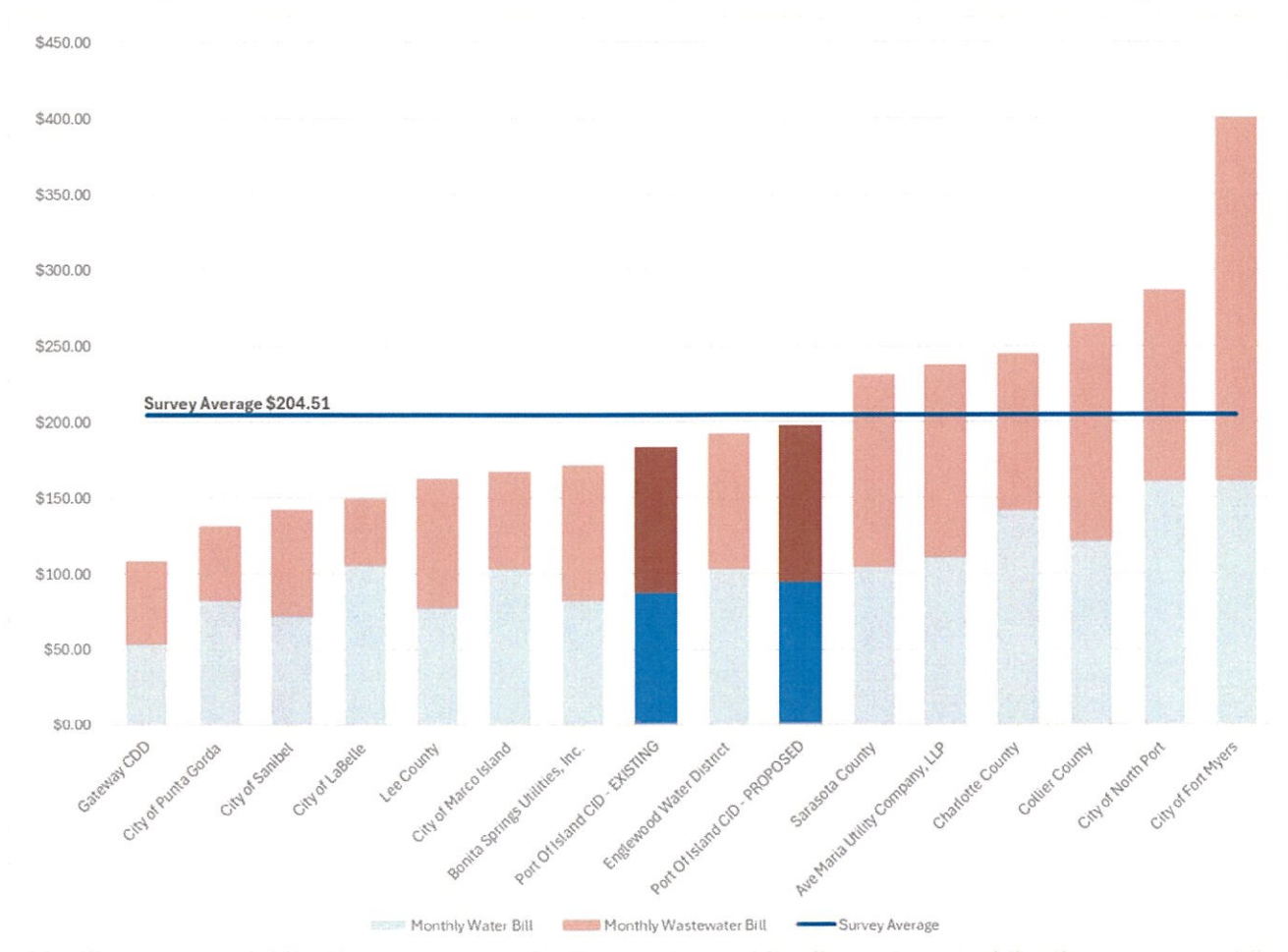


PORT OF THE ISLANDS CID

2024 Revenue Sufficiency and Rate Analysis – Water, Wastewater, and Irrigation Systems

JUNE 7, 2024

Figure 3 – Comparison of Monthly Single-family Water and Wastewater Bill at 4,000 Gallons of Domestic Water and 11,000 Gallons of Irrigation Water Usage

