

**HILLSBOROUGH COUNTY
WATER RESOURCES SERVICES**

**WATER AND WASTEWATER IMPACT FEE
AND USER CHARGE RATE STUDY**

TABLE OF CONTENTS

<u>Description</u>	<u>Page No.</u>
EXECUTIVE SUMMARY	ES-1
INTRODUCTION	1
RATE STUDY PURPOSE	2
MONTHLY USER CHARGE EVALUATION PROCESS.....	3
EXISTING RATES AND CHARGES FOR SERVICE.....	4
CUSTOMER ACCOUNTS AND SALES FORECAST	6
Water System.....	6
Wastewater System.....	10
Customers Served (Bills Rendered).....	12
Water Production Requirements	13
Wastewater Treatment Requirements	14
CAPITAL IMPROVEMENT PROGRAM – SOURCES AND USES OF FUNDS	15
REVENUE REQUIREMENTS – MONTHLY USER RATES	18
General.....	18
Significant Forecast Assumptions.....	19
Summary of Rate Revenue Sufficiency	27
Price Index Adjustment.....	28
CUSTOMER IMPACT ANALYSIS AND COMPARISONS WITH OTHER NEIGHBORING UTILITIES.....	29
IMPACT FEES AND AGRF FEES	31
BOND SERVICE COMPLIANCE.....	33
Bond Service Coverage.....	34
Other Covenants.....	36
ATTACHMENT A – Letter from Qualified Independent Consultant	

**HILLSBOROUGH COUNTY
WATER RESOURCES SERVICES**

**WATER AND WASTEWATER IMPACT FEE
AND USER CHARGE RATE STUDY**

LIST OF TABLES

Table No.	Title	Page No.
Table 1	Comparative Summary of Operating Expenses.....	38
Table 2	Projected Cost of Service Requirements, Revenues and Fund Balance.....	39
Table 3	Summary of Existing and Proposed Monthly Rates and Comparison of 6,000 Gallons Monthly Typical Bill for a Residential Customer.....	40
Table 4	Historical and Projected Equivalent Residential Connections, Flows and Bills	41
Table 5	Rate Covenant Test.....	42
Table 6	Summary of Escalation Factors.....	43
Table 7	Comparison of Current and Proposed Monthly User Rates	44-45
Table 8	Comparison of Monthly Residential Bills for Water Service.....	46
Table 9	Comparison of Monthly Residential Bills for Wastewater Service	47
Table 10	Comparison of Monthly Residential Bills for Combined Water and Wastewater Service	48
Table 11	Comparison of Water and Wastewater Impact Fees 5/8” Residential Service (1 ERC).....	49
Table 12	Summary of Capital Improvement Program – Appropriations Basis.....	50-52

**HILLSBOROUGH COUNTY
WATER RESOURCES SERVICES**

**WATER AND WASTEWATER IMPACT FEE
AND USER CHARGE RATE STUDY**

EXECUTIVE SUMMARY

Water Resources Services (“WRS”) has completed the Fiscal Year 2007 Utility Rate Study for consideration by the Board of County Commissioners (“Board”), our customers and other interested citizens. The purpose of the study was to i) analyze the sufficiency of the existing rates and fees for service as it relates to funding the identified revenue requirements or expenditure needs of the water and wastewater system (the “System”); ii) identify any potential changes in rates and fees (both structure or level) that are considered necessary to meet the expenditure needs and promote the financial creditworthiness of the System; and iii) support the preparation of the Fiscal Year 2008 and 2009 budget process. The analysis of the rates and charges was based on a six year forecast which encompassed the current budget year (i.e., Fiscal Year 2007) and the subsequent five (5) Fiscal Years 2008 through 2012 (collectively referred to as the “Forecast Period”). All capitalized undefined terms reflected in this report have the same meaning as prescribed in the resolution which authorized the issuance of the outstanding utility system revenue bonds.

The following is a summary of the observations, findings and recommendations based on the results of the study which follows this Executive Summary.

1. During the Fiscal Year 2006 (the most recently completed Fiscal Year), the System provided service to an average of 150,400 accounts which represented 185,200 water equivalent residential customers (“ERC”) and 193,300 wastewater ERCs. Additionally, the projected growth of the System continues to be good; the forecast recognizes an average customer growth rate of approximately 5,800 ERCs which results in an annual compound growth rate of 2.8% during the Forecast Period.
2. The rates for monthly water and wastewater service (referred to as the “Monthly User Rates”) include the following components:
 - a. Customer Service Charge (per bill rendered);
 - b. Water and Wastewater Base Facility Charge (per respective ERC served per account);
 - c. Water Usage Charge, which includes a water conservation pricing structure;
 - d. Purchased-Water Pass-Through Consumption Charge to pass-through any increase or decrease in the cost of Purchased-Water to the customer (virtually, all water is purchased, no water is produced from County Facilities except for one isolated well that serves approximately 100 water connections); and
 - e. Wastewater Usage Charge, which includes a monthly maximum billing threshold for individually-metered residential accounts at 8,000 gallons.

3. The current rate structure was made effective by the adoption of Resolution No. R03-091 by the Board on May 14, 2003 and has been in place for approximately 4 years. In 2003, the Water Usage Charges were modified to promote a higher water conservation incentive and to reward low-water users with a cost reduction; the rate adjustment was designed to be revenue-neutral (no additional System revenue was expected due to the rate structure change). No other changes in the rate structure for monthly water and wastewater service were made in 2003. Although the current rate structure was placed into effect in 2003, it should be noted that the Board did adopt Resolution No. R05-106 on May 5, 2006, which is the current rate resolution currently in effect (the “Rate Resolution”). The primary changes identified in the Rate Resolution were i) a modification to the Purchased-Water Pass-Through Consumption Charge calculation and ii) a correction to the level of Impact Fees and Accrued Guaranteed Revenue Fees charged for water and wastewater service.
4. During the Fiscal Year 2001, the implementation of the Purchased-Water Pass-Through Consumption Charge was implemented by the Board to provide for the recovery of such costs which are not controllable by WRS. The current Fiscal Year 2007 Purchased-Water Pass-Through Consumption Charge is \$2.21 per 1,000 gallons of metered (billed) water use and is essentially associated with the recovery of purchased-water costs from Tampa Bay Water.
5. Absent the pass-through of the purchased-water costs (which have been in effect since 2001) and the change in water conservation rates as mentioned above, the rates for monthly service have not been adjusted (to recover a higher amount of revenues to meet WRS expenditures, exclusive of purchased-water costs) since 2000, or approximately 7 years.
6. The net revenue requirements (expenditures and funding requirements) for which the Monthly User Rates are designed to recover include the following components:
 - a. Cost of Operation and Maintenance (“Operating Expenses”); **plus**
 - b. Bond Service Payments; **plus**
 - c. Deposits to Renewal and Replacement Account; **plus**
 - d. Other Capital Funding on a pay-as-you-go basis; **plus**
 - e. Funding of Working Capital / Reserves / Stabilization Funds / Other Financial Requirements; **less**
 - f. Pledged Capacity [Impact] Fees for payment of debt service component associated with water purchases from Tampa Bay Water (“TBW”) and the County Bonds; **less**
 - g. Revenues from reclaimed water user charges; **less**
 - h. Other Revenues (not from Monthly User Rates) and investment income that is considered available to fund System operations.
7. Annual monthly service rate revenues for the Fiscal Year 2007 are estimated to approximate \$172 Million and represent approximately 79% of the total System revenues and cash contributions (i.e., Impact Fees) received. WRS is of the opinion that the monthly service rate revenues will be sufficient to meet the projected revenue requirements of the System for the current Fiscal Year 2007.

8. The cost of purchased-water presently accounts for approximately 18% of the total System revenue requirements and is a significant expense of the System. The rate study forecast recognizes the continued application of the Purchased-Water Pass-Through Consumption Charge which is critical to meeting the financial needs of the System. This charge, expressed on a “per thousand gallons” basis, is projected to increase from \$2.21 (current charge for Fiscal Year 2007) to \$2.49 by Fiscal Year 2012.
9. Operating Expenses presently account for approximately 63% of the total revenue requirements. Absent the cost of purchased-water, such costs generally increase due to inflation and System growth. However, recent increases in the cost of fuel, building materials, chemicals, electricity and other related expenses over the past several years have significantly impacted the amount of Operating Expenses being incurred (e.g., utility prices alone increased by over 30% in 2006 as a result of increased power costs). Such increases to date have been absorbed by the operations of the System.
10. As of October 1, 2007, it is anticipated that the System will have outstanding in the principal amount of \$150,285,000 in debt⁽¹⁾ issued in accordance with The Amended and Restated Utility System Bond Resolution No. R03-112 adopted by the Board dated June 4, 2003, as supplemented by Resolution No. R03-116 dated June 4, 2003 and as amended and supplemented from time to time (collectively, the “Bond Resolution”). Although the County has available \$75,000,000 in commercial paper in accordance with the subordinated Utility Revenue Commercial Paper Notes Resolution No. R05-275 adopted by the Board on December 7, 2005, no debt is currently outstanding under the commercial paper program. The annual Bond Service Requirement currently paid from System Pledged Revenues is \$27.8 million which is approximately 13% of the total gross revenue requirements of the System. The Outstanding Bonds will be fully retired by the Fiscal Year 2015.
11. WRS has not issued any additional parity bonds (new money) in accordance with the provisions of the current or previously approved bond resolution to fund System capital projects since 1986 (note that bonds have been subsequently issued to refund previously issued bonds to achieve interest rate savings and that the County adopted the current Bond Resolution in connection with such refinancing). The current debt allocation or burden per ERC as of 2007 is projected to be approximately \$711 per ERC, down from the debt level of \$4,865 per ERC in 1996, the year that rates were modified based, in part, on the Blue Ribbon Committee recommendations. WRS has issued in the principal amount of \$130,685,000 in Capacity [Impact Fee] Assessment Special Assessment Revenue Bonds for the funding of expansion projects which has no direct effect on the level of rates charged for monthly service (the pledge for repayment of such bonds is directly from the annual capacity assessments applied to the benefiting properties and not from the System revenues); however such bonds do provide funds for capital improvements for the benefit of the System.

⁽¹⁾ The Outstanding Bonds include the Junior Lien Refunding Utility Revenue Bonds, Series 2001 in the estimated principal amount of \$120,935,000 as of October 1, 2007 and the Refunding Utility Revenue Bonds, Series 2003 in the estimated principal amount of \$29,350,000 as of October 1, 2007.

12. As reported in the most recent WRS Annual Financial Report, the System currently has a gross capital investment in utility plant and facilities as of September 30, 2006 of \$1,120,442,000 (includes the cost of land and construction-work-in-progress [expenditures made to date for projects under construction]). The investment in capital assets will require continued upgrade, replacement, and repair which is expected by WRS to increase over time as the System ages. WRS is implementing an Asset Management Program to maximize the capital investment for the ultimate benefit of the ratepayers and to identify overall asset condition and the criticality of any future capital expenditures to provide continued and reliable utility service.
13. WRS has identified the need to fund approximately \$355,936,000 in capital improvements (appropriation of funds required) during the five Fiscal Year period of 2008 through 2012. The improvements are for both expansion-projects and continued renewals, replacements, betterments, and upgrades to existing facilities and are in addition to the capital projects currently underway that were approved with funds appropriated in prior years by the Board. A summary of the capital improvement program (appropriation requirements) reflected in the financial forecast is summarized below:

	Fiscal Year Ending September 30, [1]					Total
	2008	2009	2010	2011	2012	
Capital Program (\$000's)						
Wastewater Treatment	\$7,842	\$60,775	\$7,251	\$5,368	\$3,000	\$84,236
Wastewater Collection	32,125	50,771	31,487	17,487	12,050	143,920
Water Treatment	4,674	13,566	1,222	1,222	1,222	21,906
Water Distribution	19,863	12,482	7,740	8,490	3,050	51,625
Reclaimed Water	800	560	940	8,180	28,100	38,580
Other [2]	65	--	--	--	--	65
Departmental Capital [3]	<u>6,114</u>	<u>2,181</u>	<u>2,249</u>	<u>2,517</u>	<u>2,543</u>	<u>15,604</u>
Total Capital Program	<u>\$71,483</u>	<u>\$140,335</u>	<u>\$50,889</u>	<u>\$43,264</u>	<u>\$49,965</u>	<u>\$355,936</u>

[1] Amounts shown derived from Table 12 and is based the Fiscal Year 2008 capital appropriations budget and includes an allowance for Departmental capital expenditures (e.g., new vehicles, equipment, etc.) which is funded from rates. Amounts shown do not include capital expenditures approved and funded in prior years which are currently ongoing (i.e., construction-work-in-progress). Additionally, amounts shown do not include any capital expenditures associated with water resource projects which are the sole responsibility of Tampa Bay Water.

[2] Amounts shown reflect expenditures for general capital that supports the WRS operations, including but not limited to, customer service and warehouse facilities.

[3] Amounts shown reflect capital expenditures recognized as a component of the Operating Budget and are primarily for the purchase of new vehicles, equipment and other general plant assets (not included as a component of the expenditures recognized in the Capital Improvement Plan).

Although a significant portion of the program can be funded from existing reserves and projected operating revenues, the financial forecast identifies the need to issue approximately \$192,290,000 in additional parity bonds to provide funds for the capital improvement needs of the System. It should be noted that not all of the proceeds of the proposed bonds assumed to be issued by WRS will be available to fund capital projects but will be required to fund the cost of issuance of such bonds and pay interest expense during a certain period of time. The capital funding plan identified by WRS and included in the rate evaluation is summarized below:

	Fiscal Year Ending September 30, [1]					Total
	2008	2009	2010	2011	2012	
Capital Funding Program (\$000's)						
Renewal & Replacement Acct.	\$11,447	\$11,638	\$11,729	\$11,829	\$11,950	\$58,593
Capital Expend. Account	31,576	19,886	11,142	7,588	3,674	73,866
IFAU Bonds [2]	4,120	43,265	912	---	28,234	76,531
RWIU Notes	---	200	23	---	---	223
Impact Fees [3]	---	---	---	---	---	---
Additional Debt Financing [4]	20,978	64,352	26,070	22,815	5,057	139,272
Operating Revenues (Rates) [5]	<u>3,362</u>	<u>994</u>	<u>1,013</u>	<u>1,032</u>	<u>1,050</u>	<u>7,451</u>
Total Funding Sources	<u>\$71,483</u>	<u>\$140,335</u>	<u>\$50,889</u>	<u>\$43,264</u>	<u>\$49,965</u>	<u>\$355,936</u>

[1] Amounts shown include available unencumbered funds and funds anticipated to be derived from operations during the Forecast Period.

[2] Amounts shown include use of proceeds derived from the Series 2006 CAU [Impact Fee] Bonds and proceeds anticipated to be received from the issuance of future Impact Fee Assessment Unit (IFAU) Bonds (formally CAU Bonds) during the Forecast Period.

[3] All Water and Wastewater Impact Fees are considered as Pledged Impact Fees and are used to fund i) the Debt Service Component of the Cost of Contracted Water from Tampa Bay Water and ii) the expansion component of annual Bond Service Requirement.

[4] Amount shown reflects the issuance of additional bonds during the Forecast Period to fund capital expenditures; amounts may ultimately include the use of the available commercial paper program, additional or subordinate bonds, and other external sources of funds.

[5] Amounts shown reflect expenditures identified in the WRS CIP budget and are funded annually from System Operations (rates).

14. As can be seen above, WRS expects to issue additional bonds to fund a portion of the capital improvement program. Based on information provided by the Debt Management Department, it has been assumed that \$192,290,000 in additional bonds will be issued on or about April 1, 2008. Identified as the Series 2008 Bonds, the proceeds will be used to fund new capital projects, defease the outstanding principal amount of the Series 2003 Bonds, fund the interest expense on the Series 2008 Bonds for three years, and pay the cost of issuance of such bonds. The debt repayment structure results in no increase in the current debt repayment amounts currently reflected in the monthly rates for service yet will allow WRS to secure additional funding for capital improvements. The term of the Series 2008 Bonds is for a period of 30 years and is expected to increase the average amount of debt of approximately \$711 per ERC to approximately \$1,677 per ERC which is still well below the average debt level per ERC experienced by the County during the Fiscal Year 1996.

