



Hillsborough County  
Florida

**SUFFICIENCY OF WATER AND  
WASTEWATER RATES REPORT**

**May 1, 2008**

**WATER RESOURCE SERVICES**

**WATER RESOURCE SERVICES  
HILLSBOROUGH COUNTY**

**SUFFICIENCY OF WATER AND WASTEWATER RATES REPORT**

**PURPOSE**

The purpose of this report is to review the sufficiency of the water and wastewater rates of the utility system (the "System") enterprise fund to meet the Rate Covenant as defined in Section 11.02 of the Amended and Restated Utility System Bond Resolution No. R03-112, adopted by the Board on June 4, 2003 (the "Bond Resolution") in association with the issuance of its outstanding utility revenue bonds (the "Bonds").<sup>1</sup> Generally, this review has been conducted as part of Water Resource Service's periodic rate study process.

It should be noted that pursuant to Resolution No. R-05-257 adopted by the County on December 7, 2005 (the "Note Resolution"), the County authorized the issuance of commercial paper notes on behalf of Water Resource Services. Included in the Note Resolution is a rate covenant which the System revenues must also be in compliance which is in addition to the rate covenants as defined in the Bond Resolution. As of the date of this report, no commercial paper notes were outstanding with respect to such program; therefore, no review regarding the rate covenant as defined in the Note Resolution is required and is not presented in this report.

All undefined capitalized terms included in this report shall have the same meaning as ascribed in the Bond Resolution.

**BACKGROUND**

The last formal review of the monthly rates conducted by Water Resource Services for water and wastewater service was during the fiscal year ended September 30, 2007 (whereby the fiscal year represents the twelve months ended September 30<sup>th</sup>). Based on the results of the rate review, Water Resource Services did not recommend any change or modification to the rates that were in effect during the rate review, except for the continued application of the Purchased-Water Pass-Through Consumption Charge. Therefore, the rates as approved by the Board on May 5, 2005 pursuant to the adoption of Resolution No. R05-106 (the "Rate Resolution") was recommended by Water Resource Services to be continued. As of the date of this report and notwithstanding the recognition of the Purchased-Water Pass-Through Consumption Charge, the monthly user rates will have remained unchanged for over 5 years since the restructuring of the water conservation usage blocks and absent this revenue neutral adjustment, the rates have not been modified to produce additional revenue since the Fiscal Year 2000. However based on the rate review process conducted by Public Resources Management Group, Inc. (PRMG), the County's Rate Consultant, it is now being recommended that the Board strongly consider the annual implementation of the Price Index adjustment as allowed in the Rate Resolution to be initiated no later than the Fiscal Year 2010. This recommendation is being made by PRMG to generally maintain net revenue margins which are declining due to low system growth and the overall

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<sup>1</sup> As of the date of this report, the Bonds currently outstanding included the Refunding Utility Revenue Bonds, Series 2001 and the Refunding Utility Revenue Bonds, Series 2003; as of October 1, 2007 the principal amount of \$150,285,000 was outstanding for the Bonds.

slowdown in the economy, continued inflation and increased regulations impacting the cost of operations, and to allow for the continued funding of a portion of the capital program on a pay-as-you-go basis. The implementation of the Price Index adjustment as recommended by the Rate Consultant, which has been a component of the Rate Resolution and available for application since 1997, would begin subsequent to the Review Period (as defined hereinafter) recognized in this Report.

## **SUFFICIENCY OF RATES**

The ability of the rates to meet the System operating expenditures/funding requirements and the Rate Covenant defined in the Bond Resolution were evaluated by Public Resources Management Group, Inc. (PRMG), the County's Qualified Independent Consultant. Included as an appendix to this report is the sufficiency of rates letter prepared by PRMG.

It is the conclusion of the PRMG that the rates for the Review Period will be sufficient to meet the Rate Covenant requirements as defined in the Bond Resolution. Specifically, the findings of the PRMG included in the following:

1. The rates for water and wastewater service should produce sufficient revenues that will meet the Rate Covenant provisions of the Bond Resolution. These provisions included the payment of the Cost of Operations and Maintenance, sustaining adequate debt service coverage ratios and the making of required deposits to funds established by the Bond Resolution (e.g., Renewal and Replacement Fund). A summary of the ability of the revenues to meet the rate covenants is presented in the attached *2008 Water and Wastewater Rate Sufficiency Analysis* letter prepared by PRMG, which is appended to and made a part of this report.
2. In accordance with Resolution No. R01-066, which was approved by the Board on March 29, 2001, Water Resource Services implemented the Purchased-Water Pass-Through Consumption Charge to recover changes in cost associated with the purchase of water (essentially from Tampa Bay Water [TBW]), which charge has been continued by the Board annually since its adoption and is a component of the Rate Resolution currently in effect. This charge is applicable only to the water system and the purpose of this charge is to pass-through the cost of purchased water to the County's water customers. All water delivered to the water customers by Water Resource Services is purchased and this expenditure is an uncontrollable expense, which for the Fiscal Year 2008 is anticipated to account for over 29% of the Cost of Operation and Maintenance of the System. The most recently approved Purchased-Water Pass-through Consumption Charge is \$2.25 per thousand gallons which became effective for usage beginning October 1, 2007. The ability to meet the Rate Covenant requirements and financial targets of the System is highly dependent on the continuation of this pass-through provision, absent an increase in rates. It is currently estimated by Tampa Bay Water (which represents approximately 98% of the total cost of purchased water) that the TBW Unitary Rate (expressed on a \$/1,000 gallon basis) will increase from \$2.2448 in Fiscal Year 2008 to \$2.4724 in Fiscal Year 2013. Thus, it is imperative that the pass-through of these expenditures continue in the future in order to meet the financial obligations of the System. If the pass-through adjustment is not continued or reduced below the full cost recovery rate, the ability of the System to meet its

financial commitments over the long-term (beyond the Review Period) will be impaired in the absence of subsequent rate relief.

