Tampa Bay Water
Budget Workshop - Transcript
April 18, 2016

The Board of Directors of Tampa Bay Water met in their offices, 2575 Enterprise Road, Clearwater, Florida 33763.

BOARD MEMBERS PRESENT:

Present: Chairman – Commissioner Ted Schrader, Pasco County
Vice Chairman – Councilman Karl Nurse, City of St. Petersburg
Commissioner Dave Eggers, Pinellas County
Commissioner Ken Hagan, Hillsborough County
Commissioner Jack Mariano, Pasco County
Mayor Rob Marlowe, City of New Port Richey
Councilman Charlie Miranda, City of Tampa
Commissioner John Morroni, Pinellas County
Commissioner Sandra Murman, Hillsborough County

Staff: Matt Jordan, General Manager

Presenters: Christina Sackett, Chief Financial Officer

General Counsel: Barrie Buenaventura, General Counsel

A list of others present who signed the attendance roster was filed in the permanent files of Tampa Bay Water. Staff and Consultants presenting to the Board are listed above.

Chairman Ted Schrader called the Budget Workshop to order at 9:00 a.m.

BUDGET WORKSHOP – 9:00 a.m. – Proposed Fiscal Year 2017 Budget

Chairman Schrader turned the discussion for the budget workshop over to Matt Jordan, General Manager. Mr. Jordan stated that following the budget schedule adopted by the Board in 2015, a proposed budget has been prepared for Fiscal Year 2017. Mr. Jordan turned the workshop over to the Christina Sackett, Chief Financial Officer. Ms. Sackett provided the following presentation on the Proposed Fiscal Year 2017 Agency Budget.

Good morning Chairman and Members of the Board.

This workshop will provide an overview of the factors considered by staff for the development of the Agency's projected resources and expenditures in the proposed fiscal year 2017 (FY17) budget, and gives staff the opportunity to receive comments from the Board and answer questions.

The agency's finance staff has already met with the finance departments of each member government to review the proposed budget and answer any of their questions or concerns.

Annually, management considers the Agency's overarching responsibilities and the strategic plan when developing the budget. This proposed budget balances the three principal responsibilities of the Agency and works towards meeting the five goals in the Agency's recently updated Strategic Plan.

Some of the strategies emphasized in the fiscal year 2017 budget under goal number one are:

- Implementing the Agency Asset management program;
- Updating the long-term master water plan;
- Updating the water shortage mitigation plan; and
- Updating the capital improvement program.

Under goal number two the strategies focused on are:

- Implementing the environmental management system;
- Evaluating contract operations for efficiencies and identify future opportunities;
- Conducting an agency staffing study; and
- Upgrading the records management software.

The strategies highlighted under goal number three are:

- Complying with new financial requirements with increasing auditor services;
- Using investment advisors to maximize our rate of return on investments;
- Maintaining the Agency's AA+ bond rating by maintaining cash reserves and optimizing debt refunding opportunities;
- Updating the chemical and electrical model for data and rate accuracy; and
- Implementing a systematic inventory review process.

Under goal number four the strategies accentuated are:

- Implementing the agency communications plan;
- Upgrading the agency website to a mobile platform;
- Coordinating the source water protection mini grant program; and
- Implementing the agency legislative and grant funding program.

The strategies stressed in the fiscal year 2017 budget for goal number five are:

- Conducting employee emergency management training and two drills;

- Completing job safety analysis for individual work functions;
- Conducting employee safety training to maintain compliance with OSHA;
- Formalizing and implementing a facility inspection plan; and
- Implementing recommendations in the agency vulnerability assessment.

Additionally, some factors have been identified as having a key impact on the fiscal year 2017 budget.

Socio-economic projections indicate growth in the region is positive but slow so the agency is forecasting a slight increase in water sales of 1 million gallons per day, bringing the demand to 165 million gallons a day.

The success of the Series 2015/2016 bond refundings lowered the Agency's debt service costs in FY 2017 by $2.3 million.

Reduced variable costs, due to lower electrical and chemical costs, and operational efficiencies assisted in lowering the net revenue required from water sales.

Additionally, management focused on providing another year with no rate increase for customers, so I am pleased to say the proposed FY17 budget does not include a rate increase, making FY17 the sixth consecutive year with a uniform rate of $2.5590 per 1,000 gallons.

