility or increased rates to other customers who do not benefit from the service provided. These fees may include line extension fees, administrative fees, reconnection or relocation fees, capacity analysis and meter accuracy check fees, backflow prevention, and trip fees.

Penalty fees are used to discourage certain customer behaviors or practices. These fees include late and disconnection fees, illegal or unauthorized connection fees, and returned check fees. The costs associated with these fees generally include a reduction in revenue for a utility and that reduction may be built into the amount of the fee.

The county's other rate study shows a rate of 7,000 gallons per month.

Recommendation – The Up-Front fees should be checked and adjusted every (5) five years. The Service fees and Penalty fees should be checked and adjusted on an annual basis.

Finding – The 2007 facility plan references the average residential drinking water connection will use 5,000 gallons per month. This was based on a 2.56 (2000 Census) person per average household in Columbia County. Florida Rural Water Association agrees with the Ten State Standards that suggest 100 gallons per day per capita as the normal drinking water demand.

The County is allowing each connection to maintain their present well that should be converted to irrigation if needed. This will allow for a true usage figure to be collected in the future.

Florida Rural Water Association will recommend a rate based on those numbers. When using these numbers the rate prediction is based on experience performing rate reviews to the more than 1400 systems we work with every year.

Recommendation – Florida Rural Water Association recommends the rate with a Monthly Base Charge based on meter size with a Usage Charge per 1,000 gallons used:

METER SIZE	BASE MINIMUM	COST PER 1,000 GALLONS
Residential		
5/8 -3/4	\$10.00	\$1.70
Commercial		
5/8 -3/4	\$15.00	\$2.55
1	\$25.00	\$2.55
1 1/2	\$50.00	\$2.55
2	\$80.00	\$2.55
3	\$160.00	\$2.55
4	\$250.00	\$2.55
6	\$500.00	\$2.55
8	\$800.00	\$2.55

Recommendation – Rates should be checked every budget year. A budget should not be approved if the rates will not support the revenue needed to meet expenses. Florida Rural Water Association recommends that rates be checked every year and a new rate analysis completed on the third year.

1 GASB 34 "requires that governments report their capital assets in a statement of net assets and requires that the report show the depreciation in value of those assets. Specific asset reporting requirements include: (1) depreciation of assets must begin when the asset, equipment or facilities are acquired or put into service; (2) accumulated depreciation for all assets must be reported; and (3) assets acquired or built prior to 1980 are not required to be reported." Lee, et. al., *Public Budgeting Systems, 8th Edition*, (Jones & Bartlet Publishers) 2006, Table 2-4, p. 510-513

1 Legitimate expenses include items such as computer support, billing, accounting, fleet maintenance, office space, or other activities "provided for water utility operations, and the like. Since inclusion of expenses for such services in the total revenue requirements would be proper if the utility were operating independently, it is also appropriate when the services are furnished by an associated government entity" *Water Rates*, AWWA Manual M1, Fourth Edition, 1999, American Water Works Association, p. 2

Projected Water Expenses to Maintain Sustainable Infrastructure & Service

Operations Expense	2010	2011	2012	2013	2014	2015
Operating Exp.	\$69,770	\$71,165	\$72,589	\$74,040	\$75,521	\$77,032
Debt Service	\$0	\$0	\$0	\$0	\$0	\$0
Infrastructure Reserve Fund	\$18,140	\$18,502	\$18,873	\$19,251	\$19,636	\$20,028
Other Reserves	\$18,186	\$18,270	\$18,356	\$18,442	\$18,532	\$6,933
Total	\$106,096	\$107,937	\$109,818	\$111,733	\$113,689	\$103,993

1. 2% CPI adjustment is calculated in years 2011 to 2015
2. Year 2015 shows a drop Other Reserves, Truck and Tap Machine drop off