3. All Impact Fees [formerly Capacity Fees] anticipated to be received by Water Resource Services during the Review Period have been determined to be a Pledged Capacity Fee (as defined in the Bond Resolution) and will be used in accordance with the terms of the Bond Resolution. The Bond Resolution provides that i) all Pledged Water Impact Fees will be used to a) pay the Debt Service Component of the Cost of Contracted Water Supply (i.e., the debt service charges associated with the purchase of water from TBW); b) fund the Debt Service Account on behalf of the Bonds issued for the System allocable to the expansion of the water system; and c) and any excess be deposited to the General Purpose Account for any use allowed by law relating to the provision of water capacity or expansion of the system and ii) all Pledged Wastewater Impact Fees will be used to a) fund the Debt Service Account on behalf of the bonds issued for the System allocable to the expansion of the wastewater system, and b) any excess deposited to the General Purpose Account for any use allowed by law relating to the wastewater capacity or expansion by the System. Based on the projection of Impact Fees anticipated to be received by Water Resource Services, it was assumed during the Review Period that all Pledged Water Impact Fees will be used to fund the Debt Service Component of the Cost of Contracted Water Supply (reduces the Purchased-Water Pass-Through Consumption Charge for the benefit of the ratepayer) and all Pledged Wastewater Impact Fees will be deposited into the Debt Service Account to fund a portion of System annual debt service payments. Therefore, no Pledged Impact Fees estimated to be received during the Review Period will be used to fund expansion-related capital improvement projects.
4. Based on the assumptions relied upon by Water Resource Services and PRMG in the preparation of the financial forecast for the Review Period, it is anticipated that the appropriations required to meet the capital improvement program of the System will be fully funded from System operations, available cash reserves, external funds currently available to the System (e.g., commercial paper), and contributions (e.g., grants). The funding of the capital program includes i) the continued use of the Renewal and Replacement Fund, which is funded annually from System operations; ii) use of additional operating funds received in excess of the required deposits to the Renewal and Replacement Fund provided from System operations; iii) use of proceeds associated with the issuance of impact fee assessment bonds previously issued during the Fiscal Year 2006; and iv) other sources including grants from the Southwest Florida Water Management District, and use of the commercial paper program (external borrowing) which is available to finance capital projects, as previously approved by the Board.

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In order to comply with the Rate Covenant, the Bond Resolution requires that the County establish and maintain rates which will always provide in each Fiscal Year, the following:

1. Gross Revenues and Pledged Impact Fees must fund at least 100% of the Required Deposits identified in the Bond Resolution (which includes the Operation and Maintenance Account [Operating Expenses], Debt Service Account, and Renewal and Replacement Account) (Referenced to as Test 1);  
**and**
2. Net Revenues and Pledged Impact Fees must fund at least 120% of the Bond Service Requirement issued pursuant to the terms of the Bond Resolution (Referenced to as Test 2);  
**and**
3. Net Revenues must fund at least 100% of the Bond Service Requirement issued pursuant to the terms of the Bond Resolution (Referenced to as Test 3).

Based on the assumptions recognized in the development of the financial forecast and the annual Bond Service Requirement of the System for the Review Period, it is estimated that the Rate Covenant will be met as follows during such period:

Rate Covenant Tests	Fiscal Year 2008	Fiscal Year 2009
Test 1 – Calculated [1]	109%	107%
Test 1 – Required [2]	100%	100%
Test 2 – Calculated [1]	205%	188%
Test 2 – Required [2]	120%	120%
Test 3 – Calculated [1]	182%	155%
Test 3 – Required [2]	100%	100%

[1] Amounts shown derived from Table 3 of PRMG Report

[2] Represents the various Rate Covenant requirements as defined in Section 11.02 of the Bond Resolution.

## COMPARISONS WITH OTHER NEIGHBORING UTILITIES

In order to provide additional information to the Board regarding the current rates for monthly service, a comparison has been prepared illustrating the bills rendered for single-family residential service at various usage levels for the County’s existing rates and those currently charged by other neighboring utilities. This comparison is summarized on Tables A through C at the end of this report, which include a water-only, wastewater-only, and combined water and wastewater bill presentation, respectively. It should be noted that when making a comparison of the rates charged by other utilities for water and wastewater service, several factors have an effect on the level of rates charged. These factors may include, but are not limited to, the following: i) operation of multiple water/wastewater plants as opposed to single plant systems; ii) source of water supply and level of treatment required before the distribution of water to the ultimate customer; iii) level of wastewater treatment and effluent disposal methods; iv) plant capacity utilization; v) basis for financing of plant capacity, including assistance in such funding from Federal and State grants, connection fees, etc.; vi) density of the customer base served as

well as the type of customers served (certain customers may have higher usage requirements which may dampen per-unit rates which is a common situation for utilities with high commercial or industrialized customer bases); vii) the level of general fund and administrative fee transfers made by municipal and county systems which may account for differences in level of rates charged; viii) rate covenant and debt service requirements funded from rates; and ix) age of the facilities and the corresponding level of capital improvements required to meet renewal, replacement and rehabilitation needs.

