WEST VILLAGES
IMPROVEMENT DISTRICT

March 21, 2024

Irrigation Water Rate Study
Public Outreach Meeting

GovRates
Utility, Financial, Rate, and Management
Consultants for Governments
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MUNICIPAL
ADVISOR

Purpose of This Meeting

WEST VILLAGES IMPROVEMENT DISTRICT

- **Communicate Preliminary Results of Irrigation Rate Study**
  - First Formal Rate Review Since September 2018
  - Most Issues Already Communicated During October 12, 2023 Board of Supervisors Meeting
  - Subject to Change - Several Unknowns
    - Outcome of Litigation or Agreement Among Parties on Future Well Availability Charges
    - Willingness of Developer to Continue Deficit Funding
    - Other Considerations Between Now and Presentation of Results to Board

- **Provide Forum for Public / Customers to Provide Feedback Prior to Board Meeting to Adopt Adjustments**

Revenue Requirements

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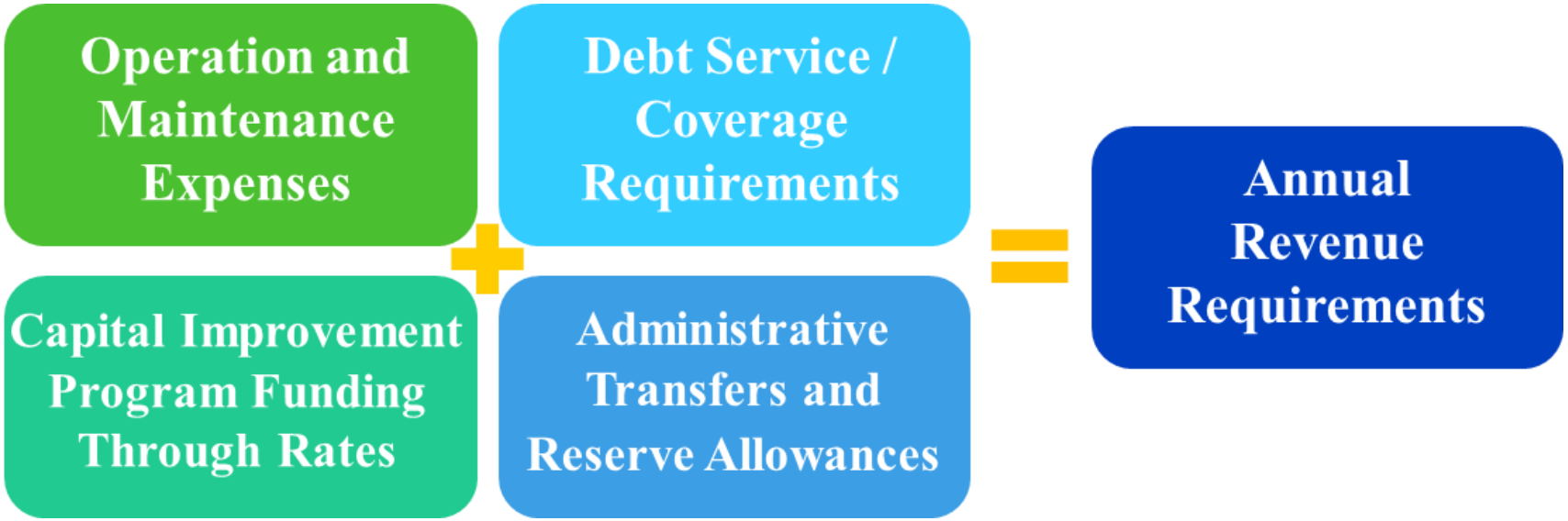
- **Projected Through Fiscal Year 2033**
- **Should Update Financial and Rate Plan Regularly Given Potential Substantial Changes**
  - Helps Preserve Ability to Gradually Phase-In Rate Adjustments



Customer Growth

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- **District Has Potential for Tremendous Growth**
  - Number of Billable Equivalent Residential Units (ERU's) Has Doubled Over Past Two Years – 2,958 ERU's in Fiscal Year 2021 to 5,926 ERU's in Fiscal Year
  - Similar Growth Rate Projected to Continue Over Next Few Years