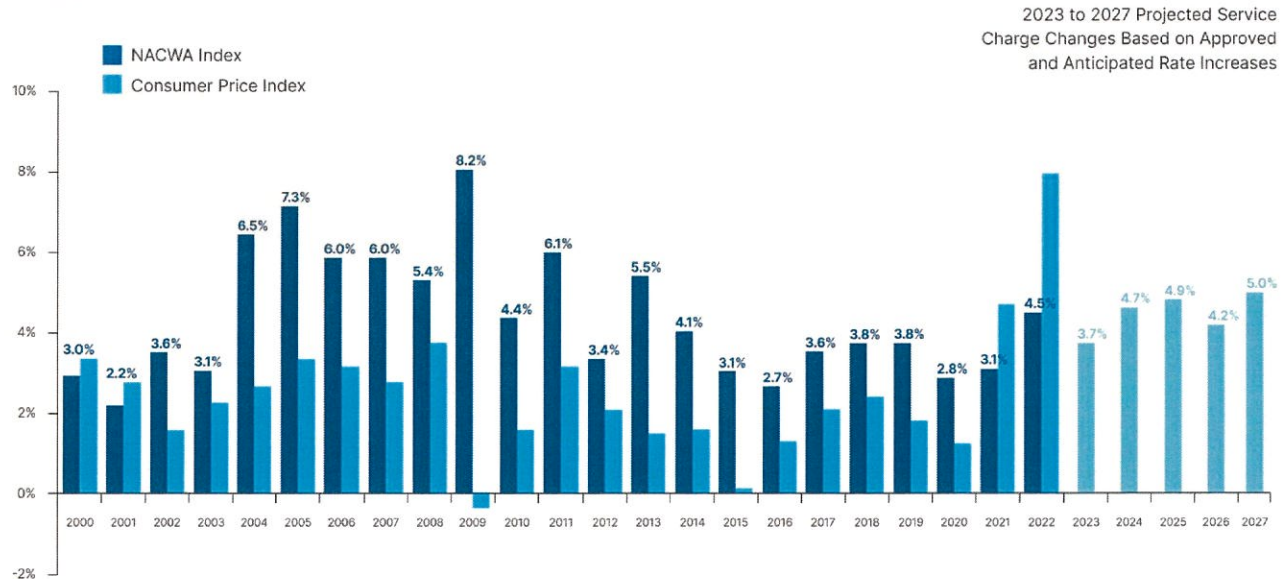


As can be seen above, when recognizing an allowance for discretionary water use for irrigation demands, the District rates appear to be more comparable to the other surveyed utilities.

It should be noted that most of the utilities shown in the comparison above are planning rate adjustments to be made effective during the next 12 months. If one were to recognize the anticipated rate adjustments for the other surveyed utilities, the comparison would become more favorable for the District. The need to increase rates for utility service is an issue in both Florida and nationally based on our conversations with several other utilities in Florida and information published on a national perspective regarding the needs for future rate adjustments. The table below provides a national indication of the recent trends in rate adjustments (referred to as the NACWA Index, which is based on a composite of 174 utilities serving 104 million people) as compared to the consumer price index, all as published by the National Association of Clean Water Agencies ("NACWA"). As can be seen below, NACWA reports that the adjustments to rates has most recently outpaced inflation for many years and a forecast in rate adjustments ranging from 3.0% to 4.6% over the next five (5) years is anticipated (note that this is a 2023 comparison, the most recent year has not been published at this time). The projected increases for the District utility system over the next three (3) fiscal years as shown above is representative to the projected increases as identified by NACWA and tends to illustrate the overall general reasonableness in the rate adjustments being proposed for the District's System.

Figure 4 –NACWA Annual Change in Cost of Clean Water**Annual Change in Cost of Clean Water**

Index vs. Inflation



Financial Considerations and Performance

Included as part of the development of the financial forecast and the review of the overall sufficiency of System revenues is an evaluation of the projected financial position of the System. This evaluation includes the development of certain ratios and the review of financial performance indicators to evaluate “where the System is anticipated to be financially.” The analysis includes a series of charts and figures prepared to provide the District a visual representation of the financial and statistical trends in the selected financial ratios or benchmarks anticipated for the System over the Forecast Period. The following is a brief description of the financial ratios evaluated by Raftelis on behalf of the System.

Debt Service Coverage

As previously mentioned, it is anticipated that the District will need to secure external financing to fund a portion of the CIP. Generally, as a condition of the borrowing, an agreement between the borrower (District) and the lender will be required to delineate the terms and covenants of the borrower. This agreement may be in the form of a bond resolution or trust indenture, bank loan agreement, loan agreement with the Florida Department of Environmental Protection, other some other form of agreement. Usually, the agreement will have a rate covenant that requires that the Net Revenues of the System (i.e., total revenues from operations less operating expenses) will be in excess of the debt payment by a minimum amount (referred to as “debt coverage”). A common minimum debt coverage ratio would range between 1.20× to 1.35× the annual debt payment for a small system.

