

**October 12, 2023**

# **Irrigation Water Rate Study Update**

**GovRates**

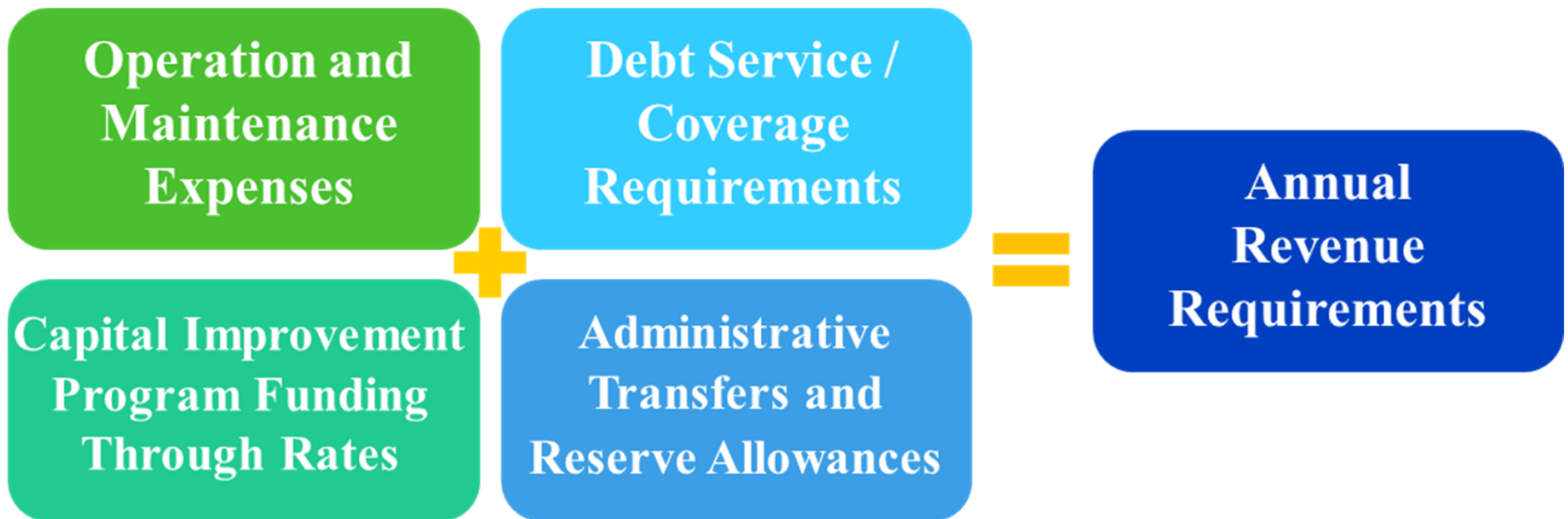
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# Revenue Requirements

- **Projected Through Fiscal Year 2033**
- **Should Update Financial and Rate Plan Regularly Given Potential Substantial Changes**