- **Per Board Direction, Have Recognized Billing of Common Area Irrigation in Fiscal Year 2025**
  - Estimated 114,920,000 Gallons Based on Recent History
  - Charging the District for District's Use of Irrigation Water
  - Would Be Paid As Operating Costs from Other Units

Issue: Irrigation System Not Currently Self-Sustainable

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- **Historical Developer Deficit Funding That Must Eventually Be Repaid**
  - Balance of About $3.8 Million as of September 30, 2023 – $1.7 Million for Operating and $2.1 Million for Capital
  - 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

- **Projected Future Bond Issue(s) to Pay Off Deficit Funding Balance**
  - Timing Depends on Developer's Willingness to Continue Deficit Funding
    - District Representatives Have Discussed Continued Deficit Funding With Developer, But Developer Has Not Yet Made Any Commitment
    - Tax-Exempt Bonds to Pay Off Capital Improvements Deficit Funding and Taxable Bonds to Pay Off Deficit Funding of Operating Costs

Issue: Capital Funding

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- **About $13.5 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 $5.8 Million (43%) of Capital Needs Assumed to Be Funded By Future Unit Bonds
  - All Customers Benefit from Having More Units Over Which to Pay for System Fixed Costs

Assumed Capital Program Funding

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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
PIL 2A, 4, and 5 Pump Stations	PIL Expansion/Construction	1,308,000	Rate Revenues / Developer Deficit Funding
6" PVC, C-905 Irrigation Water Main with Fittings	Distribution Piping	1,287,000	Future Unit Bonds
Future Wells Supply Lines	Future Supply	1,080,000	Rate Revenues / Developer Deficit Funding
16" PVC, C-905 Reclaimed Water Line (Engl. WWTP)	Future Supply	928,800	Rate Revenues / Developer Deficit Funding
Infrastructure Improvements and Maintenance	Renewals and Replacements	663,298	Rate Revenues / Developer Deficit Funding
16" PVC, C-905 Irrigation Water Main with Fittings	Distribution Piping	378,000	Future Unit Bonds
West Villages Parkway Pond Irrigation Delivery	Future Supply	90,054	Rate Revenues / Developer Deficit Funding
Total		**$ 13,488,652**	

Issue: Operating Expense Increases

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- **Operating Expenses Have Increased Substantially and Are Projected to Continue Increasing**
  - Inflationary Effects Due to Various Factors
    - Florida's Inflation Has Increased at a Higher Rate Than National Consumer Price Index (CPI)
    - Local Tampa-St. Petersburg-Clearwater CPI Has Increased By About 31% Since September 2018 When Last Rate Study Was Completed
    - 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

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- **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."

  - Only Alternative to Well Water Currently Available Is Potable Water from City of North Port

Issue: Well Payments (cont.)

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- **After Englewood Water District Reclaimed Water Is No Longer Available After March 2024 (This Month), 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 Facilty 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.)

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- **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 Port 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

[*] Reflects North Port water rates that became effective on December 1, 2023.

Issue: Differences in Per-Gallon Costs of Irrigation Water Among Customer Types

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- **Based on Decisions on How Irrigation System Was Structured, There Are Three Basic Customer Types**
  - Direct Connection to Master Distribution System
  - Irrigation Lakes with Private Irrigation Pumps
  - Irrigation Lakes with WVID Irrigation Pumps
- **Customers with Private Irrigation Pumps Pay Additional Operating and Maintenance Costs for Irrigation Water**
  - District Staff Continues to Collect Data, But Current Estimates Are at Least $0.20 Per 1,000 Gallons

Without Rate Adjustments, Irrigation Water System Is on Path to Bankruptcy

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- **In Absence of Future Increases in Well Availability Charges and North Port Bulk Reclaimed Water Rates, Have Recognized Need for Revenue Increases Under Two Scenarios**

	Scenario 1	Scenario 2
	Developer Continues Deficit Funding Through Fiscal Year 2033	Developer Requires Repayment of Deficit Funding in Three Years
Effective Date	Recognized Revenue Adjustment	Recognized Revenue Adjustment
As Soon As Practical	30.0%	30.0%
October 1, 2025	6.0%	16.0%
October 1, 2026	6.0%	16.0%
October 1, 2027	6.0%	16.0%
October 1, 2028	6.0%	1.5%
October 1, 2029	6.0%	1.5%
October 1, 2030	6.0%	1.5%
October 1, 2031	6.0%	1.5%
October 1, 2032	6.0%	1.5%

