

April 11, 2024

Irrigation Water Rate Study

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Overview of Study

- **First Formal Rate Review Since September 2018**
- **Most Issues Already Communicated During October 12, 2023 Board of Supervisors Meeting**
- **Multiple Unknowns**
 - Outcome of Litigation or Agreement Among Parties on Future Well Availability Charges
 - Willingness of Developer to Continue Deficit Funding

Communication Activities

- **Irrigation Water Rate Study Update Presentation to Board and Public on October 12, 2023**
 - Communicated Most Issues Discussed in This Presentation
 - Board Provided Direction for Billing Irrigation Water Use for Common Areas and for Sending Representatives to Discuss Continued Deficit Funding With Developer

- **Public Outreach Meeting on March 21, 2024**
 - Communicated Issues and Presented Preliminary Proposed Irrigation Water Rates

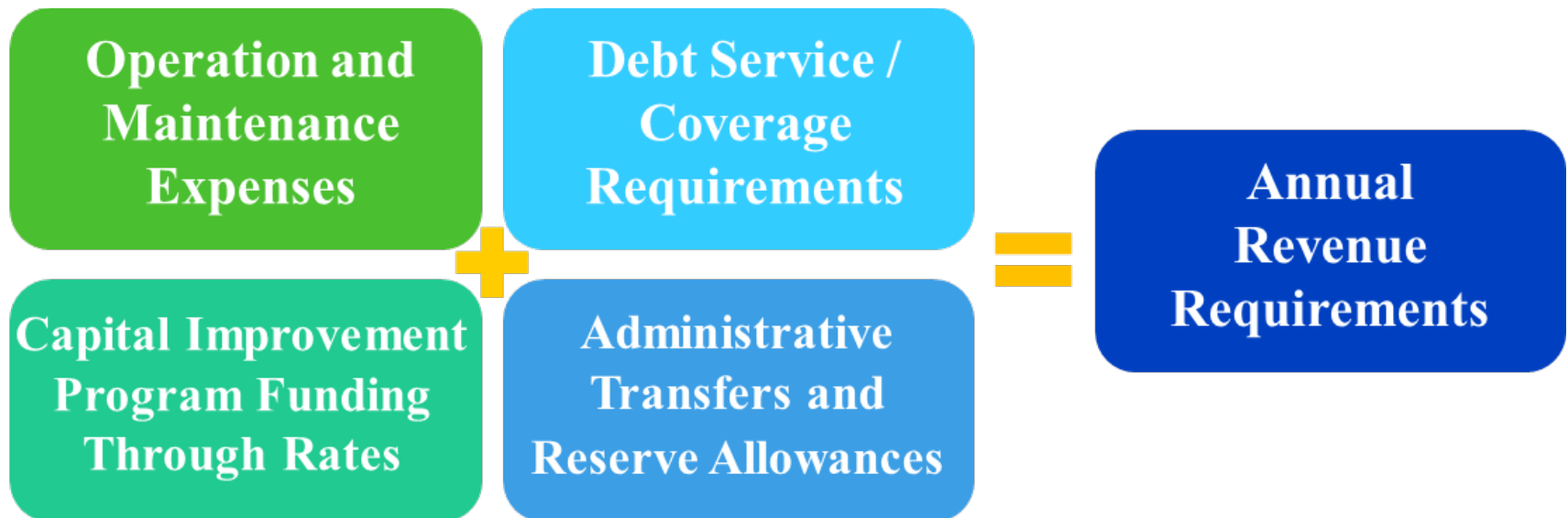
- **Two Zoom (Virtual) Meetings With Communities on April 2, 2024 and April 3, 2024**

What Do the District's Irrigation Water Rates Pay for?