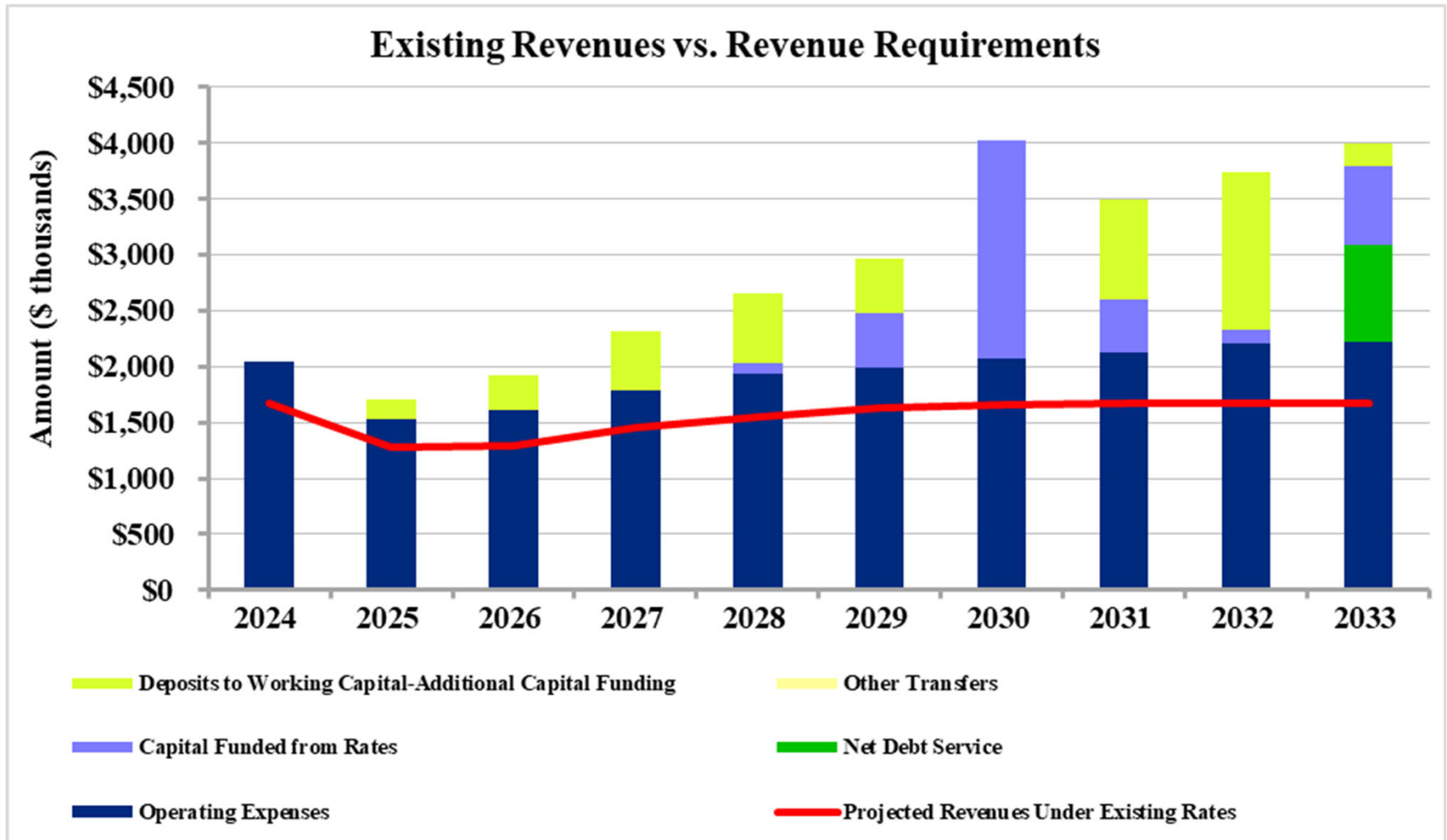
# **Issue: Irrigation System Not Currently Self-Sustainable**

- **Historical Developer Deficit Funding That Must Eventually Be Repaid**
  - Current Balance of About \$4.1 Million (Still Being Validated)
  - Fiscal Year 2024 Budgeted Developer Subsidy for Capital / Operating: \$517,876
  - Per Deficit Funding Agreement with Developer, District Is Not Charged Interest for Any Deficit Funding
  
- **Assumption (Requires Developer Consent): With Goal of Making System Financially Independent, Continue Developer Deficit Funding Over the Next Several Years to Enable More Gradual Irrigation Rate Increases**
  - Projected Future Bond Issue(s) to Pay Off Deficit Funding Balance
  - The More Customers Connected to the System, the More Equivalent Residential Units Over Which to Pay System Fixed Operating Costs and Debt Payments, the Lower the Monthly Irrigation Rates Over the Long Term