Summarized Revenues Vs. Revenue Requirements

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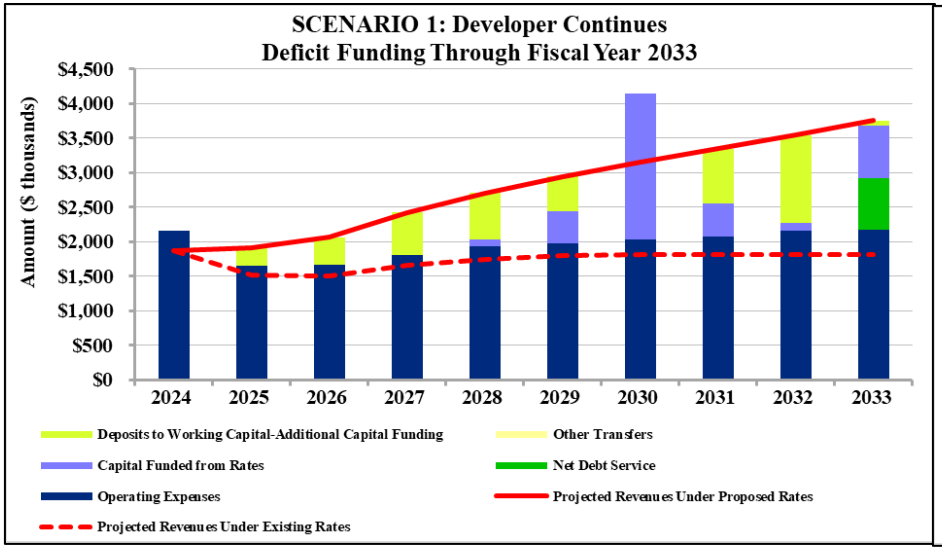

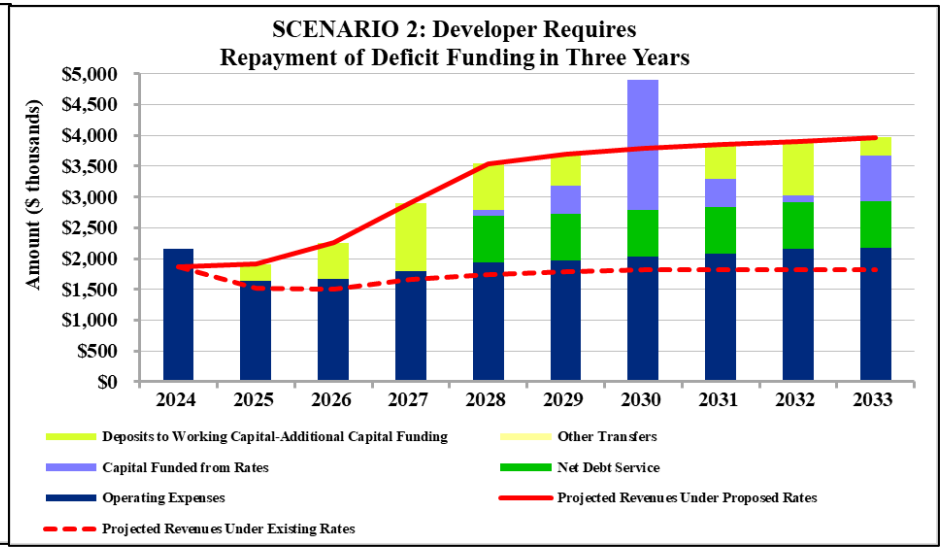

- **Initial Rate Adjustment Projected to Eliminate Developer Deficit Funding for Operating Expenses**
  - Continued Developer Deficit Funding for Capital Needs

Irrigation
Water Rate Design

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- **Fixed Charge Recovery of 40%**
  - Most System Costs Are Fixed and Must Be Paid Regardless of Whether Water Is Used
  - Higher Fixed Charge Recovery Favored By Credit Rating Agencies
  - Utility Industry: Greater Than 40% Fixed Charge Recovery Does Not Promote Water Conservation

- **Future Adjustments to Well Charges / Payments Based on Effective Agreement at the Time**
  - Existing Agreement May Be Amended in Future

Irrigation
Water Rate Design (cont.)