- **Purchased Reclaimed Water Costs**
 - Based on Current Estimates, Reclaimed Water Can Provide Only 21% of the District's Irrigation Water Demand
- **Electricity**
- **Fuel/Oil**
- **System Repairs**
- **Engineering Fees**
- **Management Fees (Includes Billing and Accounting)**
- **Operations Administration (Includes Field Personnel)**
- **Legal Fees**
- **Audit**
- **Well Availability Payments (Currently Being Litigated)**
- **Capital Improvement Program – New Infrastructure and Renewals/Replacements**
- **In the Future: Debt Payments Associated With Paying Off the Developer for Historical Deficit Funding and for Financing Capital Improvements as Needed**

Revenue Requirements

- **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

- **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 2023
 - 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 Unit 1

Issue: Irrigation System Not Currently Self-Sustainable

■ **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
 - Anticipated Tax-Exempt Bonds to Pay Off Capital Improvements Deficit Funding and Anticipated Taxable Bonds to Pay Off Deficit Funding of Operating Costs

Issue: Capital Funding

- **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
 - Need Adequate Infrastructure Among Sources of Water Supply to Ensure That All Communities Are Able to Receive Irrigation Water When Needed
 - Approximately \$5.8 Million (43%) of Capital Needs Assumed to Be Funded By Future Unit Bonds (Not Irrigation Water Rates)
 - 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
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		<u>\$ 13,488,652</u>	

Issue:

Operating Expense Increases

- **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

■ 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.)

- **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 15,000 Gallons	\$0.28
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

- **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

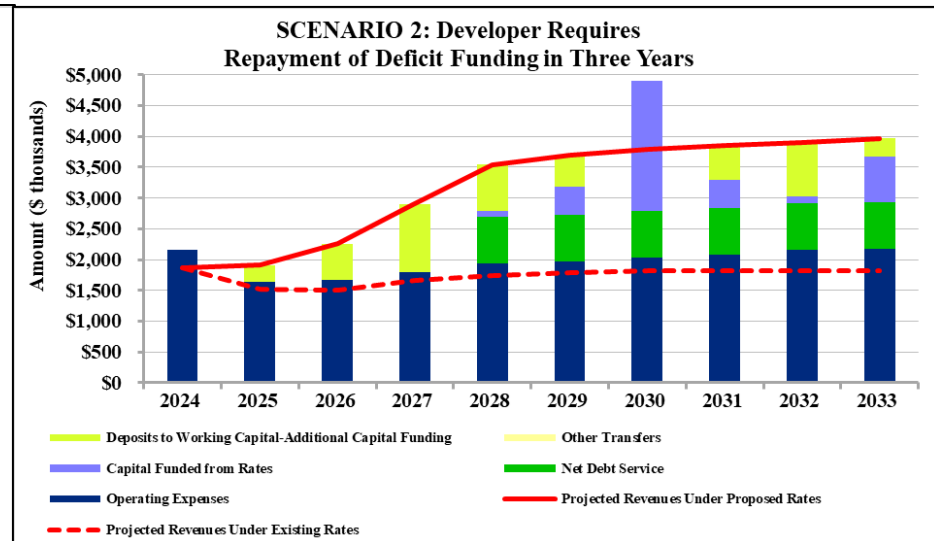
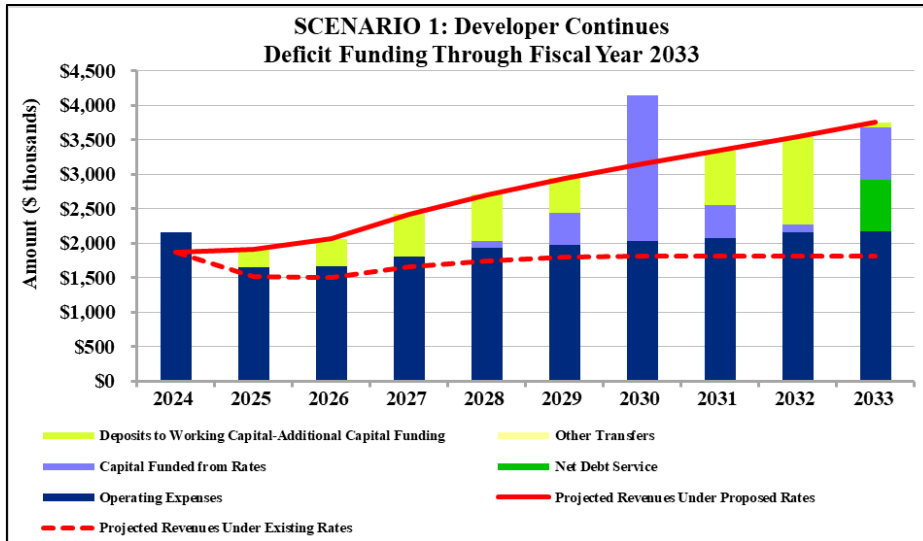
- **Customers with Private Irrigation Pumps Pay Additional Operating and Maintenance Costs for Irrigation Water Through HOA Costs**
 - District Staff Continues to Collect Data, But Current Estimates Are at Least \$0.20 Per 1,000 Gallons

