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CITY OF SOUTH DAYTONA  
MUNICIPILIZATION OF  
ELECTRIC SERVICE  
DISTRIBUTION

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Pro Forma Analysis

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# FPL Franchise Agreement

- A thirty-year Franchise to FPL was granted by City Council on May 2, 1978.
- Franchise Expired in May 2008.
- Section 11 of the Franchise Agreement states: *“Grantor reserves the right, upon the expiration of the franchise term herein provided, to purchase the property of the Grantee used under this grant, for an amount equal to the then existing cost of replacement of such property, less depreciation to date of sale.”*
- FPLs refusal to keep aforementioned language in new contract and not compensate the City for its removal was the genesis for the City exploring the value of this language and the potential viability of operating an electric service distribution system.

# Acquisition Cost Methodology per Franchise Agreement

Infrastructure Description	Replacement Cost	Depreciation	Acquisition Cost
Station Equipment	\$3,400,000	(\$1,652,400)	\$1,747,600
Poles, Towers and Equipment	\$2,013,344	(\$1,547,489)	\$465,855
Overhead Conductors and Devices	\$1,140,945	(\$848,809)	\$292,136
Underground Conduit	\$36,489	(\$22,003)	\$14,486
Underground Conductors and Devices	\$3,410,891	(\$2,392,130)	\$1,018,761
Line Transformers	\$1,844,744	(\$1,414,308)	\$430,436
Pad Mounted Transformers	\$595,394	(\$530,915)	\$64,479
Services -- Overhead	\$663,096	(\$651,521)	\$11,575
Services -- Underground	\$905,366	(\$711,561)	\$193,805
Meters Installed	\$859,189	(\$827,462)	\$31,727
Street Lighting	\$118,304	(\$106,474)	\$11,830
<b>SOUTH DAYTONA SYSTEM TOTALS</b>	<b>\$14,987,762</b>	<b>(\$10,705,072)</b>	<b>\$4,282,690</b>

# Acquisition Financing

## Sources and Uses of Funds

<b>Sources of Funds:</b>	
USDA Rural Electrification Loan Program	\$ 18,616,011
[30-year amortization term, 4.50% fixed rate, Quarterly Payments]	
<b>Uses of Funds:</b>	
Existing Distribution System Costs	\$ 10,000,000
Severance and Reintegration Costs [Includes construction of sub-station and land acquisition]	5,000,000
Stranded Costs	0
Going-Concern Value Cost	0
Deposit to Capitalized Interest (CIF) Fund – Debt Service Reserve Requirement	1,466,011
Legal/Consulting Acquisition and Transition Expenses	750,000
Start-Up Operating Costs	750,000
Cost of Valuation Study and Purchase Contract Negotiation	500,000
Loan Issuance Costs	150,000
<b>Total Uses of Funds</b>	<b>\$ 18,616,011</b>

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# Pro Forma Analysis

- Revenues
  - *Base service charges*
    - Rates will benchmark those charged by FPL [based on FPL wholesale purchases]
      - Customer charge, fuel kWh charge, non-fuel kWh charge
  - *Fuel Revenue*
    - Pass-thru charge
  - *Franchise Fees*
    - 6% of applicable sales
  - *Payment In Lieu of Taxes/Property Taxes*
    - Equivalent to current utility tax revenue -10% tax rate applied on average to 55% of sales
  - *Gross Receipt Taxes*
    - Chapter 203, Florida Statutes, 2.50% of gross revenues
  - *Service Fees, Penalties, etc.*

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# Pro Forma Analysis

- Expenses – Payable to Wholesale Provider
  - Bulk Power Supply Expense
    - Total Capacity Costs + Energy Costs + Fuel Costs [estimated using FPL wholesale rates]
  - Network Transmission Service
    - Predicated on FPL’s current Open Access Transmission Tariff
    - Includes “wheeling” charge and other ancillary services
      - An amount charged by a wholesale energy provider to transmit the energy of, and for, another system
    - Projections escalated annually using Annual Energy Output (AEO) price indices as published by the Department of Energy

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# Pro Forma Analysis

- Expenses – Incremental Costs – Cost sharing with water/wastewater system
  - Distribution Operations and Maintenance [O & M]
    - Field personnel
      - 7 additional field employees [line supervisor, line workers]
    - Daily operational supplies
    - Possibility of savings by contracting with private business
  - Administrative and General [A & G]
    - Customer Service
      - One additional billing clerk
      - Two meter readers
      - Billing-related expenses
      - Possibility of savings by installing “smart” meters – would eliminate need for additional meter readers

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# Pro Forma Analysis

- Expenses - Other

- Gross Receipt Tax

- Submitted to state – 100% of GRT collected – zero net effect on cash flow

- Interest on Working Capital

- Line of credit borrowing [short-term borrowing, not long-term]
- For budgeting purposes, interest rate is 10-year average, 3-month LIBOR rate

- General Fund Transfer

- Franchise Fee
- PILOT/Property Tax – Utility Tax equivalent



# Pro Forma Analysis

	2011	2012	2013	2014	2015
Revenues	79,830	3,827,476	14,808,904	14,858,679	15,243,774
Cash Outlays:					
Total Bulk Power Supply Expense	0	2,192,202	8,839,426	8,566,323	8,734,907
Network Transmission Service	0	140,721	574,538	586,499	597,609
Sub-Total Payable to Wholesale Provider	0	2,332,923	9,413,964	9,152,822	9,332,516
Operating Expenses	0	808,262	3,326,244	3,382,195	3,483,365
Total Operating Expenses and Cash Outlays	0	3,141,185	12,740,208	12,535,017	12,815,881
Cash Flow Available for Debt Service and Capital	79,830	686,291	2,068,696	2,323,662	2,427,893
Capital Outlays	0	25,000	100,000	100,000	150,000
Net Cash Flow Before Debt Service	79,830	661,291	1,968,696	2,223,662	2,277,893
Debt Service	0	0	291,880	1,167,520	1,167,520
Net Cash Flow After Debt Service	79,830	661,291	1,676,816	1,056,142	1,110,373

