RAFTELIS

Port of Islands, CID

Water and Wastewater Utility

Rate Study

June 14, 2024

Agenda

1. Project Scope
2. Revenue Sufficiency Analysis
3. Conclusions and Recommendations

Project Background

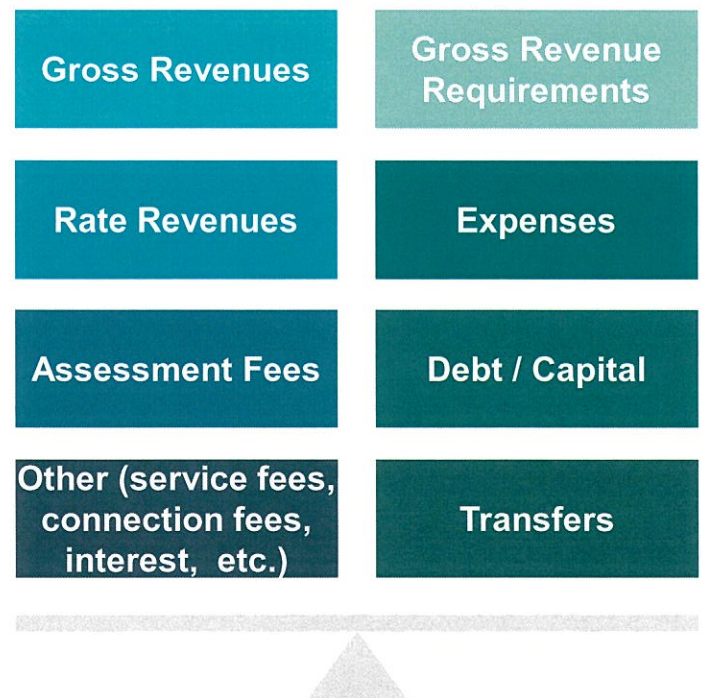
- Prepare Revenue Sufficiency Analysis
  - Forecast Estimated Expenditure Needs and Rate Revenue Recovery
  - Identify System Rate Adjustments

- Prepare Proposed Rates for Fiscal Year 2025
  - Identify Rate Phasing Plan for Forecast Period
  - Evaluate Base Facility Cost Recovery Methodology

Revenue Sufficiency Analysis

Study Tasks and Approach

- Develop Financial Forecast of Water and Wastewater System Operations for Fiscal Years 2024 Through 2028
- Project Revenues and Revenue Requirements
- Develop Funding Strategy for Capital Improvement Plan
- Evaluate Cash Reserve Targets and Financial Performance Requirements
- Determine Adequacy of Revenues at Existing Rates
- Review Analysis Under Assessment or Meter Based Billing



Study Goals and Considerations

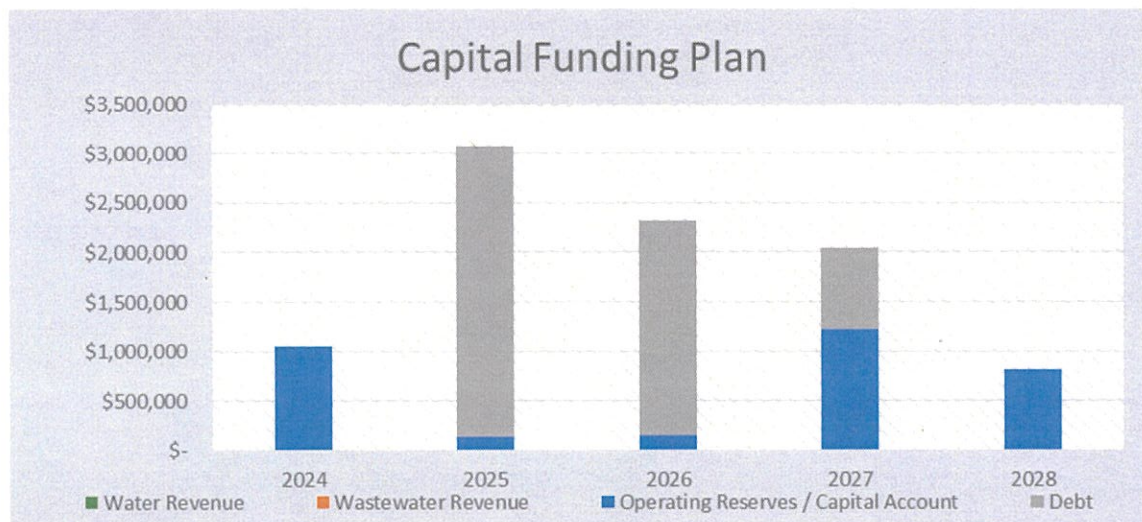
- Fully Fund Cost of Operations and Fund Identified Capital Improvement Plan for Utility Plant Renewals and Replacements
- Achieve Positive Cashflow during the Forecast Period
- Compliance with Anticipated Debt Service Rate Covenant Guidelines
  - All-In Coverage Target - 200%
- Maintain Reserve Balances at Adequate Levels
  - Water and Sewer Operating Fund– 250 Days of Rate Revenues
- Build / Maintain Operating / Capital Reserves to Minimize Financial Risk
- Propose Adjusted Rates Based on Forecast
  - Evaluate Change in Rates Associated with Moving from an Assessment Based to Meter Based Structure for Meter Charges