# Issue: Irrigation System Not Currently Self-Sustainable (cont.)

WEST VILLAGES  
IMPROVEMENT DISTRICT

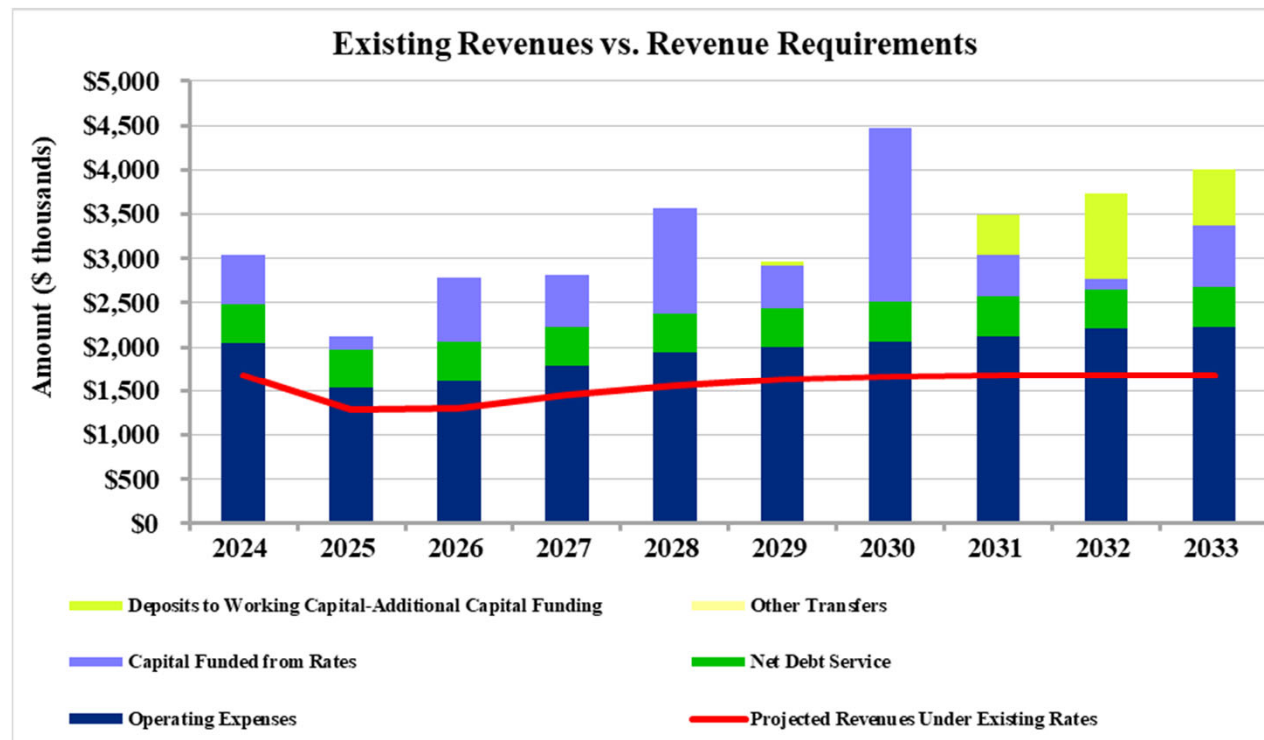
## ■ With Developer Deficit Funding:



# Issue: Irrigation System Not Currently Self-Sustainable (cont.)

WEST VILLAGES  
IMPROVEMENT DISTRICT

- **100% Pay-As-You-Go Funding – Including Assumed 20-Year Bond Issues in 2024 to Pay Off \$4.1 Million Historical Developer Deficit Funding – Would Require Higher Upfront Rate Adjustments**
  - \$2.7M Tax-Exempt Bonds to Pay Off Capital Improvements Deficit Funding and \$1.5M Taxable Bonds to Pay Off Deficit Funding of Operating Costs