15. Based on the forecast of the net revenue requirements and taking into account the available reserves of the System, WRS is of the opinion that no additional rate adjustment, except for the continued application of the Purchased-Water Pass-Through Consumption Charge, will be required for the Fiscal Years 2008 and 2009. However, recognizing the decline in operating reserves due to funding the current capital program and recognizing the level of capital investment in the System (if replacing 2.5% of assets each year [40 year average service life] due to wear and tear, the recovery of only the original cost [not current cost] of the assets would be approximately \$26 million annually), it is recommended that the Board consider the implementation of an annual rate index to adjust rates annually by an inflationary amount beginning with the Fiscal Year 2010. The application of an inflationary index would be in addition to the continued application of the Purchased-Water Pass-Through Consumption Charge (this charge would not be indexed in addition to the determination of the pass-through charge). Although the Rate Resolution has contained an inflationary index provision since 1997, the application of an annual index has never been applied by WRS. The application of the index as contained in the Rate Resolution, based on the reported Fiscal Year 2006 costs and the use of the most recently published

inflationary index by the Florida Public Service Commission in 2007 (for 2006) would have resulted in a 1.7% rate adjustment that would be applied uniformly to the Monthly User Rates (exclusive of the Purchased-Water Pass-Through Consumption Charge).

16. WRS currently charges Impact Fees (formerly referred to as Capacity Fees) to new customer growth which requests or requires new capacity to meet the needs / demands of such customers. This fee has been applied for over 20 years by the County and is a common financing tool used by local governments to fund expansion-related capital expenditures, including the payment of expansion-related debt service. WRS is not proposing any change to the level of fees charged at this time. However, it is expected that WRS will be reviewing the fees in the near future as the water and wastewater facilities are being significantly expanded to meet the future needs of development.
17. The Water Impact Fees anticipated to be received by WRS during the Forecast Period are projected to be pledged entirely towards the payment of the Debt Service Component of the Cost of Contracted Water Supply (i.e., Tampa Bay Water) as provided in the Bond Resolution. The Wastewater Impact Fees anticipated to be received by WRS during the Forecast Period are projected to be pledged entirely towards the payment of the annual Bond Service Requirements on the Outstanding Bonds of the County as provided in the Bond Resolution. None of Impact Fees received for the benefit of the System will be available to fund expansion-related capital expenditures.
18. The County has established an Impact Fee [Capacity] Assessment Unit program that allows Impact Fees to be paid on an installment basis whereby the property owner agrees to have the installment payment placed on the ad valorem tax bill as a non-ad valorem assessment (as allowed by Florida Statutes, Chapter 197). It should be noted that the County recently issued \$101,110,000 in Capacity [Impact Fee] Assessment Special Assessment Revenue Bonds, Series 2006 dated April 11, 2006 (previously referred to as “CAU Bonds”, now referred to as “IFAU Bonds”); the proceeds which are used to fund expansion-related capital projects. It is anticipated that additional assessment bonds will need to be issued during the Forecast Period to fund expansion-related capital projects. Once the bonds are issued, the Impact Fee assessments are no longer received by WRS for pledge towards the Debt Service Component of the Cost of Contracted Water Supply or current period Bond Service payments, but are pledged entirely towards the repayment of the assessment bonds. For the Forecast Period, the following additional Impact Fee Assessment Special Assessment Bonds were assumed to be issued in order to fund expansion-related capital projects:

	Principal Amount of Bonds Issued	Deposit to Project Fund for Capital Expenditures
Impact Fee Assessment Special Assessment Bonds:		
Series 2009 Bonds	\$51,129,000	\$45,448,007
Series 2012 Bonds	31,883,000	28,233,927

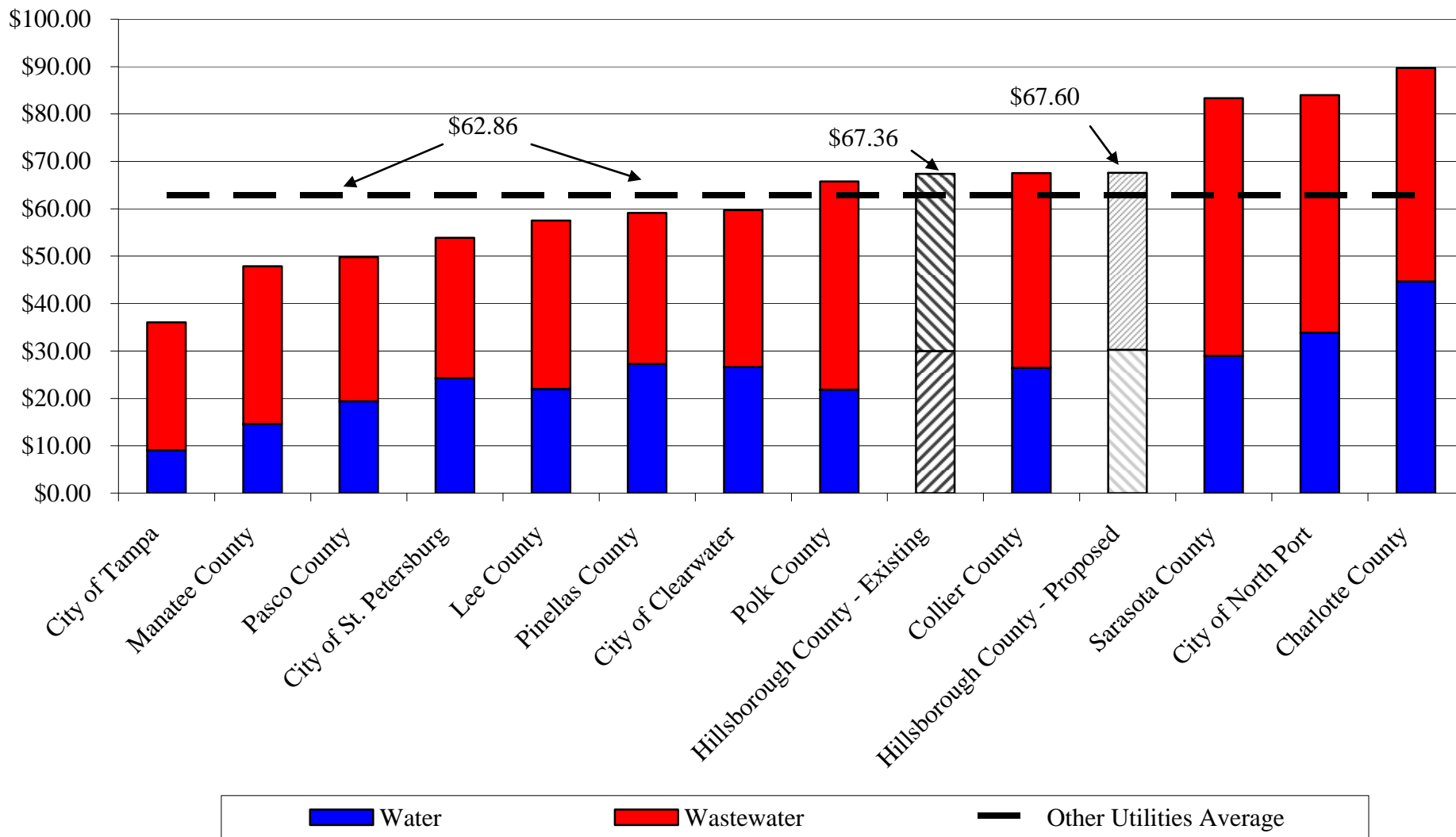
19. Since there is no change currently being proposed with respect to the level of Impact Fees being charged to new development, WRS is also proposing no revision to the current Accrued Guaranteed Revenue Fee (“AGR”), which is a fee to recover the cost of carrying

capacity in advance of securing such capacity by new development through the payment of the Impact Fee.

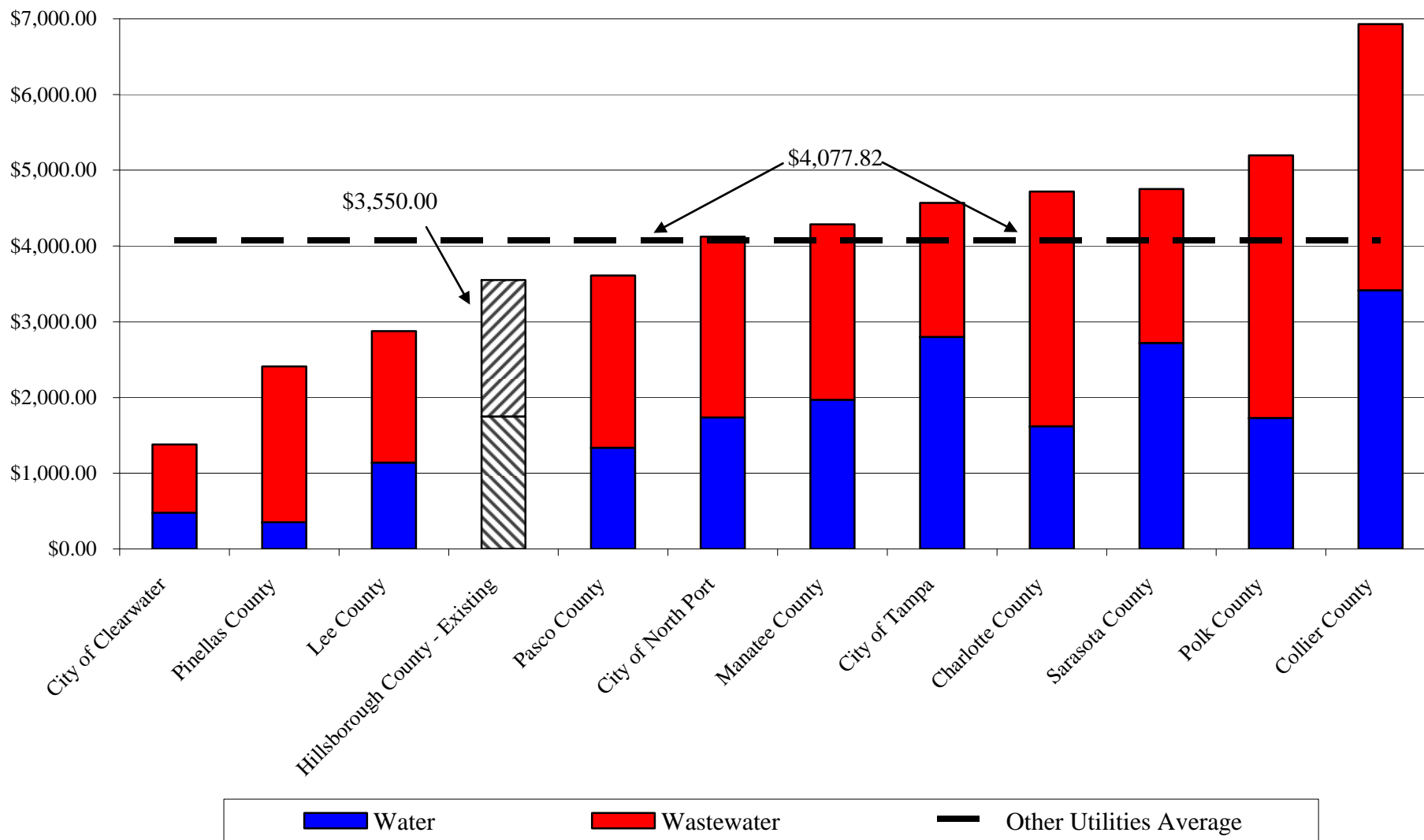
20. Based on the financial forecast and the implementation of the rate recommendations as delineated above, it is projected that the proposed rates for monthly service will:
 - a. Meet the rate covenants as defined in Section 11.02 of The Amended and Restated Utility System Bond Resolution No. R03-112, as amended and supplemented by Resolution No. R03-116, and as amended and supplemented from time to time (the “Bond Resolution”) and the flow of funds requirements as delineated in Section 9 of such resolution.
 - b. Meet the rate covenants as defined in Section 410 of the Subordinated Utility Revenue Commercial Paper Notes Resolution, as amended and supplemented from time to time (the “Note Resolution”) and the flow of funds requirements as outlined in Section 5 of such resolution.
 - c. Fully fund the capital improvement program as identified by WRS for the Forecast Period, which includes the issuance of additional parity bonds in accordance with the Bond Resolution.
 - d. Maintain the minimum operating reserves (working capital) as required by the Bond Resolution and good management practice and maintain additional funds as recommended by the County’s Debt Management Department as it relates to the creditworthiness of the System and the ability to attract external capital at favorable interest rates.
21. The current rates for monthly service are compared with the rates charged by other neighboring utilities for water and wastewater service based on 6,000 gallons of monthly use, which represents the typical usage level for a single family residential customer as shown on Figure ES-1 at the end of this summary.
22. The current Impact Fees for securing capacity by new development are compared with the fees presently being charged by other neighboring utilities as shown on Figure ES-2 at the end of this summary.
23. The County’s Independent Qualified Consultant has assisted in the preparation of and has reviewed the financial forecast and Monthly User Rate recommendations and supports the recommendations as identified in this report in compliance with Section 11.03 of the Bond Resolution. A copy of the opinion letter as included in Attachment A at the end of this report.

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**FIGURE ES-1
HILLSBOROUGH COUNTY
WATER RESOURCES SERVICES
TYPICAL WATER AND WASTEWATER RESIDENTIAL BILL AT 6,000 GALLONS**



**FIGURE ES-2
HILLSBOROUGH COUNTY
WATER RESOURCES SERVICES
IMPACT FEE COMPARISON FOR SINGLE FAMILY RESIDENCE - ONE ERC**



HILLSBOROUGH COUNTY

WATER AND WASTEWATER IMPACT FEE AND USER CHARGES RATE STUDY

INTRODUCTION

Water Resources Services (“WRS”) has completed the Fiscal Year 2007 Utility Rate Study (the “report”) for consideration by the Board of County Commissioners (the “Board”) of Hillsborough County (the “County”), our customers and other interested citizens. The purpose of the study was to i) analyze the sufficiency of the existing rates for service as it relates to funding the identified revenue requirements or expenditure needs of the water and wastewater system (the “System”); ii) identify any potential changes in rates (both structure or level) that are considered necessary to meet the expenditure needs and promote the financial creditworthiness of the System; and iii) support the preparation of the Fiscal Year 2008 and 2009 budget process. The analysis of the rates and charges was based on a six year forecast which encompassed the current budget year (i.e., Fiscal Year 2007) and the subsequent five (5) Fiscal Years 2008 through 2012 (collectively referred to as the “Forecast Period”). A six-year forecast period was selected in order to provide the County information regarding rate adjustments that may be required in the near future as part of the development of an acceptable cost recovery strategy and to assist WRS in the development of capital funding analyses and financial projections associated with the issuance of any additional indebtedness related to the funding of the System’s capital improvement program.

The County has established and accounts for the System as a utility enterprise fund (the “Utility Fund”). In general, the Utility Fund must have revenues equal to the costs of the services provided by the System and the County must establish Monthly User Charges or rates sufficient to cover the cost of operating, maintaining, repairing and financing the System. According to the Governmental Accounting Standards Board, “Enterprise Funds should be used to account for operations that are financed and operated in a manner similar to private business enterprises—where the intent of the governing body is that costs of providing services to the general public on a continuing basis be financed or recovered primarily through user charges.”

Pursuant to The Amended and Restated Utility System Bond Resolution No. R03-112 adopted by the Board dated June 4, 2003, as supplemented by Resolution No. R03-116 dated June 4, 2003 and as amended and supplemented from time to time (collectively, the “Bond Resolution”), as adopted by the County, authorized the issuance of the outstanding Junior Lien Refunding Utility Revenue Bonds, Series 2001 (the “Series 2001 Bonds”) and the outstanding Refunding Utility Revenue Bonds, Series 2003 (the “Series 2003 Bonds” and collectively, with the Series 2001 Bonds, the “Outstanding Bonds”) of the System. The pledge for repayment of the Outstanding Bonds is derived from the revenues and certain Impact Fees of the System (neither the credit nor the taxing power of the County is pledged for the debt repayment of the Outstanding Bonds). The Bond Resolution includes a rate covenant requiring, among other things, that the County’s governing body must set rates sufficient to meet certain financial criteria. The Bond Resolution also requires the County to maintain the System in good condition

and operate it efficiently. The rate covenant as defined in Section 11.02 of the Bond Resolution specifically requires the County to maintain rates and fees that will always provide Gross Revenues and Pledged Capacity [Impact] Fees sufficient to pay one hundred percent (100%) of the Required Deposits under the Bond Resolution and at least one hundred and twenty percent (120%) of the annual Bond Service Requirement on all bonds then outstanding issued pursuant to the Bond Resolution (considered as the minimum coverage requirement). Other required payments include the maintenance of certain funds established by the Bond Resolution, including an annual contribution of at least five percent (5%) of the prior year's Gross Revenues into a Renewal and Replacement Account for the replacement and betterment of utility assets. This requirement is established as a minimum funding level that is intended to help ensure that the System is maintained in good condition.