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

- 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



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

Irrigation

Water Rate Design

■ **Fixed Charge Recovery of 40%**

- Most System Costs Are Fixed (e.g., Management Fees, Operations Administration, etc.) and Must Be Paid Regardless of Whether Water Is Used
- Higher Fixed Charge Recovery Favored By Credit Rating Agencies Since It Provides More Revenue Stability
- Utility Industry: Greater Than 40% Fixed Charge Recovery Does Not Promote Water Conservation

■ **Well Availability Charges / Payments Based on Effective Agreement at the Time**

- Existing Agreement May Be Amended in Future
- 100% of Well Availability Charge Collections = 100% of Well Payments Operating Expense
- No Additional Costs Associated With the Well Availability Charges for Increased Draws of Well Water
- Well Availability Charge Could Be Adjusted and All Other Rate Components Would Remain the Same

Irrigation

Water Rate Design (cont.)

- **Proposed Purchased Reclaimed Water Component of Volumetric Rates That Would Be Adjusted Automatically Based on Percentage Increases in North Port Reclaimed Water Rate Charged to District**
 - Future Increases from North Port Are Unknown
 - Per Rate Design, Revenues Collected Under Purchased Reclaimed Water Component = 100% of Projected Purchased Reclaimed Water Expense

- **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.)

- **In Absence of Formal Rate Study Recommendation, Automatic Rate Indexing for Rate Structure Components – Other Than Purchased Reclaimed Water Volumetric Rates and Well Charges – Based on Increases in Local Tampa-St. Petersburg-Clearwater Consumer Price Index**
 - Automatic 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

- **Consistent with Practices of Most Utilities, No Limitations on What Collected Revenues Can Be Used for As Long As the Spending Is Authorized By the Board (e.g., Adopted Budget)**

Existing and Proposed Irrigation Water Rates

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 Proposed Irrigation Water Rates (cont.)

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	
<u>Volumetric Rate Per 1,000 Gallons</u>		
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.
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

WVID Irrigation Water Bill Comparison

Description	Monthly Bill for One ERU Using 10,000 Gallons	Increase in Customer Monthly Bill	Total Cost Per 1,000 Gallons of Irrigation Water Service	Total Cost Per Gallon of Irrigation Water Service
Existing Rates	\$12.86		\$1.29	\$0.0013
Proposed Rates - Customers With Private Irrigation Pumps [*]	15.82	\$2.96	1.58	\$0.0016
Proposed Rates - All Other Customers	17.82	4.96	1.78	\$0.0018