# Issue: Capital Funding

- **About \$13.7 Million of Capital Needs Identified Through Fiscal Year 2033**
  - Based on Master Plan Cost Estimates and Renewal / Replacement Cost Estimates Provided By District Staff
  - Considered Necessary to Meet Irrigation Demand and Keep System Operationally Sustainable
  - Approximately \$6.0 Million (44%) of Capital Needs Assumed to Be Funded By Other Units and Future Unit Bonds
  - All Customers Benefit from Having More Units Over Which to Pay for System Fixed Costs

# Assumed Capital Program Funding

## Summary of Estimated Capital Improvements Through Fiscal Year 2033

Project	Project Type	Amount	Projected Funding Source
12" PVC, C-905 Irrigation Water Main with Fittings	Distribution Piping	\$ 4,153,500	Future Unit Bonds
New Irrigation Wells - 97, 98, 100, 101, 128, 129, 130, 187, 188, 189	Irrigation Wells	3,600,000	Rate Revenues / Developer Deficit Funding
6" PVC, C-905 Irrigation Water Main with Fittings	Distribution Piping	1,287,000	Future Unit Bonds
PIL 2A, 4, and 5 Pump Stations	PIL Expansion/Construction	990,000	Rate Revenues / Developer Deficit Funding
16" PVC, C-905 Reclaimed Water Line (Engl. WWTP)	Future Supply	928,800	Rate Revenues / Developer Deficit Funding
Future Wells Supply Lines	Future Supply	900,000	Rate Revenues / Developer Deficit Funding
Infrastructure Improvements and Maintenance	Renewals and Replacements	663,298	Rate Revenues / Developer Deficit Funding
Islandwalk Stormwater Outfall	Future Supply	430,764	50% Other Units; 50% Rate Revenues / Developer Deficit Funding
16" PVC, C-905 Irrigation Water Main with Fittings	Distribution Piping	378,000	Future Unit Bonds
Well 77 Supply Line	Future Supply	151,200	Rate Revenues / Developer Deficit Funding
West Villages Parkway Pond Irrigation Delivery	Future Supply	90,054	Rate Revenues / Developer Deficit Funding
Construction Entrance	PIL Expansion/Construction	41,400	Rate Revenues / Developer Deficit Funding
Silt Fence	Unit	37,212	Rate Revenues / Developer Deficit Funding
<b>Total</b>		<b>\$ 13,651,228</b>	



# Issue:

## **Operating Expense Increases**

WEST VILLAGES  
IMPROVEMENT DISTRICT

- **Operating Expenses Have Increased Substantially and Are Projected to Continue Increasing**
  - Inflationary Effects Due to Various Factors
    - Tampa-St. Petersburg-Clearwater Consumer Price Index (CPI) Has Increased By About 28% Since September 2019, But District's Irrigation Rates Have Increased By Only 11% During This Same Time Period
    - Substantial Increases in Utility Supply Costs of Chemicals, Steel, PVC Pipes, and Other Materials That Are Driven By Global Market Forces
    - Due to Regulatory Environment, Utility Costs Typically Increase at a Higher Rate Than CPI



# Issue:

## Well Payments

### ■ Will Be Settled in Court Years from Now or If Parties Reach a Settlement

- Valuation of Water Rights Typically Determined Based on the Cost of Replacement with Another Source
- Per Easement Agreement Submitted with Water Use Permit Application:

*"Any rates for water charged by Grantee [Thomas Ranch Intangibles] will be competitive with prevailing rates charged by the City of North Port or other utility providers in the West Villages Improvement District."*

# Issue:

## **Well Payments (cont.)**

- **After Englewood Water District Reclaimed Water Is No Longer Available After March 2024, Reclaimed Water Sources May Be Able to Handle Only About 21% of Current Irrigation Demand**
  - Alternative to Well Water for Estimated 79% of Irrigation Demand May Be Potable Water and Stormwater / Retained Water

