

**ENVIRONMENTAL
FINANCIAL
GROUP
INC**

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21 May 2009

Mr. Bevin Beaudet
Palm Beach County Water Utilities Department
8100 Forest Hill Blvd.
P.O. Box 16097
West Palm Beach, FL 33416

Re: **Glades Utility Authority – Business Plan Supplement**

Dear Mr. Beaudet:

Environmental Financial Group, Inc. ("EFG") in association with Howard C. Osterman, Inc. ("Osterman") is pleased to submit to Palm Beach County Water Utilities Department ("Department") this Business Plan Supplement relating to the proposed Glades Utility Authority (GUA).

This work has been conducted under a Consulting Services Authorization between Palm Beach County and Mathews Consulting, Inc. Environmental Financial Group, Inc. and Howard C. Osterman, Inc. are sub consultants to Mathews. EFG and Osterman both serve the Department as rate, financial and business consultants. Neither firm provides investment banking, accounting, or legal services.

INTRODUCTION

This letter report is a supplement to the Glades Utility Authority (GUA) Draft Business Plan dated 26 February 2009. It serves to update certain conclusions and recommendations based on information collected and analyzed since the draft Business Plan was issued.

Specifically, the following have occurred since that time.

- Discussions with certain lenders of existing Glades cities utility bonds and bank loans.
- Discussions between County staff and the Florida Department of Environmental Protection (FDEP) regarding the restructuring of existing state revolving fund (SRF) loans and potential availability of new grants and loans to the GUA.

- Discussions between County staff and representatives of the three Glades cities on provisions to be included in the Inter-local Agreements that would establish the GUA and which have economic or financial impact on the GUA Business Plan.
- Internal Water Utilities review of operating expenses, capital improvement plans, and administrative matters related to billing, meter reading and customer service.

BUSINESS PLANNING ASSUMPTIONS

For purposes of this Business Plan Supplement, several important financial planning assumptions have been updated or revised based on the availability of new information. For financial planning purposes, it is assumed that all grants, loans, and refinancings would be completed on or about 1 October 2009, the assumed beginning of GUA operations.

Initial Operating Revenue – The amount of water and sewer operating revenue raised each year by the three glades cities is perhaps the most critical assumption in projecting the future financial performance of the proposed GUA. It is assumed that \$13,467,000 will be generated by GUA customers at existing rates, assuming also that Pahokee raises its water and sewer rates to the level of Belle Glade's. Validation of this initial operating revenue is critical to confirming financial viability of the GUA. Note that the projected operating revenue for the GUA's first year of operation assumes a 5 percent improvement in revenue collections and no indexing of rates.

New State Grant and Loan – A new \$6,303,570 combination grant and loan will be available in a mix of 83.4 percent grant and 16.6 percent loan. The loan repayment term is assumed to be 4 percent over 30 years.

Refinancing of Existing State Revolving Fund Loans – The approximately \$9.3 million in three existing SRF loans held by the City of Belle Glade will be refinanced with interest-only payments each year beginning in 2010 and extending through 2014. In 2015 and beyond, principal and interest payments will be payable each year. The refinancings are assumed to extend the term of the three existing loans for an additional 10 years at an assumed interest rate of 4 percent.

New Bank Loan – A new bank loan will be available to the GUA in the amount of \$7.7 million. Terms of the loan will not exceed 5.5 percent interest over a 10-year term. This loan would refinance the existing \$5.7 million Wachovia bank loan to the City of Belle Glade and will make \$2.0 million of additional borrowing available. The principal amount of the loan can be adjusted depending upon the outcome of state grant and loan applications referred to above.

Additional 2010-2012 Operating Revenue Collections – An estimated 5 percent annual increase in water and wastewater revenue collections can be attained during the first three years of GUA operations (2010-2012) through more vigorous billing, collection, and customer service administrative methods.

Indexing Online Water and Wastewater Rates Beginning 1 October 2010 – Online water and wastewater rates will be indexed in accordance with the Consumer Price Index – Water & Sewer Maintenance Series (CPI) maintained by the US Bureau of Labor Statistics. It was assumed that both the CPI and the general level of operating expenses increase 4 percent per year over the forecast period.