In addition to the rate covenant, WRS is required to annually review the rates for service. In accordance with Section 11.03 of the Bond Resolution, WRS must:

“...at least annually the Issuer [County] will retain a Qualified Independent Consultant to review and make written recommendations to the Director of WRS [Water Department] with respect to changes in the System's rate structure which such consultant deems necessary or appropriate to ensure continuing compliance with the rate covenant set forth in Section 11.02 of this Resolution.”

In order to comply with the Bond Resolution and to evaluate the ability of the System Revenues to meet the expenditure needs of the System, WRS has prepared this report of the rates required to provide service, which was also reviewed by Public Resources Management Group, Inc. (“PRMG”), the County's Qualified Independent Consultant. The remainder of this report presents the analyses and findings of WRS as it relates to the level of rates currently in effect for the System. This report includes a discussion of the customer projections and capacity needs of the System, a summary of the capital improvement program and the anticipated financial resources to fund the program, and a discussion of the ability of the System to fund the Cost of Operation and Maintenance, which includes the Cost of Contracted Water Supply (collectively, the “Operating Expenses”) and make the necessary transfers for debt repayment and capital funding needs. All undefined capitalized terms included in this report will have the same meaning as prescribed in the Bond Resolution.

RATE STUDY PURPOSE

The study provides a comprehensive review of existing Monthly User Charges, including the underlying structure and cost recovery practices. The last review of the rates occurred during the Fiscal Year 2005. This year's focus included the following activities:

- To evaluate the overall sufficiency of the System revenues recognizing the need to meet the anticipated capital improvement program of the System;
- To evaluate the cost recovery for the System in total and for each functional cost center—Water, Wastewater and Customer Service/Accounting;

- To evaluate the level of Impact Fees to be collected from new development/customers recognizing the proposed capital expenditure budget for the Fiscal Year Period 2007-2012 and recently completed capital expenditures conducted during prior periods;
- To analyze the level of Accrued Guaranteed Revenue Fees (“AGRF”) to be charged to new development to recover the cost of carrying and maintaining existing and available capacity;
- To determine if utility rates and the underlying rates and fees will produce sufficient revenues to meet bond covenant requirements, financial obligations and continue to allow the System to meet its overall financial targets and business goals initially established during the Blue Ribbon Committee deliberations.

MONTHLY USER CHARGE EVALUATION PROCESS

The various components of costs associated with the operations, maintenance, and financing of the System renewals, replacements, and capital improvements are generally considered the revenue requirements of a publicly-owned and operated utility system. The development of the net revenue requirements is a critical component of the rate study process since rates should be designed to recover the full cost of providing utility service. The determination of revenue requirements was made in a manner generally consistent with the methods employed for other publicly-owned utilities utilizing revenue bond financing to meet their capital needs. This method of defining revenue requirements focuses primarily on the water and wastewater utilities’ cash expenditure needs including allowances for proper levels of renewals and replacements and cash reserves. This approach is also consistent with governmental and enterprise fund budgeting requirements and practices. With respect to this study, the determination of the water and wastewater rates for the WRS System has been developed using a style of rate making known as the cash flow approach. Under this approach, the net revenue requirements (expenditures and funding requirements) for which the Monthly User Rates are designed to recover include the following components:

- a. Cost of Operation and Maintenance (“Operating Expenses”); **plus**
- b. Bond Service payments; **plus**
- c. Deposits to Renewal and Replacement Account; **plus**
- d. Other Capital Funding on a pay-as-you-go basis; **plus**
- e. Funding of Working Capital/Reserves/Stabilization Funds/Other Financial Requirements; **less**
- f. Pledged Impact Fees for payment of debt service component associated with water purchases from Tampa Bay Water (“TBW”) and the County Bonds; **less**
- g. Revenues from reclaimed water usage charges; **less**
- h. Other Revenues (not from Monthly User Rates) and investment income that is considered available to fund System operations.

When rates are functioning properly, the total charges or rates imposed by a utility to its customers should at least equal the above referenced items (i.e., the "revenue requirements").

The Forecast Period for the study was for the fiscal years ending September 30, 2007 through 2012. A six-year forecast period was selected in order to provide the County information regarding rate adjustments that may be required in the near future as part of the development of an acceptable cost recovery strategy and to assist the utility in the development of capital funding analyses and financial projections associated with the issuance of anticipated additional utility indebtedness related to the County's capital improvement program.

EXISTING RATES AND CHARGES FOR SERVICE

The sales revenues derived from the monthly rates or user charges, Impact Fees, and other operating revenues, all as reflected on Table 2 at the end of this report associated with the projected operating results for the System, were developed based on rates and charges that were placed into effect on of June 1, 2005. Such rates and charges were approved by the Board pursuant to the adoption of Resolution No. R05-106, on May 5, 2005 (the "Rate Resolution"). It should be noted that the rates for monthly water and wastewater service (i.e., the "Monthly User Rates") that are currently in place were last adjusted by the Board on May 14, 2003 and have been in place for approximately 4 years. In 2003, the Water Usage Charges were modified to promote a higher water conservation incentive to large users and to reward low-water users with a cost reduction; the rate adjustment being designed to be revenue-neutral (no additional System revenue was anticipated to be derived from the rate modification). It should also be noted that the first potable water usage block has been priced below average cost, which is commonly referred to as a "life-line rate", in order to provide low-water users (generally represented by fixed or low income users such as senior citizens which have low water use) a cost benefit. No other changes in the rate structure for monthly water and wastewater service were made in 2003. Absent the change in water conservation rates in 2003, the rates for service have remained unchanged since 2000 or over 7 years. During the Fiscal Year 2001, the implementation of the Purchased-Water Pass-Through Consumption Charge was made effective to provide for the recovery of such costs which are not controllable by Water Resource Services ("WRS"). The initial Purchased-Water Pass-Through Consumption Charge implemented during the Fiscal Year 2001 was \$1.20 per 1,000 gallons of metered water consumption; the current (Fiscal Year 2007) Purchased-Water Pass-Through Consumption Charge is \$2.21 per 1,000 gallons of metered (billed) water use. Absent the pass-through of the purchased-water costs (which have been in effect since 2001), the rates for monthly service have not been adjusted (to recover a higher amount of revenues to meet WRS expenditures, exclusive of purchased-water costs) since 2000.

The rates for monthly service include the following components:

- a. Customer Service Charge (per bill rendered);
- b. Water and Wastewater Base Facility Charge (per respective ERC served per account);
- c. Water Usage Charge (per 1,000 gallons of metered water use), which includes a water conservation pricing structure;
- d. Purchased-Water Pass-Through Consumption Charge (per 1,000 gallons of metered water use) to pass-through any increase or decrease in the total cost of purchased- water to the customer (virtually, all water is purchased, no water is produced from County Facilities, except for one isolated well that serves approximately 100 water connections); and

- e. Wastewater Usage Charge (per 1,000 gallons of metered water use which serves as the basis for wastewater demand), which includes a monthly maximum billing threshold for individually-metered residential accounts at 8,000 gallons.

A summary of the current monthly service (user) rates as reflected in the Rate Resolution is summarized below:

	Monthly Service Rates [1]
Customer Service Charge (per bill rendered)	\$3.80
Water Service Rates:	
Base Facility Charge (per ERC)	\$7.90
Usage Charges (per 1,000 gallons)	
Block 1 – 0 to 5,000 Gallons	\$0.65
Block 2 – 5,001 to 15,000 Gallons	1.80
Block 3 – 15,001 to 30,000 Gallons	3.00
Block 4 – Above 30,000 Gallons	4.50
Pass-Through Consumption Charge [2]	\$2.21
Wastewater Service Rates:	
Base Facility Charge (per ERC)	\$12.75
Usage Charges (per 1,000 gallons) [3]	\$4.10

[1] Amounts derived from Rate Resolution.

[2] Reflects pass-through of all purchased-water costs (primarily Tampa Bay Water) based on formula contained in Rate Resolution; amount shown billed for all water consumption, regardless of consumption block (is added to the usage charges) and reflects the charge currently in effect for the Fiscal Year 2007.

[3] Wastewater usage charge billed based on metered water use; individually metered single family residential service usage charge capped at 8,000 gallons per month and each living unit served within a master-metered residential complex is capped at 5,600 gallons per unit per month.

In addition to the monthly rates for water and wastewater service, the County currently charges System Impact Fees to new connections based upon an equitable and proportionate share of the cost for: i) water supply and transmission facilities owned by Tampa Bay Water; ii) County-owned water treatment and transmission facilities; and iii) County-owned wastewater transmission, treatment and effluent disposal capacity of the System. The purpose of the Impact Fees is for paying or reimbursing the equitable share of the capital costs relating to the construction, expansion, or equipping capacity of the System in order to serve new users. The obligation for the payment of these charges is from new customers or development. The current Impact Fees were adopted by the County pursuant to the Rate Resolution. In addition to the Impact Fees, the County charges to new customers or development an Accrued Guaranteed Revenue Fee (“AGR”) which represents i) the estimated interest cost associated with financing the of the expansion facilities and ii) the cost of operating and maintaining the facilities allocable to growth, both of which are related to capacity in the County’s potable water and wastewater systems to serve new customers. The purpose of this fee is to recover the cost of holding the capital investment until such time that an applicant requests and pays for capacity. The following table summarizes the Water System and Wastewater System Impact Fees and AGR charges currently in effect.

	Water	Wastewater
Impact Fee – per ERC [1]	\$1,750	\$1,800
AGRF – per ERC [1]	1,005	940

[1] Impact fees and AGRF charges are currently the same for the Northwest Service Area and the South/Central Service Areas.

In addition to the above referenced rates and charges, the Rate Resolution contains a number of additional fees and rates applied to customers of the System. Such fees are for i) a particular service (e.g., reclaimed water); ii) a charge for a customer requested service or customer action (e.g., utility turn-on, late payment fee, etc); iii) deposits to ensure payment; or iv) other service needs (e.g., reimbursement for line extension). Such fees are customary in the utility industry and have not been summarized in this report since the revenues derived from such fees are not significant to the analyses discussed hereafter.

CUSTOMER ACCOUNTS AND SALES FORECAST

This section of this report summarizes the recent trends in water and wastewater customers, water production and wastewater treatment, and associated sales and usage characteristics of the System. The historical period reflected in this report covers the Fiscal Years 2002 through 2006. The Forecast Period reflected in this report was previously defined as the Fiscal Years 2007 through 2012. Table 4 at the end of this report reflects the historical active customers or accounts (terms used synonymously) and the corresponding equivalent residential connections receiving utility service as well as metered water sales (gallons sold) for the Water System. Similar information regarding the historical customers and billed wastewater flow (billed gallons) for the Wastewater System is also shown on Table 4 at the end of this report. Table 4 also summarizes the projected customers and metered water sales and billed wastewater flow for the Water and Wastewater Systems, respectively for the Forecast Period.

Water System

The Water System has experienced an increase in customers and water sales over the past several years due to the continued development located within the Water System service area. The County has a significant amount of development and additional vacant property located within the Urban Service Area within the unincorporated County which constitutes the System service area. The historical and projected customer accounts and ERCs for the Water System are summarized as follows:

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Historical and Projected Customer Accounts and Statistics - Water System

Fiscal Year Ended September 30 (Historical) [1]	Year End Water Accounts	Average Annual ERCs [2]	Water Sales (000s of Gallons)	Average Monthly Water Use per ERC
2002	111,296	150,557	13,885,247	7,685
2003 [3][4]	121,521	156,835	13,160,647	6,993
2004 [4]	128,080	167,415	15,165,540	7,549
2005 [4]	135,033	176,295	15,663,628	7,390
2006	139,609	185,198	17,971,297	8,087
Average Annual Historical Growth Rate [5]	<u>5.83%</u>	<u>5.31%</u>	<u>6.66%</u>	
Fiscal Year Ending September 30 (Projected)				
2007 [6]	141,713	192,204	18,133,294	7,862
2008	145,079	196,954	17,715,176	7,475
2009	148,622	201,954	18,091,039	7,465
2010	152,342	207,204	18,536,470	7,455
2011	156,240	212,704	19,002,975	7,445
2012	160,138	218,204	19,534,626	7,440
Average Annual Projected Growth Rate [7]	<u>2.31%</u>	<u>2.77%</u>	<u>1.40%</u>	

- [1] Amounts derived from Table 4. Note accounts and average monthly use per ERC includes Fire Line customers which have no billed water flow; amount is immaterial relative to the average use calculation.
- [2] Reflects average annual statistics; ERC means Equivalent Residential Connection and represents an average daily potable water demand of 300 gallons per day (gpd) as defined in Resolution No. R05-106 adopted by the County on May 5, 2005 (the "Rate Resolution").
- [3] Decrease in water sales due to increase in rainfall amounts and frequency of rainfall events.
- [4] Average customer statistics and corresponding sales include the incremental customer additions associated with the purchase of the Seaboard, Hershel Heights, and Valrico Hills systems from Florida Water Services, Inc. (September 2003) and the Carrollwood System from the Florida Government Utility Authority (April 2004).
- [5] The historical customer growth rate without the incremental customer additions associated with the utility acquisitions would have approximated 4.3%.
- [6] Amounts estimated based on approximately 10 months of actual information for the Fiscal Year.
- [7] Projected growth rate from Fiscal Year 2006 to Fiscal Year 2012.

With respect to the development of the forecast of water accounts and ERCs, the projections in the first part of the forecast recognize a decline in growth as a result of the economic downturn in the housing market. It is anticipated that the growth will reflect more normal development patterns during the remainder of the Forecast Period. It should be noted that the total net increase in ERCs for the Water System during the Fiscal Years 2008 through 2012 is 26,000 ERCs and there are currently 24,300 ERCs that have been permitted (plans approved and developers have paid 1/6th of the AGRF to "reserve or hold capacity") for development which is considered by WRS to be growth that will occur. This level of ERCs permitted does not include additional ERCs (approximately 25,000) that WRS has issued commitment letters to developers stating the capacity will be made available as development occurs. As such, WRS believes that the projections of accounts and ERCs are reasonable and attainable.

With respect to the forecast of water sales, the Fiscal Year 2006 and 2007 have been very dry (drought conditions) which has resulted in increased water sales (due to increased irrigation demands). As can be seen above, these two Fiscal Years had the highest average water use per

ERC during the historical period shown above. With respect to the forecast, it was assumed the water use would be typical and comparable to the usage trends experienced during the Fiscal Years 2004 and 2005 which were generally considered to be “normal” years in terms of weather. Therefore, a decline in water use and sales was assumed for the Fiscal Year 2008 with water sales generally increasing during the remainder of the Forecast Period due to System growth.

The Water System customer base consists primarily of single-family residential customers. As shown in the following table, this class accounted for approximately 96% of the total estimated accounts served by the Water System during the most recently completed Fiscal Year 2006. Information regarding the number of ERCs by class was not readily available; however the number of ERCs served by the Water System was approximately 34% greater than the accounts served.

	Annual Average Water Accounts and ERCs –Fiscal Year 2006			
	Average Annual No. of Accounts	Percent to Total	Equivalent Residential Connections [1]	Percent to Total
Residential Single-Family	132,847	96.10%	n/a	n/a
Residential Master Metered	803	0.58%	n/a	n/a
Commercial	4,285	3.10%	n/a	n/a
Fire Line	<u>305</u>	<u>0.22%</u>	<u>n/a</u>	<u>n/a</u>
Total	<u>138,240</u>	<u>100.00%</u>	<u>185,198</u>	<u>100.00%</u>

[1] Reflects average annual statistics; ERC means Equivalent Residential Connection and represents an average daily potable water demand of 300 gallons per day (gpd) as defined in the Rate Resolution.

As summarized on the table above, the Water System during the Fiscal Year 2006 provided service expressed on an annual average basis to approximately 185,200 ERCs, which is greater than the average number of accounts (bills) served. As previously mentioned, an ERC represents the equivalent usage requirements of a single-family residential customer. Since commercial or multi-family customers are generally served by larger sized meters than the standard residential customer, it is useful to equate such customers on a basis equivalent to the residential class for a more consistent presentation of the total customer base served.