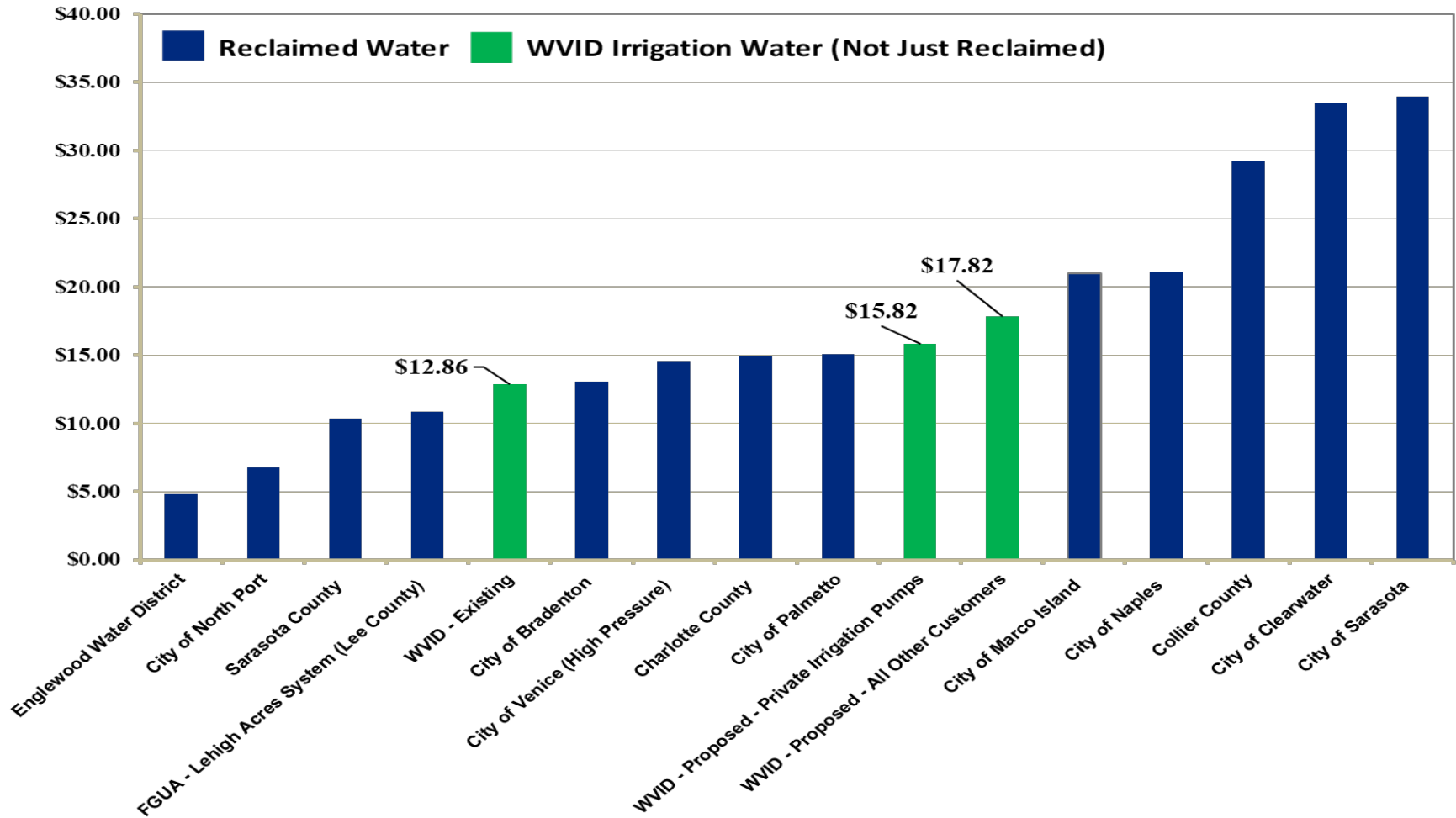
[*] These customers pay additional operating and maintenance expenses for irrigation water.

Compare with City of North Port Potable Water Rates:

Description	Monthly Bill for One ERU Using 10,000 Gallons	Total Cost Per 1,000 Gallons of Potable Water Service	Total Cost Per Gallon of Potable Water Service
North Port Bulk Potable Water Rates	\$68.30	\$6.83	\$0.0068
North Port Retail Potable Water Rates	101.26	10.13	\$0.0101