System Customers, Growth, and Revenues

- Approximately 682 Water and Wastewater Accounts in FY 2023
  - Approximately 731 Water and Wastewater Equivalent Residential Connections
  - Approximately 1,102 Units with Irrigation Service
- Customer Account Growth of Approximately 1.5% Per Year
- Combined System Revenues at <u>Existing</u> Rates Approximately $1.5 M in FY 2024
- Other Revenues of Approximately $8,700 per year
  - Misc. charges (meter fees, other miscellaneous fees, etc.)
  - Interest income

Revenue Requirements – Operations and Capital Improvement Plan

- Operating Expenses of $814,000 in FY 2024 Increasing to $969,000 by FY 2028 – Average Annual Increase of Approximately 4.44% Per Year
- Capital Improvement Plan (CIP) of $9.3 million from FY 2024 through FY 2028
  - $5.9 Million in Proposed Debt Funded Projects (63% of plan)
  - $3.4 Million in Rate and Reserve Funded Projects (37% of plan)

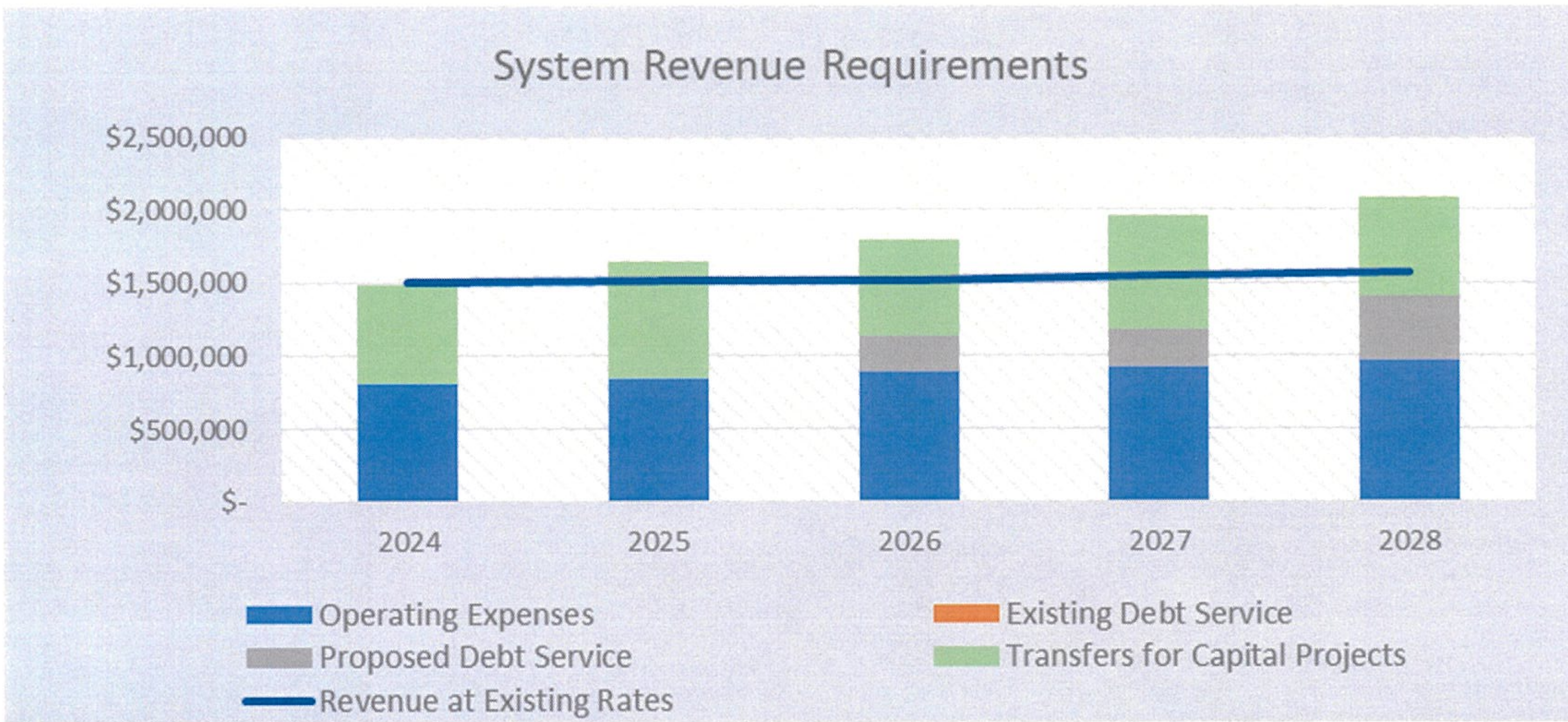


Revenue Requirements – Debt Service

- Currently No Existing Debt On System
- Assumed Principal Amount of Debt Issued = $6,265,000
  - Plan Assumes Issued during Fiscal Year 2025 / 25-year Term
- Proposed New Annual Debt Service Payments
  - New Debt Assumes 1 Year of Interest Capitalized from Loan Proceeds
  - 2 Years of Interest-Only Payments of $250,000 Per Year Starting in FY 2026
  - Increasing to $433,000 by FY 2028 – Level P / I Payments for Remainder of Term
- Allows for Rates to be Phased while Projects are Constructed
- Projected Debt Repayment Schedule:

Projected Annual Debt Payments from Rates				
2024	2025	2026	2027	2028
$0	$0	$250,000	$250,000	$433,000

Adequacy of Existing Rates



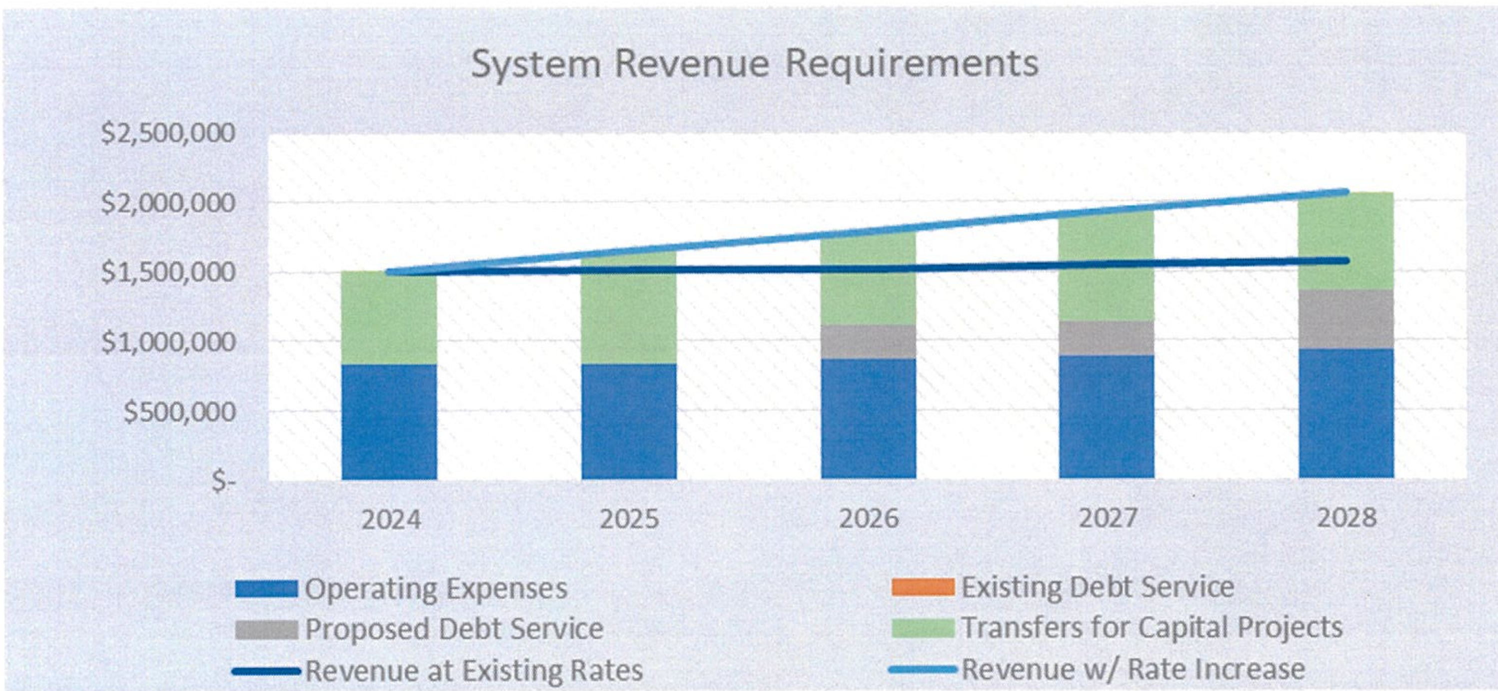
Issues Affecting Future Rates and Proposed Rate Adjustments