Water Resource Services believes the most comparable utilities reflected on the comparisons shown on Tables A through C would be the county-operated systems. Generally, these systems i) were initiated through a private-utility acquisition process to eliminate package plants and regionalize service for regulatory compliance and overall level of service issues; ii) have a customer base which is more rural in nature with a higher immediate growth requirement (municipal systems are becoming "built-out" whereas county-owned systems generally have a service area that may be more undeveloped); iii) in most instances did not receive any economic advantage by the receipt of Federal or State grant funds; and iv) generally have a higher capital investment cost due to system age of facilities in service (current cost of facilities greater than embedded cost of older facilities which results in a higher capital financing cost).

Based on detailed customer billing information for the System, the average single-family residential customer uses approximately 8,000 gallons (average user being determined as total residential water sales divided by total residential customers). Additionally, a review of recent customer billing data also revealed that approximately 50% of the bills rendered for the single-family residential class use 6,000 gallons or less of monthly water service (considered as "typical" users). As can be seen on Tables A through C and below, the water and wastewater rates for the typical and average single-family residential customer which are currently in effect for the County are comparable with the rates charged by the other major counties in Southwest Florida:

	Combined Water and Wastewater Service [1]	
	6,000 Gallons	8,000 Gallons
Hillsborough County:		
Existing – FY 2008 [2]	\$67.60	\$83.90
Other Similar County Utilities:		
Charlotte County [3][4]	\$93.08	\$110.14
Collier County [3][4]	75.46	88.94
Lee County [3]	71.80	87.96
Manatee County	51.43	61.81
Pasco County [3][4]	53.69	66.73
Pinellas County [3][4]	59.86	75.48
Sarasota County [3]	85.04	104.64

[1] Amounts shown derived from Tables A through C and includes charges for both water and wastewater service; comparison is based on rates in effect as of April 2008 for public utilities shown.

[2] Amounts shown include the current Purchased-Water Pass-through Consumption Charge of \$2.25 per 1,000 gallons for all metered water consumption.

[3] Utility is currently involved in a rate review or is planning or adopted a potential change in rates in the near future.

[4] Reflects utilities that have or plan to adopt and implement a price index rate adjustment or have adopted multiple-year rate adjustments which would include inflationary allowances that include a provision for the application of a price index.

In addition and as can be seen in the above table, many utilities reflected on the comparison have adopted a price index rate adjustment or has adopted a series of rate adjustments (multiple years which would recover inflationary impacts on costs). In addition, many other Counties and Cities have adopted an index formula or multiyear rate adjustment program, including Seminole, Citrus and Volusia Counties, the Florida Keys Aqueduct Authority (Monroe County), and the Cities of West Palm Beach, Daytona Beach, Melbourne, Tallahassee, Boca Raton, Jupiter, and Winter Park. Also, the Florida Public Service Commission and Hillsborough County, as part of the regulation of Franchised Utilities within the County, also allow for the annual application of a price index rate adjustment to recover the inflationary impacts on the cost of operations.

## **CONCLUSION**

This rate sufficiency study has demonstrated that the current rates and fees are adequate to achieve compliance with the Bond Covenant and meet the funding requirements of the System for the Review Period. However, a review of the financial projections for immediate period subsequent to the Review Period does indicate the need for rate relief as a result of the requirement to fund a significant amount of capital expenditures for the System. Specifically, the funding of the capital program is currently projected to utilize the available capital reserves and require the issuance of additional bonds; both of which will affect the overall financial performance of the System. Additionally, once the Comprehensive Asset Management System (CAMS) is implemented and becomes functional, additional renewal, replacement and rehabilitation projects will be identified which will place an increased funding responsibility upon the System. This need coupled with the reduced customer growth and for the funding requirements of the System for the next several years' demonstrates the need to increase rates. Finally, if the County is to incur additional long-term debt to finance a portion of the System capital improvements, then certain financial tests must be met to issue such bonds in accordance with the provisions of the Bond Resolution.

An option available to the Water Resource Services will be to enact the application of the price index provisions as provided in the Rate Resolution which will phase in increased rates to improve revenue margins and to provide additional funds for pay-as-you-go capital financing. Recognizing the financial challenges facing Water Resource Services in the near future and the need to maintain the overall creditworthiness of the System; the County should enact the annual price index adjustment no later than the beginning of the Fiscal Year 2010. This will result in the application of minor rate adjustments over time yet provide additional revenue while maintaining competitive rates with other neighboring utilities in the area. The application of price indexing in Fiscal Year 2010 was utilized in the presentation to the Bond Rating Agencies this past Spring and thereby included in their determination to preserve System's excellent bond ratings (Moody's Aa2, Standard and Poors AA+, Fitch AA). Public Resources Management Group, Inc. (PRMG), the County's Qualified Independent Consultant also supports price indexing (see the attached 2008 Water and Wastewater Rate Sufficiency Analysis letter prepared by PRMG, which is appended to and made a part of this report).