It is expected that the County will continue to grow and increase the water and wastewater customer base of the System. The development of the Water System customer forecast for the projected period reflected in this report was based on: i) discussions with Utility Planning staff associated with permitting of new development within the System service area; ii) a review of recent historical trends in securing capacity assessment units which represent Impact Fees for development that will be assessed to the properties (an indicator for future growth and which generally precede the connection to the System by a period ranging from six months to two years); iii) the level of historical accounts being served at the end of the most recent Fiscal Year and as of June 2007; iv) the amount of reserved capacity allocated to the Water System and the identification of the need by the Engineering Services staff for capacity expansions (an indicator of continued growth) and v) the overall historical trends in customer, ERC and water sales growth. As shown above and for the purposes of this report, it was assumed that the average annual customers served (active services) for the Water System would increase at an average compound rate of growth of approximately 2.3% per year (with a similar growth rate assumed to

be incurred for the corresponding ERCs anticipated to be served by the Water System). This rate of growth is less than the average growth rate experienced during the last five fiscal years. The reason for this reduction in the rate of growth generally recognizes a constant rate of customer growth (incremental change in number of customers served) and, as the service area develops, the rate (percent) of growth reduces. Also, it was assumed as the service area develops, the availability of new development will slow since the service area will begin to approach a built-out condition. Finally, a lower rate of growth (incremental additions to System) for the determination of sales revenue and rate covenant compliance is more conservative even though there is a favorable amount of capacity reserved or pending reservation through the development process which will lead to continued customer growth over time. It should be noted in development of the water and wastewater capital expansion projects as delineated in the 6-Year CIP as shown on Table 11, more aggressive growth projections were utilized to help ensure that adequate capacity will be available to meet future demands (especially if the rate of growth rebounds to recent historical levels).

As mentioned earlier in this report, the County has previously adopted a water conservation rate structure to promote the efficient use of potable water by the customers of the System. The application of a water conservation rate was first introduced in 1993 as a result of the Water Use Caution Area Rules adopted by the Southwest Florida Water Management District (“SWFWMD”) which required the imposition of water conserving rate structure. The County has maintained a conservation pricing incentive in its consumption rates for over fourteen years. Since the imposition of the water conservation rates over fourteen (14) years ago, the average water use per residential customer has reduced from an average of 10,000 gallons per month when the conservation charges were first introduced to approximately 7,500 gallons per month (note that the typical water use for the System is now less than 6,000 gallons per month). At the request of the Southwest Florida Water Management District (SWFWMD) and as a result of the lingering drought conditions in the area, a review of the water consumption changes was requested to see if customers are responding to the water conservation pricing signals being imposed through the County’s rates. Since there has been a measurable decline in the monthly average use or billed consumption over the past several years, it appears that the conservation pricing is being effective. It should be noted that approximately 90% of billed water sales are for consumption of 15,000 gallons or less per month and less than 10% of the bills rendered exceed the 15,000 gallons billing threshold.

As can be seen below, there are four water usage blocks that are priced at an increasing rate to promote water conservation. Based on detailed historical customer billing information, the water use billed per consumption block for all customer classes recognized in this report for the Fiscal Year 2008 (the Test Year in this report) is as follows:

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Fiscal Year 2008 Estimated Water Consumption per Consumption Block (Thousands of Gallons)

	Consumption Range per ERC (gallons)	Residential Billed Consumption (gallons) [1]	Commercial Billed Consumption (gallons)	Total Billed Consumption	Percent of Water Consumption per Block
Block 1	0 – 5,000	8,670,502.1	1,324,455.4	9,994,957.5	56.42%
Block 2	5,001 – 15,000	5,012,908.6	1,014,284.8	6,027,193.4	34.04%
Block 3	15,001 – 30,000	1,090,745.2	107,618.4	1,198,363.6	6.75%
Block 4	30,001 or more	<u>406,171.3</u>	<u>88,490.2</u>	<u>494,661.5</u>	<u>2.79%</u>
Totals		<u>15,180,327.2</u>	<u>2,534,848.8</u>	<u>17,715,176.0</u>	<u>100.00%</u>

[1] Amounts shown include Single-Family and Master Metered residential water consumption.

As can be seen above, it is estimated that the amount of water consumption in the first block for the Fiscal Year 2008 approximates over 56% of the total billed water consumption (representative primarily indoor or essential use). Additionally, the total consumption for the first two usage blocks now accounts for over 90% of the water consumption which provides an indication that the conservation pricing is effective and that the amount of water attributable to excess use is not material (less than three percent of the billed water use is for monthly consumption greater than 30,000 gallons). As such, WRS does not believe that a change in the water use pricing is necessary at this time.

Wastewater System

The Wastewater System has also experienced an increase in customers and billed flow (billed gallons) over the past several years due to the continued development located within the service area. Table 4 at the end of this report summarizes the historical ERCs provided wastewater service, billed wastewater flow, and average ERC usage statistics for the Wastewater System. Table 4 also provides projected statistics for the Forecast Period (i.e., Fiscal Years 2007 to 2012). The historical and projected customer statistics for the Wastewater System are summarized below:

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Historical and Projected Customer Accounts and Statistics - Wastewater System

Fiscal Year Ended September 30 (Historical) [1]	Year End Wastewater Accounts	Average Annual ERCs [2]	Billed Wastewater Flow (000s Gallons)	Average Monthly Billed Wastewater Flow per ERC (gallons)
2002	103,713	156,271	10,024,276	5,346
2003 [3]	113,072	164,046	10,154,690	5,158
2004 [3]	119,483	174,212	11,205,386	5,360
2005 [3]	126,308	183,785	11,873,215	5,384
2006	130,721	193,319	12,626,931	5,443
Average Annual Historical Growth Rate [4]	<u>5.96%</u>	<u>5.46%</u>	<u>5.94%</u>	
Fiscal Year Ending September 30 (Projected)				
2007 [5]	132,695	202,258	12,963,120	5,341
2008	135,953	207,127	13,398,786	5,376
2009	139,388	212,252	13,674,972	5,369
2010	143,000	217,633	14,003,378	5,362
2011	146,790	223,271	14,344,715	5,354
2012	150,580	228,909	14,738,975	5,351
Average Annual Projected Growth Rate [6]	<u>2.39%</u>	<u>2.86%</u>	<u>2.61%</u>	

[1] Amounts derived from Table 4.

[2] Reflects average annual statistics; ERC means Equivalent Residential Connection and represents an average daily wastewater flow of 200 gpd as defined in the Rate Resolution.

[3] Average customer statistics and corresponding sales include the incremental customer additions associated with the purchase of the Seaboard and Valrico Hills systems from Florida Water Services, Inc. (September 2003) and the Carrollwood System from the Florida Government Utility Authority (April 2004).

[4] The historical customer growth rate without the incremental customer additions associated with the utility acquisitions would have approximated 4.4%.

[5] Amounts based on approximately 10 months of actual information for the Fiscal Year.

[6] Projected growth rate from Fiscal Year 2006 to Fiscal Year 2012.

As can be seen above, the Wastewater System has incurred a historical growth rate in the year end number of accounts served of approximately 6% per year since the Fiscal Year 2002 which is similar to the historical growth rate recently experienced for the Water System (most new water accounts receive wastewater service). As indicated in the footnote above, the County purchased the Seaboard and Valrico Hills utility systems which accounted for an increase in of approximately 3,200 wastewater customers and 3,300 wastewater ERCs served and also acquired the Florida Government Utility Authority Carrollwood System which accounted for a further increase of 1,190 wastewater customers and 1,400 ERCs served. Overall and not including the incremental customer additions due to the County's acquisition actions, the Wastewater System since the Fiscal Year 2002 has experienced an average increase in wastewater ERCs of approximately 8,087 ERCs per year. This growth is due to both the infill of existing developments where service was available as well as the continued addition of new development within the utility service area (the urban service area). The forecast of Wastewater System ERCs and billed wastewater flow was based on recent historical trends, discussions with WRS planning staff associated with the permitting of new development, and the assumption that growth will

slow as the service area continues to be developed (built-out and assuming no change in the utility service area). The wastewater customer statistical projections shown on Table 4 served as the basis for the projection of revenues derived from monthly wastewater user charges for the Forecast Period reflected in this report.

Customers Served (Bills Rendered)

As discussed above, the statistics shown for both the water and wastewater systems was predicated on an ERC basis which is consistent with the billing parameters reflected in the current Rate Resolution. In order to provide additional information regarding the number of customers served (bills rendered) by the System, a forecast of the bills rendered was also developed. The historical information for the total bills rendered (whether receiving water-only, wastewater-only, or combined water and wastewater service) and the projected bills rendered for the Forecast Period is shown on Table 4 at the end of this report and summarized below:

Customers Served [1]	
Fiscal Year Ended September 30 (Historical)	Year End Customers Served [2]
2002	123,407
2003 [3]	133,669
2004 [3]	140,158
2005 [3]	147,195
2006	151,779
Average Annual Historical Growth Rate [4]	5.31%
Fiscal Year Ending September 30 (Projected)	Year End Customers Served [2]
2007 [5]	153,868
2008	157,241
2009	160,791
2010	164,518
2011	168,423
2012	172,328
Average Annual Projected Growth Rate [6]	2.14%

[1] Amounts derived from Table 4.

[2] Reflects year end customers (bills rendered), regardless of service type (water-only, wastewater-only, or combined water and wastewater service).

[3] Customer statistics include the incremental customer additions associated with the purchase of the Seaboard, Hershel Heights and Valrico Hills systems from Florida Water Services, Inc. (September 2003) and the Carrollwood System from the Florida Government Utility Authority (April 2004).

[4] The historical customer growth rate without the incremental customer additions associated with the utility acquisitions would have approximated 4.4%.

[5] Amounts based on approximately 10 months of actual information for the Fiscal Year.

[6] Projected growth rate from Fiscal Year 2006 to Fiscal Year 2012.

As can be seen above, the System has incurred a historical growth rate in the number of accounts (bills) rendered of approximately 5% per year since the Fiscal Year 2002 which is similar to the historical ERC growth rate recently experienced for the Water and Wastewater Systems. As mentioned in the table during the historical period presented, the County purchased from Florida Water Services Corporation the Seaboard, Hershel Heights, and Valrico Hills utility systems which accounted for an increase in of approximately 3,500 customers billed and also acquired from the Florida Government Utility Authority the Carrollwood System which accounted for a further increase of 1,190 customers billed. Overall and not including the incremental customer additions due to the County’s acquisition program, the increase in net customers served since the Fiscal Year 2002 has averaged approximately 5,900 new accounts billed per year. This growth is due to both the infill of existing developments where service was available as well as the continued addition of new development within the utility service area (the urban service area). The forecast of new customers served or billed was based on recent historical trends, the forecast of water and wastewater ERCs shown previously in this report, and the assumption that growth will slow as the service area continues to be developed (built-out and assuming no change in the utility service area). The billed customer projections shown on Table 4 served as the basis for the projection of revenues derived from monthly customer service charge revenues for the Forecast Period reflected in this report.

Water Production Requirements

Currently, the County receives full requirements potable water service (purchases 100% of its water requirements) from several water service providers. As can be seen below, water purchases from Tampa Bay Water (“TBW”) accounted for approximately 98% of the total water purchased requirements for the Fiscal Year 2006:

Water Provider:	Water Purchases – Fiscal Year 2006	
	Water Purchases (000’s of Gallons)	Percent of Total Water Purchases
Tampa Bay Water	18,881,189	98.28%
City of Tampa [1]	311,173	1.62%
City of Plant City [2]	17,378	0.09%
City of Oldsmar [3]	---	0.00%
City of Temple Terrace [3]	<u>1,405</u>	<u>0.01%</u>
Total Water Purchased	<u>19,211,145</u>	<u>100.00%</u>

[1] Purchases from City of Tampa for service to utilities previously purchased by the County from Florida Water Services Corporation.

[2] Purchases from City of Plant City for service to Oak subdivision.

[3] Purchases from Cities of Oldsmar and Temple Terrace for service to the unincorporated areas contiguous to the respective Cities’ municipal boundaries (note Oldsmar purchases began during Fiscal Year 2007).

The forecast of water production requirements was based on the forecast of water sales shown on Table 4, adjusted for unbilled water to recognize water that may not be billed due to line flushing, leaks, metered internal water use (e.g., WRS use at wastewater lift stations) and other factors. Once the forecast of total needs were identified, such amounts were subsequently allocated among the various potable water service providers based on the anticipated water ERC growth anticipated for each area served by the water providers. The projected water purchases for the various water providers for the Forecast Period is summarized below:

	Fiscal Year Ending September 30,					
	2007	2008	2009	2010	2011	2012
Water Purchases (000s of gallons) [1]						
Tampa Bay Water	19,427,593	18,965,513	19,368,695	19,847,571	20,349,284	20,921,867
City of Tampa	317,396	323,744	330,219	336,823	343,559	350,430
City of Oldsmar	36	54	57	60	63	66
City of Temple Terrace	1,405	1,405	1,405	1,405	1,405	1,405
City of Plant City	<u>17,378</u>	<u>17,378</u>	<u>17,378</u>	<u>17,378</u>	<u>17,378</u>	<u>17,378</u>
Total Water Purchases	<u>19,763,808</u>	<u>19,308,094</u>	<u>19,717,754</u>	<u>20,203,237</u>	<u>20,711,689</u>	<u>21,291,146</u>

[1] Amounts shown based on water sales forecast adjusted for an unbilled factor of 8.25% of total water purchased (represents a six year weighted average of unbilled water relationships).

Wastewater Treatment Requirements

WRS currently owns and operates 7 separate wastewater treatment plants (“WWTP”) with a combined wastewater treatment capacity of 40.2 MGD expressed on an annual average daily flow basis. A summary of the current (dependable) wastewater treatment plant capacity by specific facility and service area location is summarized below:

Treatment Facility:	Current Permitted Wastewater Treatment Plant Capacity (MGD) [1]	
	Northwest Service Area	South-Central Service Area
	Dale Mabry WWTP	6.000
Northwest WWTP	5.000	----
River Oaks WWTP [2]	8.000	----
Van Dyke WWTP	1.700	----
Falkenburg WWTP	----	9.000
South County WWTP	----	4.500
Valrico WWTP	----	<u>6.000</u>
Total Wastewater Capacity	<u>20.700</u>	<u>19.500</u>

[1] The permitted capacity for the Northwest Wastewater Treatment Plant is in terms of a 3-month maximum daily flow basis; all other facilities are permitted on an average annual daily flow basis with the Florida Department of Environmental Protection.

[2] Permitted capacity is 10.0 MGD; however capacity is limited to a dependable average daily capacity of 8.0 MGD.

As shown above, the Wastewater System also has two distinct service areas which treatment capacity has been constructed by the County. Additionally, WRS restored the interconnection for bulk wastewater treatment service from City of Tampa, which will temporarily add interim capacity for that component of the service area served by the Falkenberg facility until it is expanded (which is currently underway). As can be seen above, the current dependable capacity for the County-owned facilities associated with the Northwest Service Area is 20.7 MGD and for the South-Central Service Area the current dependable capacity is 19.5 MGD.

The forecast of wastewater treatment requirements was based on the forecast of ERCs for such system, the recent growth in flow and treatment requirements experienced by the individual

wastewater service areas, and other factors. The forecast of wastewater treatment requirements for the Forecast Period assumed for this report is summarized below:

Fiscal Year	Wastewater Treated (MGD – ADF)			
	Northwest Service Area		South – Central Service Area	
	Wastewater Treated [1]	Wastewater Capacity [2]	Wastewater Treated [1]	Wastewater Capacity [2]
2007	17.33	20.70	17.64	20.06
2008	17.47	20.70	18.45	20.06
2009	17.61	20.70	19.23	20.06
2010	17.75	24.00 [3]	20.05	29.06 [4]
2011	17.90	24.00	20.91	29.06
2012	18.06	24.00	21.79	29.06

MGD – ADF = Million Gallons per Day, Average Daily Flow

- [1] Estimated wastewater treatment based on estimated ERCs assumed to be served during the Forecast Period and does not include any allowance for any existing or future capacity reservations from developers.
- [2] Reflects wastewater capacity that includes planned capacity additions during the Forecast Period which is included in the WRS capital improvement program. With respect to the South-Central Service Area, capacity includes purchases from City of Tampa for the Seaboard Utility System that was purchased by the County in September 2003 (cannot be served by County facilities) in the amount of 0.560 MGD which is equivalent to the reported purchases incurred during the Fiscal Year 2006.
- [3] Northwest Service Area capacity without the Van Dyke Wastewater Treatment Plant, which is planned to be removed from service, is 10.9 MGD and the capacity utilization in this service area without such plant will approximate 93% of the then available capacity prior to the recognition of the 5.50 MGD expansion at the Northwest Wastewater Plant.
- [4] Fiscal Year 2007 amounts do not include capacity associated with temporary wastewater treatment services being provided by the City of Tampa associated with the diversion of wastewater flow from the Falkenburg wastewater treatment plant. Capacity expansion includes the i) 3.0 MGD expansion at the Falkenburg facility and ii) the 6.0 MGD expansion at the Valrico Wastewater Plant. The County plans to expand the South County Wastewater Treatment Plant by 7.50 MGD which was assumed to be completed outside the Forecast Period.

As can be seen in the above table and based on the customer forecast reflected in this report, there exists an immediate need to expand the wastewater treatment capacity in both the Northwest and South-Central Service Areas. Upon completion of the expansions, which are currently underway, the wastewater system will have sufficient treatment capacity to meet the customer wastewater requirements recognized in the development of the financial forecast.