- Inflationary Increases in Operating and Capital Expenditures
- Future Increase in Annual Debt Service Payments due to Debt Issuance to Fund Major Capital Projects in the Capital Improvement Plan

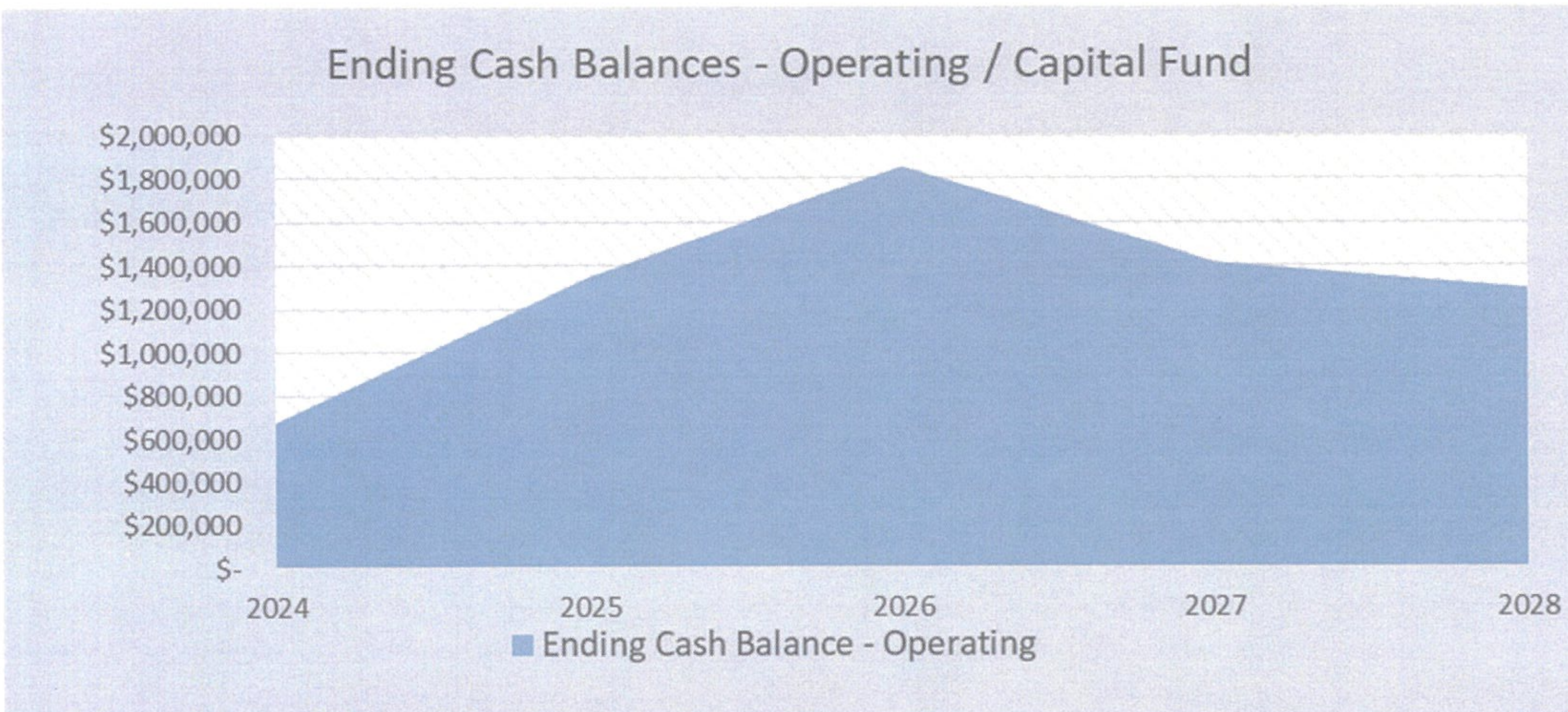
	2024	2025	2026	2027	2028
Water / Irrigation System	N/A	8.0%	8.0%	6.5%	5.0%
Wastewater System	N/A	8.0%	8.0%	6.5%	5.0%
Effective Date		Oct. 1, 2024	Oct. 1, 2025	Oct. 1, 2026	Oct. 1, 2027

