PORT OF THE ISLANDS COMMUNITY IMPROVEMENT DISTRICT
NAPLES, FLORIDA
Workshop Meeting of the Board of Supervisors
June 14, 2024

The workshop meeting of the Port of the Islands Community Improvement District Board of Supervisors was held on Friday, June 14, 2024, at 9:30 a.m. at the Orchid Cove Clubhouse, 25005 Peacock Lane, Naples, Florida.

SUPERVISORS PRESENT

Steve McNamee, Chairman

Dan Truckey, Vice Chairman, via Zoom

Russell Kish, Supervisor

Kevin Baird, Supervisor

Anna-Lise Hansen, Supervisor

ALSO PRESENT

Neil Dorrill, Manager, Dorrill Management Group

Kevin Carter, Dorrill Management Group

Tony Pires, District Counsel

Robert Ori, CPA for Raftelis

ROLL CALL/APPROVAL OF AGENDA

Four Supervisors were present in person, establishing a quorum. Mr. Truckey participated via Zoom. The meeting was convened at 9:30 a.m. The meeting was also properly noticed. The notice and affidavit are on file with the District Office at 5672 Strand Court, Naples, FL 34110.

Mr. Truckey's participation via Zoom due to extenuating circumstances was approved on a MOTION by Mr. McNamee, a second by Ms. Hansen, and all in favor.

PUBLIC COMMENT

No public comment was received at this time.

MANAGERS REPORT

A. Utility Rate Study

Raftelis representative Mr. Robert Ori, provided an introduction and shared that the scope of work was a revenue requirements analysis, which forecasts expenditure and funding needs for utilities. The analysis evaluates the ability of revenues derived from rates, including current non-ad-valorem assessments, to meet expenditure needs. It identifies necessary rate adjustments and highlights surpluses where applicable. Additionally, it assesses liquidity, debt, and determines an optimal rate structure and implementation plan, with projections extending through 2028, focusing on 2025 as a test year for potential rate adjustments. Mr. Ori mentioned that a big issue they identified was developing a funding strategy for the capital improvement plan.

The combined systems currently generate approximately $1.5 million in revenue. Operating expenses exceed $800,000 and are expected to rise to $900,000 by 2028, reflecting an average annual increase of 4.4%. Over the fiscal years through 2028, there is a projected capital requirement of $9.3 million. To meet this, $5.9 million will be funded through the issuance of additional debt within the system, while 63% of the capital plan, totaling $3.4 million, will come from operating reserves. Currently, the system operates without any outstanding debt, but it is anticipated that about $6.265 million in debt will be issued. The capital value financed by debt issuance is $5.9 million, with the first year's interest capitalized and funded from the loan proceeds. The debt deferral provides flexibility in rate adjustments. Assuming a 4% interest rate and 3% inflation annually, the principal amount of debt is projected to be $433,000 by 2028. It is recommended to implement an 8% rate increase in the initial two years, followed by adjustments in the range of 5-6.5% in subsequent years, based on the proposed financial plan. Beginning fiscal year 2025, an assumed 3% inflation rate annually is factored into the financial projections.

The discussion included plans to discontinue non-ad-valorem assessments and implement a meter-based base facility charge. This change was considered beneficial due to the elimination of tax collector fees and potential revenue losses from prepayments for early payments, aiming to improve accuracy in customer billing. It was noted that few utilities employ a base facility charge as a non-ad-valorem assessment. Mr. Ori gave the example that Collier County uses a rate structure attached to the meter. He presented current rates for water and wastewater, which are currently uniform, and noted that the District may want to reallocate these costs in the future. Specific rates presented by Mr. Ori included most meters at $118.87 and an existing base charge per ERC of $116.92, which includes an early payment discount. Transitioning to a meter-based approach would reduce the number of ERCs compared to those currently listed on the tax roll. Multifamily accounts currently assessed via the tax roll would switch to ERCs based on meter equivalent factors derived from demand criteria, specifically water flow. When asked about knowing where the various meter sizes are located within the District, Mr. Ori indicated there was no current data available. Additionally, Mr. Ori recommended increasing the potable water cap for wastewater billing to 100%, up from the current 75%.