2010-2019 Capital Improvements – The approximately \$20.6 million in capital improvements including an agreed-upon compliance schedule and other renewal and replacement investments will remain unchanged.

2010 Operating Expenses – The \$9.4 million operating expenses estimated by Water Utilities will be sufficient to operate and maintain the water and wastewater systems in 2010.

Host Fees – Annual host fees to the three Glades cities will be based on 7 percent of operating revenues. These payments offset the actual loss of municipal revenues and are a proxy for the value of assets deeded to the GUA for its business purposes.

Renewal and Replacement – The long-term viability of the GUA depends on its ability to maintain its water and sewer utility systems in a manner to ensure that its assets reach the intended service life. When such assets reach the end of their economic life, the GUA will be required to replace them. For purposes of this Business Plan Supplement, it is assumed that at least a part of the funding to renew and replace assets that have reached the end of their economic lives will be from cash reserves restricted for such use. Transfers into such an account have been assumed to occur, as available, after the first few years of operation, following the accelerated commitment to complete the capital projects included in the FDEP compliance order.

UPDATED CONCLUSIONS AND RECOMMENDATIONS

There are two accompanying schedules attached to this letter report.

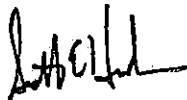
Tables 1 and 2 set forth forecasted operating results and cash flows of the GUA from 2010 through 2019.

The GUA is projected to sustain a net loss in 2010 followed by positive net surpluses in 2011 and beyond. This is a result of funding a portion of capital projects from operating revenues.

The GUA is projected to establish and maintain a positive cash balance throughout the forecast period.

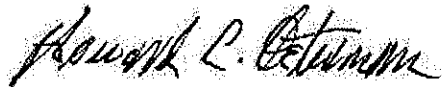
We appreciate the opportunity to submit this Business Plan Supplement to the Department and assist it this important matter. Please do not hesitate to call us at 1-612-872-0510 or 1-561-630-6990. Thank you.

Very Truly Yours,
ENVIRONMENTAL FINANCIAL GROUP, INC.



Scott E. Harder, President/CEO

HOWARD C. OSTERMAN, INC.



Howard C. Osterman, President

Cc: Debra West, Water Utilities
Fred Jenkins, Water Utilities
Rene Mathews, Mathews Consulting, Inc.

TABLE 1
Forecasted Income - GUA Business Plan Supplement

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Operating Revenue	14,140,000	15,441,000	16,862,000	17,536,000	18,237,000	18,966,000	19,725,000	20,514,000	21,335,000	22,188,000
Operating Expenses Before Depreciation	9,424,351	9,801,325	10,194,258	10,602,388	11,026,964	11,468,242	11,927,492	12,403,992	12,901,031	13,417,913
Depreciation	3,000,000	3,100,000	3,200,000	3,300,000	3,400,000	3,500,000	3,600,000	3,700,000	3,800,000	3,900,000
Operating Income (Loss)	1,715,649	2,539,675	3,467,742	3,633,612	3,810,036	3,997,758	4,197,508	4,410,008	4,633,969	4,870,087
Non-Operating Revenues (Expenses)										
Interest income	56,140	102,881	88,235	77,582	66,295	54,470	39,992	32,379	32,921	33,386
Interest expense	(1,191,161)	(1,117,948)	(1,039,958)	(957,434)	(869,657)	(776,711)	(677,845)	(573,996)	(463,467)	(381,489)
Host Fees	(989,800)	(1,080,870)	(1,180,340)	(1,227,520)	(1,276,590)	(1,327,620)	(1,380,750)	(1,435,980)	(1,493,450)	(1,553,160)
Other income (expense)	0	0	0	0	0	0	0	0	0	0
Net Income	(409,172)	443,739	1,335,679	1,526,240	1,730,085	1,947,896	2,179,105	2,432,411	2,709,973	2,968,825
Estimated indexing	0.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Enhanced Online Collections	5.0%	5.0%	5.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Host Fees, % of Online Revenue	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%
Initial Operating Revenue (from Glades cities published sources)	13,467,000									