* Rate Include Assumed Indexing of 3% Per Year Starting in FY 2025

Adequacy of Proposed Rates



Adequacy of Proposed Rates (cont.)



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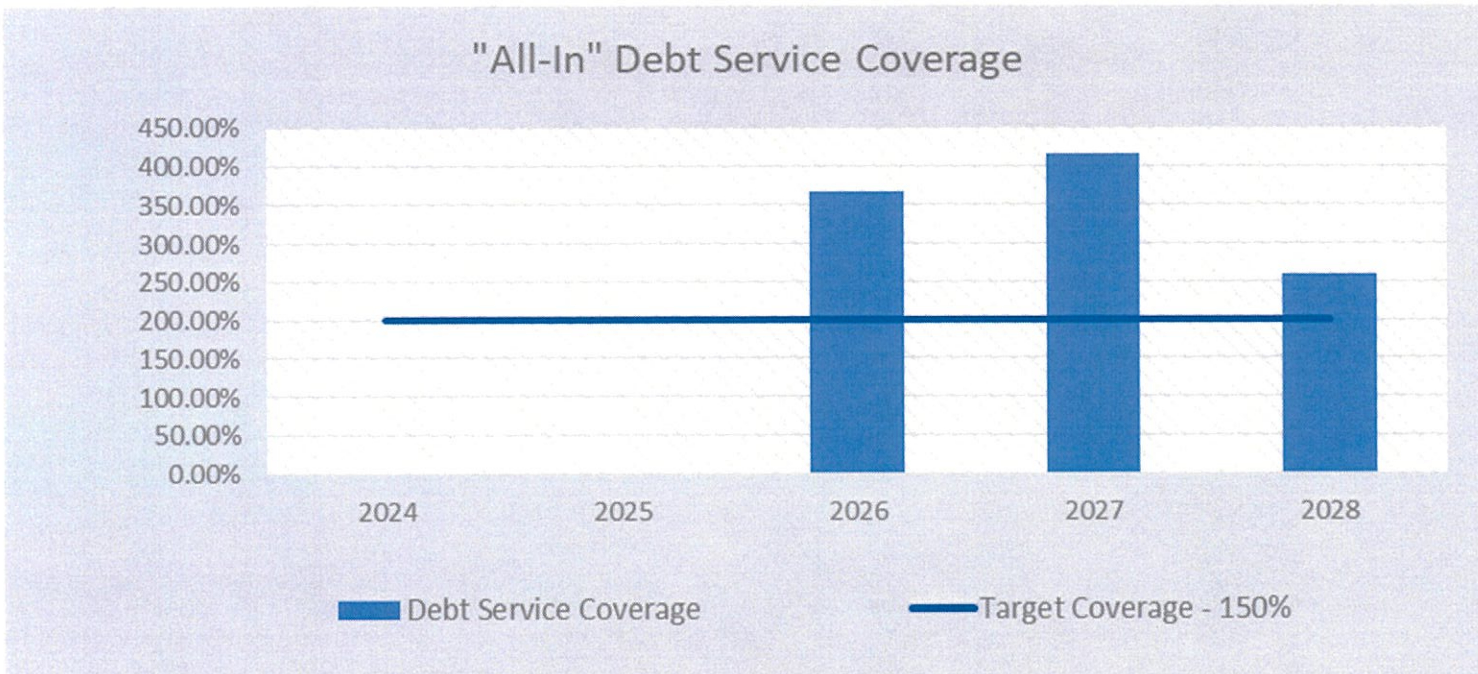