**TABLE A**  
**HILLSBOROUGH COUNTY, FLORIDA**  
**WATER AND WASTEWATER SYSTEM**

**COMPARISON OF TYPICAL MONTHLY RESIDENTIAL BILLS FOR WATER SERVICE [1]**

Line No.	Description	Residential Service for a 5/8" or 3/4" Meter							
		0 Gallons	2,000 Gallons	4,000 Gallons	6,000 Gallons [2]	8,000 Gallons	10,000 Gallons	15,000 Gallons	20,000 Gallons
<b>Hillsborough County</b>									
1	Current Rates [3]	\$11.70	\$17.50	\$23.30	\$30.25	\$38.35	\$46.45	\$66.70	\$92.95
<b>Other Florida Utilities:</b>									
2	Charlotte County [4]	20.13	28.77	37.41	46.05	55.97	65.89	95.89	130.63
3	City of Clearwater	12.75	12.75	17.91	28.23	38.55	49.84	80.49	111.14
4	Collier County [4]	16.03	20.43	24.83	30.33	36.93	43.53	65.53	87.53
5	Lee County [4]	10.60	16.28	21.96	27.64	34.62	41.60	61.00	84.28
6	Manatee County [4]	6.80	10.02	13.24	16.46	20.48	24.50	34.55	58.45
7	City of North Port [4]	13.56	19.36	25.16	33.86	42.56	54.72	91.24	141.08
8	Pasco County [4]	6.75	11.23	15.71	20.19	26.23	33.06	52.11	75.06
9	Pinellas County [4]	3.00	11.32	19.64	27.96	36.28	44.60	65.40	86.20
10	Polk County [4]	6.89	9.49	12.52	15.98	19.44	22.90	40.20	57.50
11	Sarasota County [4]	14.85	19.35	23.85	29.53	35.21	45.07	79.41	126.65
12	City of St. Petersburg [4]	7.83	13.51	19.19	25.15	32.25	41.89	65.99	97.94
13	City of Tampa [4]	1.50	3.18	6.43	10.12	13.81	17.84	33.28	49.30
14	Other Florida Utilities' Average	\$10.06	\$14.64	\$19.82	\$25.96	\$32.69	\$40.45	\$63.76	\$92.15

Footnotes:

- [1] Unless otherwise noted, amounts shown reflect residential rates in effect April 2008 and are exclusive of taxes or franchise fees, if any, and reflect rates charged for inside city service. All rates are as reported by the respective utility. This comparison is intended to show comparable charges for similar service for comparison purposes only and is not intended to be a complete listing of all rates and charges imposed by each listed utility.
- [2] Represents the monthly median consumption for the County's Individually Metered Residential Class.
- [3] Amounts shown include the current Purchased Water Pass-Through Consumption Charge of \$2.25 per 1,000 gallons (effective FY 2007) for all billed Water Consumption.
- [4] Utility is currently involved in a rate study, is planning to conduct a rate study, or will implement a rate revision within the next twelve months.

**TABLE B**  
**HILLSBOROUGH COUNTY, FLORIDA**  
**WATER AND WASTEWATER SYSTEM**

**COMPARISON OF TYPICAL MONTHLY RESIDENTIAL BILLS FOR WASTEWATER SERVICE [1]**

Line No.	Description	Residential Service for a 5/8" or 3/4" Meter							
		0 Gallons	2,000 Gallons	4,000 Gallons	6,000 Gallons [2]	8,000 Gallons	10,000 Gallons	15,000 Gallons	20,000 Gallons
<b>Hillsborough County</b>									
1	Current Rates	\$12.75	\$20.95	\$29.15	\$37.35	\$45.55	\$45.55	\$45.55	\$45.55
<b>Other Florida Utilities:</b>									
2	Charlotte County [3]	25.61	32.75	39.89	47.03	54.17	61.31	61.31	61.31
3	City of Clearwater	17.52	17.52	23.36	35.04	46.72	58.40	87.60	116.80
4	Collier County [3]	24.49	31.37	38.25	45.13	52.01	58.89	76.09	76.09
5	Lee County [3]	16.62	25.80	34.98	44.16	53.34	57.93	57.93	57.93
6	Manatee County [3]	15.90	22.26	28.62	34.97	41.33	47.69	54.05	54.05
7	City of North Port [3]	21.74	31.20	40.66	50.12	59.58	69.04	78.50	78.50
8	Pasco County [3]	12.50	19.50	26.50	33.50	40.50	47.50	47.50	47.50
9	Pinellas County [3]	10.00	17.30	24.60	31.90	39.20	39.20	39.20	39.20
10	Polk County [3]	25.68	34.90	44.12	53.34	57.95	57.95	57.95	57.95
11	Sarasota County [3]	13.75	27.67	41.59	55.51	69.43	83.35	83.35	83.35
12	City of St. Petersburg [3]	9.29	16.41	23.53	30.65	37.77	44.89	62.69	80.49
13	City of Tampa [3] [4]	3.36	8.98	17.97	26.95	35.94	44.92	44.92	44.92
14	Other Florida Utilities' Average	\$16.37	\$23.81	\$32.01	\$40.69	\$48.99	\$55.92	\$62.59	\$66.51

Footnotes:

- [1] Unless otherwise noted, amounts shown reflect residential rates in effect April 2008 and are exclusive of taxes or franchise fees, if any, and reflect rates charged for inside city service. All rates are as reported by the respective utility. This comparison is intended to show comparable charges for similar service for comparison purposes only and is not intended to be a complete listing of all rates and charges imposed by each listed utility.
- [2] Represents the monthly median consumption for the County's Individually Metered Residential Class.
- [3] Utility is currently involved in a rate study, is planning to conduct a rate study, or will implement a rate revision within the next twelve months.
- [4] The City of Tampa has user specific wastewater billing caps, based on a recorded two months of average winter flow. For comparison purposes it was assumed that the wastewater flow would be capped at 10,000 gallons of flow.