### **Reclaimed Water Supply vs. Demand (2023)**

Description	Amount (gpd)
City of North Port Wastewater Treatment Facility Reclaimed Water	456,963
Sarasota County Reclaimed Water	36,898
Englewood Water District Reclaimed Water After March 2024	0
Total Reclaimed Water Sources	493,861
Current Irrigation Water Demand - Annual Average Demand	2,303,615
Percent of Irrigation Water Demand Provided By Reclaimed Water Sources	21%

# Issue:

## Well Payments (cont.)

- **Current \$4.17 per Equivalent Residential Unit (ERU) Well Availability Charge Is Neither the Best Deal Nor the Worst Deal for District Customers**
  - Issues or Arguments Regarding "Apples-to-Apples" Comparisons, Methodology for Determining Existing Well Availability Charges, and Well Water Paid For Vs. Used
  - Future Well Payments Are Uncertain Pending Resolution of Current Litigation

### Bill Comparison With City of North Port Fiscal Year 2024 Rates [\*]

Description	Amount
City of North Bulk Reclaimed Water Rate Per 1,000 Gallons	\$0.31
Well Availability Charge Per 1,000 Gallons at Usage of 10,000 Gallons	\$0.42
Well Availability Charge Per 1,000 Gallons at Usage of 3,000 Gallons	\$1.39
City of North Port Bulk Potable Water Rate Per 1,000 Gallons	\$6.83
City of North Port Effective Retail Potable Water Rate Per 1,000 Gallons at Usage of 10,000 Gallons	\$10.13
21% City of North Port Bulk Reclaimed Water Rate, 30% Stormwater / Retained Water (\$0), and 49% of North Port Bulk Potable Water Rate Per 1,000 Gallons	\$3.41

[\*] Reflects North Port water rates anticipated to become effective on December 1, 2023.

# Thoughts on Irrigation Water Rate Design

- **Target 40% Fixed Charge Recovery**
  - Most System Costs Are Fixed and Must Be Paid Regardless of Whether Water Is Used
  - Higher Fixed Charge Recovery Favored By Credit Rating Agencies
- **Proposed Purchased Water Component of Volumetric Rates That Would Be Adjusted Annually Based on Percentage Increases in North Port Bulk Reclaimed Water Rate**
  - Future Increases from North Port Are Unknown
- **Future Adjustments to Well Charges / Payments Based on Effective Agreement at the Time**
  - Existing Agreement May Be Amended in Near Future

# Thoughts on Irrigation Water Rate Design (cont.)

- **In Absence of Formal Rate Study Recommendation, Recommend Automatic Rate Indexing for Rate Structure Components Other Than Purchased Water Volumetric Rates and Well Charges Based on Increases in Local Tampa-St. Petersburg-Clearwater Consumer Price Index**
  - Indexing Is Common Among Utilities in Florida and Is a Best Financial Management Practice
  - Smaller Rate Increases Over Time Help Prevent Large Future Rate Increases and "Rate Shock"
  - Favored By Credit Rating Agencies Since Indexing Provides More Assurance That Rates Will Keep Up With Inflation

# Board Direction Needed

- **Continued Developer Deficit Funding (Presumption) Vs. Immediate 100% Pay-as-You-Go Funding**
  - Developer Must Agree to This Arrangement
- **Possibly Charging the District for District's Use of Irrigation Water (e.g., for Common Areas)**
  - Would Be Paid As Operating Costs from Other Units

# Moving Forward...

- **Need to Secure Approval of Developer for Financial Plan**
- **Financial and Rate Plan Is Anticipated to Remain Affordable and Competitive By Utility Industry Standards**
  - Plan Should Be Updated Regularly to Reflect Changing Conditions and to Preserve Ability to Gradually Phase-In Irrigation Rate Adjustments
- **Will Have at Least One Customer Outreach Meeting Prior to Finalizing Rate Recommendations for Board Consideration**



# QUESTIONS AND DISCUSSION