Chairman Ted Schrader: Would you repeat that please.
Ms. Sackett: The proposed fiscal year 2017 budget does not include a rate increase, making FY17 the sixth consecutive year with a uniform rate of $2.5590 per 1,000 gallons.

Ms. Sackett continued her presentation:

The Agency's budgeted water demand is developed each year utilizing various demand forecasting tools. These projections take into consideration relevant factors such as historical rainfall patterns, demographics, population growth and conservation measures. Source scenarios are established for maximizing the use of available river water and managing groundwater resources to achieve environmental recovery and meet permit requirements. Source selection for 2017 includes bringing the use of the desalination facility back up to an annual average of 8 million gallons per day to increase its efficiency, and operating the surface water treatment plant at an annual average of 50 million gallons per day to maximize the seasonally available higher river flows during wet-weather months.

Expenditure levels are established annually for operating and maintenance costs based on projected service demands, permit and compliance requirements, equipment needs, debt service payments and to satisfy bond covenant and reserve funding requirements. The Agency's variable costs fluctuate annually according to the projected demand and supply source, in FY17 these costs make up 14% of the total budget. The remaining costs when combined make up 86% of the total budget and these costs must be covered by the net revenue required from water sales.

Debt service makes up the largest piece of the budget (49%), which includes the acquisition credits to the members.

Here is the breakdown of the budgeted expenditures by major category for FY16 and 17:

- Variable costs have decreased by $856 thousand, due to obtaining lower pricing on water treatment chemicals and lower electricity rates.

- Bond debt service is around $2.3 million less due to the 2015 and 2016 refundings over the past fifteen months.

- Fixed operating costs are up $2 million when compared to FY16 for a few factors, but is largely due to an estimated 30.6% increase in health insurance premiums. Other contributing factors include the continuation of the Agency's merit program that we have had in place over the past few years and the request for four additional positions to support increasing responsibilities, bring services in-house and focusing on meeting strategic objectives. Some of the costs associated with these positions are being offset by reducing outside activities.

- Bringing the Lithia contracted services in-house during FY16 inflates the fixed operating costs in the FY17 budget. Part of the $900 thousand reduction in contracted costs offsets this increase in the fixed operating costs. Contracted costs for the Reservoir are also reduced in FY17 as per the five-year contract.

Overall there is a $3 million reduction in budgeted expenditures for FY17.

The costs for renewal & replacement (R&R) projects are identified separately because the funding is through the R&R funds.

The recent Management and Performance audit indicated the Agency should be reviewing outsourced activities and determine if bringing the work in-house would be more efficient and to continue implementing the agency-wide continuous improvement program. Staff determined with requesting four additional full-time positions these recommendations could be addressed.

These positions include:
- A mechanical engineer in the water production division to assist in managing projects derived from the capital improvement program;
- A water quality scientist in the science and technology division to replace the outsourced land use and development review program and build staff knowledge regarding source water assessment and treatment to support our members;
- A laboratory technician in the science and technology division to analyze the increased number of samples in the wet chemistry section of the laboratory. Some of the work has previously been managed through two cooperative student positions, but due to NELAC requirements it is more efficient to dedicate a full time position to this responsibility; and

- A warehouse clerk in the finance and administration division to support the increased responsibilities and activity of the agency's warehouse and allow staff to focus on meeting warehouse strategic objectives.

Annually, staff projects the agency's expenditures to get the total budget amount and we also need to calculate the projected water sales revenue, which is the primary source of revenue for the Agency. Once we have the total budget projected, adjustments are then applied to this amount. These adjustments are typically other revenue sources the Agency is projecting to receive, such as surcharges, interest income and grant income. Or they are transfers from other agency funds, such as the Renewal & replacement fund or the rate stabilization account. The net revenue required is then calculated by adding the total budget and the total adjustment to determine the projected water sales revenue.

This net revenue is the total cost to the member governments before any acquisition or water quality credits and is separated into a fixed cost component and a variable cost component.

The total budget and water sales revenue have remained pretty stable over the past six budget years, which is very important because the uniform rate is determine by only two factors, the demand and the water sales revenue so when you have a decrease in one the other needs to remain stable or decrease to keep the uniform rate the same.