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- **Proposed Purchased Water Component of Volumetric Rates That Would Be Adjusted Automatically Based on Percentage Increases in North Port Bulk Reclaimed Water Rate**
  - Future Increases from North Port Are Unknown

- **Due to Extra Operating and Maintenance Costs for Irrigation Water, Lower Volumetric Rate for Customers with Private Irrigation Pumps**
  - Extra Costs Not Choice Made By Customers

Irrigation
Water Rate Design (cont.)

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- **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

Existing and Preliminary Proposed Irrigation Water Rates

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Existing Irrigation Water Rates Per Equivalent Residential Unit (ERU)

Description	Amount
Well Availability Charge Per ERU	$4.17
Capital Recovery Fee Per ERU	$1.39
<u>Volumetric Rate Per 1,000 Gallons</u>	
Tier 1	$0.73
Tier 2	$1.39

Existing and Preliminary Proposed Irrigation Water Rates (cont.)

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Preliminary Proposed Irrigation Water Rates Per Equivalent Residential Unit (ERU)

Description	Amount	Notes
Well Availability Charge Per ERU	$4.17	Adjustment unknown at this time; automatic future adjustments per agreement.
Monthly Base Charge Per ERU	$2.35	
Purchased Reclaimed Water Rate Per 1,000 Gallons	$0.25	Automatic future adjustments based on changes in North Port reclaimed water rate charged to District; Round up to nearest cent; North Port bulk reclaimed water rate for Fiscal Year 2025 is unknown at this time.
<u>Volumetric Rate Per 1,000 Gallons</u>		
Customers With Private Irrigation Pumps		
Tier 1	$0.68	These customers pay additional operating and maintenance expenses for irrigation water.
Tier 2	$2.04	
All Other Customers		
Tier 1	$0.88	To promote water conservation, Tier 2 volumetric rates are priced at three (3) times Tier 1 volumetric rates.
Tier 2	$2.64	

Bill Comparison Under Existing Well Availability Charge and North Port Bulk Reclaimed Water Rates

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WVID Irrigation Water Bill Comparison

Description	Monthly Bill for One ERU Using 10,000 Gallons	Increase in Customer Monthly Bill	Total Cost Per Gallon of Irrigation Water Service
Existing Rates	$12.86		0.13¢
Preliminary Proposed Rates - Customers With Private Irrigation Pumps [*]	15.82	$2.96	0.16¢
Preliminary Proposed Rates - All Other Customers	17.82	4.96	0.18¢

[*] These customers pay additional operating and maintenance expenses for irrigation water.

