



Clerk to Board of
County Commissioners
County Center, 12th Floor
601 E. Kennedy Blvd.
P.O. Box 1110
Tampa, Florida 33601
Telephone 276-2029, ext. 6730

M E M O R A N D U M

DATE: December 28, 1995

TO: Michael McWeeny, Director, Public Utilities

FROM: *GJK* Gary J. Klunk, Deputy Clerk, BOCC Records

SUBJECT: Business Principles of the Hillsborough County Water and Wastewater Utility System

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Attached is an executed copy of subject declaration of policy, adopted by the Board on December 7, 1995

We are providing a copy for your files.

GJK:ADF

Attachment

cc: Board files

Deborah Girard, Director, County Finance

Kris Landkammer, Assistant Chief Deputy Clerk (previously copied)

Mike Merrill, Director, Debt Management and Planning (previously copied)

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BUSINESS PRINCIPLES OF THE
HILLSBOROUGH COUNTY WATER & WASTEWATER UTILITY SYSTEM

Adopted December 7, 1995 by the Board of County Commissioners

Hillsborough County (the "County") declares that the operation of its Water and Wastewater Utility System (the "Utility System") is an enterprise which will function in accordance with business principles common to the water and wastewater utility industry, (i) for the benefit of its present and future customers (ii) to ensure the optimization of product quality, and (iii) to preserve the environment, and scarce and necessary resources. Such business principles shall be reflective of the vision and value statement of the Utility System.

BUSINESS PRINCIPLE #1 - FINANCIAL INTEGRITY

1.A. The County declares that both the present and future customers of Utility System have an interest in its creditworthiness .

1.B. The management, organization, service delivery and product pricing of the Utility System must be structured to enable it to achieve financial integrity which is sustainable over the long-term.

1.C. The utilization of the constructed capacity of the Utility System shall be maximized, provided that to do so will improve operating efficiency and financial integrity.

POLICIES -- FINANCIAL INTEGRITY

- a) The net revenues and cash sources of the Utility System shall be managed so as to comply with applicable bond covenants and to adequately provide for deferred maintenance (current and future) and asset replacements of the Utility System.
- b) The Utility System shall be operated in a manner which will ensure the level of financial integrity necessary to ultimately achieve and maintain a credit rating of "A" or above.
- c) Fixed and nonvariable costs of the Utility System should be identified, and such costs should be principally supported by fixed and/or guaranteed revenue sources.
- d) Operating costs over which the Utility System can exercise no control (i.e. power and raw water costs) shall be treated as "pass through" expenses, resulting in adjustments to customer billing without the necessity of rate analysis or study. Such "pass through" expenses shall be validated in the annual budget process.

- e) Gradual inflationary changes in general operating expenses shall be offset by rate adjustments equal to such changes or based on a standard utility industry index such as the Florida Public Service Commission deflator index of water and sewer utility expenses. Adjustments to revenue to incorporate said deflator index shall not require the completion of a rate analysis or study. Such “automatic” adjustments without the necessity of rate study are declared to be in the interest of customers of the Utility System, in that they avoid needless time lag and further avoid rate investigation or rate study expenses.
- f) Any surplus funds that have been or may be received or accumulated shall remain with the Utility System and be used for the benefit of all its customers.
- g) An independent assessment of the efficiency and effectiveness of Utility System operations shall be undertaken periodically, particularly to ensure cost effective operations.
- h) A long-range strategic financial business plan shall be developed, and reviewed and updated annually. This plan shall address, but not be limited to, the following: product planning, marketing, financing, investing, asset management, capital and resource planning, and capacity and utilization strategies.
- i) Wherever appropriate, operating cost savings shall be achieved through privatizing or contracting-out services and operations currently carried out by the Utility System.
- j) Wherever appropriate, non-performing assets or assets which could be replaced with lower cost alternatives shall be evaluated for sale and the cash redirected to a use which produces a higher economic return, or to reduce the debt burden of the Utility System subject to the provisions of relevant bond covenants.
- k) The utilization of existing water and wastewater capacity shall be maximized where to do so will improve operating efficiency and net revenues, i.e., where the present value of adding new customers exceeds the cost of doing so. The utilization of expanded capacity shall be coordinated with requests for service from development and land use interests so as to raise revenue for expansion of required capacity from new and future customers, where to do so will not adversely affect operating efficiency by discouraging the acquisition of new customers.