# Pro Forma Analysis

	2016	2017	2018	2019	2020
Revenues	15,624,981	16,057,691	16,523,495	16,985,442	17,478,141
Cash Outlays:					
Total Bulk Power Supply Expense	8,913,809	9,146,548	9,414,833	9,672,220	9,945,360
Network Transmission Service	603,946	608,071	615,675	628,272	641,867
Sub-Total Payable to Wholesale Provider	9,517,755	9,754,619	10,030,508	10,300,492	10,587,227
Operating Expenses	3,585,855	3,697,410	3,815,792	3,934,651	4,059,440
Total Operating Expenses and Cash Outlays	13,103,610	13,452,029	13,846,300	14,235,143	14,646,667
Cash Flow Available for Debt Service and Capital	2,521,371	2,605,662	2,677,195	2,750,299	2,831,474
Capital Outlays	200,000	356,877	365,533	374,205	382,840
Net Cash Flow Before Debt Service	2,321,371	2,248,785	2,311,662	2,376,094	2,448,634
Debt Service	1,167,520	1,167,520	1,167,520	1,167,520	1,167,520
Net Cash Flow After Debt Service	1,153,851	1,081,265	1,144,142	1,208,574	1,281,114

# Pro Forma Analysis

	2021	2022	2023	2024	2025
Revenues	17,967,782	18,484,753	19,038,757	19,593,244	20,192,093
Cash Outlays:					
Total Bulk Power Supply Expense	10,227,920	10,513,649	10,819,678	11,116,728	11,784,495
Network Transmission Service	660,103	681,454	705,010	729,213	757,649
Sub-Total Payable to Wholesale Provider	10,888,023	11,195,103	11,524,688	11,845,941	12,542,144
Operating Expenses	4,183,343	4,310,684	4,444,183	4,579,833	4,377,365
Total Operating Expenses and Cash Outlays	15,071,366	15,505,787	15,968,871	16,425,774	16,919,509
Cash Flow Available for Debt Service and Capital	2,896,416	2,978,966	3,069,886	3,167,470	3,272,584
Capital Outlays	390,827	398,898	407,062	415,458	424,084
Net Cash Flow Before Debt Service	2,505,589	2,580,068	2,662,824	2,752,012	2,848,500
Debt Service	1,167,520	1,167,520	1,167,520	1,167,520	1,167,520
Net Cash Flow After Debt Service	1,338,069	1,412,548	1,495,304	1,584,492	1,680,980

# Pro Forma Analysis

	2026	2027	2028	2029	2030
Revenues	20,809,503	21,423,938	22,092,961	22,790,927	23,432,927
Cash Outlays:					
Total Bulk Power Supply Expense	11,784,495	12,136,252	12,515,630	12,897,903	13,272,799
Network Transmission Service	786,688	815,171	846,934	880,327	912,703
Sub-Total Payable to Wholesale Provider	12,571,183	12,951,423	13,362,564	13,778,230	14,185,502
Operating Expenses	4,870,796	5,022,001	5,181,763	5,348,318	5,508,702
Total Operating Expenses and Cash Outlays	17,441,979	17,973,424	18,544,327	19,126,548	19,694,204
Cash Flow Available for Debt Service and Capital	3,367,524	3,450,514	3,548,634	3,664,379	3,738,723
Capital Outlays	432,855	442,032	451,012	460,626	469,690
Net Cash Flow Before Debt Service	2,934,669	3,008,482	3,097,622	3,203,753	3,269,033
Debt Service	1,167,520	1,167,520	1,167,520	1,167,520	1,167,520
Net Cash Flow After Debt Service	1,767,149	1,840,962	1,930,102	2,036,233	2,101,513

# Pro Forma Analysis

	2031	2032	2033	2034	2035
Revenues	24,179,341	24,973,675	25,779,245	26,696,064	27,600,857
Cash Outlays:					
Total Bulk Power Supply Expense	13,684,117	14,121,921	14,508,825	14,975,772	15,472,678
Network Transmission Service	948,433	986,714	1,026,505	1,071,611	1,113,164
Sub-Total Payable to Wholesale Provider	14,632,550	15,108,635	15,535,330	16,047,383	16,585,842
Operating Expenses	5,685,305	5,872,584	6,064,714	6,273,557	6,484,032
Total Operating Expenses and Cash Outlays	20,317,855	20,981,219	21,600,044	22,320,940	23,069,874
Cash Flow Available for Debt Service and Capital	3,861,486	3,992,456	4,179,201	4,375,124	4,530,983
Capital Outlays	479,183	489,294	499,830	510,545	521,497
Net Cash Flow Before Debt Service	3,382,303	3,503,162	3,679,371	3,864,579	4,009,486
Debt Service	1,167,520	1,167,520	1,167,520	1,167,520	1,167,520
Net Cash Flow After Debt Service	2,214,783	2,335,642	2,511,851	2,697,059	2,841,966

# Pro Forma Analysis

	2036	2037	2038	2039	2040
Revenues	28,554,474	29,566,904	30,579,488	31,626,752	32,709,885
Cash Outlays:					
Total Bulk Power Supply Expense	16,013,780	16,613,260	17,767,621	17,767,621	18,374,647
Network Transmission Service	1,156,328	1,201,166	1,247,743	1,296,125	1,346,384
Sub-Total Payable to Wholesale Provider	17,170,108	17,814,426	19,015,364	19,063,746	19,721,031
Operating Expenses	6,703,726	6,933,993	6,580,626	7,408,802	7,658,052
Total Operating Expenses and Cash Outlays	23,873,834	24,748,419	25,595,990	26,472,548	27,379,083
Cash Flow Available for Debt Service and Capital	4,680,640	4,818,485	4,983,498	5,154,204	5,330,802
Capital Outlays	532,683	544,110	555,781	567,703	579,881
Net Cash Flow Before Debt Service	4,147,957	4,274,375	4,427,717	4,586,501	4,750,921
Debt Service	1,167,520	1,167,520	1,167,520	1,167,520	1,167,520
Net Cash Flow After Debt Service	2,980,437	3,106,855	3,260,197	3,418,981	3,583,401

