

Greater Pine Island Water Association

Water Rate Study Update

Presented on **October 29, 2024**



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Operating Objectives

- Priority projects and staffing needs were identified to:
 - › Maintain service reliability and protect the public's health and safety by replacing old / aging infrastructure and increasing water capacity
 - › Expand water production, storage and delivery capabilities to meet the demands of new customers
 - › Comply with regulatory requirements
 - › Evaluate reserve policies and best practices to cover costs of future storms
- The Board of Directors approved a study to evaluate the adequacy of utility rates

Projected Capital Needs (through CY2035)

- Proposed GPIWA capacity expansion will have two main components:
 - › Expansion of the Reverse Osmosis Water Treatment Plant (ROP), via the addition of a fourth RO treatment train
 - › Expansion of the wellfield to source more ground water for the ROP expansion; three new production wells will be needed (Well A, Well B, and Well C)
- GPIWA capacity expansion components will be executed via Capital Improvement Projects (CIP)
- Well drilling precedes other activities to ensure the ground water source is viable
- The ROP expansion will be last, as it necessitates source water for treatment

Projected Capital Needs (through CY2035)

		2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
1	New Production Well A Advertise for Design & Permitting					X						
2	New Production Well A Bid Drilling						X					
3	New Production Well A Drilling						X					
4	New Raw Water Pipeline from Well A to Existing Raw Main Advertise Design & Permit						X					
5	New Raw Water Pipeline from Well A to Existing Raw Main Design & Permit						X					
6	New Raw Water Pipeline from Well A to Existing Raw Main Bid Construction							X				
7	New Raw Water Pipeline from Well A to Existing Raw Main Construct							X	X			
8	New Production Well A Construct Above Ground Facilities								X			
9	New Production Well B Land Acquisition						X					
10	New Production Well B Design & Permitting						X	X				
11	New Production Well B Bid Drilling							X				
12	New Production Well B Drilling							X				
13	New Raw Water Pipeline from Well B to Existing Raw Main Advertise Design & Permit									X		
14	New Raw Water Pipeline from Well B to Existing Raw Main Design & Permit									X		
15	New Raw Water Pipeline from Well B to Existing Raw Main Bid Construction										X	
16	New Raw Water Pipeline from Well B to Existing Raw Main Construct										X	X
17	New Production Well B Construct Above Ground Facilities											X
18	New Production Well C Land Acquisition						X					
19	New Production Well C Design & Permitting						X	X				
20	New Production Well C Bid Drilling							X				
21	New Production Well C Drilling							X				
22	New Raw Water Pipeline from Well C to Existing Raw Main Advertise Design & Permit									X		
23	New Raw Water Pipeline from Well C to Existing Raw Main Design & Permit									X		
24	New Raw Water Pipeline from Well C to Existing Raw Main Bid Construction										X	
25	New Raw Water Pipeline from Well C to Existing Raw Main Construct										X	X
26	New Production Well C Construct Above Ground Facilities											X
27	ROP Expansion Advertise for Design					X						
28	ROP Expansion Design						X		X	X		
29	ROP Expansion Bid for Construction									X		
30	ROP Expansion Construction										X	X

Existing Conditions – CY2024 Cash Flow

- Annual Operating Revenues - \$4.8 million
- Annual Revenue Needs - \$5.2 million
 - › Operating Expenses - \$3.9 million
 - › Existing Debt Service Payments - \$0.3 million
 - › Capital Budget - \$1.0 million
- Projected Cash Flow Deficiency
 - › (\$404,000) for the current year
 - › Existing debt service payments will end in 2025
- Projected Unrestricted Reserve Balance 12/31/2024 - \$3.4 million
 - › 261 days of Operating Revenues

Existing Conditions – Current Rates

- Existing rates became effective Jan. 1, 2020
- Amounts have remained unchanged during the past 4 years while utility costs, as measured by the Florida Public Service Commission's Index (FPSC Index), have increased approximately 16.9%