We have recognized a minimum debt service coverage ratio of 2.0× annual debt service payment for the financial forecast. This is considered as a strong coverage ratio by the credit rating agencies (e.g., Moody’s Investor Service, Fitch Ratings, etc.) and is a positive target for a small system such as the District as it positions itself to borrow monies in the near future. Table 1C at the end of this Report summarizes the ability of the

projected System Net Revenues to meet the targeted rate coverage ratio. As can be seen on Table 1C and as summarized below and assuming the full implementation of the rate plan identified in this report, it appears that the proposed rates will provide sufficient resources to meeting the operations and maintenance expense requirements of the System, fund the projected capital needs as identified in the District's capital improvement plan, and provide an adequate debt coverage ratio to attract external funding for CIP financing activities.

As can be seen on Table 1C at the end of this Study and as shown below, it is anticipated that the Net Revenues derived from System operations will be sufficient to meet the rate covenant requirements as defined in the Bond Resolution assuming the continued implementation of the District-approved rate phasing plan.

Projected Debt Service Coverage – Forecast Period [1]

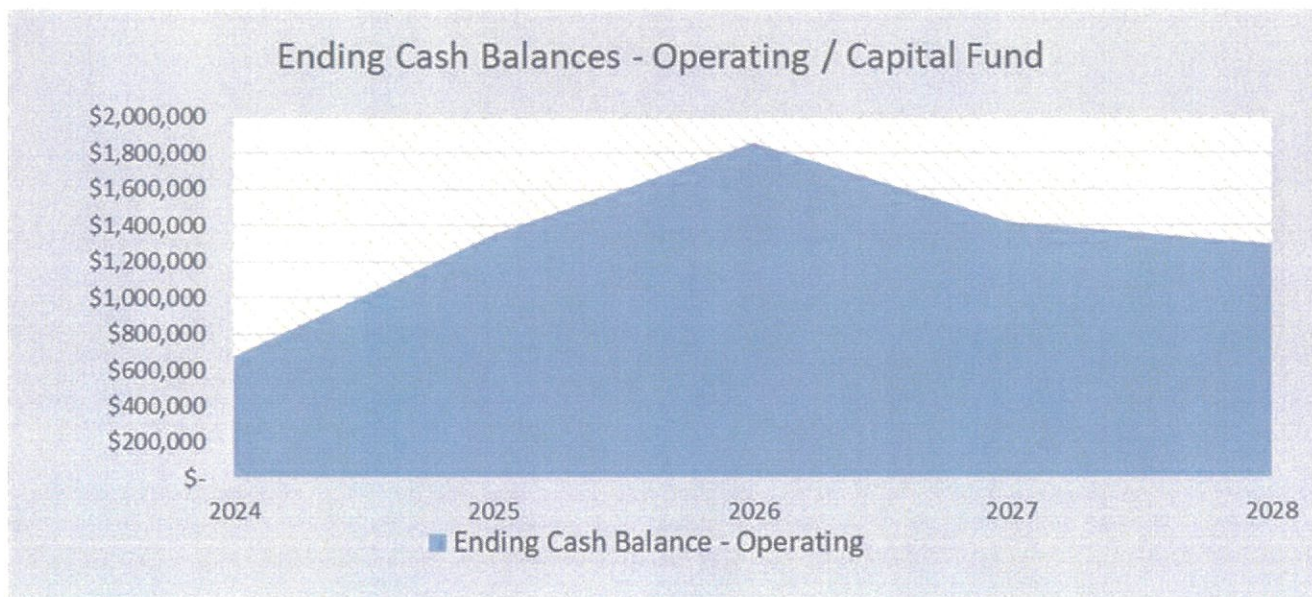
Fiscal Year	Minimum Target – 200% [1]	Minimum Target Met
2025	n/a	n/a
2026	3.59%	Yes
2027	4.09%	Yes
2028	2.57%	Yes

[1] The minimum target is recommended by Raftelis to maintain or promote a favorable bond credit rating.

Operating Fund (Working Capital) Balance

An important component of the evaluation of the System is the resulting ending Working Capital / Operating Reserves cash or liquidity position of the System since it indicates the ability of the utility to fund short-term unforeseen expenditures or revenue shortfalls and reduces the overall financial risk of the utility. The estimated cash flow (deposits and withdrawals) to the account are shown in detail on Table 1D at the end of this report.

Figure 5 – Ending Cash Balances – Operating/Capital Fund



As can be seen above and assuming the implementation of the recommended rate adjustments, the Operating / Capital Reserve cash balances for the System are anticipated to achieve the targeted ending cash balance over the Forecast Period, which was set at a minimum target of 250 days of operating expenses for the purposes of this evaluation. The targeted 250 days operating reserve balance is generally looked as being favorable by credit rating agencies but is considered as being at the lower end of the days of cash (note that it does not include capital funds). Any unrestricted funds above the minimum target level would be available for any System purpose, including increased major maintenance or additional capital project funding that may periodically occur, and also serves as a hedge in case of any extraordinary event that may occur that would affect operations or rate revenue collectability (e.g., a significant storm event).