# Pro Forma Analysis

	2041	2042
Revenues	33,830,115	34,988,713
Cash Outlays:		
Total Bulk Power Supply Expense	19,002,483	19,651,841
Network Transmission Service	1,398,591	1,452,823
Sub-Total Payable to Wholesale Provider	20,401,074	21,104,664
Operating Expenses	7,915,546	8,181,554
Total Operating Expenses and Cash Outlays	28,316,620	29,286,218
Cash Flow Available for Debt Service and Capital	5,513,495	5,702,495
Capital Outlays	592,319	605,025
Net Cash Flow Before Debt Service	4,921,176	5,097,470
Debt Service	1,167,520	-
Net Cash Flow After Debt Service	3,753,656	5,097,470

# Pro Forma Analysis

## 30-Year Summary Recap

	<b>Total</b>
Revenues	688,400,811
Cash Outlays:	
Total Bulk Power Supply Expense	390,449,743
Network Transmission Service	27,018,037
Sub-Total Payable to Wholesale Provider	417,467,780
Operating Expenses	159,682,693
Total Operating Expenses and Cash Outlays	577,150,473
Cash Flow Available for Debt Service and Capital	111,250,338
Capital Outlays	12,824,850
Net Cash Flow Before Debt Service	98,425,488
Debt Service	32,982,440
<b>Net Cash Flow After Debt Service</b>	<b>65,443,048</b>
Net Present Value of Cash Flows Before D/S using 11% Return on Investment	19,066,398
Internal Rate of Return	14.50%



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# Why is Acquisition Important to South Daytona Citizens?

- Operational profits will stay in community
    - Invest in new and improved infrastructure
    - Underground distribution lines
  
  - Local Control and Accountability
    - City Council responsible for rate structure
    - Easier to contact council member than PSC representative
    - Face-to-face customer service at City Hall
    - Stakeholder vs. Stockholder
  
  - Economies of Scale
    - Incremental Costs – Cost-sharing with water/wastewater
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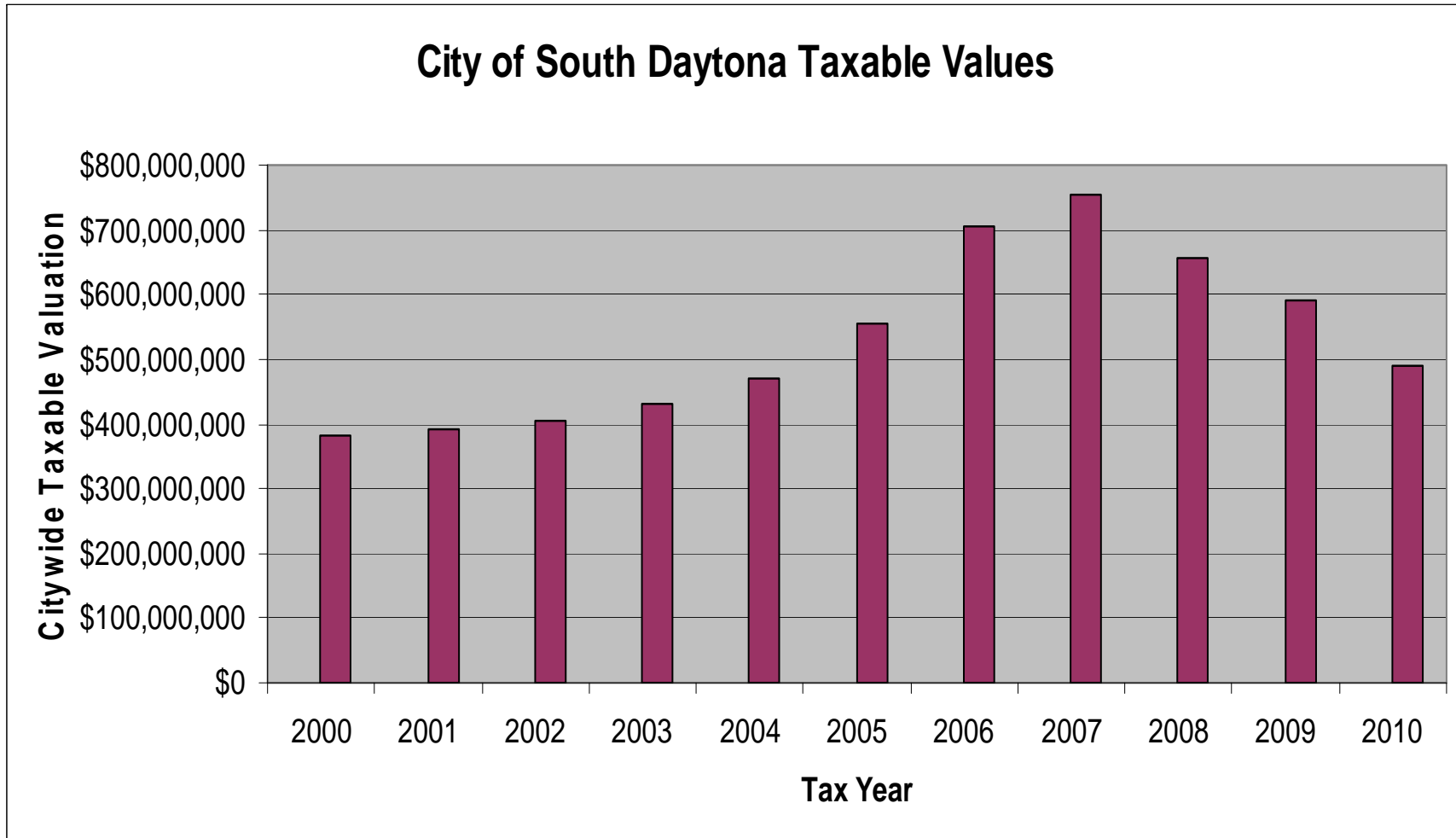
# Why is Acquisition Important to South Daytona Citizens?