Study Tasks

- Evaluate the adequacy of existing monthly service rates for the next 10-years
 - › Update the financial forecast for recent changes to the plan based on current operating conditions
 - › Develop a funding strategy to pay for capital needs of the system
 - › Maintain adequate cash & investment reserve balances over the study period
 - › Project revenue requirements to be recovered from rates
 - › Evaluate the adequacy of existing monthly rates for service and the ability of the system to meet future debt service compliance needs (if any)
 - › Recommend necessary rate adjustments

Financial Forecast Under Existing Monthly Service Rates



Major Study Assumptions

- Monthly Service Rate Revenues
 - › Amounts based on the proposed 2025 budget
 - › Projected customer growth was estimated:
 - Based on population forecasts equal to approximately 40 new connections per year on average from 2025 through 2034
 - Based on developer driven growth equal to approximately 280 new connections per year on average from 2027 through 2032
 - Payment of capital charges assumed as two installments of \$2.4 million each in 2025 and 2027; amounts fund certain expansion-related improvements
- Miscellaneous and other revenues held constant for the study period while investment income was estimated based on the projected average balance of unrestricted reserve funds
- Gross revenues under existing rates estimated to increase approximately 1.7% per year on average

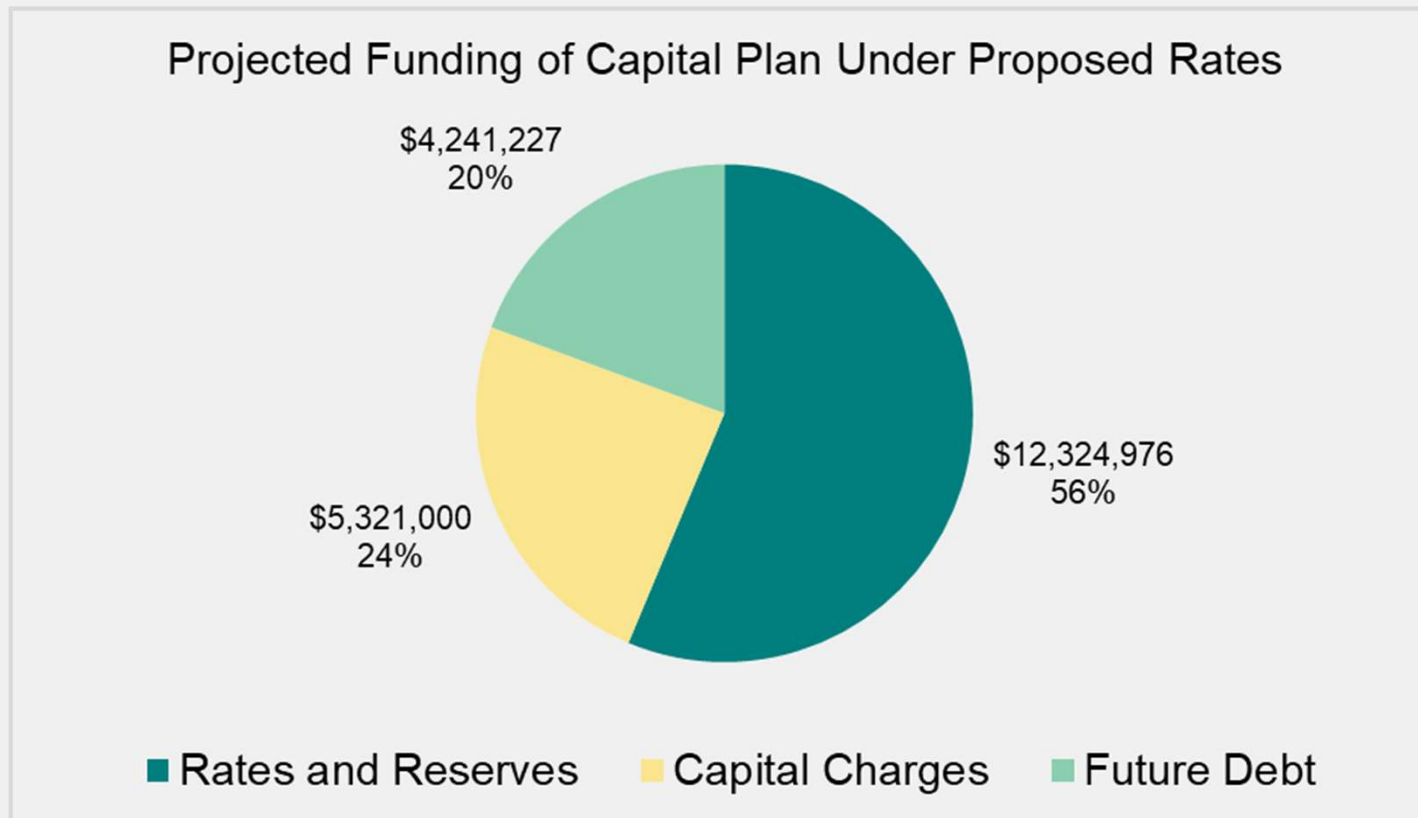
Major Study Assumptions (cont.)