TABLE 2
Forecasted Cash Flow - GUA Business Plan Supplement

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
CASH FLOWS FROM OPERATIONS										
Cash received from customers	14,140,000	15,441,000	16,862,000	17,536,000	18,237,000	18,966,000	19,725,000	20,514,000	21,335,000	22,188,000
Cash disbursements for operating expenses	(9,424,351)	(9,801,325)	(10,194,258)	(10,602,388)	(11,026,964)	(11,468,242)	(11,927,492)	(12,403,992)	(12,901,031)	(13,417,913)
Net cash provided by operating activities	4,715,649	5,639,675	6,667,742	6,933,612	7,210,036	7,497,758	7,797,508	8,110,008	8,433,969	8,770,087
CASH FLOWS FROM CAPITAL AND FINANCING										
Bond Proceeds	0	0	0	0	0	0	0	0	0	0
Bond Issuance Costs	0	0	0	0	0	0	0	0	0	0
Bank Loan Proceeds**	2,000,000	0	0	0	0	0	0	0	0	0
SRF Loan Proceeds**	1,044,176	0	0	0	0	0	0	0	0	0
SRF Grants**	5,259,394	0	0	0	0	0	0	0	0	0
Principal Payments	(1,376,070)	(1,424,757)	(1,480,286)	(1,542,757)	(1,607,277)	(2,065,259)	(2,149,872)	(2,242,515)	(1,543,345)	(1,612,527)
Interest Payments	(1,191,161)	(1,117,948)	(1,039,958)	(957,434)	(869,657)	(776,711)	(677,645)	(573,996)	(463,467)	(381,489)
Capital Projects	(2,058,000)	(2,510,778)	(2,393,778)	(2,142,778)	(2,195,778)	(2,063,778)	(2,405,778)	(1,155,778)	(1,155,778)	(782,444)
Connection Fees	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000
Lake Region WTP County Capital Payment	0	(886,336)	(886,336)	(886,336)	(886,336)	(886,336)	(886,336)	(886,336)	(886,336)	(886,336)
Transfer to Renewal and Replacement Account	0	0	(500,000)	(1,000,000)	(1,250,000)	(1,250,000)	(1,500,000)	(1,750,000)	(3,000,000)	(3,500,000)
Net cash used by capital and financing	3,703,340	(5,914,819)	(6,275,358)	(6,504,305)	(6,784,048)	(7,017,084)	(7,594,630)	(6,583,624)	(7,023,925)	(7,137,795)
CASH FLOWS FROM INVESTING ACTIVITIES										
Interest income	56,140	102,881	88,235	77,582	66,295	54,470	39,992	32,379	32,921	33,386
Other	0	0	0	0	0	0	0	0	0	0
Net cash provided by investing activities	56,140	102,881	88,235	77,582	66,295	54,470	39,992	32,379	32,921	33,386
Host Fees	(989,800)	(1,080,870)	(1,180,340)	(1,227,520)	(1,276,590)	(1,327,620)	(1,380,750)	(1,435,980)	(1,493,450)	(1,553,160)
Net increase (decrease) in cash	7485,329	(1,253,132)	(699,721)	(720,631)	(784,306)	(792,476)	(1,137,880)	122,783	(50,486)	112,518
Beginning total cash balance	0	7,485,329	6,232,197	5,532,476	4,811,845	4,027,539	3,235,063	2,097,182	2,219,965	2,169,480
Ending total cash balance***	7,485,329	6,232,197	5,532,476	4,811,845	4,027,539	3,235,063	2,097,182	2,219,965	2,169,480	2,281,998
New Bank Loan	2,000,000									
SRF Grant	5,259,394									
SRF Loan	<u>1,044,176</u>									
Total SRF**	6,303,570									
Other Grants	0									

**Variations in grant funds will affect the required amount of a new bank loan.
 ***Retain minimum \$2 million in working capital in cash reserves.