BUSINESS PRINCIPLE #2 - EQUITY AND FAIRNESS IN RATES & REVENUE

2.A. The County has the sole responsibility to provide safe, reliable and efficient service throughout its service areas to those developed properties that it is legally obligated to serve or that are economically and financially feasible to serve. Rates for such service shall be just, reasonable, compensatory and not discriminatory.

2.B. Rates and/or rate policies affecting customers of the same class of service shall be uniform and nondiscriminatory.

POLICIES -- EQUITY AND FAIRNESS IN RATES & REVENUE

- a) As nearly as possible, Utility System rates shall be based on the cost of rendering service, and the rates for one class of service shall not be set so as to subsidize another class of service.
- b) Support of programs other than the rendering of water and sewer service to customers of the Utility System shall be fully justified by a finding that there is a reasonable relationship between the benefit derived by all Utility System customers and revenues used to fund the programs .
- c) Revenue sources to offset the cost of reclaimed water shall be developed to reflect the varying benefits conferred on each class of customer, with full regard to other revenue sources which may be diminished as a result of reuse programs.
- d) In cases where the actions of government involve the use of the Utility System to prevent or respond to environmental, public health, safety or welfare situations which benefit non-customers of the Utility System, the cost of such actions shall be shared by all persons receiving benefits from such actions.

BUSINESS PRINCIPLE #3 - THE RELATIONSHIP BETWEEN THE UTILITY SYSTEM & FUTURE CUSTOMERS

3.A. Expansions of the Utility System to provide additional capacity shall be judged by standards of economic feasibility.

3.B. The timing and design of additional water and wastewater capacity shall be coordinated with specific requests for service from existing homeowners and businesses, and from the development community so as to maximize financial support for the construction of required future capacity.

3.C. A reasonable percentage of unreserved capacity must be provided for in each proposed expansion.

POLICIES -- RELATIONSHIP BETWEEN THE UTILITY AND FUTURE CUSTOMERS

- a) Capital improvements to the Utility System for the purpose of expanding or creating additional capacity, or for the construction of system components which put into service presently unused capacity, shall result in capacity charges (capital) and maintenance and financial carrying costs (O & M and debt service) being paid by entities currently benefiting from the allocation of such capacity, or those who will benefit from such expanded capacity in the future.
- b) Capacity subscription or developer agreements shall be used wherever feasible to support the construction of required future capacity.
- c) Capital expenditures of the Utility System incurred for the purpose of extending the useful life of existing facilities, providing improvements which enhance the quality of service, or bringing the Utility System into compliance with requirements of regulatory agencies shall be economically supported by the customers benefiting from the improvements.
- d) Utility System service, whether reserved or intended for future use, effectively results in an equitable allocation or transfer of a portion of Utility System capacity, the cost of which must be supported on a current or accrued basis by the entity benefiting from such capacity availability.
- e) In cases where certain customer usage characteristics reflect increases in water and sewer demand, the cost of new or expanded Utility System demands shall be recovered from those customers exerting the increased demand.

- f) In calculating the allocable capital costs for each unit of future capacity, all computations and engineering forecasts shall be based upon an anticipated full recovery of such capital cost.
- g) Zoning and land use policies shall be reviewed annually and, if necessary, revised to encourage connection to the Utility System by addressing the issues of planned service areas, the timing of extending utility service and identifying financial responsibility. In addition, policies permitting development using septic tanks and water wells shall be addressed to avoid inconsistencies with plans for central utility service.
- h) The use of reclaimed water shall be encouraged in a manner which is economically feasible; and, shall be viewed as a Utility System “asset” and water resource which will be a source of additional revenue rather than merely a byproduct to be disposed of.
- i) Marketing policies and economic incentive programs shall be developed to increase the customer base in order to optimize utilization of excess water and wastewater capacity in a manner which is economically feasible and cost effective to the customers of the Utility System.

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