- Declining Tax Base
  - 2010 taxable value lowest since 2004
- Precipitous Decline in Annual Operating Revenues
  - Half-Cent Sales Tax
  - State Revenue Sharing
  - Local Option Gas Taxes
  - Communication Services Tax
  - Population decline partially responsible
- Legislative Manipulation of Taxing Ability by the City
  - Additional homestead exemptions
  - Caps on non-homesteaded property growth
  - Possible TABOR

# South Daytona Taxable Values

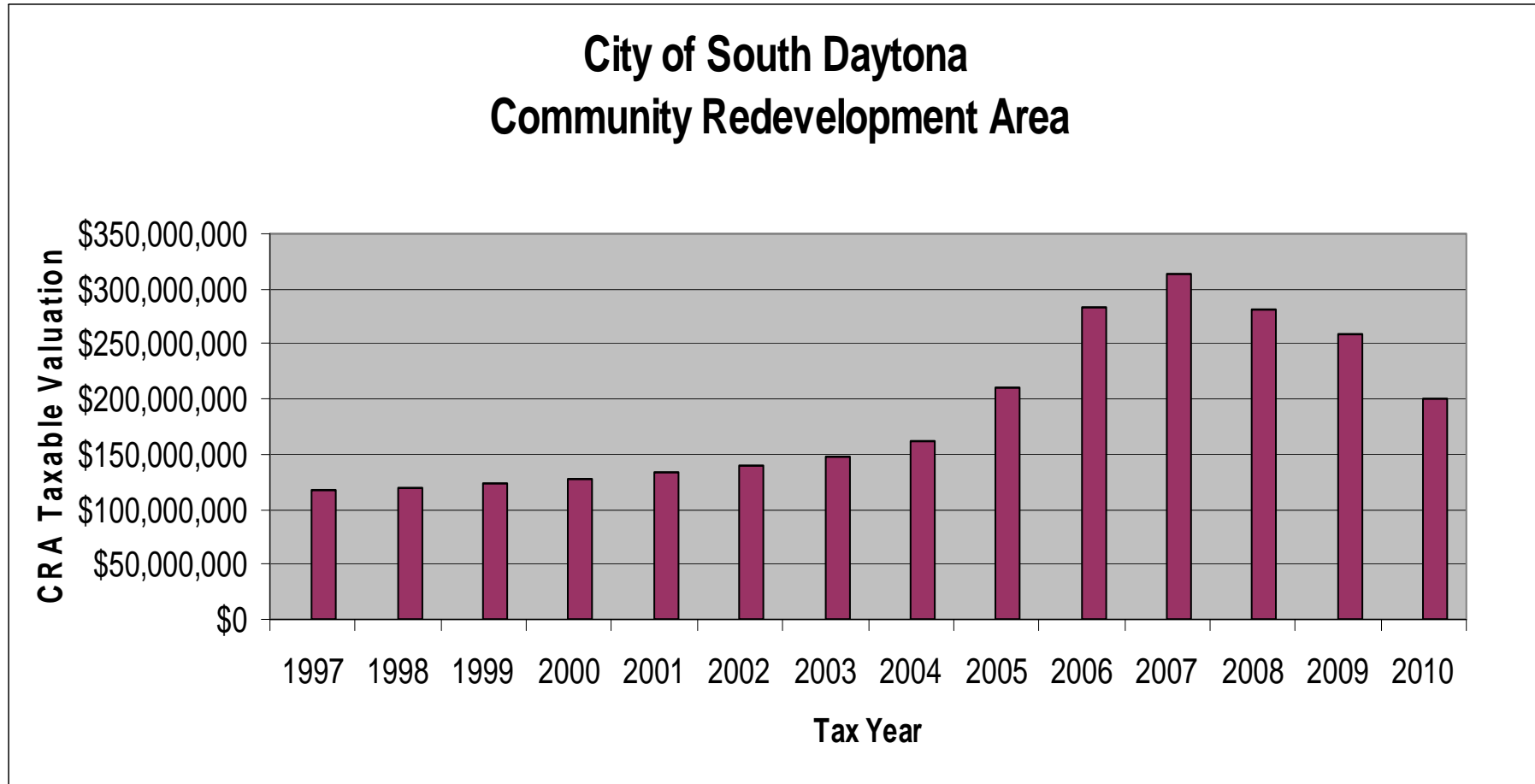
Tax Year	Fiscal Year	Taxable Value	Millage Rate	Tax Levy
2010	2010-2011	\$488,842,176	\$5.90000	\$2,884,169
2009	2009-2010	\$590,759,487	\$5.77810	\$3,413,467
2008	2008-2009	\$655,030,666	\$4.92003	\$3,222,771
2007	2007-2008	\$754,798,276	\$4.24930	\$3,207,364
2006	2006-2007	\$703,834,686	\$4.80000	\$3,378,406
2005	2005-2006	\$556,516,369	\$5.54659	\$3,086,768
2004	2004-2005	\$468,859,463	\$5.65000	\$2,649,056
2003	2003-2004	\$431,417,683	\$4.63900	\$2,001,347
2002	2002-2003	\$403,518,553	\$4.63900	\$1,871,923
2001	2001-2002	\$391,417,918	\$4.49870	\$1,760,872
2000	2000-2001	\$380,724,815	\$4.59701	\$1,750,196