Reclaimed Water Bill Comparison at Usage of 10,000 Gallons

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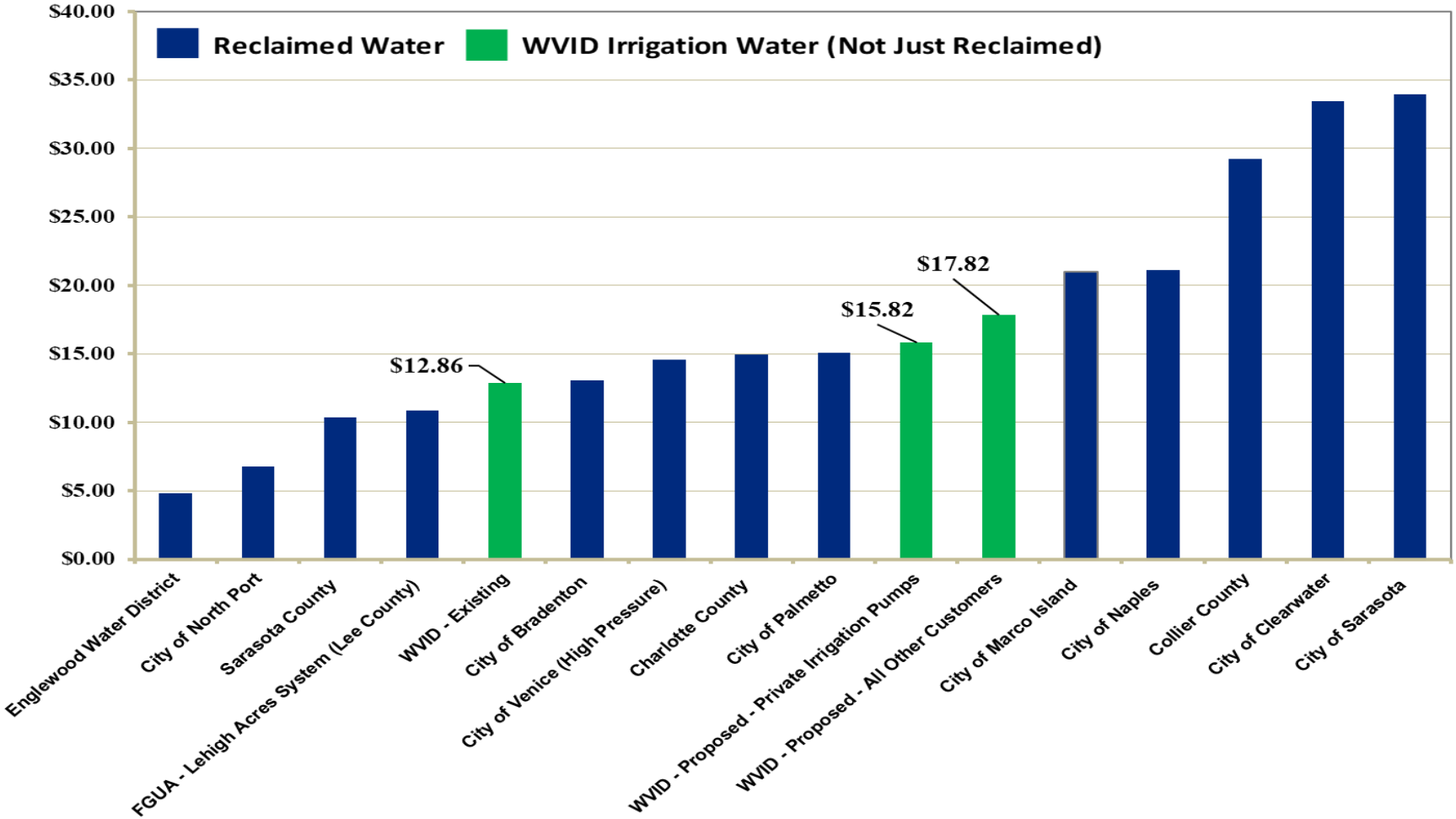
Rates Effective March 2024



Different Utilities Have Different Reclaimed Water Pricing Strategies

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- **If Reclaimed Water Rates Were Set at Cost of Service, They Might Be Higher Than Potable Water Rates and Would Discourage Reuse Consumption**

- **Two Typical Reclaimed Water Pricing Strategies**
  - Reclaimed Water Priced Lower Than Potable Water to Encourage Customers to Hook Up to the System
    - Need to Dispose of Treated Wastewater
    - Without Reclaimed Water System, Utility Needs to Invest in Expensive Deep Injection Wells or Other Disposal Alternative
    - Alternative Water Supply – Utility Does Not Need to Invest in Expensive New Water Treatment Capacity

Different Utilities Have Different Reclaimed Water Pricing Strategies (cont.)

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- **Two Typical Reclaimed Water Pricing Strategies (cont.)**
  - Reclaimed Water Priced the Same as Potable Irrigation Water
    - Provides Same Benefit / Use
    - Not Everyone Has Access to Reclaimed Water – Unfair to Pay Higher Potable Water Rate Just Because Reuse Is Unavailable
    - JEA (Jacksonville), Florida's Largest Water and Wastewater Utility, Has This Pricing Strategy