Proposed Rates

Proposed Rates

- Rates Include Two Components:
  - Base Facility (Fixed) Cost component
  - Volumetric (Variable) Cost component
- Base Facility Charge – Billed as a Non-Ad Valorem Assessment (per Florida Statutes, Chapter 197)
  - Single Charge Billed – not Separated between Utility Systems
  - Generally Base Facility Charge Billed Based on Meter Serving Property
- Volumetric Rate – Based on Metered Potable / Irrigation Water
  - Wastewater at 75% of Potable Water
- Rate Alternative – Implement Meter-Based Charge (Taking it off the Tax Roll)
  - Removes Payment to Tax Collector (Expense)
  - Removes Pre-Payment Discount (Loss of Revenue)
  - Helps Maintain Accurate Customer Billing System for Forecasting Future Growth

Proposed Alternative Rates

Bi-Monthly Water and Wastewater Rates						
		Water			Wastewater	
Single Family	Existing	Proposed	FY 2025	Existing	Proposed	FY 2025
Base Charge Per ERC:	$116.92			$116.92		
5/8-inch Meter		$118.87	$128.38		$118.87	$128.38
3/4-inch Meter		178.30	192.56		178.30	192.56
1-inch		297.17	320.94		297.17	320.94
1 1/2-inch		594.35	641.90		594.35	641.90
2-inch		950.95	1,027.03		950.95	1,027.03
3-inch		1,783.04	1,925.68		1,783.04	1,925.68
4-inch		2,971.73	3,209.47		2,971.73	3,209.47
Usage Charges:						
Water Usage	$3.38	$3.38	$3.65			
Wastewater Usage (100% of Potable Water)				$6.94	$6.94	$7.50

Proposed Alternative Rates (cont)

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  - Helps Maintain Accurate Customer Billing System for Forecasting Future Growth

Cost Recovery Comparison

Non-Ad Valorem Assessment	Meter Based
• Same payment status as Property Taxes – Collection Rate is High – Promotes Revenue Stability and Predictability	• Common Utility Rate Structure and Consistent with FPSC and Collier County rate making criteria; • Consistent with County Retail rate structure (favorable from a County Utility acquisition standpoint if considered in future by parties)
• Reduced bad debt write-offs due to high probability of collection; Eliminates any seasonality issues since full base charge recovered regardless of occupancy of property	• Utility bill fully tied to service – Better link of full service to Customer Requiring / Receiving service
• Current Rate application, limited disruption to customers	• Can implement a change in rates at any time; assessment rates cannot be changed except once per year
• Increased financial risk due to unknown changes in water use by customers once bills fully consolidated	
• Data to support conversion may not be fully reliable due to System Manager transition; May be best to maintain status quo to accumulate more data to evaluate impacts to customers in future	

Conclusions and Recommendations

Observations and Conclusions / Next Steps

- Existing Rates are Not Projected to be Sufficient Through Fiscal Year 2028
- Due to Increasing Operating Expenses, Capital Costs, and Additional Debt Service Costs
- Rate Adjustments are Needed for Fiscal Years 2025 through 2028

Recommendations and Conclusions

- Adopt Proposed Monthly User Rate Adjustment Plan
- Move to Meter Based Approach for Charging for Fixed Service
  - Determine Implementation Plan if District Objective
  - Increase Rates for FY 2025 and Obtain Additional Customer Billing Information
  - Consider Policy Adjustments (Seasonality issues)
  - Customer Notification and Outreach
  - Implement Change in FY 2026
- Continue to Monitor Plan Going Forward as Things May Change

Q&A

Proposed Rates

Bi-Monthly Water and Wastewater Rates			
Single Family	Existing	Proposed	FY 2025
Base Charge Per ERC:	$233.84		
5/8-inch Meter		$237.74	$256.76
3/4-inch Meter		356.60	385.13
1-inch		594.34	641.89
1 1/2-inch		1,188.70	1,283.80
2-inch		1,901.90	2,054.05
3-inch		3,566.08	3,851.37
4-inch		5,943.46	6,418.94
Usage Charges:			
Water Usage	$3.38	$3.38	$3.65
Wastewater Usage	6.94	6.94	7.50