# South Daytona Taxable Values

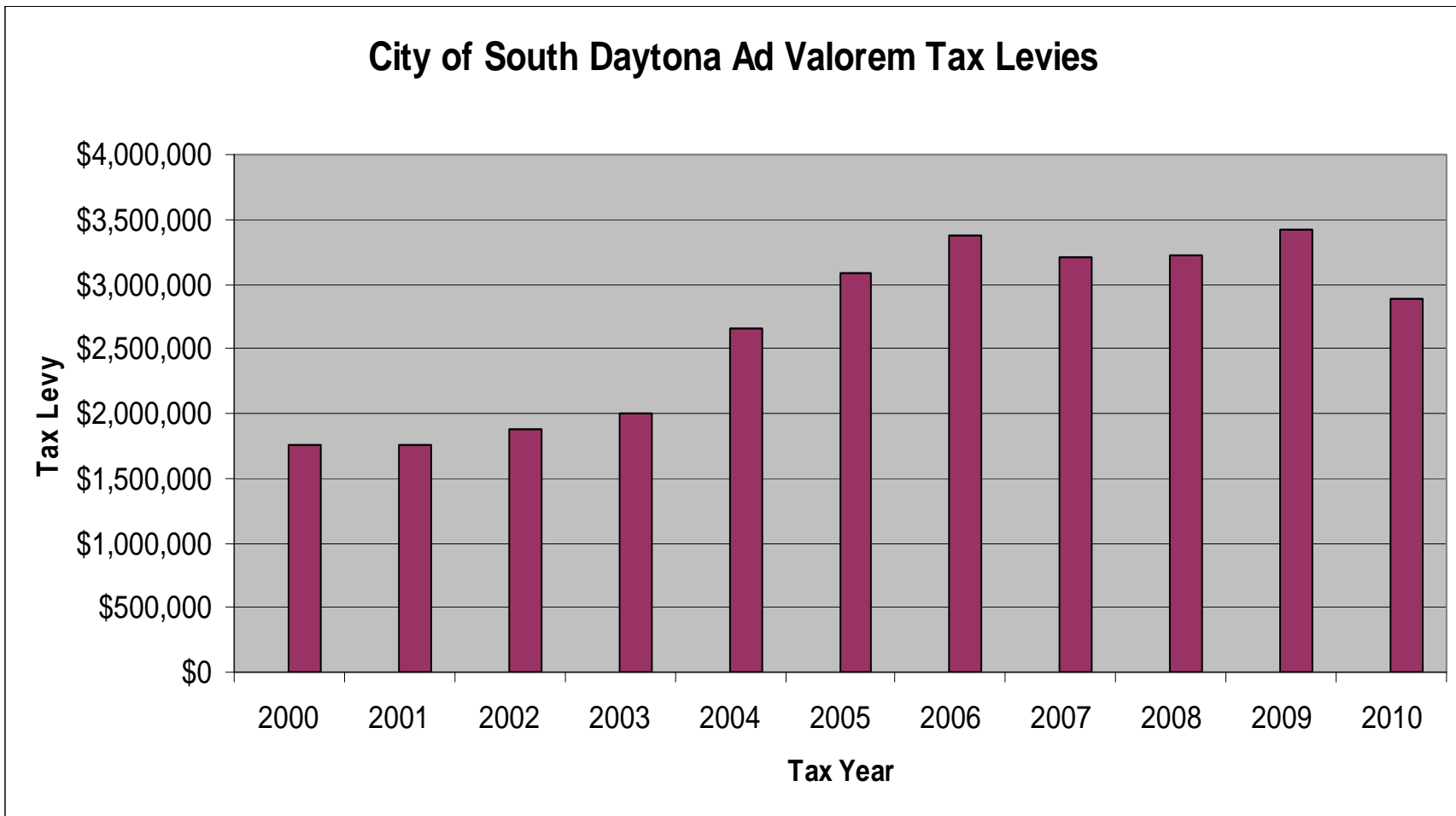


# South Daytona

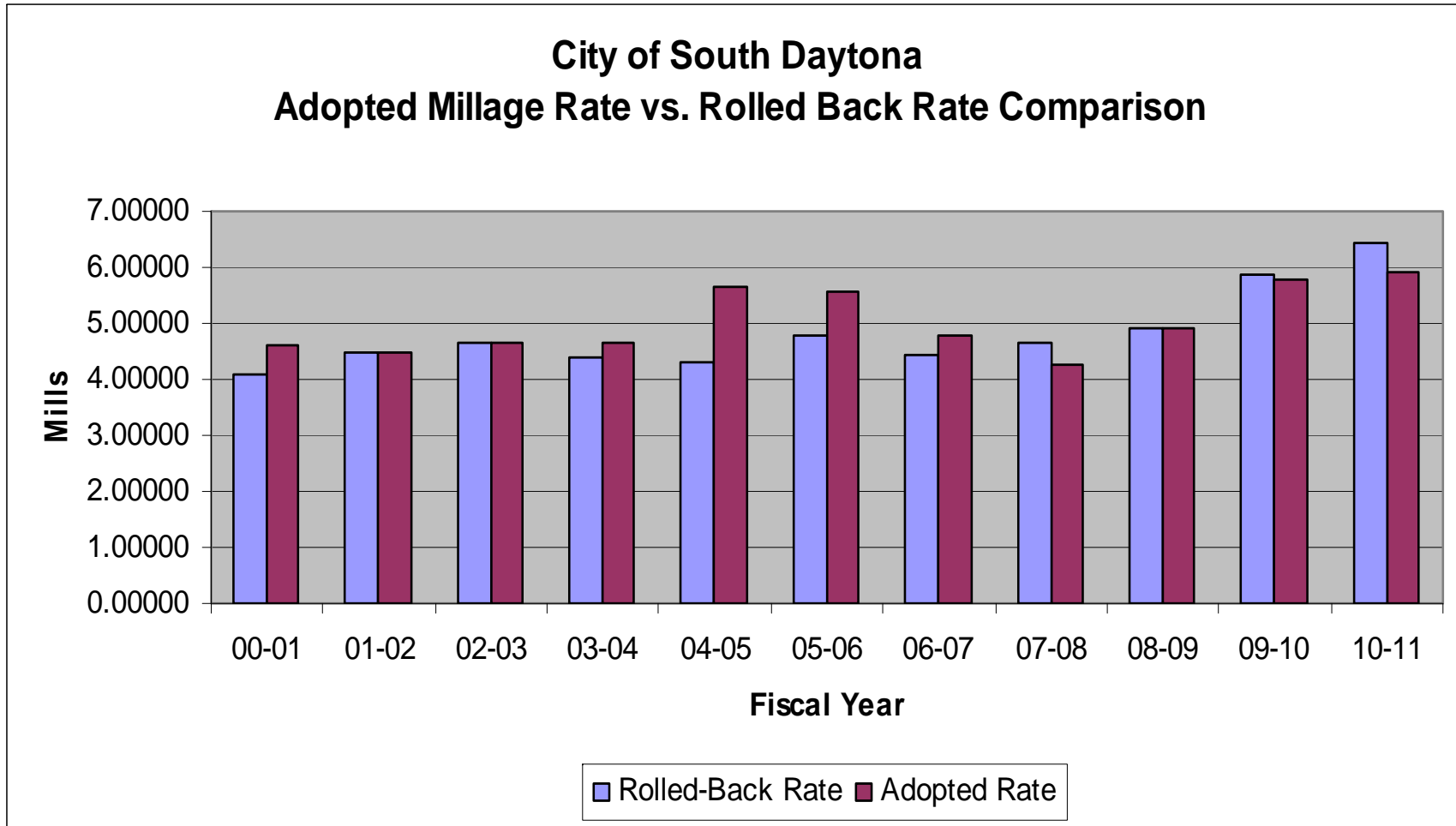
## Community Redevelopment Area [CRA] Taxable Values