FY17 – variable costs $ 23,357,146
fixed costs $130,760,704

Staff has worked diligently to develop a proposed FY17 budget maintaining the uniform rate while keeping in mind agency's overarching responsibilities and strategic plan. An increase of 1 million gallon per day in the budgeted demand to 165 million gallons per day is a result of slow growth in the region.

Four additional positions have been requested to bring in-house some outside activities and to focus on meeting the agency's strategic goals.

The total budget amount has been reduced by $3 million.

Use of funds from the rate stabilization account has been reduced by $2.4 million, allowing the Agency to preserve a strong cash balance.

Water Sales revenue does increase by half a million over fiscal year 2016's net revenue required as a result of the increase in demand but this was minimalized by the budget reductions and the decrease in the use of rate stabilization funds.

All of this cumulates into a proposed budget with a uniform rate of $2.5590 for the sixth straight year and a reduction in the variable rate of 1-1/2%.

This graph shows the uniform and variable rate compared to the budgeted demand for fiscal years 2012 through 2017.

The bars represent the uniform rate over the past six years and the dark blue portion signifies the variable rate, which shows decreasing over the past few years.

The purple line indicates the budgeted demand over the same time period.

As mentioned earlier, the demand is one of only two factors that calculate the uniform rate, so when demands decrease it has an immense influence on the uniform rate.

As you can see, staff has been able to develop a budget with the same uniform rate for six years even with the drop in demand. The next step in the budget process will occur in early June when we advertise for the public hearing, which will be at the at June 20th board meeting. During the public hearing we will solicit any public comments on the 2017 budget and review any changes to the proposed budget. Subsequent to the hearing, the Board will be asked to take action to adopt the budget for FY 2017.

This concludes my presentation. I would be happy to answer any questions.

Commissioner Eggers thanked Ms. Sackett for her presentation and asked how the use of rate stabilization plays into keeping the rate flat and how the bond rating relates to the overall health of Tampa Bay Water.

Ms. Sackett explained when staff looks at the budget, all expenditures and outside revenue sources (i.e., interest income, possible grant income) are determine. Next, they look at the demand and make any budget cuts that can be made, determine what the agency would need to take from rate stabilization in order to maintain the same rate or minimize the rate increase. Over the past few years, because of the drop in demand the agency has used more of the rate stabilization to maintain the rate. At the end of the year, staff looks to see if there are any unencumbered funds. If unencumbered funds are found, those funds are put back into the rate stabilization fund or one of the pay-as-you-go funds. In Fiscal Year 2016, the agency budgeted and used $5.3 million of rate stabilization. For Fiscal Year 2017, the agency is budgeting $2.9 million. Ms. Sackett stated that due to the agency's strong bond rating, it is able to obtain better interest rates and more successful sales deals.

Commissioner Eggers commended Ms. Sackett and her staff for their hard work.

Commissioner Morroni congratulated Ms. Sackett and her staff for bringing this budget before the Board and asked if her department looks at other options concerning health insurance costs on a yearly basis.

Ms. Sackett responded yes. She stated that the agency solicits for proposals every year as well as requests the current insurance company to provide the agency with any potential increase. If it is determined that the increase is too high, they go forward to with an RFP as well as seek other options and alternatives (such as self-insuring).

Commissioner Morroni asked the name of the company the agency currently uses.

Ms. Sackett responded Florida Blue and the agency uses Gehring Group as its insurance advisor.

Councilman Nurse thanked Ms. Sackett for a good job and encouraged the agency to look into utilizing generic drugs to help reduce insurance premiums. Councilman Nurse suggested that if the agency's projected energy rates happen, the agency may want to look into generating its own power.

Commissioner Eggers asked for an explanation of the recent staff positions requested.

Ms. Sackett stated in last year's budget the Board approved bringing the Lithia facility services in-house which required the agency to hire five new staff saving the agency $75,000 the first year and over $300,000 every year thereafter. Ms. Sackett explained that each year staff evaluates where the agency can increase its efficiencies and if additional staff is needed.

Chairman Schrader extended the Board's appreciation to Ms. Sackett and her staff for their efficiency and hard work in keeping the rate flat and providing good, clean water to the region. Chairman Schrader then closed the Budget Workshop.

A copy of the full presentation can be found in the agency's Records Department.