- Projected operating expenses initially based on the proposed 2025 budget
- Expenses beyond 2025 are projected to increase approximately 5.5% per year based on the following allowances for inflation:
 - › Labor-related adjustments were estimated to be:
 - 3% per year for merit increase
 - \$50,000 merit bonus allowance
 - 2.9% COLA estimated to be in effect October 2024
 - 2 new positions included in CY2025 Budget of 1 entry level engineer and 1 entry level operator trainee

Major Study Assumptions (cont.)

- Other Allowances for future inflation
 - › Employee insurance and workers' compensation insurances have recently increased significantly; we provided a 20% annual allowance through 2029, and 5% per year for the remainder of the forecast
 - › Property and liability insurance have recently increased significantly due to recent storms; we provided a 17% annual allowance through 2031, and 10% per year for the remainder of the forecast
 - › Vehicle-related and fuel expenses - 5% per year
 - › Utilities and chemical expenses - 5% and 8%, respectively, plus customer growth
 - › Repairs and maintenance - 3% per year
 - › All other (consumer price index) - approximately 2.2% per year

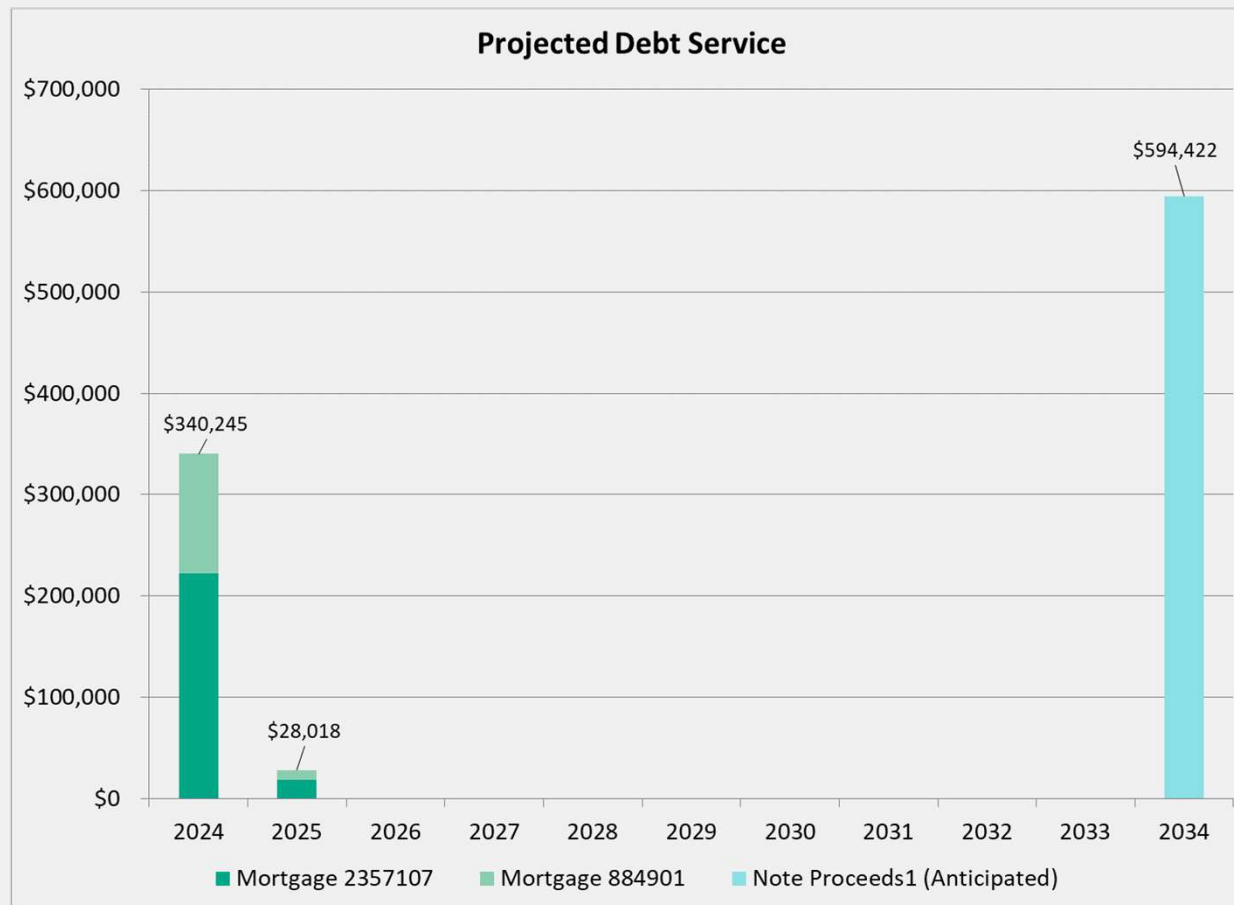
Funding of Capital Needs Through 2034



Future Debt Assumptions

- Existing debt service payments will end in 2025
- Use of future debt estimated to fund three growth-related projects; ROP Expansion Construction and Raw Water Pipeline Construction from 2 Wells in 2034
- Financing assumptions include:
 - › Private Placement Bank Note for \$4.2 million
 - 10 years, 6% interest rate, 3% issuance costs
 - Annual debt service payments of approximately \$600,000 starting in 2034