Proposed Rates for Utility Service

The District currently charges the base facility (fixed) charge as a non-ad valorem assessment as provided by Florida Statutes, Chapter 197. This charge currently accounts for approximately 70% of the total rate revenue of the System. The District Board is considering adjusting this method of cost recovery from a non-ad valorem assessment that is billed to property owners to a meter-based system that is billed to the customers of the System on a basis consistent with the billing of the water and wastewater flow charges. In many instances the utility account and the owner of the property are consistent (primarily in the single-family residential and commercial customer service types) but there are many property owners that do not directly receive a utility bill that pay the base facility charge (primarily master-metered accounts such as condominiums where the units are separately owned but the utility flow charges are billed to a Home Owners Association or its equivalent).

In the establishment of the proposed meter-based rate alternative, the following assumptions were made:

- The current base charge cost recovery (i.e., the non-ad valorem assessment) would be allocated between water and wastewater on an equal (50% / 50%) basis and no base charge would be allocated to the irrigation system at this time (no detailed fixed asset data was available to provide a basis for the allocation of costs among all utilities so an equal allocation among the primary utilities was assumed).
- The base charges would be based on the size of the meter serving the current customer account and would recognize certain meter equivalent factors predicated on the instantaneous demand relationships of the meters, which is used by the Florida Public Service Commission and the Collier County Water and Wastewater Authority in the regulation of non-exempt private utilities and many public utilities throughout the State. This rate structure is also consistent with the current structure used by Collier County for its retail customers served by the Collier County Water-Wastewater District (the “County Utility”). The meter equivalent factors would be as follows:

(Remainder of page intentionally left blank)

Meter Equivalent Factors

Meter Size	Meter Equivalent Factor [1]
5/8-inch	1.0
3/4-inch	1.5
1-inch	2.5
1 1/2-inch	5.0
2-inch	8.0
3-inch	15.0
4-inch	25.0
6-inch	50.0
8-inch	80.0
10-inch	115.0

[1] Meter equivalent factors based on instantaneous demand relationships (gallons per minute) based on information published by the American Water Works Association.

- The amount of base charge revenue to be recovered from the meter-base facility charges would be designed to recover the same amount of revenue as currently being recovered before the application of any discount for early payment as provided by Florida Statutes (a “revenue-neutral” rate adjustment). This rate structure modification would then be subject to the additional rate adjustments as previously discussed in this report to fully recover the cost of providing utility service.
- Because there is a separate irrigation system that provides alternative water for discretionary irrigation water use, all potable water is considered to be used for domestic (indoor, essential) use. As such there is no wastewater cap for residential service or flow reduction percentage to reduce billed wastewater flows for an outdoor (non-sewer) use adjustment for the other customer classes.
- The ERCs currently being billed as non-ad valorem assessment when compared to the application of the meter equivalent factors to the meters currently in service is relatively close as shown below:
 - Actual ERCs assessed on 2024 Property Tax Bill = 743
 - Estimated ERCs based on Meter Equivalent Factors = 731
- The master-metered accounts and the commercial accounts have the same service applicability provisions and should have the same rate structure for all utility services, including irrigation water service. The application of the irrigation rates currently for commercial service should be applied to the master metered residential accounts.

Based on these rate design parameters, the following bi-monthly potable water and wastewater rates were developed based on the meter-equivalency approach:

Schedule of Bi-monthly Alternative Rates for Service – Meter Equivalent Basis [1]

	Potable Water Rates	Wastewater Rates
Single-family Residential Service:		
Base Facility Charge – per Meter:		
Meter Size:		
5/8-inch	\$128.38	\$128.38
3/4-inch	192.56	128.38
1-inch	320.94	128.38
1 1/2-inch	641.90	128.38
2-inch	1,027.03	128.38
Consumption Charge – per 1,000 Gallons:		
All Metered Potable Water Gallons	\$3.65	\$7.50
Master Metered Residential and Commercial:		
Base Facility Charge – per meter:		
Meter Size:		
5/8-inch	\$128.38	\$128.38
3/4-inch	192.56	192.56
1-inch	320.94	320.94
1 1/2-inch	641.90	641.90
2-inch	1,027.03	1,027.03
3-inch	1,925.68	1,925.68
4-inch	3,209.47	3,209.47
6-inch	6,418.95	6,418.95
8-inch	10,270.31	10,270.31
10-inch	14,763.58	14,763.58
Consumption Charge – per 1,000 Gallons:		
All Metered Potable Water Gallons	\$3.65	\$7.50