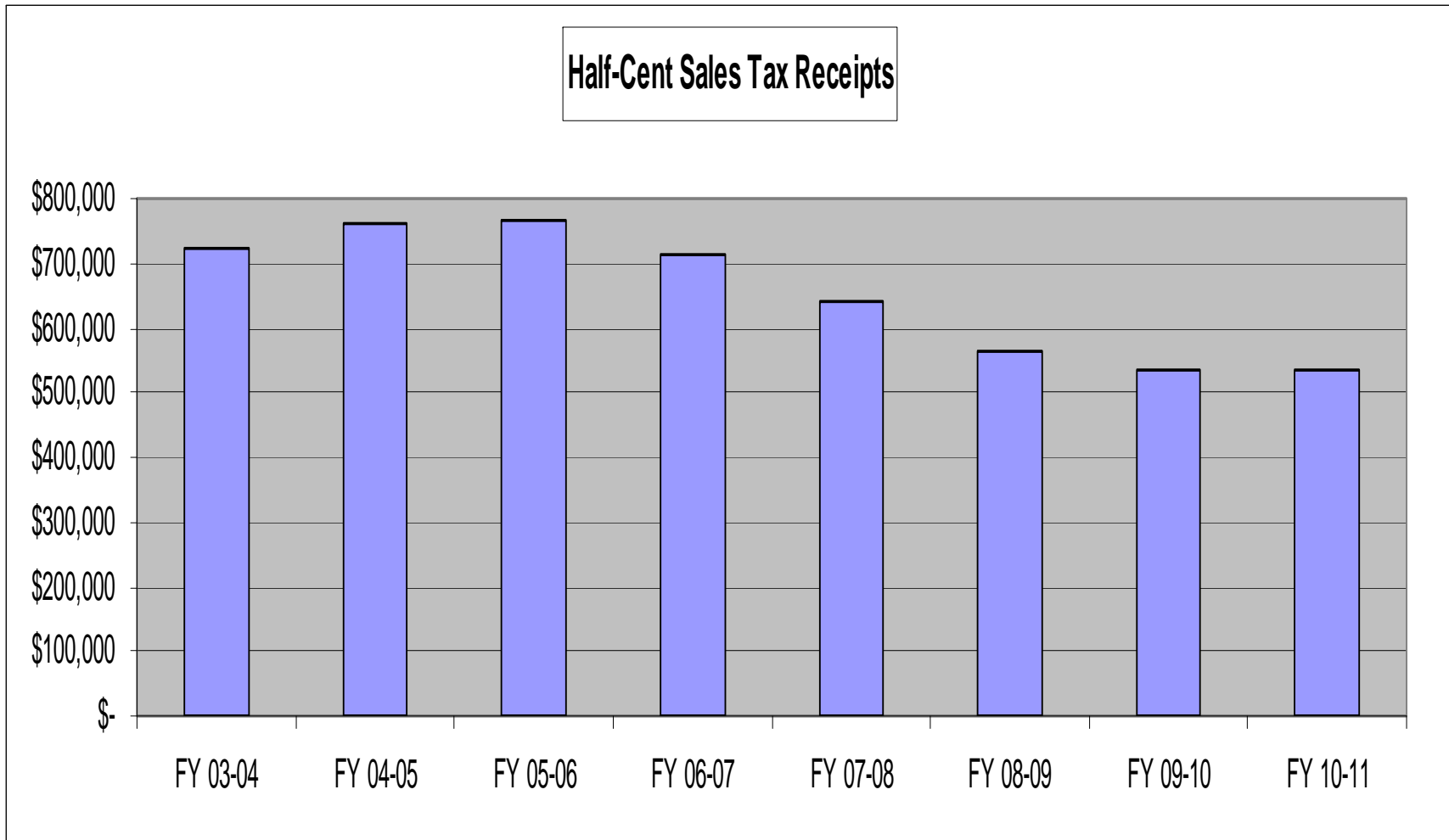
# South Daytona Tax Levies



# South Daytona Millage Rates

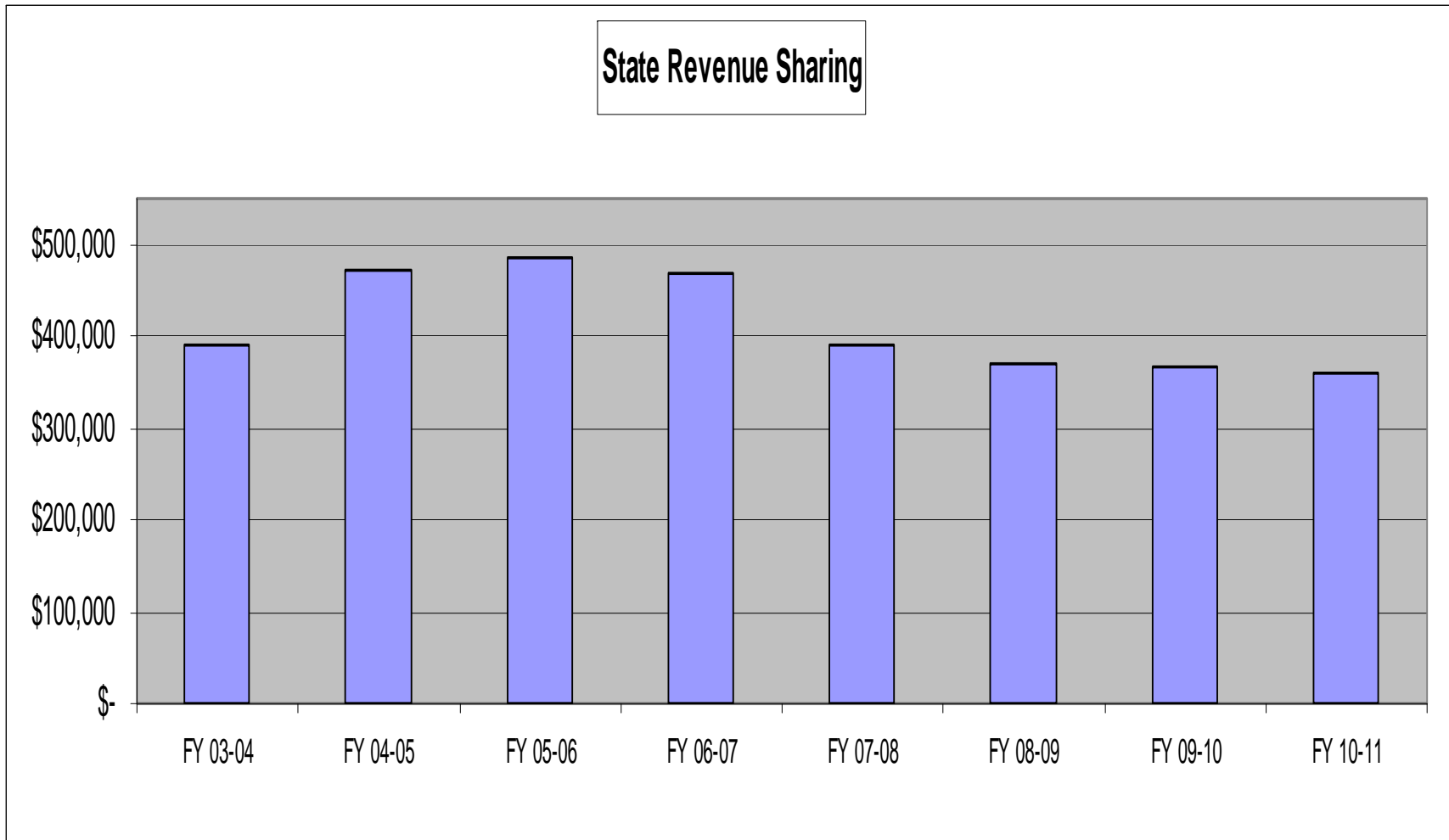


# Half-Cent Sales Tax

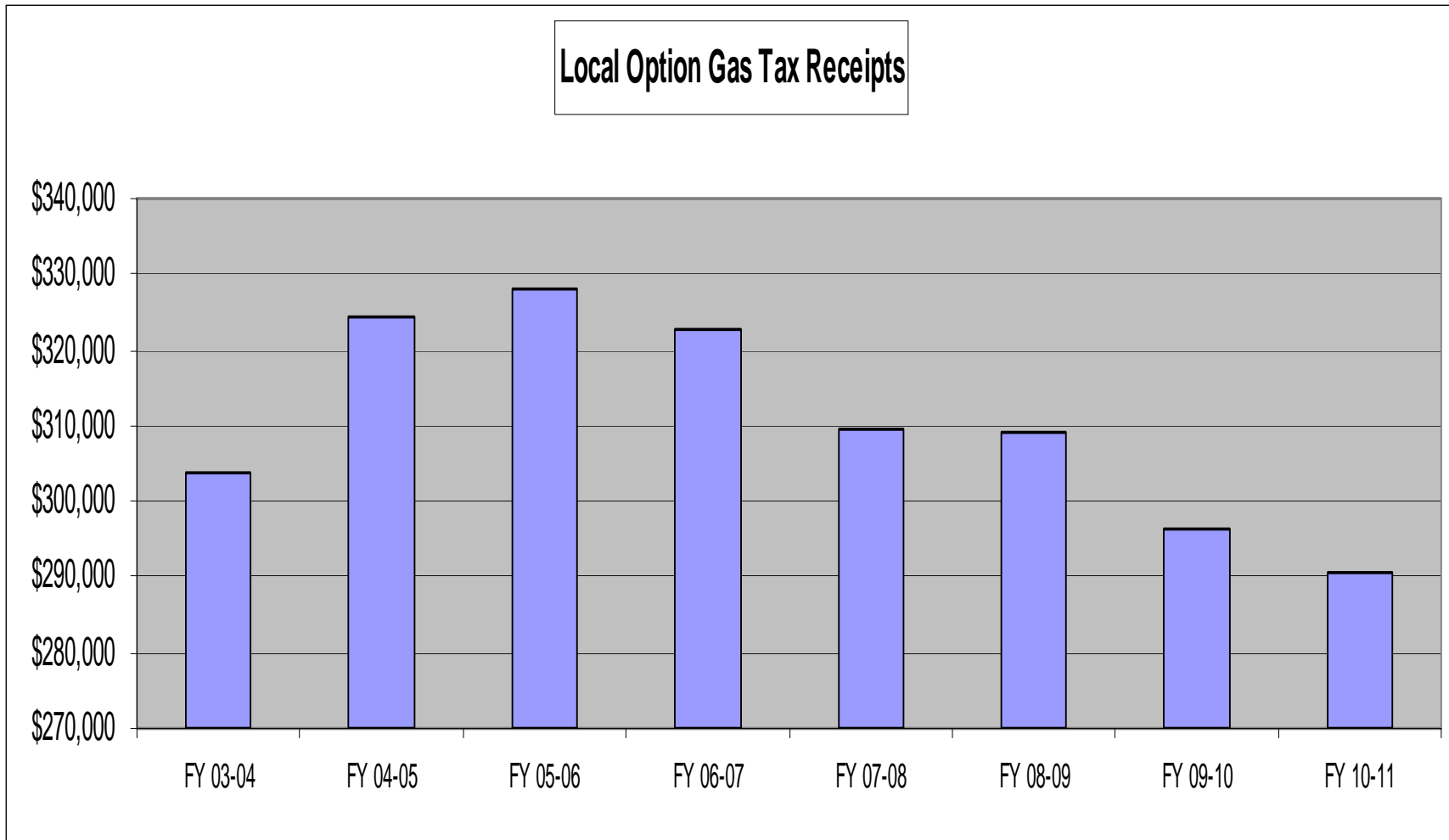




# State Revenue Sharing



# Local Option Gas Taxes



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# How Has South Daytona Countered Reduced Revenues?

- Full-time employees reduced from 125 to 92
    - 33 vacant positions or 26% of workforce
    - \$1,516,834 savings in governmental funds
    - Lowest funded full-time equivalent positions since FY 1991-1992
  - Operational expenses reduced-\$971,723 or 23%
    - FY 2006-2007 operating expense - \$4,228,138
    - FY 2010-2011 operating expense - \$3,256,415 - FY 2003 level
  - Capital equipment replacement postponed
    - Maintenance expenses also cut
  - Capital improvements delayed
    - No street resurfacing for past three years
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# South Daytona

## Distribution System Experience

- The City has been operating a water/wastewater distribution system for approximately 37 years [since 1974]
  - Maintains approximately 40 miles of water lines and 35 miles of sewer lines
- Water and wastewater industry is more heavily regulated than electric service [EPA, Department of Health regulations]
- Annual operating budget is approximately \$7M
  - Operating and Capital budget averages \$10M annually
- Profits derived from water/wastewater operations lawfully assist in subsidizing General Fund operations via indirect cost allocations
  - Millage rate would be approximately 25% higher if not for these allocations
    - Millage rate is currently \$5.90000, would be \$7.37500

