



City of North Port, Florida

July 26, 2022

City of North Port Utility Rate Analysis

**NORTH PORT
UTILITIES**



GovRates

Utility, Financial, Rate, and Management
Consultants for Governments

www.govrates.com

Utility Overview

- **Provides Essential Service on a Continuous Basis**
 - Public Health and Safety – Primary Objective
 - Highly-Regulated (FDEP / SWFWMD / Florida Department of Health / EPA)
 - Permits Require Satisfactory Operating Performance

- **Enterprise Fund: Operations Primarily Funded Through User Rates**

- **Substantial Infrastructure Under City Management**
 - \$255 Million Installed Cost of Assets
 - Estimated \$362 Million Replacement Cost of Assets Based on Age

Major Cost Factors Affecting Water and Wastewater Utility System

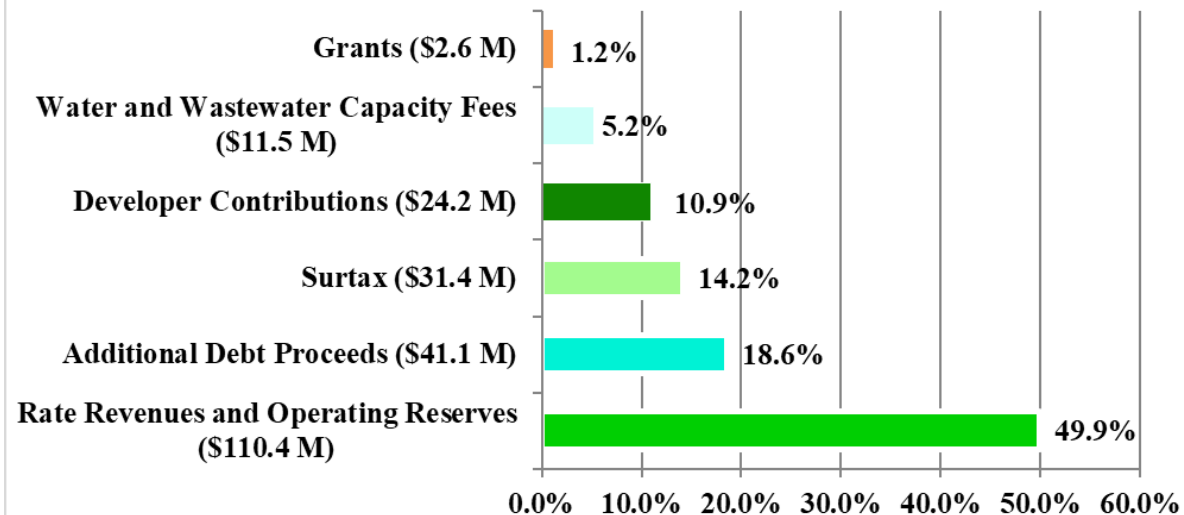


- **Utility Infrastructure Is Often "Out of Sight, Out of Mind"**
- **Costs of Utility's Capital Needs Could Be Substantially Higher Than Estimated**
 - Contractor's Market
 - Some Utilities Have Received Bids That Are Twice the Planning Estimates

Sample Pictures of Aging Utility Infrastructure in North Port



Capital Improvement Program Funding Through FY 2032
Estimated \$221.2 Million



Major Cost Factors Affecting Water and Wastewater Utility System (cont.)



