

## **An Explanation of County Utility Rate Changes**

Citrus County Water Resources Director Robert Knight says that ratepayers deserve to understand the basis of their rates, and he offers the following explanation to customers.

Knight says the explanation for the cost of services is basically that each of the two systems, water and sewer, must pay for itself and cover its obligations. In other words, rates equal costs divided by rate payers.

Some have pointed out a disparity between residents' bills in cases where, because of the way communities developed, residents in one community may have water service and those in another neighborhood may have both county water and sewer. Ideally, everyone in the county will eventually be on sewer service, but that is not going to happen overnight, and so there will be some disparity between the utility bills of residents who have only water service and those who have both water and sewer service.

That won't be the case forever, though, because the county is dedicated to expanding its sewer services and reducing the effect of septic tanks on the aquifer and sensitive water bodies. Even if you choose to buy or build in a development that is not sewered, the chances are that sewer service will eventually reach you.

As to the recent utility rate changes, other than annual index adjustments, the increases were set by County Commission in 2005 and included increases through 2008 in the amounts of 5 percent annually for water and 21 percent annually for wastewater to catch up to the actual costs of the systems. The increases were approved after several sessions of the County Commission, hundreds of hours of investigation and several hearings before the Citrus County Water and Wastewater Authority Board.

The rates were found necessary to support both the costs of the existing systems and the capital improvement plan necessary to keep the systems in compliance with all applicable regulations. County utility systems are enterprise funds, meaning that they are supported by their own revenues, not general property taxes. Those who benefit from the system, pay the costs, and only the costs. County utilities are operated at cost, without any profit.

There is some history that is relevant to understanding how we got here. A great mishmash of private, for-profit utility companies in

Florida have had a history of bleeding a string of utilities for profit while not putting the necessary money into them to keep them up, not to mention to meet the needs of the future. Very often, after a series of owners, utilities were left badly needing capital improvements, meaning that ratepayers were going to have to make it up at some point.

After a long history of complaints about utilities in Citrus, the county began to move toward acquiring them and bringing relief to customers. Florida Governmental Utility Authority (FGUA) bought the many utilities of large utility owner, Florida Water, in Citrus to make way for government acquisition.

In 2006, the county sought bonds to acquire the FGUA systems in Citrus County. The bonds paid for the purchase of the systems, the initial costs of necessary improvements to bring the systems up to standard, and the capital improvement program for the existing system. These bonds also covered the capital costs for upgrading the existing systems already owned by the county. The embedded rate increases for our existing systems were an integral component of being able to demonstrate that the county had sufficient revenues to meet various bond covenants.

And that's where it gets a little more complicated.

Each year, the county utilities must be able to demonstrate many items to the bond holders and one of the most critical is that it has sufficient revenues to pay the bond payments with a defined small margin to spare.

This current budget year Utilities barely met this requirement. To do it, a balancing act had to be achieved between such things as an increase in conservation program costs of \$40,000, an increase in code enforcement costs of \$85,000 (for two full-time officers), an increase in electricity of over \$100,000 and other miscellaneous increases.

Cuts were made in other areas of the operations to defer discretionary equipment purchases and other items so that the net operational increase was only \$40,000. Based on the results of the assessment done by the county's rate consultant, PRMG, the utilities division expects total expenses this year to be \$14.35 million, with total revenues to be \$14.50 million. This leaves a margin of \$150,000 – which is the smallest budgeted margin that since 2000. PRMG advised the county that this budget barely meets the bond covenants.

There are potential consequences of changing rates that back a bond covenant. Today's volatile market has meant the involuntary lowering of many governmental bonds across the nation. So far, the county has avoided that event. If a county's rating is lowered, it means future borrowing will be much more expensive, if it is available at all. In some cases it can mean a required posting into the care of the bond agent an amount of money equal to several month's of bond payments. In extreme cases, it can even cause declaration of default and the requirement that all bond payments are due immediately.

None of these are currently anticipated in the Citrus County situation. However, if the county were to lower the existing rates and the increases that were approved and became the under-pinnings of the revenue projections, the county utilities director would have to immediately file a report to the bond agent that there had been a material change.

If the change resulted in insufficient debt-service-coverage-ratio, some of the adverse consequences mentioned could be triggered. Even if the county barely avoided such a consequence, it will have sent a signal to the financial markets that it does not necessarily honor rate orders even when it is required to meet bond covenants. That would make it much more difficult for the county to have any access to bond funds in the future.

But bond considerations aside, the bottom line is that the utilities must pay for their costs.

The good news in all this is that the last of the series of necessary large rate increases authorized in 2005 was implemented late last year. Utility systems are always subject to general inflation, something that is beyond their control, but as opposed to past increases of five percent for water and 21 percent for wastewater, that will have a very small impact.

The Utilities Division is striving to meet the inflationary guidelines of the Florida Public Service Commission, which is an increase of 2.39 percent for the next budget year.