The discussion compared non-ad-valorem assessment versus meter-based approaches. Non-ad-valorem assessments were noted for their high collection rate, as they share the same payment status as property taxes and minimize bad debt write-offs, regardless of property occupancy or seasonality. However, once levied, rates cannot be adjusted for non-ad assessments, unlike meter-based approaches which offer flexibility for rate adjustments at any time.

In conclusion, existing rates are projected to be insufficient through fiscal year 2028 due to rising operating expenses, capital costs, and additional debt service. Rate adjustments have been identified for fiscal years 2025 through 2028, and the Board accepted the proposed monthly user rate adjustments. The proposed rate adjustments were accepted, including a transition to meter-based charging for fixed services. This transition will maintain the current billing process while implementing a meter-based base facility charge in fiscal year 2026 to allow for adequate preparation for the transition. The meter-based approach will help equalize ERCs. Condominiums can be billed on a unit-based approach instead of a meter based one, it is recommended to develop a master meter. Mr. Ori noted that many Counties utilize unit-based rates. Condominiums at the hotel will likely use a master meter and factor the cost into the condominium fees. Mr. Ori suggested doing a survey or inventory of the actual meter sizes per account as that information is currently not contained in District records. This could then be linked to the non-ad-valorem tax roll to see the full progression and what is there now.

Mr. Truckey mentioned that the water from the docks is not able to be run back to through the sewer system, he asked if that meter would include the sewer charge or if it would just have the water charge. Mr. Ori said it would just have the water charge. Ron Westerman of Cays Drive asked if Florida Utility Solutions would be able to provide the information needed to connect the meter sizes to the tax roll information. Mr. Ori said if all the meters have a backflow preventor it could be possible, and that location data would be helpful to link the meter with the account holder. Mr. Kish asked if the hotel is charged monthly or bi-monthly, Mr. Dorrill said bi-monthly. Mr. McNamee pointed out that the current utilization of only 71% of ERCs contributes to high costs, and he would like to build out to a fuller capacity of utilization. He asked if the anticipated sale of ERCs to Mr. Case, 33 ERCs each year for the next three years, will lead to a loss of income if rates are moved to a meter base rate. Mr. Ori said that non-ad-valorem assessment can only be charged to a developer if there is a benefit to the property and the benefit being discussed is the base charge for water service. If there are water lines in front of the houses, the assessment should be paid as the property is benefiting from the line being there. He noted that there is case law on this. Mr. Pires noted that the process to modify a rate is simpler than increasing a non-ad-valorem assessment.

To avoid rate shock, the accepted plan includes gradual increases to transition to a different funding source. Mr. Ori discussed the advantages of an SRF loan, noting that repayment does not begin until three years after approval or upon project completion, which for this projected is approximately three years. The loan amount is adjusted based on actual funds borrowed, and interest accrues only on disbursed amounts, avoiding interest payments on the entire loan amount regardless of utilization. Mr. Truckey asked about the possibility of charging maintenance fees for the water system on vacant land. Mr. Ori confirmed that such charges are appropriate if the landowner benefits from the maintained asset. He mentioned seeing other utilities charge a line maintenance fee for vacant properties with existing lines, clarifying that these fees are not usage charges, and he considers maintenance charges reasonable in such circumstances. There was discussion about delinquent bills and water shut offs. Increasing the late fee was mentioned and it was said that a $25 fee is not much motivation to pay a $12,000 late water bill.

Mr. Pires believes there's a higher likelihood of Collier County assuming control of the utility operations in Port of the Islands if presented in a rate and fiscal structure familiar to them, moving away from the non-ad-valorem assessment system. Mr. Dorrill expressed that from a regional perspective, the revenue potential of this community makes it an attractive customer base for Collier County.

PUBLIC COMMENTS

No additional public comments were received at this time.

ADJOURNMENT

The next meeting will be on July 19, 2024, at 9:30 a.m.