CAPITAL IMPROVEMENT PROGRAM – SOURCES AND USES OF FUNDS

A significant component of the evaluation of the sufficiency of rates deals with the funding of the capital improvements of the System. The County has adopted a 6-year capital improvement plan (CIP) as part of the budgetary process which reflects both expansion-related projects and expenditures associated with the renewal, replacement, betterment and upgrade of existing facilities for the Water and Wastewater Systems. In addition, the County has certain projects underway (construction-work-in-progress) that were approved in prior years (funding has been designated) which are anticipated to be completed during the Forecast Period. The projected cost of the capital improvements for the Forecast Period (not including prior period approved projects and presented on a funds appropriations basis which includes an allowance for contingencies) is anticipated by the County to be approximately \$355,936,000. This amount is anticipated by WRS to be funded from bond proceeds, available cash reserves, utility operating revenues (rates) and other sources. This forecast of the cost of capital improvements was based on estimates made by WRS’s planning engineers as well as outside Consulting Engineers and is

measured using 2007 dollars. Table 12 at the end of this report summarizes the projects and improvements identified by WRS.

The CIP as reflected in this report includes projects for expansion, renewals and replacements, extraordinary maintenance, and other capital needs (e.g., asset management). A summary of the capital plan by utility plant type by Fiscal Year is presented below:

	Fiscal Year Ending September 30, [1]					Total
	2008	2009	2010	2011	2012	
Capital Program (\$000s)						
Wastewater Treatment	\$7,842	\$60,775	\$7,251	\$5,368	\$3,000	\$84,236
Wastewater Collection	32,125	50,771	31,487	17,487	12,050	143,920
Water Treatment	4,674	13,566	1,222	1,222	1,222	21,906
Water Distribution	19,863	12,482	7,740	8,490	3,050	51,625
Reclaimed Water	800	560	940	8,180	28,100	38,580
Other [2]	65	--	--	--	--	65
Departmental Capital	<u>6,114</u>	<u>2,181</u>	<u>2,249</u>	<u>2,517</u>	<u>2,543</u>	<u>15,604</u>
Total Capital Program	<u>\$71,483</u>	<u>\$140,335</u>	<u>\$50,889</u>	<u>\$43,264</u>	<u>\$49,965</u>	<u>\$355,936</u>

[1] Amounts shown derived from Table 12 and is based the Fiscal Year 2008 capital appropriations budget and includes an allowance for Departmental capital expenditures (e.g., new vehicles, equipment, etc.) which is funded from rates. Amounts shown do not include capital expenditures approved and funded in prior years which are currently ongoing from a project implementation basis (i.e., construction-work-in-progress). Additionally, amounts shown do not include any capital expenditures for water resource projects associated with Tampa Bay Water.

[2] Amounts shown reflect expenditures for general capital that supports the WRS operations, including but not limited to customer service and warehouse facilities.

As can be seen above, WRS plans to appropriate \$335.9 million in new capital projects during the Forecast Period. Of the total capital expenditure plan, approximately 41% of the costs are for expansion-related projects. The primary projects consist of construction of the South-Central Service Area water treatment facilities to provide future capacity to the service area as well as the expansion of the Northwest, Falkenburg, Valrico, and South County wastewater treatment plants in order to provide additional capacity for future service area wastewater demands.

WRS has developed a funding program to meet the capital needs of the System. The capital funding program referenced in this report is summarized below:

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	Fiscal Year Ending September 30, [1]					Total
	2008	2009	2010	2011	2012	
Capital Funding Program (\$000s)						
Renewal and Replacement Account	\$11,447	\$11,638	\$11,729	\$11,829	\$11,950	\$58,593
Capital Expend. Account	31,576	19,886	11,142	7,588	3,674	73,866
IFAU Bonds [2]	4,120	43,265	912	---	28,234	76,531
Impact Fees [3]	---	200	23	---	---	223
Additional Debt Financing [4]	20,978	64,352	26,070	22,815	5,057	139,272
Operating Revenues (Rates) [5]	<u>3,362</u>	<u>994</u>	<u>1,013</u>	<u>1,032</u>	<u>1,050</u>	<u>7,451</u>
Total Funding Sources	<u>\$71,483</u>	<u>\$140,335</u>	<u>\$50,889</u>	<u>\$43,264</u>	<u>\$49,965</u>	<u>\$355,936</u>

[1] Amounts shown include available unencumbered funds and funds anticipated to be derived from operations during the Forecast Period.

[2] Amounts shown include use of proceeds derived from the Series 2006 CAU [Impact Fee] Bonds and proceeds anticipated to be received from the issuance of future Impact Fee Assessment Unit (IFAU) Bonds (formally CAU Bonds) during the Forecast Period.

[3] All Water and Wastewater Impact Fees are considered as Pledged Impact Fees and are used to fund i) the Debt Service Component of the Cost of Contracted Water from Tampa Bay Water and ii) the expansion component of Bond Service Payments.

[4] Amount shown reflects the issuance of additional bonds during the Forecast Period to fund capital expenditures; amounts may ultimately include the use of the available commercial paper program, additional or subordinate bonds, and other external sources of funds.

[5] Amounts shown reflect expenditures not identified in the WRS CIP budget and are funded annually from System Operations (rates).

In the development of the capital funding plan, the following major assumptions and funding priorities were recognized:

1. To the extent available, all cash reserves allocable to fund capital expenditures (e.g., Renewal and Replacement Account) were considered as the first priority for funding projects in lieu of the use of external funding.
2. All water and wastewater Impact Fees received during the Forecast Period were determined to be Pledged Capacity [Impact] Fees and were used for paying i) the Debt Service Component of the Cost of Contracted Water Supply from TBW (Water Impact Fees only) and ii) the expansion-related component of the Bond Service payments (Wastewater Impact Fees only). There are existing Impact Fee balances on deposit in the Impact Fee Fund at the beginning of the Forecast Period and such amounts were used to fund expansion-related projects.
3. For each year of the Forecast Period, a transfer from operations to the Renewal and Replacement Account was recognized. The transfer was based on the sum of i) five percent (5%) of the previous Fiscal Year's Gross Revenues as defined in Bond Resolution which is projected to average approximately \$10,431,000 annually for the Forecast Period and ii) a deposit during each year of the Forecast Period for the installment payments being received by the County associated with the sale of water capacity to TBW as part of the governance initiative during the Fiscal Year 1998 in the annual amount of \$1,238,468.
4. After meeting the working capital reserve equal to 30 days of Operating Expenses, all surplus funds derived from the operation of the System were assumed to be transferred to the Capital Expenditure Account – Subfund 10 which was established by WRS for the funding of capital expenditures, both expansion-related and replacement-related. This fund is an internal

account of WRS and not an account required to be established pursuant to the terms of the Bond Resolution.

- The financial forecast includes the issuance of an additional series of Impact Fee Assessment Unit (formally Capacity Assessment Unit or “CAU”, now referred to as “IFAU”) Bonds in addition to the CAU Bonds, Series 2006 that were issued on May 3, 2006 in the principal amount of \$101,110,000 of which \$93,844,167 in proceeds were deposited into the CAU Construction Fund for financing future expansion-related projects of the System. For the purposes of this report and as allowed in the Rate Resolution, it was assumed that approximately 80% of the new water ERCs and 75% of the new wastewater ERCs associated with new development or growth within the System service area would elect to use the impact fee assessment unit program for the payment of Impact Fees. These percentages were based on an evaluation of ERCs and associated Impact Fee receipts/receivables for such growth. The remainder of the new development was assumed to pay the Impact Fees concurrent with the issuance of the certificate of occupancy. The following is a summary of the IFAU Bonds recognized during the Forecast Period.

	Summary of Impact Fee Assessment Unit Bonds		
	Series 2006 [1]	Series 2009	Series 2012
Total Deposit to IFAU			
Construction Fund	\$93,844,167	\$45,448,007	\$31,883,000
Year of Issue	May 2006	October 2008	October 2011
Water ERCs Bonded	32,980	15,815	11,531
Wastewater ERCs Bonded	35,212	17,489	10,027

[1] Represents CAU Bonds already issued with proceeds now available for use.

- The financial forecast also assumes the issuance of additional senior lien parity bonds (the “Additional Bonds”) during the Forecast Period in order to meet the capital funding needs as identified by WRS. The Additional Bonds assumed to be issued during the Forecast Period includes the Utility System Revenue Bonds, Series 2008 (the “Series 2008 Bonds”) in the principal amount of \$192,290,000. As the need approaches to issue Additional Bonds, WRS will obtain guidance from the County’s Debt Management Department as well as its Financial Advisor to determine the optimal approach to the issuance of such additional parity bonds.

REVENUE REQUIREMENTS – MONTHLY USER RATES

General

The various components of cost associated with operating and maintaining a utility system, as well as the cost of financing the renewal and replacement of facilities and capital improvements for upgrades and expansion, are generally referred to as the utility revenue requirements. The sum of these cost components, after adjusting for other income and miscellaneous utility revenues, represents the net revenue requirements; the level of expenditures and utility funding needs that must be recovered from Monthly User Rates. The forecast of the revenue requirements of the System encompassed the six fiscal year period beginning October 1, 2006 through September 30, 2012 (previously defined as the "Forecast Period"). The revenue requirements for the first year of the Forecast Period were predicated primarily on the Adopted

Fiscal Year 2007 Budget, adjusted for known or anticipated changes. The preliminary budget estimates being prepared for the Fiscal Year 2008 and 2009 Budget served as the cost basis for estimating the revenue requirements for these respective fiscal years and also for the remainder of the Forecast Period. The revenue requirements were increased above Fiscal Year 2009 estimates based on the escalation factors summarized on Table 6.

The projected revenue requirements included the various generalized cost components described below:

- Operating Expenditures – These expenditures include the cost of utilities labor, materials, supplies, and other items necessary for the operation and maintenance of the water and wastewater system. These costs also include indirect allocated costs from other supporting departments for administration and customer service.
- Bond Service – Bond service includes the principal and interest on the System’s current and future debt obligations payable from the Pledged Revenues of the water and wastewater system.
- Capital Funding from Rates – Includes capital expenditures funded annually from the operations (rates) of the System which is in addition to capital expenditures funded from external sources such as bonds, grants, Impact Fees (Impact Fee Assessment Special Assessment bonds), and other sources.
- Other Revenue Requirements – This component of cost includes, in general, any other expenditures funded annually from rates, including the funding of deposits to working capital and rate stabilization reserves, funding of any loan repayment requirements associated with any subordinated debt or loans, and other transfers that may be required of the System.

Significant Forecast Assumptions

As part of this report, existing conditions and potential liabilities were considered to ensure that implementation of the recommendations would meet the financial requirements of the System, comply with the rate covenants as defined in the Bond Resolution, fully support the financing of the projected capital improvement program, and promote the continued conservation of water resources. The development of the financial projections included the following primary assumptions:

1. Projected revenues from current rates and charges for the System have been based on: i) the schedule of rates and charges currently in effect which are contained in Rate Resolution, including the annual application of the Purchased-Water Pass-Through Consumption Charge; and ii) the forecast of water and wastewater customers and sales (water use and billed wastewater flow) for the respective utility systems as previously discussed and presented on Table 4. The Purchased-Water Pass-Through Consumption Charge recognized in the financial forecast was estimated as follows:

Fiscal Year	Purchased-Water Pass-Through Consumption Charge (\$/1000 Gallons)
2007 (actual) [1]	\$2.21
2008	2.25
2009	2.39
2010	2.37
2011	2.41
2012	2.52

[1] Reflects actual Purchased-Water Pass-Through Consumption Charge currently being billed by WRS during the Fiscal Year 2007.

It should be noted that the Purchased-Water Pass-Through Consumption Charge accounts for approximately 23.8% of the total Gross Revenues derived from the application of the monthly rates for service for the Forecast Period and is a critical component to meeting the financial needs of the System.

The forecast in water and wastewater ERCs, water sales, corresponding wastewater billed flow, and customers billed was based on i) recent historical trends, including the amount of water used and wastewater flow billed per ERC; ii) detailed customer bill frequency information compiled for the Fiscal Years 2005 and 2006; iii) recent projections prepared by WRS as discussed previously; iv) current year-to-date statistics regarding new meter sets (customers added); v) statistics regarding the acquisition of certain water and wastewater utility system customers by the County; and vi) other factors.

2. Included in the financial projections are other operating revenues (exclusive of AGRF charges) associated with service initiation and delinquent fees, meter-testing fees, permit review fees, return check charges, and other related customer requested services revenues (such fees and revenues being customary to the utility industry).
3. Revenues associated with the collection of AGRF charges was based on the projected ERCs anticipated to be added during the Forecast Period as a result of new growth and the current rates in effect as referenced in the Rate Resolution. The forecast of the AGRF revenues for the Forecast Period are assumed to be as follows:

Fiscal Year	Accrued Guaranteed Revenue Fee Receipts
Fiscal Year 2007	\$11,087,205
Fiscal Year 2008	9,027,140
Fiscal Year 2009	9,639,360
Fiscal Year 2010	10,179,580
Fiscal Year 2011	10,672,410
Fiscal Year 2012	10,698,860

The estimated reduction in AGRF revenue was due to the assumed decline in new customer growth during the Forecast Period.

4. The projected Cost of Operation and Maintenance (the “Operating Expenses”) were based on the approved Fiscal Year 2007 budget, adjusted for known or anticipated changes, and the estimated (preliminary) budget for the Fiscal Years 2008 and 2009. Table 1 at the end of this report provides a summary of the Operating Expenses as reflected in the preliminary Budget for the Fiscal Years 2008 and 2009. Such amounts were subsequently escalated for the remainder of the Forecast Period based on a variety of escalation factors to estimate the operating costs. These escalation factors were based on i) the Implicit Price Deflator and Consumer Price Index forecast prepared by the Congressional Budget Office as contained in The Economic and Budget Outlook dated July 2007; ii) estimates and forecast parameters prepared by the County’s Budget Department; iii) recent historical trends regarding the change in expenses. A summary of the escalation factors is summarized on Table 6 at the end of this section in this report.

5. The cost of Tampa Bay Water purchases was based on i) the estimated Unitary Rate as projected by Tampa Bay Water which was identified in the Fiscal Year 2008 Annual Budget provided to WRS by Tampa Bay Water dated June 18, 2007; ii) the estimated water purchase requirements based on the water sales forecast summarized on Table 4 and an unbilled or unaccounted for water allowance equal to 8.25% of purchased-water requirements; and iii) recognition of Water Quality Credits (through the Fiscal Year 2010) applied against the total cost as provided by Tampa Bay Water. The annual amortization of Credits received that are associated with the purchase of County's water supply facilities in 1999 by Tampa Bay Water has been recognized as a deposit to the Renewal and Replacement Account in accordance with the provisions of the Bond Resolution regarding the deposit of funds associated with the sale of System assets. The following is a summary of the Tampa Bay Water purchased-water costs reflected in the report:

Fiscal Year	Unitary Rate Estimated per TBW(\$/1,000 Gallons)	Annual Cost of Tampa Bay Water Purchases (*)
2007	\$2.2036	\$40,318,229
2008	2.2488	42,466,645
2009	2.2974	44,314,639
2010	2.3249	45,960,618
2011	2.3717	48,262,398
2012	2.4235	50,704,143

(*) Includes annual water quality credit of \$183,000 through the Fiscal Year 2010.

In addition to the cost of purchased-water from Tampa Bay Water, the System also purchases water from other local governments, primarily to serve utilities that were acquired by the County and which are not interconnected to the County’s regional potable water system (therefore not being served from Tampa Bay Water). For the Forecast Period, the projected cost of these purchases were based on the current rates in effect by the various water suppliers, discussions with the local governments with respect to anticipated rate adjustments, and projections of growth within the specific areas that these supplemental water purchases are attributable to. The following is a summary of the total estimated purchased-water costs from those entities other than Tampa Bay Water for the Forecast Period:

Purchased-Water From Water
Suppliers other than Tampa Bay Water [1]

Fiscal Year	Water Purchases (000's)	Estimated Expenditure Amount
2007	336,215	\$721,876
2008	342,581	811,755
2009	349,059	937,388
2010	355,666	1,118,411
2011	362,405	1,292,494
2012	369,279	1,508,099

[1] Amounts shown reflect the cumulative purchases from the Cities of Tampa, Temple Terrace, Oldsmar and Plant City.