Potable Water Bill Comparison at Usage of 10,000 Gallons

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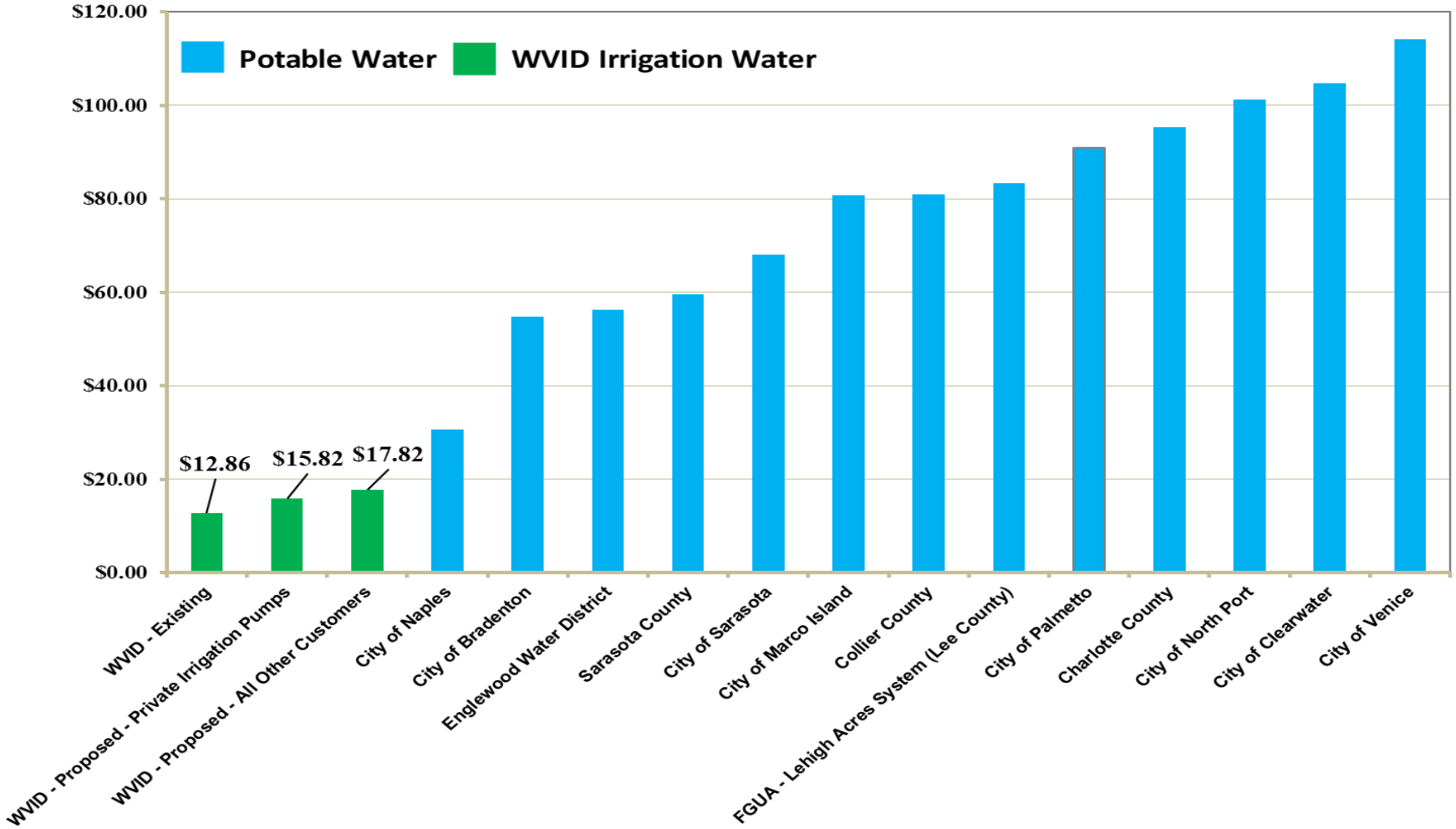
Rates Effective March 2024



Recommendations

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- **Adopt First Year of Irrigation Water Rate Adjustments**
  - Start Path Toward Self-Sustainability
- **In One Year, Validate Need for Rate Adjustments for Fiscal Year 2026 and Beyond**
  - Possible Resolution of Some Current Issues
  - Update Customer Growth and Usage Projections
- **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 Water Rate Adjustments

QUESTIONS AND DISCUSSION