Projected Debt Service Payments



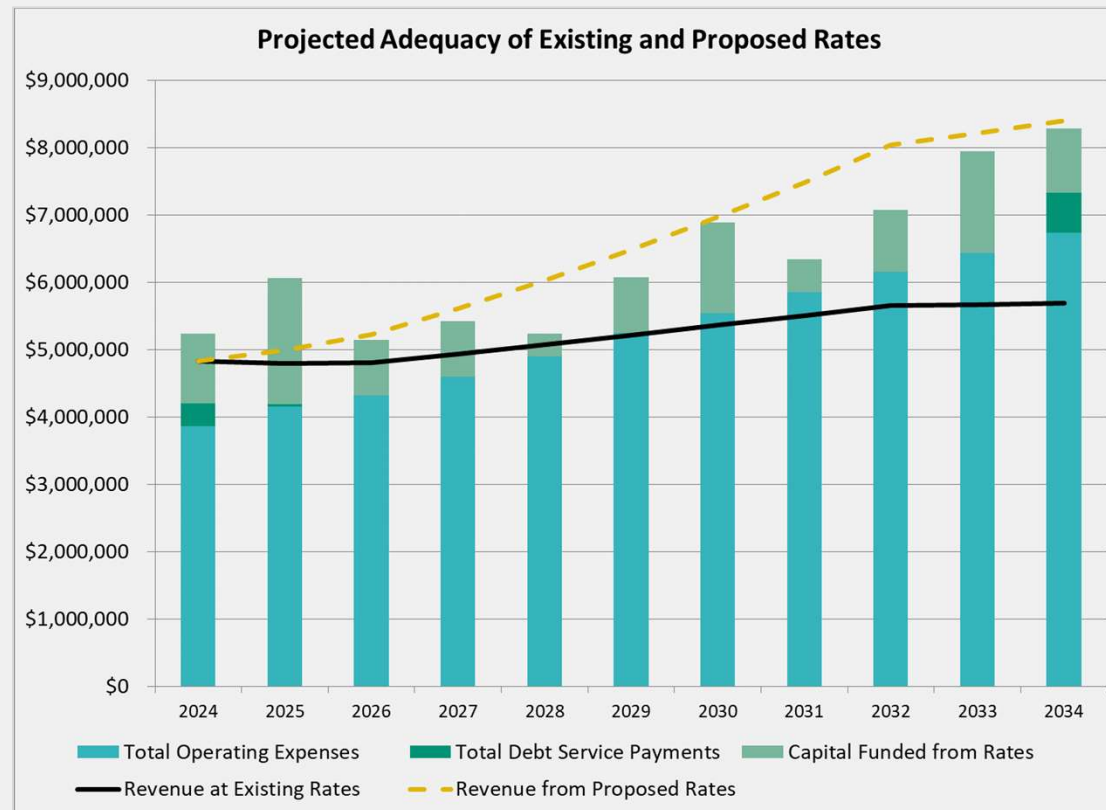
Study Goals and Considerations

- Maintain a minimum unrestricted reserve balance of not less than \$2.0 million through 2029 while setting aside additional reserves to cover costs of future storms and minimize borrowing needs for future capital projects
 - › To account for future inflation this minimum balance was adjusted to \$2.5 million from 2030 through 2034
 - › The minimum targets established for this analysis equal at least 120 days of operating revenues and should continue to be updated over time
- Evaluate Future Debt Service Covenant Compliance
 - › Test 1 - Working Capital of \$500,000 (Min.)
 - › Test 2 - Coverage Ratio of 125% (Min.)
 - › Test 3 - Capitalization Ratio of 60% (Max.)
 - › Test 4 - EBITDA Ratio of 800% (Max.)
- Examine the adequacy of the existing rates to recover the projected revenue requirements and to meet above financial objectives