6. The deposits to the Renewal and Replacement Account were based on the provisions of the Bond Resolution, which requires a deposit equal to five-percent (5%) of the previous year's Gross Revenue. Based on this funding requirement, the annual deposit from System revenues was estimated to average approximately \$10,431,000 during the Forecast Period. It should be noted that this funding requirement from operations (pay-as-you-go financing) is considered by WRS to be a minimum funding requirement for the purpose of paying the cost of replacement of capital assets of the System, including land, or any unusual, unanticipated or extraordinary maintenance or repairs of the System. In addition to the annual deposit from rates, a deposit of \$1,238,468 is reflected annually during the Forecast Period to account for the installment sale of certain System utility plant assets (capacity) to Tampa Bay Water as part of the governance initiative in 1999. Since this was an asset sale by the County to Tampa Bay Water and in accordance with the provisions of the Bond Resolution, such amounts are required to be deposited into the Renewal and Replacement Account.

7. In addition to the deposit to the Renewal and Replacement Account as required by the Bond Resolution, additional deposits to fund rehabilitation of the System have been recognized from rate revenues for the projection period reflected in the Rate Study financial forecast. Such deposits have been assumed to be made to the Capital Expenditure Account – Subfund 10. The County has identified that approximately 50% of capital improvements over the next six Fiscal Years are related to the betterment, upgrade, replacement and rehabilitation of System utility plant. For the Forecast Period, the additional deposits averaged approximately \$22,500,000 annually and served as an additional revenue requirement funded from rates. A more detailed discussion of the capital improvement program (“CIP”) was presented previously in this report.

8. The principal amount of senior lien bonds issued in accordance with the provisions of the Bond Resolution outstanding as of October 1, 2006 and October 1, 2007 (the “Outstanding Bonds”), based on the assumptions recognized in this report, was estimated to be as follows:

	Outstanding as of October 1, 2006	Estimated Outstanding as of October 1, 2007
Junior Lien Refunding Utility Revenue Bonds, Series 2001	\$135,200,000	\$120,935,000
Refunding Utility Revenue Bonds, Series 2003	34,080,000	29,350,000
Utility Revenue Bonds, Series 2008 [1]	---	---
Total Outstanding Bonds	<u>\$169,280,000</u>	<u>\$150,285,000</u>

[1] The Series 2008 Bonds were assumed to be issued on or about April 1, 2008 and therefore are not outstanding as of October 1, 2007.

The Bond Service requirements associated with the System's Outstanding Bonds were based on the actual Bond Service repayment requirements for such outstanding issues and are presented on a “gross” basis (i.e., not net of interest earnings on the Debt Service Account). Furthermore, the amount shown is based on the monthly funding requirements of the sinking fund as required by the Bond Resolution, which authorized the issuance of the Bonds (essentially an accrual basis) as opposed to when the Bond Service requirements are actually paid.

- Based on the CIP needs of the System during the Forecast Period, Additional Bonds payable from a pledge of the Net Revenues and Pledged Capacity [Impact] Fees of the System (and issued on a parity basis to the Outstanding Bonds) were assumed to be issued during such period. Specifically, one series of Additional Bonds were assumed in this report. The issue recognized in the analysis includes the Utility Revenue Bonds, Series 2008 (the “Series 2008 Bonds”).

With respect to the Series 2008 Bonds, such amounts will be issued in an amount that would not essentially increase the overall annual Bond Service payments currently being incurred by the System during the Forecast Period which includes the economic defeasance of the Series 2003 Bonds. The development of the debt issuance and repayment assumptions was provided by the Debt Management Department and reflects two primary debt components. The two debt components include i) the defeasance of the outstanding Series 2003 Bonds and ii) the issuance of new money for additional capital project funding. With respect to the first component, it was assumed that the Series 2003 Bonds would be defeased to allow for an increase in the leveraging capability of the System (Bond Service payments on the Series 2003 Bonds no longer available). This would allow for the issuance of the Series 2008 Bonds without any material increase in the current Bond Service payments being required to be made from System Net Revenues and Pledged Capacity [Impact] Fees. As a result of the benefits received from the economic defeasance of the Series 2003 Bonds, the issuance of new money proceeds is available to fund the capital needs of the System without significantly impacting the current level of Bond Service now being paid from System revenues. The second component of the issuance of the Series 2008 Bonds is the issuance of new money which provides a deposit to the Project Construction Fund for such bonds totaling approximately \$146,000,000 to fund new capital projects. The new money component of the Series 2008 Bonds was “wrapped” around the remaining Outstanding Bonds such that no material increase in Bond Service requirements would be incurred during

the Forecast Period. Based on information provided by the Debt Management Department, the total principal amount of Series 2008 Bonds was assumed to be issued was \$192,290,000 with the proceeds being allocated as follows:

	Series 2008 Bonds – Use of Proceeds
Deposit to Defeas Outstanding Series 2003 Bonds	\$29,350,037
Deposit to Construction Fund (New Money)	145,649,963
Deposit to Capitalized Interest Fund	13,928,325
Cost of Issuance and Other Disbursements	<u>3,361,675</u>
 Total Estimated Principal Amount of Series 2008 Bonds	 <u>\$192,290,000</u>

The net effect of the debt obligation assumptions were to i) provide for an estimated \$146,000,000 in additional proceeds for capital projects; ii) improve the cash flow of the System for the first three years due to a portion of the interest expense being paid from the proceeds of the Series 2008 Bonds (referred to as “capitalized interest”) to allow additional cash to accrue for capital funding; and iii) essentially extend the Bond Service payment requirements (at a reduced annual amount when compared to the current annual debt service payments) by an additional 25 years. It was assumed that the Series 2003 Bonds would be defeased on or about April 1, 2008.

The annual Bond Service requirements for the Series 2008 Bonds were based on the following assumptions as provided by the Debt Management Department which included: i) total principal amount of the bonds estimated at approximately \$192,290,000; ii) an assumed average annual coupon interest rate on the serial and term bonds that comprise the Series 2008 Bonds ranging from 4.18% to 4.68% with a portion of the interest expense being capitalized (paid from bond proceeds) for the first 3 and 1/2 years of the bond amortization period; iii) a term of thirty (30) years; iv) a debt repayment structure whereby after the capitalized interest period, the payment of interest-only through the Fiscal Year 2013 with essentially level Bond Service payments beginning with the Fiscal Year 2014; v) the purchase of a Reserve Account Credit Facility in lieu of cash funding the Reserve Account requirement for such bonds; and vi) the payment of issuance expenses associated with the Series 2008 Bonds. It was further assumed that the Series 2008 Bonds would be issued on or about April 1, 2008. After the capitalized interest period, the annual Bond Service Requirement on the then Outstanding Bonds and the Series 2008 Bonds, the annual Bond Service Requirement is essentially level throughout the amortization period of such bonds.

10. It should be noted that the forecast assumes the issuance of additional Impact Fee Assessment Special Assessment Revenue Bonds (the “IFAU Bonds”) to finance expansion-related capital projects as identified by the County for the Forecast Period. The pledge for repayment of the existing and additional IFAU Bonds is from non ad-valorem special assessments associated with the installment payment of the Impact Fees and not from the Net Revenues of the System. The following is a summary of the IFAU Bonds assumed to be issued during the Forecast Period:

	Principal Amount of Bonds Issued	Deposit to Project Fund for Capital Expenditures (*)
Impact Fee Assessment Bonds:		
Series 2009 Bonds	\$51,129,000	\$45,448,007
Series 2012 Bonds	\$31,883,000	28,233,927

(*) Reflects total estimated IFAU Bonds proceeds deposited to a Project Fund; not all funds expended as the Fiscal Year 2012 (reference CIP).

Based on available fund balances, deposits assumed to be made to capital funding accounts during the Forecast Period from operations, and recognizing the issuance of Additional Parity Bonds pursuant to the Bond Resolution and additional IFAU Bonds, the capital improvement program identified for the Forecast Period ending in the Fiscal Year 2012 is projected to be fully funded.

11. The Impact Fees assumed to be received by WRS during the Forecast Period recognizes the i) collection of fees upfront and ii) collection of fees through the IFAU program, that are not pledged to the repayment of IFAU Bonds. With respect to the Water Impact Fees assumed to be received by WRS during the Forecast Period and based on the provisions of the Bond Resolution, all of the fees anticipated to be received by WRS are considered as being Pledged Water Capacity [Impact] Fees as defined in the Bond Resolution and will be applied toward the payment of the Debt Service Component of the Cost of Contracted Water Supply (i.e., purchases from Tampa Bay Water). No Pledged Water Capacity [Impact] Fees are considered as being available for the payment of the expansion-related portion of the Outstanding Bonds or any additional parity bonds anticipated to be issued during the Forecast Period. With respect to the anticipated Wastewater Impact Fees projected to be received by WRS during the Forecast Period, all of the anticipated fees were considered as being a Pledged Wastewater Capacity [Impact] Fee as defined in the Bond Resolution and will be applied toward the payment of the expansion-related wastewater portion of the Outstanding Bonds or any additional parity bonds anticipated to be issued during the Forecast Period. The following is a summary of the Impact Fees assumed to be received by WRS during the Forecast Period:

	Pledged Water Capacity [Impact] Fees [1]	Pledged Wastewater Capacity [Impact] Fees [1]	Total Pledged Capacity [Impact] Fees
2007	\$3,526,864	\$4,816,664	\$8,343,528
2008	4,304,739	5,644,724	9,949,463
2009 [2]	2,801,229	3,773,760	6,574,989
2010	3,334,732	4,234,198	7,568,930
2011	3,991,399	4,871,537	8,862,936
2012 [2]	2,970,059	3,910,781	6,880,840

[1] Amounts shown include interest earnings on Impact Fee cash balances and interest included as a component of the payment of Impact Fee special assessments until such assessments are pledged towards the repayment of IFAU Bonds.

[2] Reduction in total fees received due to the issuance of additional IFAU Bonds which result in the Impact Fee assessment special assessments being pledged for IFAU Bond repayment and are not considered as a Pledged Capacity [Impact] Fee pursuant to the Bond Resolution.

12. Investment income on funds and accounts created by the Bond Resolution as maintained by the County has been estimated i) utilizing an average annual interest rate of 4.8% in Fiscal Years 2007 and 2008 with a reduction in the average annual interest rate thereafter (ranging from 4.5% to 4.0%) for the remainder of the Forecast Period and ii) a projection of the estimated average cash balances in each respective fund or account. This interest rate assumption is based on recent earnings performance results of the System, directives provided by the County Budget Department, a review of the earnings performance of available investment vehicles related to the County (e.g., State Board of Administration), and other factors. The assumed average interest rate for the Forecast Period is lower than the current investment rates being earned by the County to limit the overall volatility of such earnings in the financial plan and to provide assurance that such earnings would be available for the determination of Net Revenues. The assumed average interest rate has been applied to estimated average balances in funds and accounts created by the County, including: i) Debt Service Account; ii) the Reserve Account, if any; iii) the Renewal and Replacement Account; iv) the Rate Stabilization Account; v) the General Revenue Account and Operation and Maintenance Account (considered as the operating reserves of the System); vi) capital accounts established by WRS which are equivalent to the General Purpose Account as defined in the Bond Resolution; and vii) other funds and accounts established by the County. It has also been assumed that any interest earnings on the Water and Wastewater System Impact Fee Funds and the Construction Project Funds associated with the issuance of any Additional Parity Bonds during the Forecast Period will be deposited in the respective funds and not be available for the payment of the Operating Expenses or Bond Service Requirement consistent with the provisions of the Bond Resolution.
13. The capital improvement program for the Water and Wastewater Systems was based on data derived from the County's most recent five-Year Capital Improvement Plan prepared as part of the Fiscal Year 2008 and 2009 budget process. Capital funding plan was based on i) the purpose of the expenditures (e.g. – expansion-related); ii) available fund balances in accounts established by the County which are available for capital projects; iii) anticipated Impact Fees for receipts derived from new development; and iv) the use proceeds from the issuance of Additional Bonds to finance capital projects. Also included in the capital improvement program is the use of the Renewal and Replacement Account to fund recurring capital projects (i.e., essentially the betterment or replacement of assets). The recognition of this revenue requirement is necessary in order to allow the County a funding mechanism to continue to provide high quality service (i.e., maintain same level of service) to its customers as the utility system ages. The following is a summary of the assumed capital financing plan for all new capital project appropriations for the five Fiscal Year period ending 2012 as reflected in the financial forecast.

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	Fiscal Year Ending September 30, (\$000's) [1]					
	2008	2009	2010	2011	2012	Total
Total System Capital Projects	<u>\$71,483</u>	<u>\$140,335</u>	<u>\$50,889</u>	<u>\$43,264</u>	<u>\$49,936</u>	<u>\$407,784</u>
Capital Funding Program						
Renewal & Replacement Acct.	\$11,447	\$11,638	\$11,729	\$11,829	\$11,950	\$58,593
Capital Expenditure Account	31,576	19,886	11,142	7,588	3,674	73,866
IFAU Bonds [2]	4,120	43,265	912	---	28,234	76,531
Impact Fees [3]	---	200	23	---	---	223
Additional Debt Financing [4]	---	---	---	---	---	---
	20,978	64,352	26,020	22,815	5,057	139,272
Annual Operations (Rates) [5]	<u>3,362</u>	<u>994</u>	<u>1,013</u>	<u>1,032</u>	<u>1,050</u>	<u>7,451</u>
Total Funding Sources	<u>\$71,483</u>	<u>\$140,335</u>	<u>\$50,889</u>	<u>\$43,264</u>	<u>\$49,965</u>	<u>\$355,936</u>

[1] Amounts shown include available unencumbered funds and funds anticipated to be derived from operations during the Forecast Period.

[2] Amounts shown include use of proceeds derived from the Series 2006 CAU [Impact Fee] Bonds and proceeds anticipated to be received from the issuance of future IFAU Bonds during the Forecast Period.

[3] All Water and Wastewater Impact Fees are considered as Pledged Impact Fees and are used to fund i) the Debt Service Component of the Cost of Contracted Water from Tampa Bay Water and ii) the expansion component of Bond Service Payments.

[4] Amount shown reflects the issuance of additional bonds during the Forecast Period to fund capital expenditures; amounts may ultimately include the use of the available commercial paper program, additional or subordinate bonds, and other external sources of funds.

[5] Amounts shown reflect expenditures identified in the WRS department budget and are funded annually from System operations (rates).

14. In the development of the available funds for capital expenditures, recognition was given to the maintenance of working capital reserves in accordance with the provisions of the Bond Resolution. Specifically, the Bond Resolution requires that the WRS maintain in the Operation and Maintenance Account (i.e., deposit to monthly) an amount required to pay the Operating Expenses for the month following the date of such deposit to the account. The financial forecast recognized in this report reflects the maintenance of an amount on deposit equal to one-twelfth of the annual Operating Expenses (which includes the cost of purchased-water) and such amount for the Forecast Period was estimated to average \$18,549,000 annually.

Summary of Rate Revenue Sufficiency

As shown on Table 2 and summarized below, projections have been prepared of the ability of the System Monthly User Charges to fund the net revenue requirements of the System. Such projections were prepared in accordance with the flow of funds prescribed in the Bond Resolution and assumptions and considerations used in the development of the projections as previously described.

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Summary of Sufficiency of Rate Revenues (000's)

	Fiscal Year Ending September 30 [1]					
	2007	2008	2009	2010	2011	2012
Total Revenue Requirements:						
Operating Expenses	\$142,578	\$154,050	\$154,328	\$161,498	\$169,354	\$177,759
Deposit to R&R Account	10,161	10,386	10,233	10,472	10,590	10,711
Bond Service Payments	26,879	22,324	23,593	27,726	28,125	30,100
Departmental Capital	3,223	3,362	994	1,013	1,032	1,051
Capital Project Reserve Deposits [2]	46,500	24,100	26,700	18,500	13,600	5,400
Deposits / (Use) of Reserves [3]	<u>(13,272)</u>	<u>385</u>	<u>158</u>	<u>164</u>	<u>387</u>	<u>585</u>
Total Gross Revenue Requirements	\$216,069	\$214,607	\$216,006	\$219,373	\$223,088	\$225,606
Less Other Revenues [4]	<u>42,796</u>	<u>38,928</u>	<u>33,927</u>	<u>33,201</u>	<u>31,499</u>	<u>26,695</u>
Net Revenue Requirements	\$173,273	\$175,679	\$182,079	\$186,172	\$191,589	\$198,911
Total Charges for Services [5]	<u>\$173,273</u>	<u>\$175,679</u>	<u>\$182,079</u>	<u>\$186,172</u>	<u>\$191,589</u>	<u>\$198,911</u>
Net Revenue Surplus / (Deficiency)						
Amount	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---
Percent	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>

[1] Amounts derived from Table 2.

[2] Amounts shown reflect additional deposits to the Capital Project Reserve from Gross Revenues to fund capital projects on a pay-as-you-go basis.

[3] Amounts shown reflect changes in the Fund Balance Carry forward (working capital) that is necessary to meet the minimum reserve requirements (30 days of Operating Expenses) as defined in the Bond Resolution.