**TABLE C  
HILLSBOROUGH COUNTY, FLORIDA  
WATER AND WASTEWATER SYSTEM**

**COMPARISON OF TYPICAL MONTHLY RESIDENTIAL BILLS FOR COMBINED  
WATER AND WASTEWATER SERVICE [1]**

Line No.	Description	Residential Service for a 5/8" or 3/4" Meter							
		0 Gallons	2,000 Gallons	4,000 Gallons	6,000 Gallons [2]	8,000 Gallons	10,000 Gallons	15,000 Gallons	20,000 Gallons
<b>Hillsborough County</b>									
1	Current Rates [3]	\$24.45	\$38.45	\$52.45	\$67.60	\$83.90	\$92.00	\$112.25	\$138.50
<b>Other Florida Utilities:</b>									
2	Charlotte County [4]	45.74	61.52	77.30	93.08	110.14	127.20	157.20	191.94
3	City of Clearwater	30.27	30.27	41.27	63.27	85.27	108.24	168.09	227.94
4	Collier County [4]	40.52	51.80	63.08	75.46	88.94	102.42	141.62	163.62
5	Lee County [4]	27.22	42.08	56.94	71.80	87.96	99.53	118.93	142.21
6	Manatee County [4]	22.70	32.28	41.86	51.43	61.81	72.19	88.60	112.50
7	City of North Port [4]	35.30	50.56	65.82	83.98	102.14	123.76	169.74	219.58
8	Pasco County [4]	19.25	30.73	42.21	53.69	66.73	80.56	99.61	122.56
9	Pinellas County [4]	13.00	28.62	44.24	59.86	75.48	83.80	104.60	125.40
10	Polk County [4]	32.57	44.39	56.64	69.32	77.39	80.85	98.15	115.45
11	Sarasota County [4]	28.60	47.02	65.44	85.04	104.64	128.42	162.76	210.00
12	City of St. Petersburg [4]	17.12	29.92	42.72	55.80	70.02	86.78	128.68	178.43
13	City of Tampa [4] [5]	4.86	12.17	24.40	37.07	49.75	62.76	78.20	94.22
14	Other Florida Utilities' Average	\$26.43	\$38.45	\$51.83	\$66.65	\$81.69	\$96.38	\$126.35	\$158.65

Footnotes:

- [1] Unless otherwise noted, amounts shown reflect residential rates in effect April 2008 and are exclusive of taxes or franchise fees, if any, and reflect rates charged for inside city service. All rates are as reported by the respective utility. This comparison is intended to show comparable charges for similar service for comparison purposes only and is not intended to be a complete listing of all rates and charges imposed by each listed utility.
- [2] Represents the monthly median consumption for the County's Individually Metered Residential Class.
- [3] Amounts shown include the current Purchased Water Pass-Through Consumption Charge of \$2.25 per 1,000 gallons (effective FY 2007) for all billed Water Consumption.
- [4] Utility is currently involved in a rate study, is planning to conduct a rate study, or will implement a rate revision within the next twelve months.
- [5] The City of Tampa has user specific wastewater billing caps, based on a recorded two months of average winter flow. For comparison purposes it was assumed that the wastewater flow would be capped at 10,000 gallons of flow.

## **APPENDIX**

### **RATE CONSULTANT "2008 WATER AND WASTEWATER RATE SUFFICIENCY ANALYSIS"**



**Public Resources Management Group, Inc.**

*Utility, Rate, Financial and Management Consultants*

May 1, 2008

Mr. Paul J. Vanderploog, Director  
Water Resources Services  
Hillsborough County Government  
925 E. Twiggs Street  
Tampa, FL 33602

Subject: **2008 Water and Wastewater Rate Sufficiency Analysis**

Dear Mr. Vanderploog:

Public Resources Management Group, Inc. (PRMG) has reviewed the rate revenue and financial projections for the Hillsborough County (the "County") water and wastewater enterprise system (the "System") as prepared by Water Resource Services staff. The primary purpose of our review of the rate revenue and financial projections was to: i) comment on the adequacy of the existing rates and fees as reflected in Resolution No. R05-106 adopted by the Board of County Commissioners (the "Board") on May 5, 2005 (the "Rate Resolution") in meeting the projected financial requirements of the System as estimated by Water Resource Services management; and ii) determine whether the existing rates and fees would allow the System to be in compliance with the rate covenant set forth in Section 11.02 of the Amended and Restated Utility System Bond Resolution No. R03-112, adopted on June 4, 2003 (the "Bond Resolution") which authorized the issuance of the Outstanding Bonds<sup>1</sup>.