Projected Revenue generated by the new Rate

	2010	2011	2012	2013	2014	2015
Rate Revenue	\$106,186	\$108,310	\$110,476	\$112,685	\$114,939	\$117,238
Operating Expenses	\$106,096	\$107,937	\$109,818	\$111,173	\$113,689	\$103,933
Excess / Deficit	\$90	\$373	\$658	\$1,512	\$1,250	\$13,305

1. 2% CPI adjustment per year
2. Drop off of small capital items in 2015

Recommendation – It is prudent utility practice to sync water and wastewater rates with annual cost-of-living adjustments for the utility to keep pace with incremental costs into your rate ordinance – make this adjustment automatic based on a verifiable index. Use the Engineering News Record (ENR) Construction Consumer Index, the Florida Public Service Commission 2008 Price Index, or the United States Department of Labor Consumer Price Index (CPI).

Recommendation – The County should set aside money every year in a reserve account to help fund asset replacement and rehabilitation. The amount needed to save must be factored into the towns system’s rates because rehabilitation and repair costs are part of the overall cost of providing service. If the town does not already have a reserve account, consider establishing one as soon as possible; having a reserve account is critical to developing financial capacity.

To establish and properly fund a reserve account you will need to rely on your capital improvement plan, in which you establish your asset rehabilitation and maintenance priorities and determine the funding required for these improvements. Asset management will be an important tool to help you do this. If you do not have a capital improvement plan we would recommend the town get with your engineer and start the plan as soon as possible. We have worked up figures to use until one is created based on the American Water Works Association (AWWA) standards of 3% Repair and Replacement; 3% Emergency; and 12% to 26% capital outlay.

Residential		Base Charge	Residential		Base Charge
5/8 x 3/4		\$10.00	5/8 x 3/4		\$15.25
Commercial			Commercial		
	5/8 x 3/4	\$15.00		5/8 x 3/4	\$15.25
	1	\$25.00		1	\$30.31
	1 1/2	\$50.00		1 1/2	\$55.88
	2	\$80.00		2	\$86.56
	3	\$160.00		3	\$158.15
	4	\$250.00		4	\$260.41
	6	\$500.00		6	\$516.09
	8	\$800.00		8	\$822.89
Cost Per 1,000 Gallons		\$2.55	Cost Per 1,000 Gallons		\$2.13
Residential cost per 1,000 gallons		\$1.70	Residential cost per 1,000 gallons		\$2.13

Note: Lake City is Raising Rates on April 5, 2010

Recommendation – Once the annual budget water enterprise fund has been prepared by the County Manager and approved by the County Commissioners, it is reasonable procedure to monitor revenues and expenses monthly and a quarterly financial report be submitted to the Town Council for their fiduciary oversight. This will forestall future financial issues in the enterprise fund.

Recommendation – FRWA recommends that the County continue to evaluate the water enterprise funds health in order to determine when future rate adjustments will be necessary, however annual adjustments in the CPI should be preformed without fail or the Town will be facing this same situation again in a few years

Rate Study Objectives: Ideally utility rate setting should meet a number of goals and objectives. *The single most important goal of the study is to develop proposed utility rates that meet the projected expenditure requirements of the utility system in order to maintain sound financial operations and to fund the anticipated capital needs of the system.* The other goals and objectives considered in the study include the following:

- ✓ Proposed rates should be equitable among customer classes;
- ✓ Proposed rates should minimize “rate shock” to customers if possible;
- ✓ Proposed rates should promote the conservation of utility resources; and
- ✓ Proposed rates should maintain adequate reserves for emergencies and unforeseen capital.

The original mission for creation and ownership public water and wastewater utilities include many compelling objectives: (1) health and safety of citizens; (2) protect most vulnerable residents (aged, young, poor health, economically disadvantaged, etc.); (3) ability to return the

profit ordinarily collected by a private entity to the customer in the form of lower rates; (4) provide fire protection; (5) tool to expand the tax base; (6) ability to shape, facilitate or control growth; and (7) promotes home rule and self determination.

