

Rate Impact & Feasibility Assessment

Membrane Conversion Project

Seacoast Utility Authority

22 July 2009

Howard C. Osterman, Inc.

ENVIRONMENTAL
FINANCIAL
GROUP
INC

Purpose

Membrane Conversion Project (MCP):
2009/10 to 2016/17

Establish feasibility of MCP

Compare 2005/6 Rate Study w/ Feasibility

Indicated revenues to support MCP

Indicated rate schedules

Unpredicted Results

“Connecting the Dots” to the 2006 Rate Study

Staff Analysis - Revenue

Debt service reserve - additional \$13.5M including current proposed bond issue

Housing market collapse - \$10M cumulative

Investment revenue loss - \$1M per year

Staff Analysis - Cost

Fuel and chemical increases - \$3M cumulative

Loss of lime sludge market - \$1.2M per year

US W&S CPI 2005 to 2009 - 21.3%

Pro Forma Forecast

Indicated MCP Revenues

Required operating revenues through 2016/17

Annual indexing beginning 10/1/2010

MCP operating costs and bond financing

MCP membrane element replacement

Fully funded depreciation w/o long term R&R

Benchmarks

Indicated MCP Revenues

Avoid operating and net losses

Meet minimum coverage requirements

Anticipate compliance with Add-Bonds test

Maintain minimum cash reserves

Projected Financial Results

Indicated MCP Revenues (\$M)

	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
Operating Revenue	\$ 38.65	\$ 40.58	\$ 42.61	\$ 44.74	\$ 46.97	\$ 49.31
Operating Expenses	\$ 23.07	\$ 24.11	\$ 25.50	\$ 26.64	\$ 27.84	\$ 29.09
Operating Income	\$ 6.08	\$ 6.87	\$ 7.41	\$ 8.29	\$ 6.83	\$ 7.82
Net Income	\$ 2.39	\$ 0.05	\$ 0.84	\$ 2.00	\$ 0.88	\$ 1.80
Ending Cash Balance	\$ 16.62	\$ 17.04	\$ 17.46	\$ 18.67	\$ 20.59	\$ 23.37
DS Coverage w/o Connection Fees	2.01	1.31	1.36	1.44	1.52	1.61
DS Coverage w/ Connection Fees	2.08	1.35	1.40	1.48	1.57	1.66

Raising Required Revenue

Indicated MCP Rates

Remove \$5.40 monthly Water Surcharge

Add \$3.50 increase in monthly Water Base Charge

Increase first water tier from \$0.43 to \$0.83 per kGal

Increase second water tier from \$2.69 to \$3.05 per kGal

Increase third water tier from \$3.26 to \$4.70 per kGal

Add \$3.50 increase in monthly Sewer Base Charge

Increase first sewer tier from \$0.42 to \$0.56 per kGal

Additional \$3.0M in water and sewer sales revenue over and above previous surcharge

SF Residential Impacts

Indicated MCP Rates

	Proposed			Existing Rates	Difference	
	Water	Sewer	Combined		\$	%
-	\$ 16.79	\$ 24.90	\$ 41.69	\$ 40.09	\$ 1.60	4.0%
3,000	\$ 19.28	\$ 26.58	\$ 45.86	\$ 42.64	\$ 3.22	7.6%
6,000	\$ 21.77	\$ 28.26	\$ 50.03	\$ 45.19	\$ 4.84	10.7%
10,000	\$ 33.97	\$ 30.50	\$ 64.47	\$ 57.63	\$ 6.84	11.9%
20,000	\$ 64.47	\$ 30.50	\$ 94.97	\$ 84.53	\$ 10.44	12.4%
50,000	\$207.27	\$ 30.50	\$ 237.77	\$192.77	\$ 45.00	23.3%
100,000	\$442.27	\$ 30.50	\$ 472.77	\$355.77	\$117.00	32.9%

MF Residential Impacts

Indicated MCP Rates

		Proposed			Existing	Difference	
	Units	Water	Sewer	Combined	Rates	\$	%
-	4	\$ 43.46	\$ 80.88	\$ 124.34	\$118.49	\$ 5.85	4.9%
3,000	4	\$ 45.95	\$ 82.56	\$ 128.51	\$121.04	\$ 7.47	6.2%
6,000	4	\$ 48.44	\$ 84.24	\$ 132.68	\$123.59	\$ 9.09	7.4%
10,000	4	\$ 51.76	\$ 86.48	\$ 138.24	\$126.99	\$ 11.25	8.9%
20,000	6	\$ 81.33	\$132.52	\$ 213.84	\$194.27	\$ 19.57	10.1%
50,000	8	\$167.45	\$188.63	\$ 356.09	\$318.39	\$ 37.70	11.8%
100,000	12	\$326.97	\$282.95	\$ 609.92	\$544.37	\$ 65.55	12.0%