In order to provide the opinion of rate sufficiency and compliance, PRMG reviewed the financial projections prepared by Water Resource Services staff. Our opinion addresses the Fiscal Year 2008 (the current Fiscal Year with such year being defined as the twelve months ending September 30<sup>th</sup>) and the Fiscal Year 2009 (the upcoming year in the budgetary cycle) (collectively, for both Fiscal Years, the "Review Period"). The review of Water Resource Services' financial forecast for the Review Period conducted by PRMG included the following analytical procedures:

- i. Review of the customer and sales (water usage and billed wastewater flow) statistics for the Review Period as developed by Water Resource Services staff and comparison of such estimate to recent historical trends (reference Table 1 to this letter);

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<sup>1</sup> The Bonds currently outstanding include the Refunding Utility Revenue Bonds, Series 2001 and the Refunding Utility Revenue Bonds, Series 2003 (the "Outstanding Bonds").

- ii. Review of the projected rate revenues anticipated to be collected by the System based on the application of the existing rates and fees, as reflected in the Rate Resolution, to the projected customer billing statistics;
- iii. Review of customer billing records and "revenue proof reports" of the System as prepared by Water Resource Services staff for the Fiscal Year 2007 and through February 2008;
- iv. Review of Fiscal Year 2008 Budget and comparison to prior actual operating results for the past five fiscal years as provided by Water Resource Services;
- v. Review of current year-to-date Fiscal Year 2008 operating expenses for the System as well as projections for the remainder of the Review Period based on forecasts prepared by Water Resource Services staff;
- vi. Review of the existing debt service requirements of the System for the Review Period as well as projections of future debt requirements, if any, that may be identified in order to fund the capital improvement program of the System;
- vii. Examination of the Review Period projected cost of water purchases from Tampa Bay Water and other municipally-owned utility systems, including the effects on how the County's water rates should be adjusted during the Review Period relative to the pass-through provisions as reflected in the Rate Resolution;
- viii. Review of the annual funding of the Renewal and Replacement Fund and other capital funds, where applicable, in accordance with the provisions of the Bond Resolution and the evaluation of the sufficiency of such capital funds to finance the capital expenditures as identified by Water Resource Services;
- ix. Review of the estimated Impact Fees anticipated to be collected during the Review Period and the determination of the amount of such fees being considered as a Pledged Impact Fee in accordance with the provisions of the Bond Resolution;
- x. Review of other revenues accruing to the benefit of the System during the Review Period, including interest earnings and miscellaneous operating revenues such as meter installation fees; revenues from the application of the Accrued Guaranteed Revenue Fees (AGRF); and the collection of Impact Fees and the subsequent pledge of Impact Fees for the payment of the Debt Service Component of the Cost of Contracted Water Supply and for deposit into the Debt Service Account as provided by the Bond Resolution; and
- xi. Performance of analytical procedures to validate certain components of the Water Resource Services Rate Model to determine general calculation accuracy.

Mr. Paul J. Vanderploog, Director  
Hillsborough County Government  
May 1, 2008  
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The review performed by PRMG included such procedures as we considered necessary to evaluate the reasonableness of the financial forecast for the Review Period based on the assumptions and data provided by Water Resource Services to PRMG, especially as it related to the ability of the existing rates to meet the projected revenue requirements of the System.

The financial forecast for the Review Period is summarized on Table 2 and the ability of the System revenue to comply with the Rate Covenant defined in the Bond Resolution is summarized on Table 3 for the Outstanding Bonds. Based on our review of the assumptions and analyses incorporated in the Review Period financial forecast, nothing came to our attention that caused us to believe that the existing rates and fees as set forth in the Rate Resolution will not ensure continuing compliance with the Rate Covenant defined in the Bond Resolution. The Rate Covenant provisions include the maintenance of adequate debt service coverage ratios and the making of required deposits to funds established by the Bond Resolution (e.g., Renewal and Replacement Fund). As such and assuming the continuation of the application of the Purchased-Water Pass-through Consumption Charge, PRMG did not identify the need for nor recommends any immediate changes in the System's rate structure in order to ensure continuing compliance with the Rate Covenant as set forth in Section 11.02 of the Bond Resolution during the Review Period. This letter relates only to matters specific to compliance to the Bond Resolution and does not extend to any financial statements of the County.

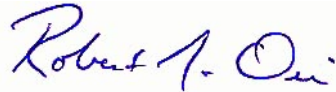
However, a review of the financial projections prepared by Water Resources Services for immediate period subsequent to the Review Period does indicate the need for rate relief as a result of the requirement to fund a significant amount of capital expenditures for the System. Specifically, the funding of the capital program is currently projected to utilize the available capital reserves and require the issuance of additional bonds; both of which will affect the overall financial performance of the System. Additionally, once the Comprehensive Asset Management System (CAMS) is implemented and becomes functional, additional renewal, replacement and rehabilitation projects will be identified which will place an increased funding responsibility upon the System. This need coupled with the reduced customer growth and for the funding requirements of the System for the next several years' demonstrates the need to increase rates. Finally, if the County is to incur additional long-term debt to finance a portion of the System capital improvements, then certain financial tests must be met to issue such bonds in accordance with the provisions of the Bond Resolution. An option available to the Water Resource Services will be to enact the application of the price index provisions as provided in the Rate Resolution which will phase in increased rates to improve revenue margins and to provide additional funds for pay-as-you-go capital financing. Recognizing the financial challenges facing Water Resource Services in the near future and the need to maintain the overall creditworthiness of the System; we would recommend that the County enact the annual price index adjustment no later than the beginning of the Fiscal Year 2010. This will result in the application of minor rate adjustments over time yet provide additional revenue while maintaining competitive rates with other neighboring utilities in the area.