Rate Study Standards: FRWA uses contemporary industry standards for recommending and establishing utility rates, these include: American Water Works Association (AWWA) Manuals of Practice, Generally Accepted Accounting Principles (GAAP), Governmental Accounting Standards Board (GASB), and Florida Public Service Commission guidelines.

Utility Revenue Requirements: The various components of costs associated with operating and maintaining a utility system, as well as the costs of financing the renewals and replacements of existing facilities and the capital improvements for upgrades and expansions, are generally considered the revenue requirements of a public utility such as The Columbia County's water system. The sum of these costs, after adjusting for other income and other operating revenues available to the utility, represents the net revenue requirements to be recovered from rates.

Operating Expenditures – These expenditures include the cost of utilities, chemicals, salaries and benefits, materials and supplies, allocated administrative charges, and other items necessary for the daily operations and maintenance of the water and wastewater systems

Debt Service – Debt Service includes the principal and interest of the system's current loans.

Renewal and Replacement Fund / Capital Replacement Account – This component of cost includes:

- Funding of the utility's renewal and replacements as defined in AWWA M26 manual of practice, it is recommended that this fund should be obtained from an analysis of system assets¹, or at least 15% to 26% of the total system budget.
- Funding of an ongoing capital replacement account to provide for the continued renewal, upgrade, and betterment of utility system assets. These requirements are funded annually from utility rates and have been identified as a separate revenue requirement for rate determination purposes.²

Results of Rate Study: EPA recommends that water & wastewater systems set rates to ensure that there are sufficient revenues in place to support the costs of doing business. The full-cost pricing for rates shall include the costs for operating, maintaining, repairing, rehabilitating and replacing infrastructure.³

We recommend that you revisit the revenue/expense predictions, current financial position and, other indicators during the annual budget approval process, adjusted the rates as needed. One of three things will happen:

1 Analysis of system assets for state and local governments per Governmental Accounting Standards Board (GASB) 34. *GASB White Paper: Why Governmental Accounting and Financial Reporting Is -- And Should Be -- Different*, www.gasb.org/white_paper_mar_2006.html, p. 26-27

2 GASB 34 "requires that governments report their capital assets in a statement of net assets and requires that the report show the depreciation in value of those assets. Specific asset reporting requirements include: (1) depreciation of assets must begin when the asset, equipment or facilities are acquired or put into service; (2) accumulated depreciation for all assets must be reported; and (3) assets acquired or built prior to 1980 are not required to be reported." Lee, et. al., *Public Budgeting Systems, 8th Edition*, (Jones & Bartlet Publishers) 2006, Table 2-4, p. 510-513

3 *Case Studies of Sustainable Water and Wastewater Pricing*. USEPA Document No. EPA 816-R-05-007. (December 2005). See: www.epa.gov/safewater

1. If the predicted and current financial positions match closely, and if future needs are like those anticipated in the analysis, the County should increase rates by the factors recommended in the analysis. The County Manager provides the recommended rate adjustment. This is a slam-dunk easy adjustment.
2. If the two diverge modestly, the County should adopt rates that will get the system back on track. The County Manager does the simple math and provides the recommended rate adjustment. This is only slightly more complex than a slam-dunk.
3. If the predicted financial performance diverges wildly from the actual, a simple math calculation won't do. It's time for a new comprehensive analysis – please call us to run the numbers, we are only too happy to do this for you. The analysis is complex but the Towns part is still easy to do.

Recommendations: When a new rate review is completed it often requires two public hearings and a rate ordinance to place it law. Your legal counsel will confirm the requirements for your public notice and hearing(s).

We have enjoyed serving you and wish your water and system the best. Please feel free to contact me if you have any further questions at 850-668-2746 ext 175, Bill.Secoy@frwa.net, or Sterling Carroll at 850-668-2746 ext 118, Sterling.Carroll@frwa.net.

Sincerely/



William Secoy
Financial / Management Circuit Rider
Florida Rural Water Association

Copy: Sterling L. Carroll, FRWA State Engineer