Projected Financial Results Under Proposed Monthly Service Rates



Adequacy of Existing and Proposed Monthly Service Rates

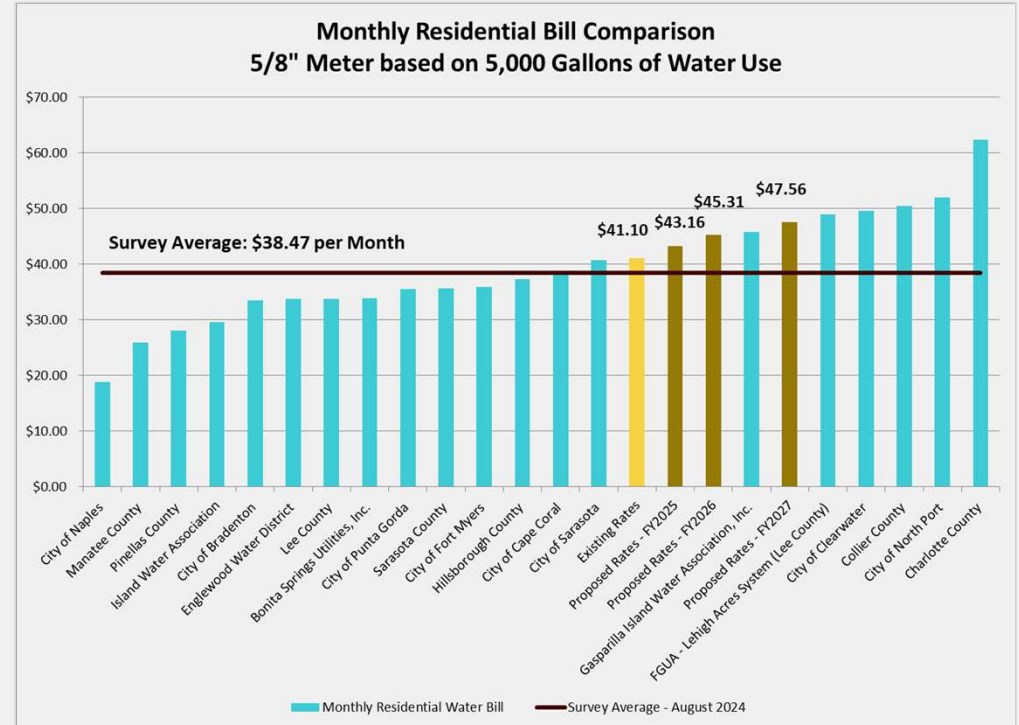


Proposed Rate Path

	CY24	CY25	CY26	CY27	CY28	CY29	CY30	CY31	CY32	CY33	CY34
Percent Rate Increase	N/A	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	2.0%	2.0%
Increase in Residential Water Bill (5,000 Gallons)		\$2.06	\$2.15	\$2.25	\$2.38	\$2.52	\$2.62	\$2.76	\$2.90	\$1.20	\$1.25
Existing/Projected Residential Bill	\$41.10	\$43.16	\$45.31	\$47.56	\$49.94	\$52.46	\$55.08	\$57.84	\$60.74	\$61.94	\$63.19

Residential Rate Comparison

- Reasons why rates and fees differ among utilities:
 - › Source of Supply
 - › Proximity to Source of Supply
 - › Type of Treatment
 - › Availability of Grant Funding
 - › Utility Life Cycle (Growth-Oriented vs. Mature)
 - › Level of Service / Demand per Customer
 - › Age of System / Level of Renewals and Replacements
 - › Density / Size of System



Results, Conclusions, and Recommendations



Results Under the Proposed Rates

	CY24	CY25	CY26	CY27	CY28	CY29	CY30	CY31	CY32	CY33	CY34
Percent Rate Increase	0.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	2.0%	2.0%
Annual Cash Flow (Millions)	(\$0.40)	(\$1.07)	\$0.08	\$0.19	\$0.80	\$0.41	\$0.08	\$1.15	\$0.97	\$0.27	\$0.12
Unrestricted Reserves (Millions)	\$3.46	\$2.39	\$2.47	\$2.66	\$3.45	\$3.86	\$3.94	\$5.09	\$4.66	\$4.93	\$5.05
Minimum Targeted Balance (Millions)	\$2.0	\$2.0	\$2.0	\$2.0	\$2.0	\$2.0	\$2.5	\$2.5	\$2.5	\$2.5	\$2.5
Days of Revenue	261	182	180	180	218	227	216	259	221	223	223

Conclusions and Recommendations

- GPIWA's existing rates for monthly water service are not adequate to meet the projected revenue requirements over the study period
 - › Without adequate increases in revenue, GPIWA will fall below reserve minimums
 - Principal cost drivers include:
 - Allowances and adjustments for future inflation
 - Need for new staffing positions (included in proposed budget)
 - Water supply, treatment and transmission capabilities must be expanded and improved in order to meet the needs of future growth
 - Need to maintain working capital to meet the operating needs of the system and to provide a contingency to respond to natural disasters or other unforeseen events

Conclusions and Recommendations (cont.)

- The Board should consider adopting an annual 5.0% increase for the next 3 years beginning on or after January 1, 2025
 - › Such implementation would increase the base rate, ready to serve charge, and the usage rates uniformly
- The projected financial results are based on the estimates and assumptions provided in this analysis
 - › Actual results may differ from the financial projections; those differences could be material and should be monitored by Association staff
- We recommend updating this study every 3-5 years

At the 10/29/2024 Regular Board Meeting the Board of Directors decided to do a one time rate increase of 15% in 2025. This effectively rolls the three years worth of 5% increase into one rate increase.



Thank you!

Murray Hamilton, Vice President

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Discussion



Attachments

If any