Reclaimed Water Bill Comparison at Usage of 10,000 Gallons

Rates Effective March 2024



Different Utilities Have Different Reclaimed Water Pricing Strategies

- **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

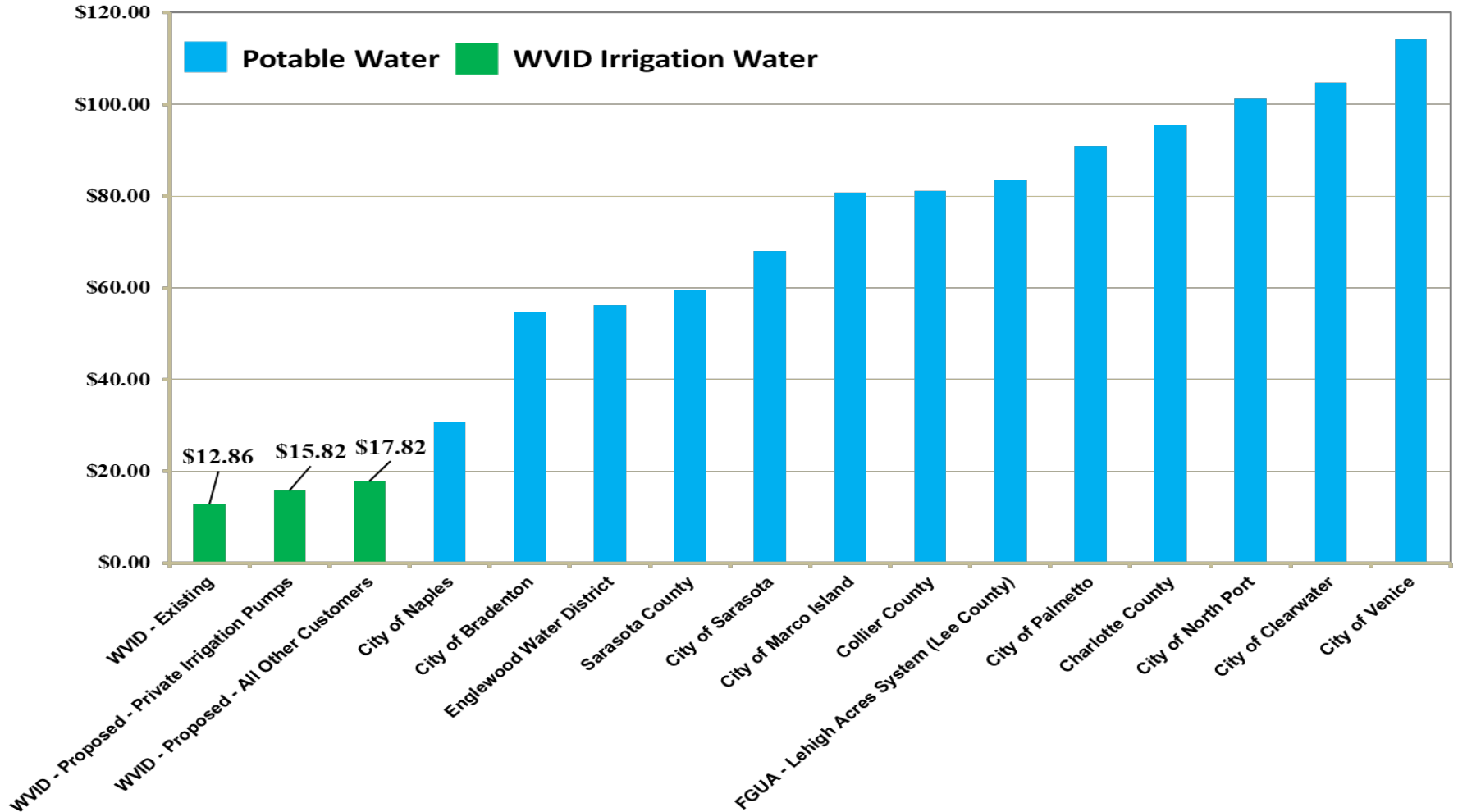
Different Utilities Have Different Reclaimed Water Pricing Strategies (cont.)

■ 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

Rates Effective March 2024



Recommendations

- **Adopt First Year / Initial Irrigation Water Rate Adjustments**
 - Anticipated to Eliminate Operating Deficit Funding
 - 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 / Unknowns
 - Update Customer Growth, Usage, and Expense Projections

- **Update the Financial and Rate Plan Regularly**
 - Reflect Changing Conditions and Preserve Ability to Gradually Phase-In Irrigation Water Rate Adjustments
 - Anticipated to Remain Affordable and Competitive By Utility Industry Standards

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

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QUESTIONS AND DISCUSSION