5/8" Non-Residential Impacts

Indicated MCP Rates

	Proposed			Existing Rates	Difference	
	Water	Sewer	Combined		\$	%
-	\$ 16.79	\$ 24.90	\$ 41.69	\$ 40.09	\$ 1.60	4.0%
3,000	\$ 19.28	\$ 26.58	\$ 45.86	\$ 42.64	\$ 3.22	7.6%
6,000	\$ 21.77	\$ 28.26	\$ 50.03	\$ 45.19	\$ 4.84	10.7%
10,000	\$ 33.97	\$ 30.50	\$ 64.47	\$ 57.63	\$ 6.84	11.9%
20,000	\$ 64.47	\$ 36.10	\$ 100.57	\$ 88.73	\$ 11.84	13.3%
50,000	\$155.97	\$ 52.90	\$ 208.87	\$182.03	\$ 26.84	14.7%
100,000	\$308.47	\$ 80.90	\$ 389.37	\$337.53	\$ 51.84	15.4%

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Forecasted Income

FY2009/10 through FY2016/17

	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Metered Water Sales	21,295,000	22,365,000	23,488,000	24,668,000	25,907,000	27,208,000	28,575,000	30,010,000
Sewer Sales	15,845,000	16,641,000	17,477,000	18,355,000	19,277,000	20,245,000	21,262,000	22,330,000
Surcharge	0	0	0	0	0	0	0	0
Fire Protection	75,594	76,000	76,400	76,800	77,200	77,600	78,000	78,400
Miscellaneous	164,198	165,000	165,800	166,600	167,400	168,200	169,000	169,800
Administrative Fees	27,000	27,100	27,200	27,300	27,400	27,500	27,600	27,700
Reclaimed Water Sales	1,072,000	1,126,000	1,183,000	1,242,000	1,304,000	1,369,000	1,438,000	1,510,000
Guaranteed revenue	175,053	183,000	191,000	200,000	209,000	218,000	228,000	238,000
Total Operating Revenue	38,653,845	40,583,100	42,608,400	44,735,700	46,969,000	49,313,300	51,777,600	54,363,900
less Op Exp Before Depreciation	23,071,455	24,110,000	25,495,000	26,642,000	27,841,000	29,094,000	30,403,000	31,771,000
less Depreciation	9,500,000	9,600,000	9,700,000	9,800,000	12,300,000	12,400,000	12,500,000	12,600,000
Operating Income (Loss)	6,082,390	6,873,100	7,413,400	8,293,700	6,828,000	7,819,300	8,874,600	9,992,900
Non-Operating Revenues (Expenses)								
Interest income	185,000	168,307	172,487	180,625	196,297	219,806	253,515	299,506
Interest expense	(3,306,063)	(6,411,989)	(6,175,305)	(5,895,278)	(5,574,256)	(5,666,520)	(5,630,565)	(5,588,310)
Amortization of bond costs	(375,000)	(375,000)	(375,000)	(375,000)	(375,000)	(375,000)	(375,000)	(375,000)
Other income (expense)	(200,000)	(200,000)	(200,000)	(200,000)	(200,000)	(200,000)	(200,000)	(200,000)
Total Non-Op Revenues (Expenses)	(3,696,063)	(6,818,682)	(6,577,818)	(6,289,653)	(5,952,959)	(6,021,714)	(5,952,050)	(5,863,804)
Net Income	2,386,327	54,418	835,582	2,004,047	875,041	1,797,586	2,922,550	4,129,096
Operating Margin	40.3%	40.6%	40.2%	40.4%	40.7%	41.0%	41.3%	41.6%
Indicated rate increases	21.15%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Estimated indexing (annualized)	0.00%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%