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# Operating Millage Rates of Municipal Electric Service Providers

Municipality	2010 Millage Rate
Alachua	5.50
Bartow	3.99
Blountstown	1.50
Bushnell	4.90
Chattahoochee	0.79
Clewiston	6.22
Fort Meade	7.82
Fort Pierce	5.46
Gainesville	4.25
Green Cove Springs	2.57
Havana	1.67
Homestead	6.29
Jacksonville	6.74
Jacksonville Beach	4.09
Key West	2.91
Kissimmee	4.62
Lake Worth	4.99

# Operating Millage Rates of Municipal Electric Service Providers (cont.)

Municipality	2010 Millage Rate
Lakeland	4.16
Leesburg	4.31
Moore Haven	4.46
Mount Dora	5.01
<b>New Smyrna Beach</b>	<b>3.47</b>
Newberry	3.85
Ocala	5.61
Orlando	5.65
Quincy	4.00
St. Cloud	4.91
Starke	3.96
Tallahassee	3.70
Vero Beach	1.93
Wauchula	5.44
Williston	5.90
Winter Park	4.09
<b>Average Operating Millage Rate of Municipal Electric Service Providers</b>	<b>4.39</b>

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# Operating Millage Rates of Municipal Electric Service Providers (cont.)

## ■ Volusia County

- Average municipal operating millage : \$5.40
- Average state-wide operating millage of muni electric providers : \$4.39
- 18.70% difference

## ■ South Daytona

- FY 2010-2011 operating millage : \$5.90
- Extrapolating data from the City's water/wastewater enterprise fund, if the City operated another enterprise fund such as a electric service fund and the indirect allocation methodology was the same, this **could** lower the City's millage rate by 25% to \$4.425 – similar to the state-wide operating millage rate of muni electric providers.
- Assuming the City benchmarks FPL rates, this would be a savings to City taxpayers – lower tax bill and equivalent electric bill