[4] Amounts include other operating revenues, Pledged Capacity Fees, reclaimed water revenue and interest income on project fund/account balances.

[5] Amounts shown reflect revenues derived from the application of the current rates to the billing statistics shown on Table 4.

As can be seen above, Monthly User Rates do not need to be adjusted during the Fiscal Year 2008 and 2009. However, the deposits to fund additional capital projects (Capital Project Reserve Deposit) on a pay-as-you-go basis above the minimum requirement associated with funding the Renewal and Replacement Account is anticipated to significantly decline during the Forecast Period. Although the capital program is fully funded for the Forecast Period and no rate adjustment is specifically required, it is anticipated that future increases will be necessary as the revenue margins continue to decline and the need to fund asset replacements continues to occur (which is expected to increase over time as the System ages). It should be noted that the System has a gross capital investment in utility plant and facilities as of September 30, 2006 (per the most recently published Annual Financial Report) of \$1,120,442,000 (includes the cost of land and construction-work-in-progress [expenditures made to date for projects under construction]) which over time will need to be replaced or upgraded.

Price Index Adjustment

In order to avoid a significant future rate adjustment and improve the overall financial position of the System during the Forecast Period, the Rate Consultant recommends that the Board consider the rate policy of annually applying a price index rate adjustment to the Monthly User Rates for service beginning with the Fiscal Year 2010. Included in the current Rate Resolution is an indexing provision (which provision has been available since 1997) to annually reflect increases or decreases in the major categories of operating costs incurred by the System and is based on the application of the index last adopted by the Florida Public Service Commission (the "FPSC")

for water and wastewater utilities to the Operating Expenses (net of purchased-water costs and other specific “pass-through” expenses) incurred during the previous Fiscal Year to determine the net rate adjustment. For example, the most recent published price index by the FPSC in February 2007 was 3.09% and the net effect of applying the index in accordance to the current Rate Resolution would have resulted in a rate adjustment of approximately 1.7% as shown below:

	<u>Amount</u>
Fiscal Year 2006 Actual Operating Expenses [1]	\$118,220,000
Less Purchased-Water Expenses [2]	(38,386,000)
Less Pass-Through Expenses:	
Purchases of Electric Power	(7,195,000)
Purchases of Wastewater Service	<u>(996,000)</u>
Net Operating Expenses	\$71,643,000
FPSC 2006 Index Factor [3]	<u>3.09%</u>
Increase in Cost Recovery	\$2,214,000
Total Existing Rate Revenue from Monthly User Charges [1]	\$167,944,000
Less Purchased-Water Expenses [2]	<u>(38,386,000)</u>
Net Existing Rate Revenue from Monthly User Rates	\$129,558,000
Percent Rate Adjustment	<u>1.7%</u>

[1] Amounts shown derived from the Fiscal Year 2006 WRS Annual Financial Report.

[2] Purchased-Water costs separately recognized by the application of the Purchased-Water Pass-Through Consumption Charge as reflected in the Rate Resolution and therefore are not considered in the determination of the Price Index adjustment.

[3] Index as published by the FPSC dated February 2007.

For the last ten fiscal years, the FSPC index has annually averaged 2.04% and if one were to assume the same cost relationship as shown above and the application of the average FPSC index, the average annual price index to be applied to the Monthly User Rates would have been approximately 1.1%. Assuming the application of the price index as calculated in the above table and the current rates in effect, the net impact to the typical customer using 6,000 gallons of monthly water and wastewater service during the Fiscal Year 2007 would have been \$0.93.

CUSTOMER IMPACT ANALYSIS AND COMPARISONS WITH OTHER NEIGHBORING UTILITIES

Based on the financial forecast reflected in this report, the only change being recommended for the Fiscal Year 2008 is an adjustment to the amount of the Purchased-Water Pass-Through Consumption Charge. As previously mentioned, the Purchased-Water Pass-Through Consumption Charge will be increased from the current charge of \$2.21 per 1,000 gallons to \$2.25 per 1,000 gallons beginning October 1, 2007 (the Fiscal Year 2008). This increase in the pass-through charge represents a 1.8% adjustment in such charge which will not have a material effect on the water and wastewater customers of the System. It should be noted that the Purchased-Water Pass-Through Consumption Charge is currently projected to increase to \$2.52 per 1,000 gallons by the end of the Forecast Period. Table 7 provides a comparison of the current (Fiscal Year 2007) and projected rates (Fiscal Year 2008 which reflects no change except for a

slight increase in the Purchased-Water Pass-Through Consumption Charge) at a variety of usage levels to illustrate the effect of the identified pass-through adjustment. As can be seen on Table 7, the net effect for the typical residential customer using 6,000 gallons of monthly water and wastewater service is less than 0.4%.

In order to provide additional information regarding the proposed 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 and proposed fees and those charged by other neighboring utilities. This comparison is summarized on Tables 8 through 10 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 of wastewater service; iv) plant capacity utilization, and assistance in the funding of such plant capacity by federal grants, connection fees, etc.; v) density of the customer base served as well as the type of customer served (certain customers may have higher usage requirements which may lower cost-per-unit relationships which is a common situation for utilities with high commercial or industrialized customer bases); vi) general fund and administrative fee transfer made by municipal and county systems which may account for differences in the level of rates charged; vii) bond covenants and funding requirements of the rates; and viii) level of capital improvements required to meet service area needs, including the construction of growth-related assets in anticipation of service area expansion.

WRS believes the most comparable utilities on the comparisons shown on Tables 8 through 10 would be the county-operated systems. Generally, these systems i) were initiated through a private-utility acquisition process to eliminate package plants and conversion to regionalize service for regulatory compliance; ii) have a customer base which is generally less dense with high-growth requirements; iii) did not receive any advantage by the receipt of Federal grant funds for the funding of major plant construction; and iv) generally have newer facilities which results in a capital cost which results in a higher investment per connection.

Based on detailed customer billing information, the average single-family residential customer uses approximately 8,000 gallons (considered as the average user which is determined as total residential water sales divided by total residential customers). Additionally, a review of the 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 8 through 10 and below, the projected rates for the typical and average single-family residential customer are comparable with the rates charged by the other major counties in southwest Florida:

	Combined Water and Wastewater Residential Service	
	6,000 Gallons (Typical)	8,000 Gallons (Average)
Hillsborough County:		
Existing – FY 2007 [1]	\$67.36	\$83.58
Projected – FY 2008 [2]	67.60	83.90
Other Neighboring County		
Utilities:		
Charlotte County [3]	\$89.69	\$106.03
Collier County [3]	67.52	79.54
Lee County [3]	57.50	70.44
Manatee County [3]	47.90	57.08
Pasco County [3]	49.81	61.85
Pinellas County	59.14	74.52
Polk County	65.76	72.56
Sarasota County [3]	83.36	102.56

[1] Amounts shown include the current Purchased-Water Pass-Through Consumption Charge of \$2.21 per 1,000 gallons for all metered water consumption.

[2] Amounts shown include the anticipated 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 a possible change in rates during the next twelve months.

IMPACT FEES AND AGRF FEES

As provided in the Rate Resolution, the County imposes a Water and Wastewater System Impact Fee to new customers or development requesting water and wastewater capacity from the System in an effort to fund the capital cost of such capacity and to equitably assign such costs to those users that are imposing the need for additional the capital facilities. Application of a Water and Wastewater System Impact Fees is commonly used by Florida utilities to fund capital or plant requirements associated with new growth, consequently the County has imposed Water and Wastewater Impact Fees for over twenty years.

As shown on Table 12 which summarizes the capital improvement program for the System for the Forecast Period, there are several facility expansions required to meet the anticipated service area capacity demands for new development. A summary of the significant capital expenditures for expanding the available capacity of the System as recognized in the report is summarized below:

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Summary of Capacity Expansions [1]

	Capacity Addition	Estimated Cost	\$/Gallon of Capacity
South County WWTP Expansion (Phase 1)	7.50 MGD	\$54,500,000	\$7.27
Northwest WWTP Expansion [2]	5.00 MGD	65,000,000	13.00
Falkenburg WWTP Expansion [2]	3.00 MGD	30,967,000	10.32
Valrico WWTP Expansion [2]	6.00 MGD	62,000,000	10.33
Central Hillsborough WTP Expansion and Transmission Main Extension [2]	10.00 MGD	46,000,000	4.60

MGD = Million Gallons Per Day
 WWTP = Wastewater Treatment Plant
 WTP = Water Treatment Plant

- [1] Amounts shown derived from Table 12 and do not reflect all of the expansion-related projects but those projects that add wastewater treatment and water treatment capacity.
- [2] Amounts shown not included on Table 12; such projects and related appropriations were approved by the Board in prior periods and reflect current project budget.

As can be seen above, the estimated costs for expanding the treatment capacity of the water and wastewater systems (not including capacity costs associated with Tampa Bay Water) is expected to be significant. WRS is currently evaluating the effects of the expansion-related capital costs on the level of Impact Fees charged and anticipates presenting such changes at a later date. Accordingly, no change in the current level of Impact Fees charged new development by the County for water and wastewater capacity is being recommended by WRS at this time.

In addition to the Impact Fees, the County also imposes an Accrued Guaranteed Revenue Fee (“AGRF”) to recover (a) the cost of financing the interest component of facilities and (b) the cost of operating and maintaining facilities, both which relate to unused capacity in the County’s potable water and wastewater systems. Since no change in the Impact Fees is being recommended by WRS at this time, no change in the AGRF as it relates to the interest component of financing the capital facility costs for the unused capacity is recommended by WRS. It is envisioned by WRS that the AGRF will be reviewed coincident with the anticipated review of the Impact Fees.

It should be noted that during 2006, the Florida Legislature modified the Florida Statutes, Chapter 163 by the adoption of the Florida Impact Fee Act which dealt with the determination and imposition of levying impact fees (the “Impact Fee Act”). The Florida Legislature recognized that the use of impact fees is an important source of revenue for a local government such as the County to use in funding the infrastructure necessitated by new growth. The Florida Legislature also found that when a county, municipality, or special district adopts an impact fee by ordinance or resolution, the governing authority must comply with the provisions of the Impact Fee Act. Pursuant to the Impact Fee Act, when the County changes the Impact Fees that are currently identified in the Rate Resolution, the County must:

1. Require the calculation of the impact fee to be based on the most recent and localized data.
2. Provide for the accounting and reporting of impact fee collections and expenditures in a separate accounting fund.

3. Provide notice no less than 90 days before the effective date of an ordinance or resolution imposing a new or amended impact fee.
4. In conjunction with the audited financial statements of the System, submit to the Auditor General an affidavit signed by the chief financial officer indicating that the County has complied with the provisions of the Impact Fee Act.

Because the amount of moneys received from the application of the Impact Fees represents a significant source of funds to the System, a comparison of the current Impact Fees for WRS and those charged by other neighboring and other Southwest Florida public utilities was prepared. This comparison is shown on Table 11 at the end of this report. The charges shown on Table 11 are predicated on an ERC basis. An ERC is representative of the average daily capacity of a single-family residential unit and generally represents the lowest level and the most common level of use. As shown below and on Table 11, the current and anticipated Water and Wastewater System Impact Fees are comparable with the fees charged by the other surveyed utilities. It should be noted that a number of factors can affect the level of charges collected by other utilities, including, but not limited to, level of treatment required for service, asset age, density of customer base, level of service adopted by local government, amount of grant (contributions) funds received, and other factors. No in-depth analysis has been performed to determine the affect these factors could have on the fees charged by other utilities or to determine the methods used in the development of the water and wastewater fees imposed by others, nor has any analysis been made to determine whether 100% of the cost of new facilities is recovered from the other utilities' charges, or some percentage less than 100% with the balance recovered through the user charges.

	Impact Fees – Rate per ERC		
	Water	Wastewater	Combined
Hillsborough County Existing	\$1,750	\$1,800	\$3,550
Surveyed Utility Average [1]	\$1,755	\$2,323	\$4,078

[1] Based on utility survey shown on Table 11; amounts shown do not include the application of the Accrued Guaranteed Revenue Fee which is in addition to the payment of the Impact Fee.

BOND SERVICE COMPLIANCE

A significant financial parameter of the System is associated with the ability of such System to be in compliance with the Bond Covenants as set forth in Section 11.02 of the Amended and Restated Utility System Bond Resolution No. R03-112 adopted on June 4, 2003, as supplemented by Resolution No. R03-116 adopted on June 4, 2003 as amended and supplemented from time to time (previously defined as the "Bond Resolution"). The Bond Resolution was adopted by the County and authorized the issuance of the Bonds currently outstanding on behalf of the System. The Bond Resolution contains, among other things, certain covenants that must be satisfied, the purpose of which is to generally provide assurances to the bondholders that the debt payments will be made. Generally, these covenants are in the form of:

- i) certain Bond Service coverage ratios which are applicable to the level of rates charged and the

revenue margins achieved; ii) application of funds; and iii) certain requirements associated with the provision of service.

As previously discussed earlier in this report, it is estimated that as of October 1, 2007, the County will have outstanding previously issued Bonds in the principal amount of \$150,285,000 in utility revenue bond indebtedness as summarized in the table below. In addition to the Outstanding Bonds, the System has issued and has available Subordinated Utility Revenue Commercial Paper Notes Series A, Series B (AMT) and Series C (Taxable) in the principal amount of \$75,000,000 (the “Commercial Paper”), which is considered as Junior or Subordinate Lien debt to the System. The pledge for repayment of any borrowing from the Commercial Paper program is from the Net Revenues of the System and as of October 1, 2006 and as of the date of this report, there is no amount outstanding for repayment of the Commercial Paper that is available for future capital projects and which is recognized in this report as an available source of funding for capital projects, remains at \$75,000,000. In addition to the Outstanding Bonds and as previously discussed, it is assumed in this report that the County will issue Additional Parity Bonds which have been designated as the Series 2008 Bonds. The Series 2008 Bonds are being issued to fund new capital improvement projects as well as to economically defease the then outstanding Series 2003 Bonds. The principal amount of bonds outstanding as of October 1, 2006 and October 1, 2007, based on the assumptions recognized in this report, was assumed to be as follows:

	Outstanding as of October 1, 2006	Estimated Outstanding as of October 1, 2007
Junior Lien Refunding Utility Revenue Bonds, Series 2001	\$135,200,000	\$120,935,000
Refunding Utility Revenue Bonds, Series 2003	34,080,000	29,350,000
Utility Revenue Bonds, Series 2008 [1]	---	---
Total Outstanding Bonds	<u>\$169,280,000</u>	<u>\$150,285,000</u>

[1] The Series 2008 Bonds were assumed to be issued on or about April 1, 2008 and therefore are not outstanding as of October 1, 2007.

The following is a discussion of the ability of the System to meet the bond covenant requirements as defined by the Bond Resolution.

Bond Service Coverage

The Bond Resolution includes a provision requiring the County to establish and revise rates from time to time whenever necessary that will always provide:

(Remainder of page intentionally left blank)

1. Gross Revenues and Pledged Available Capacity [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 Available Capacity [Impact] Fees must fund at least 120% of the Bond Service Requirement under the Bond Resolution (Referenced to as Test 2);

and

3. Net Revenues must fund at least 100% of the Bond Service Requirements (Referenced to as Test 3).

The Bond Resolution established these debt coverage requirements for the protection of the holders of the Bonds.

In addition to the provisions of the Bond Resolution, pursuant to Resolution No. R05-275 adopted by the Board on December 7, 2005 (the "Note Resolution"), the County is required to establish and maintain rates which will provide in each Fiscal Year Net Revenues to satisfy the following debt coverage requirements:

1. Net Revenues must fund at least 100% of the Bond Service Requirements (on the Senior Lien Bonds) and 100% of the debt service expected to come due on the Commercial Paper Notes and any other subordinate obligations issued on a parity with the Commercial Paper Notes, net of anticipated proceeds of Commercial Paper Notes expected to be available to pay debt service on maturing Commercial Paper Notes. (Referenced to as Test 4).

Table 5 at the end of this report summarizes the ability of the System Gross and Net Revenues to meet the rate covenant provisions of the Bond Resolution for the Forecast Period reflected in this report. As previously discussed, it is envisioned that the County will issue Additional Bonds on a parity basis with the existing Bonds and will not utilize the available Commercial Paper program (due to interest rate costs and the need for debt repayment flexibility) to meet the projected capital expenditure needs for the Forecast Period. Based on the results of the financial forecast, it is expected that funds will be generated from System operations during the Forecast Period, which assumes the continued application of the Purchased-Water Pass-Through Consumption Charge and the proposed rates as identified in this report, which will provide sufficient resources to fund the projected capital needs as identified in the FY 2008-2012 Capital Improvement Program and the issuance of the additional parity bonds as previously discussed. Any issuance and amount of the Additional Bonds will ultimately be dependent on the spending requirements of the capital projects.