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Forecasted Cash Flow

FY2009/10 through FY2016/17

	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
CASH FLOWS FROM OPERATIONS								
Cash received from customers	38,653,845	40,583,100	42,608,400	44,735,700	46,969,000	49,313,300	51,777,600	54,363,900
Cash disbursements for operating expenses	(23,071,455)	(24,110,000)	(25,495,000)	(26,642,000)	(27,841,000)	(29,094,000)	(30,403,000)	(31,771,000)
Net cash provided by operating activities	15,582,390	16,473,100	17,113,400	18,093,700	19,128,000	20,219,300	21,374,600	22,592,900
CASH FLOWS FROM CAPITAL AND FINANCING								
Bond Proceeds, Net of DSRF	68,861,000	0	0	0	0	0	0	0
Principal Paid on Existing Bonds	(4,421,549)	(4,652,964)	(4,899,435)	(5,170,961)	(5,447,548)	(5,300,000)	(5,300,000)	(5,300,000)
Interest Paid on Existing Bonds	(3,306,063)	(3,075,901)	(2,825,662)	(2,568,033)	(2,274,846)	(2,400,000)	(2,400,000)	(2,400,000)
Principal Paid on 2009 Bonds	0	(1,430,000)	(1,445,000)	(1,465,000)	(1,495,000)	(1,530,000)	(1,565,000)	(1,605,000)
Interest Paid on 2009 Bonds	0	(3,336,088)	(3,349,643)	(3,327,245)	(3,299,410)	(3,266,520)	(3,230,565)	(3,188,310)
Principal and Interest Paid on Future Bonds	0	0	0	0	0	0	0	0
Alternative Water Project	(76,898,311)	0	0	0	0	0	0	0
Other Capital Projects	(9,000,000)	(4,000,000)	(4,180,000)	(4,368,100)	(4,714,818)	(5,000,000)	(5,000,000)	(5,000,000)
Connection Fees	270,000	270,000	270,000	270,000	270,000	270,000	270,000	270,000
Transfer to Membrane Replacement Fund	0	0	(436,688)	(436,688)	(436,688)	(436,688)	(436,688)	(436,688)
DS Reserve on Existing Bonds	(1,950,000)	0	0	0	0	0	0	0
Net cash used by capital and financing	(26,444,923)	(16,224,953)	(16,866,428)	(17,066,027)	(17,398,310)	(17,663,208)	(17,662,253)	(17,659,998)
CASH FLOWS FROM INVESTING ACTIVITIES								
Interest income	185,000	168,307	172,487	180,625	196,297	219,806	253,515	299,506
Other	0	0	0	0	0	0	0	0
Net cash provided by investing activities	185,000	168,307	172,487	180,625	196,297	219,806	253,515	299,506
Net increase (decrease) in cash	(10,677,533)	416,454	419,459	1,208,299	1,925,987	2,775,899	3,965,862	5,232,409
Beginning total cash balance	27,300,000	16,622,467	17,038,921	17,458,380	18,666,679	20,592,666	23,368,565	27,334,427
Ending total cash balance	16,622,467	17,038,921	17,458,380	18,666,679	20,592,666	23,368,565	27,334,427	32,566,836

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Forecasted Debt Service Coverage

FY2009/10 through FY2016/17

	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Operating Revenue	38,478,792	40,400,100	42,417,400	44,535,700	46,760,000	49,095,300	51,549,600	54,125,900
75% of non-construction interest income	138,750	126,230	129,365	135,469	147,223	164,855	190,136	224,630
Operating Expenses	23,071,455	24,110,000	25,495,000	26,642,000	27,841,000	29,094,000	30,403,000	31,771,000
Net available excluding Guaranteed Revenues, connection fees, and 25% of non-construction interest income	15,546,087	16,416,330	17,051,765	18,029,169	19,066,223	20,166,155	21,336,736	22,579,530
Guaranteed Revenues	175,053	183,000	191,000	200,000	209,000	218,000	228,000	238,000
Connection Fees	270,000	270,000	270,000	270,000	270,000	270,000	270,000	270,000
25% of non-construction interest income	46,250	42,077	43,122	45,156	49,074	54,952	63,379	74,877
Net available including Guaranteed Revenues, connection fees, and 25% of non-construction interest income	16,037,390	16,911,407	17,555,887	18,544,325	19,594,297	20,709,106	21,898,115	23,162,406
Long-Term Debt Service	7,727,612	12,494,953	12,519,740	12,531,239	12,516,804	12,496,520	12,495,565	12,493,310
Debt Service Coverage excluding Guaranteed revenues and connection fees (min 1.05x)	2.01	1.31	1.36	1.44	1.52	1.61	1.71	1.81
Debt Service Coverage excluding Guaranteed revenues and connection fees (min 1.20x)	2.08	1.35	1.40	1.48	1.57	1.66	1.75	1.85

1 Required debt service coverage per Bond Trust indenture 1.05x

2 Required debt service coverage per Bond Trust indenture 1.20x