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# Muni Rates vs. IOU Rates

- **FPL Rate Increase Request**
    - In 2009, FPL requested 30 percent base rate increase
    - January 2010, PSC denied all but a small fraction of the request
    - FPL rates locked-in until end of 2012
    - Assumed FPL will petition PSC for another increase in 2012 or 2013
  
  - **Difference Between Muni and IOU Rates**
    - February 2011
      - Average municipal electric bill was 8% higher than average IOU bill
      - Average municipal electric bill was 26% higher than average FPL bill
      - If FPL is awarded rate increase by PSC, this gap will decrease if not disappear
  
  - **South Daytona Citizen Utility Survey**
    - Conducted by National Research Center
      - Mailed to citizens in December 2007; Results compiled in 2008
      - Response rate of 51%
      - 78% of respondents indicated they would support the City purchasing the electrical distribution utility from FPL if rates stayed the same or decreased
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# Conclusion

- 30-Year Pro Forma yields positive cash flow every year even with conservative projections
    - Approximate \$65M net cash flow over 30 years
  - Internal Rate of Return – 14.50%
    - Minimum Acceptable Rate of Return or Hurdle Rate – 8%
  - Local control and accountability
    - City Council responsible for rates, not Public Service Commission
  - Profits/earnings stay in community
    - Reinvestment of profits/earnings into city infrastructure
  - Economies of scale – Incremental Costs
    - City already operates a water/wastewater distribution system
  - Assists in assuring the city remains a viable entity
    - Stabilize millage rate
-