As can be seen on Table 5, and as shown below, it is anticipated that the Net Revenues derived from System operations should be sufficient to meet the rate covenant requirements as defined in the Bond Resolution.

Covenant Tests	Fiscal Year Ending September 30,					
	2007	2008	2009	2010	2011	2012
Test 1 – Calculated [1]	120%	115%	115%	110%	107%	103%
Test 1 – Required	100%	100%	100%	100%	100%	100%
Test 2 – Calculated [1]	278%	276%	265%	211%	193%	160%
Test 2 – Required	120%	120%	120%	120%	120%	120%
Test 3 – Calculated [1]	246%	230%	237%	183%	161%	137%
Test 3 – Required	100%	100%	100%	100%	100%	100%
Test 4 – Calculated [2]	246%	230%	237%	183%	161%	137%
Test 4 – Required	100%	100%	100%	100%	100%	100%

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

[2] Represents rate covenant requirement as defined in Section 4.10 of the Note Resolution.

As can be seen above, although the proposed System Net Revenues and Pledged Capacity [Impact] Fees as identified in this report are expected to be sufficient to meet the minimum rate covenant requirements as defined in the Bond Resolution and the Note Resolution, the debt coverage ratio is declining in all years. This is due to declining operating margins as a result of percent change in Operating Expenses increasing at a greater rate than the net change in rate revenue, a reduction in AGRF revenue due to a slower customer growth rate, and a reduction in interest earnings due to the use of currently available operating and capital project reserves to fund capital expenditures during the Forecast Period. This is a primary reason why the implementation of the annual price index application beginning in the Fiscal Year 2010 is being recommended by the Rate Consultant for Board consideration at this time.

Other Covenants

In addition to the rate covenant, the Bond Resolution also includes other representations and covenants with which the System must be in compliance. These covenants deal with the flow of funds (deposits from the Gross Revenues of the System) to providing service. The following is a status summary of the primary representations and covenants based on discussions with and information provided by the County and the results of the forecast included in this report.

Covenant	Comments
Performance of Covenants	As discussed in this section, the County will meet all of the covenants required by the Bond Resolution during the Forecast Period, and the Bonds are enforceable obligations of the County.
Operation and Maintenance	The County has maintained a sufficient working capital balance to meet the minimum funding requirements for ongoing operations and maintenance of the System. Additionally, the County has identified a number of capital projects and improvements aimed at renewals, replacements, and upgrades of the System in order to continue to maintain the System in good condition, as well as to promote efficiency and economic operations. The County staffs all of its water and wastewater treatment plants in accordance with Florida Department of Environmental Protection requirements.
Annual Budget	The County has continuously adopted a bi-annual budget detailing the anticipated revenues and expenditures of the System, and the budget has

Covenant	Comments
Rate Covenant	historically been approved by the Board of County Commissioners (the current 2008 and 2009 Budget is under review by the Board as of the date of this report).
Records and Audits	The existing rates of the County are designed to provide at least the minimum Bond Service coverage ratios as identified above and to fund all required transfers.
Insurance	The County maintains its accounts to identify the Gross Revenue, Operating Expenses, Impact Fees, and operations of the System as required by the Bond Resolution. The County has annually retained a recognized independent certified public accounting firm to conduct an annual audit of the System as required.
No Free Service	The County carries insurance at levels that are considered adequate to insure against loss.
Enforcement of Charges	The County has implemented rates and charges designed to charge customers for all water and wastewater used. The County provides no preferential service and all customers are charged for service based on the provisions of the County-adopted resolutions and ordinances.
Establishment of Funds	The County has a number of written policies and procedures in place, which are designed to compel the prompt payment of rates for services rendered, including service-termination and delinquent-payment procedures.
	The County has established various funds and accounts as required by the Bond Resolution. These include the General Revenue Account, Operation and Maintenance Account, Debt Service (sinking) Accounts, Renewal and Replacement Account, a Debt Service Reserve Account and Water and Wastewater Impact Fee Account. All monies received have been deposited in accordance with the flow of funds at prescribed levels as delineated in the Bond Resolution and are anticipated during the Forecast Period to be maintained/funded in accordance with the Bond Resolution. The County has also established a Capital Expenditure Account for the funding of capital expenditures above the amount that would be deposited into the Renewal and Replacement Account based on the funding requirements outlined in the Bond Resolution.

The System has historically met and is projected to meet the representations and other operating covenants as delineated in the Bond Resolution and the Note Resolution.

ATTACHMENT A

Letter from Qualified Independent Consultant



Public Resources Management Group, Inc.

Utility, Rate, Financial and Management Consultants

August 29, 2007

Mr. Paul J. Vanderploog
Director, Water Resource Services
Hillsborough County
925 E. Twiggs St.
Tampa, FL 33602

Subject: Rate Certificate - 2007 Water and Wastewater Rate Review

Dear Mr. Vanderploog:

As part of assisting Water Resource Services (WRS) of Hillsborough County (the "County") in the preparation of the water and wastewater rate evaluation for the Fiscal Year 2007, Public Resources Management Group, Inc. (PRMG), as the Qualified Independent Consultant to WRS, has reviewed the Water and Wastewater Impact Fee and User Charge Rate Study (the "Study") prepared by WRS. The purpose of our review of the rates, fees and charges was to: i) comment on the adequacy of the rates, fees and charges in meeting the projected financial requirements of the water and wastewater system (the "System") as determined by the management of the System; and ii) determine whether the rates would allow the System to be in compliance with the rate covenants set forth in a) Section 11.02 of the Amended and Restated Utility System Bond Resolution No. R03-112 adopted on June 4, 2003, as supplemented by Resolution No. R03-116 adopted on June 4, 2003 as amended and supplemented from time to time (collectively, the "Bond Resolution") and b) Section 410 of the Subordinated Utility Revenue Commercial Paper Notes Resolution adopted on December 7, 2005 (the "Note Resolution"). Capitalized undefined terms referenced in this letter shall have meanings ascribed thereto in the Bond Resolution.

The Study included a six-year financial planning horizon consisting of the Fiscal Years 2007 through 2012 (the "Forecast Period"). The first year of the Forecast Period was predicated on the adopted Fiscal Year 2007 Budget of operation and maintenance expenses, debt service requirements, and the annual funding of capital expenditures as adjusted for known or anticipated changes. The second and third year of the Forecast Period (with the second year being considered as the "Test Year" for rate evaluation purposes) was predicated on Fiscal Year 2008 and 2009 proposed budgeted operation and maintenance expenses, debt service requirements, and the annual funding of capital expenditures to establish the revenue requirements of the System. The fees, monthly user charges, and all other related service charges represent the funding source for these revenue requirements..

The review of the Study conducted by PRMG involved an evaluation of the rate study modeling process, which included the following:

- i) review of adopted (currently effective) Fiscal Year 2007 and Fiscal Year 2008 and 2009 Proposed Budgets and comparison to prior actual operating results for the past five fiscal years as provided by WRS;
- ii) review of the allocation of the adopted Fiscal Year 2007 and proposed Fiscal Year 2008 and 2009 budgeted operating expenses among the water, wastewater, and customer service (billing) functions as well as the escalation of such expenses for the remainder of the Forecast Period (the Fiscal Years 2010 through 2012);
- iii) review of the debt service requirements for the System as well as projections of any future debt requirements recognizing the Outstanding Bonds and the issuance of additional parity bonds, if any, that may occur during the Forecast Period;
- iv) review of the projected cost of water purchases from Tampa Bay Water and other local agencies, including the effects on how such rates should be measured relative to the pass-through provisions of such purchases as required by the Rate Resolution;
- v) review of the funding of the Renewal and Replacement Fund in accordance with the provisions of the Bond Resolution and the ability of the System to appropriate sufficient funds to meet the capital expenditures as estimated by WRS;
- vi) review of other revenues accruing to the benefit of the System, including interest earnings and miscellaneous operating revenues such as meter installation fees; revenues from the application of the Accrued Guaranteed Revenue Fees; and the collection of impact (capacity) fees and the subsequent pledge of such fees for i) the payment of the Debt Service Component of the Cost of Contracted Water Supply; ii) deposit into the Debt Service Account and iii) deposit into the General Purpose Account, all as provided for in the Bond Resolution;
- vii) review of the revenues to be collected by the System based on the application of the monthly user charges to the projected customer billing determinants;
- viii) review of customer billing records and "revenue proofs" of the System as prepared by WRS for the Fiscal Year 2006 and Fiscal Year-to-date 2007 and the performance of a "revenue test" of such statistics, which were compared to actual reported rate revenues for general reasonableness and for the validation of revenue projections developed for the Forecast Period; and
- ix) performance of analytical procedures to verify certain components of the WRS's Rate Model to determine calculation accuracy.

A major assumption recognized in the development of the financial forecast (as it relates to projected rate revenue) dealt with the continued application of the annual purchased water pass-through consumption charge (the "Pass-Through Adjustment") as provided in the Rate Resolution. The Pass-Through Adjustment was adopted by the Board and allows the System to recover the net increase or return the net decrease from/to the customer with respect to changes in purchased-water costs imposed by Tampa Bay Water and other utilities (collectively, the "Supply Utilities") providing potable water to the County. The County purchases 100% of its potable water requirements from the Supply Utilities and the cost of such purchases by the County is an expenditure that is an uncontrollable expense of WRS and accounts for approximately 28% of the operating expense requirements of the System of which Tampa Bay Water accounts for over 98% of such expense. The ability to meet the rate covenant requirements and financial targets for the System is highly dependent on the continuation of this pass-through provision. With respect to the Tampa Bay Water component, it is currently estimated by Tampa Bay Water that the Uniform Water Rate for service (expressed on a \$/1,000 gallon basis) will increase from \$2.2488 in Fiscal Year 2008 to \$2.4724 in Fiscal Year 2013. The continued application of the Pass-Through Adjustment is necessary to maintain operating margins for the System, comply with the covenants included in the Bond and Note Resolutions, and meet the overall financial targets of the System.

In addition to compliance with the rate covenants of the Bond Resolution, we believe that the rates reflected in the Rate Resolution will continue to allow the System the ability to recover the full cost of providing service and meet the anticipated financial requirements of the System. Specifically, the rates should continue to meet the financial requirements of the System by: i) continuing to fund expenditures associated with facility renewals, replacements, and betterments which promotes the going-concern concept of the System which will mitigate the need to issue additional permanent indebtedness to fund such improvements; ii) meeting the continued requirement to pledge Impact Fees for the payment of Debt Service Component of the Cost of Contracted Water Supply from Tampa Bay Water and for deposit to the Debt Service Account as provided in the Bond Resolution; iii) recovering the costs of operation of the System on a reasonable basis while maintaining the overall revenue stability of the System; and iv) providing the continued ability of the System to meet the financial targets initially recommended by the Blue Ribbon Committee during the Fiscal Year 1996. Finally, the monthly user rates and charges as contained in the Rate Resolution are considered by PRMG to be reasonable and based on the anticipated cost of providing service and the application of such rates, fees and charges provide for a recovery of the user's fair share of the reasonably anticipated costs of expanding, improving and operating the System.

In addition to the satisfaction of the covenants reflected in the Bond and Note Resolutions, the ability of utility rates to meet the System expenditure needs deals with the funding of capital betterments, upgrades, plant replacement, and facility expansion to promote the "going concern" of the System. Based on the anticipated capital improvement program prepared by WRS, it is anticipated that the six-year capital improvement program will be fully funded and supported by the existing rates of the System. However, it should be noted that the operating margins and corresponding amount of funds available to finance capital improvements (pay-as-you-go basis) are declining and that the need for additional rate relief will be required. Additionally, although ultimately dependent on the timing of the cash flow requirements of such expenditures, additional permanent indebtedness secured for repayment by System revenues have been recognized as a component of the capital program funding plan. Based on the assumptions used by WRS in the preparation of the Study which we have reviewed and is considered reasonable, the additional parity bonds are anticipated to be issued during the Fiscal Year 2008. Based on the current level of debt allocable to the System, we believe that the issuance of the Series 2008 Bonds should not have a negative effect on the overall creditworthiness of the System. The capital improvement program (based on appropriations which do not include capital projects approved and funded in prior periods) reflected in the Study approximates \$355,936,000 for the Forecast Period as shown below:

	Fiscal Years Ending September 30, (000) [1] [2]				
	2008	2009	2010	2011	2012
CIP Appropriations [3] [4]	<u>\$71,483</u>	<u>\$140,335</u>	<u>\$50,889</u>	<u>\$43,264</u>	<u>\$49,965</u>

[1] Amounts shown do not include prior period unexpended encumbrances and appropriations for capital projects previously approved by the Board.
[2] Reflects capital project appropriations envisioned in the Fiscal Year 2008/2009 Budget (includes projects appropriated in other departments allocable to the System, where applicable).
[3] Amounts shown do not represent cash flow requirement for capital program that is anticipated by WRS to extend beyond the Forecast Period.
[4] Amounts shown include departmental or operating capital expenditures (e.g., vehicles) which are generally budgeted as part of the operating budget

The funding of the capital program includes the use of i) deposits in the Renewal and Replacement Fund which is made annually from rates and other sources; ii) the proceeds from the issuance of additional parity bonds, which include the defeasance of the outstanding Series 2003 Bonds; and iii) proceeds associated with the recent and anticipated issuance of Impact Fee Special Assessment Bonds; iv) funds on deposit in the Capital Expenditure Account established by the County which is funded annually from System operations for capital projects (not a fund established by the Bond Resolution or Note Resolution); and v) monies from other sources, including Community Investment Tax proceeds, grants from Southwest Florida Water Management District, commercial paper (debt) expended for construction of reclaimed water distribution systems (RWIUs) which is secured by the assessments of the benefited customers. Additionally, all impact fees, with the exception of that component associated with Tampa Bay Water, received by WRS were assumed for the purposes of the financial projection reflected in the Study to be pledged towards the payment of expansion-related debt service of the County as

required by the Bond Resolution. Impact fees attributable to Tampa Bay Water are pledged to pay the Debt Service Component of the Cost of Contracted Water Supply (i.e., purchase from Tampa Bay Water and therefore reduce the annual purchased water payments funded from System operations). Finally, the funding plan includes the availability of the County's existing Commercial Paper Program to allow projects to be appropriated for budgetary purposes but which will primarily be financed through System operations on a pay-as-you-go basis (allow for timing differences in the overall capital improvement planning process) or through the issuance of additional permanent debt financing.

Based on the financial forecast and capital funding plan as outlined in the WRS Study, we are of the opinion that i) the County should continue the application of the Purchased-Water Pass-Through Consumption Charge; ii) the County should adjust rates by the application of an annual inflationary index as provided for in the current Rate Resolution beginning in the Fiscal Year 2010 to generate funds to meet the expenditure requirements, including the funding of the System capital needs, identified for the System; and iii) the current rates are considered reasonable and are competitive with the rates charged by other utilities with similar service characteristics.

The review performed by PRMG included such procedures, as we considered necessary to evaluate the appropriateness of the Study and accordingly, the rate structure, as it relates to funding the projected revenue requirements and meeting the rate covenants of the System. Based on our review, nothing came to our attention that caused us to believe that the level of rates and/or the rate structure as presented in the existing Rate Resolution will not ensure continuing compliance with the rate covenants as defined in the Bond Resolution for the Forecast Period. The rate covenant provisions included the maintenance of adequate debt service coverage ratios (minimum requirements are defined in the Bond Resolution and the Note Resolution) and the making of required deposits to funds established by the Bond Resolution (e.g., Renewal and Replacement Fund). This letter relates only to matters specific to the Rate Resolution and does not extend to any financial statements of the County.


Should the budget of WRS be revised or modified, or if the proposed rates as presented in the Rate Resolution in support of the financial forecast are not adopted, or if the usage charge associated with application of the Purchased-Water Pass-Through Consumption Charge as provided in the Rate Resolution is not continued, or if changes in the financial planning objectives are adopted by the Board, these events could have a material effect on the financial plan and the ability of the System revenues to meet the rate covenants required by the Bond Resolution. PRMG has no responsibility to update this letter for events and circumstances occurring after the date of this letter.

Mr. Paul J. Vanderploog
Hillsborough County
August 29, 2007
Page 6

We appreciate the opportunity to conduct the review of the Water and Wastewater Impact Fee and User Charge Rate Study and to provide this certificate to WRS regarding the ability of the projected System revenues for the Fiscal Years 2008 and 2009 to comply with the covenants defined in the Bond Resolution and the Note Resolution and the sufficiency of rates as it relates to the anticipated recovery of costs for maintaining, expanding, improving and operating the System.

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' and 'O'.

Robert J. Ori
President