Mr. Paul J. Vanderploog, Director  
Hillsborough County Government  
May 1, 2008  
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We appreciate the opportunity to perform this financial review of the System and to provide this letter to Water Resource Services regarding the ability of the System revenues to comply with the Rate Covenants defined in the Bond Resolution during the Review Period.

Very truly yours,

**Public Resources Management Group, Inc.**

A handwritten signature in blue ink that reads "Robert J. Ori". The signature is written in a cursive style with a large initial 'R'.

Robert J. Ori  
President

Attachments

TABLE 1

<b>HILLSBOROUGH COUNTY</b> <b>WATER RESOURCE SERVICES</b> <b>HISTORICAL AND PROJECTED EQUIVALENT RESIDENTIAL CONNECTIONS, FLOWS AND BILLS</b> <b>FISCAL YEAR ENDING SEPTEMBER 30,</b>
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Line No.		Actual 2005	Actual 2006	Actual 2007	Projected 2008	Projected 2009
1	<u>WATER</u>					
2						
3	ADDITIONS (1)	10,040	7,176	4,931	1,750	2,000
4	BILLED ERC's (2)	180,990	188,166	193,097	194,847	196,847
5	PERCENT CHANGE	5.9%	4.0%	2.6%	0.9%	1.0%
6						
7	BILLABLE VOLUME (3)	15,633,628	17,971,297	18,113,216	17,498,991	17,607,672
8		3.1%	15.0%	0.8%	(3.4%)	0.6%
9						
10	<u>WASTEWATER</u>					
11						
12	ADDITIONS (1)	7,923	10,899	6,258	1,838	2,100
13	BILLED ERC's (2)	186,796	197,695	203,954	205,792	207,892
14	PERCENT CHANGE	4.4%	5.8%	3.2%	0.9%	1.0%
15						
16	BILLABLE VOLUME (3)	11,873,215	12,626,931	12,889,873	13,028,541	13,106,777
17	PERCENT CHANGE	6.0%	6.3%	2.1%	1.1%	0.6%
18						
19	<u>CUSTOMER SERVICE</u>					
20						
21	AS OF SEPTEMBER 30,					
22	MONTHLY BILLS	147,195	151,779	153,310	154,553	155,973
23	PERCENT CHANGE	5.0%	3.1%	1.0%	0.8%	0.9%
24						
25						

(1) REPRESENTS TOTAL EQUIVALENT RESIDENTIAL CONNECTIONS (ERC), ADDED DURING EACH RESPECTIVE FISCAL YEAR.

(2) EQUIVALENT RESIDENTIAL CONNECTIONS (ERC), REPORTED OR ESTIMATED, AS OF SEPTEMBER 30 FOR EACH RESPECTIVE FISCAL YEAR REPRESENTS AMOUNT OF ERC'S BILLED THE BASE FACILITY CHARGE FOR REVENUE DETERMINATION.

(3) THOUSANDS OF GALLONS (000's).

TABLE 2

**HILLSBOROUGH COUNTY  
WATER RESOURCE SERVICES  
PROJECTED COST OF SERVICE REQUIREMENTS, REVENUES AND FUND BALANCE  
FISCAL YEAR ENDING SEPTEMBER 30,**

LINE No.		RATE STUDY YEAR 2008	PROJECTED 2009
1	TOTAL AVAILABLE TO BE APPLIED TO COST OF SERVICE		
2	CHARGES FOR SERVICES		
3	WATER CHARGES	\$ 80,774,200	\$ 81,338,985
4	WASTEWATER CHARGES	84,762,589	85,384,612
5	RECLAIMED WATER CHARGES	1,788,889	1,949,034
6	CUSTOMER SERVICE CHARGES	7,019,276	7,079,993
7	TOTAL CHARGES FOR SERVICES	<u>174,344,954</u>	<u>175,752,624</u>
8			
9	PLEDGED IMPACT FEES AND INTEREST REVENUE		
10	BOND SERVICE ACCOUNTS - INTEREST	577,207	577,205
11	PLEDGED IMPACT FEES - TAMPA BAY WATER	2,881,714	4,089,500
12	PLEDGED IMPACT FEES - COUNTY BONDS	3,493,105	4,953,531
13	TOTAL PLEDGED IMPACT FEES AND INTEREST REVENUE	<u>6,952,025</u>	<u>9,620,236</u>
14			
15	OTHER REVENUE		
16	METER INSTALLATION FEES	156,200	156,200
17	MAINTENANCE/SERVICE CHARGES	1,667,200	1,646,700
18	INTEREST INCOME	17,307,841	11,471,294
19	ACCRUED GUARANTEED REVENUE	6,163,000	5,780,860
20	OTHER REVENUE	4,137,863	3,740,191
21	TOTAL OTHER REVENUE	<u>29,432,104</u>	<u>22,795,245</u>
22			
23	FUND BALANCE CARRY FORWARD - BEGINNING	<u>44,349,198</u>	<u>16,688,082</u>
24			
25	TOTAL AVAILABLE FUNDS	<u>\$ 255,078,281</u>	<u>\$ 224,856,188</u>
26			
27	COST OF SERVICE REQUIREMENTS		
28	PURCHASED WATER - TAMPA BAY WATER/OTHERS	\$ 42,504,735	\$ 42,871,219
29	COST OF OPERATION AND MAINTENANCE	111,986,905	113,735,729
30	BOND SERVICE	27,705,623	27,706,206
31	RENEWAL AND REPLACEMENT ACCOUNT DEPOSITS - REQUIRED	10,417,925	10,217,713
32	CAPITAL PROJECT RESERVE FUND DEPOSITS	38,200,000	12,100,000
33	CAPITAL EXPENDITURES - DEPARTMENT	7,575,011	993,940
34	TOTAL COST OF SERVICE	<u>238,390,199</u>	<u>207,624,807</u>
35			
36	FUND BALANCE CARRY FORWARD - ENDING (WORKING CAPITAL)	<u>16,688,082</u>	<u>17,231,381</u>
37			
38	TOTAL COST OF SERVICE REQUIREMENTS	<u>\$ 255,078,281</u>	<u>\$ 224,856,188</u>

<b>HILLSBOROUGH COUNTY</b> <b>WATER RESOURCE SERVICES</b> <b>RATE COVENANT TEST</b> <b>FISCAL YEAR ENDING SEPTEMBER 30,</b>
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Line No.	GROSS REVENUES/BOND SERVICE REQUIREMENTS (1)	2008 BUDGET	2009 PROJECTED
1	GROSS REVENUES		
2	USER FEE REVENUE	\$ 174,344,954	\$ 175,752,624
3	OTHER REVENUE	29,432,104	22,795,245
4	GROSS REVENUES	203,777,058	198,547,869
5	PLEDGED CAPACITY FEES	6,367,236	9,043,031
6	TOTAL GROSS AND PLEDGED REVENUE	\$ 210,144,295	\$ 207,590,901
7	REQUIRED DEPOSITS		
8	OPERATION AND MAINTENANCE (2)	\$ 154,491,640	\$ 156,606,948
9	RENEWAL AND REPLACEMENT ACCOUNT (3)	10,417,925	10,217,713
10	BOND SERVICE - FISCAL YEAR	27,705,623	27,706,206
11	LESS: INTEREST EARNINGS-TOTAL BOND SERVICE	(577,207)	(577,205)
12	REQUIRED DEPOSITS - TOTAL	\$ 192,037,981	\$ 193,953,662
13			
14	COVERAGE REQUIRED (100% MINIMUM)	109%	107%
15			
16	<b>NET REVENUES/BOND SERVICE REQUIREMENTS (1)</b>		
17	GROSS REVENUES	\$ 203,777,058	\$ 198,547,869
18	LESS: OPERATION AND MAINTENANCE (2)	(154,491,640)	(156,606,948)
19	NET REVENUES	49,285,418	41,940,922
20	PLEDGED CAPACITY FEES	6,367,236	9,043,031
21	NET AND PLEDGED REVENUE	\$ 55,652,654	\$ 50,983,953
22			
23	BOND SERVICE - FISCAL YEAR	\$ 27,706,104	\$ 27,705,623
24	LESS: INTEREST EARNINGS-TOTAL BOND SERVICE	(577,207)	(577,205)
25	NET BOND SERVICE DURING FISCAL YEAR	\$ 27,128,897	\$ 27,128,418
26			
27	COVERAGE REQUIRED (120% MINIMUM)	205%	188%
28			
29	<b>NET REVENUES/DEBT SERVICE REQUIREMENTS (1)</b>		
30	GROSS REVENUES	\$ 203,777,058	\$ 198,547,869
31	LESS: OPERATION AND MAINTENANCE (2)	(154,491,640)	(156,606,948)
32	NET REVENUE	\$ 49,285,418	\$ 41,940,922
33			
34	BOND SERVICE - FISCAL YEAR	\$ 27,705,623	\$ 27,706,206
35	LESS: INTEREST EARNINGS-TOTAL BOND SERVICE	(\$577,207)	(\$577,205)
36	NET BOND SERVICE DURING FISCAL YEAR	\$ 27,128,416	\$ 27,129,001
37			
38	COVERAGE REQUIRED (100% MINIMUM)	182%	155%
39			
40	<b>NET REVENUES/DEBT SERVICE REQUIREMENTS (4)</b>		
41	GROSS REVENUES	\$ 203,777,058	\$ 198,547,869
42	LESS: OPERATION AND MAINTENANCE (2)	(154,491,640)	(156,606,948)
43	NET REVENUE	\$ 49,285,418	\$ 41,940,922
44			
45	BOND SERVICE - FISCAL YEAR	\$ 27,705,623	\$ 27,706,206
46	BOND SERVICE - SUBORDINATE DEBT	-	-
47	LESS: INTEREST EARNINGS-TOTAL BOND SERVICE	(\$577,207)	(\$577,205)
48	NET BOND SERVICE DURING FISCAL YEAR	\$ 27,128,416	\$ 27,129,001
49			
50	COVERAGE REQUIRED (100% MINIMUM)	182%	155%

(1) Represents the various rate covenant requirements as defined in Section 11.02 of the Bond Resolution.

(2) Excludes Capitalized Expenditures.

(3) Renewal and Replacement Account Requirement is based on 5% of Gross Revenue for the prior year.

(4) Represents rate covenant requirements as defined in Section 4.10 of the Note Resolution.