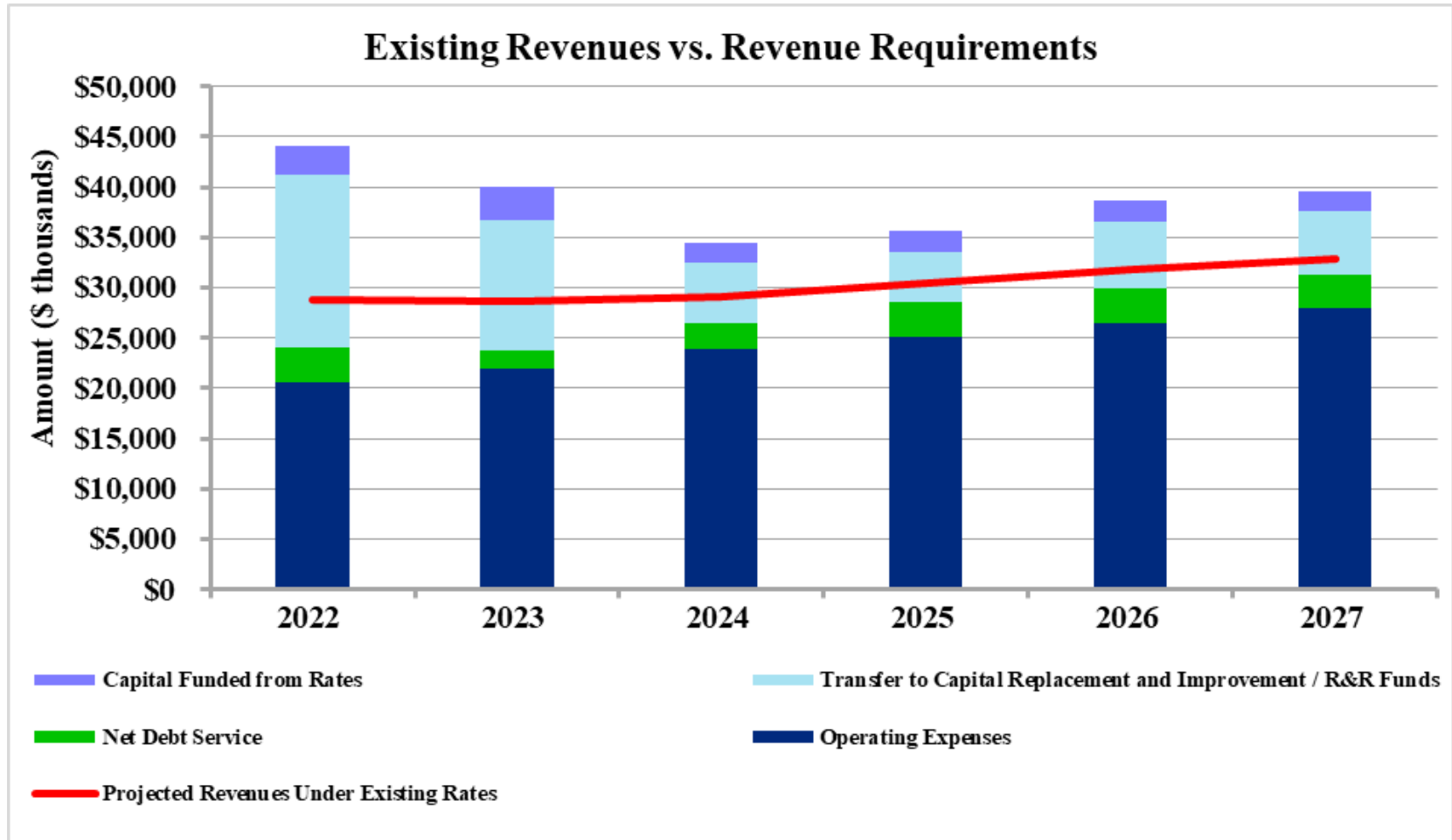
- **Operating Expenses Have Increased Substantially and Are Projected to Continue Increasing**
 - Inflationary Effects Due to COVID-19 and Global Unrest
 - Tampa-St. Petersburg-Clearwater Consumer Price Index (CPI) Increased By 10.2% from March 2021 to March 2022
 - Substantial Increases in Utility Supply Costs of Chemicals, Steel, PVC Pipes, and Other Materials
 - Increases in Salaries Due to Pay Study and Union Agreements
 - Nationwide Issues With Filling Positions and Keeping Employees
 - Additional Personnel to Maintain Level of Service and Help Address Capital Needs More Efficiently

Major Cost Factors Affecting Water and Wastewater Utility System (cont.)



- **Operating Expenses Have Increased Substantially and Are Projected to Continue Increasing (cont.)**
 - Increases in Wholesale Rates from Peace River / Manasota Regional Water Supply Authority, Which Supplies Portion of Utility's Water
 - Incremental Operating Expenses Associated With Developer-Contributed Treatment Facilities
- **Permanent Increases in Costs Must Ultimately Be Passed Through to Customers Through Rates**

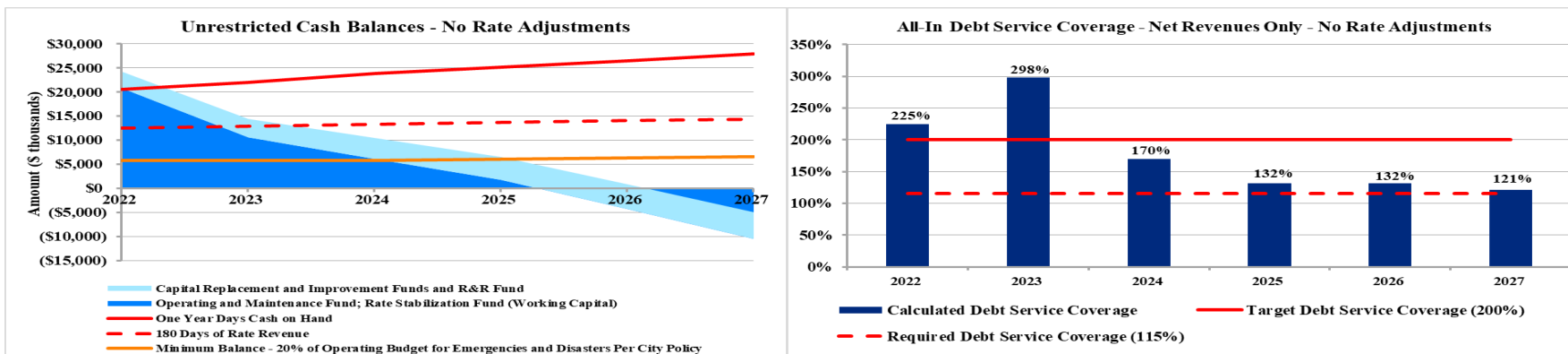
Revenues Under Existing Rates Are Insufficient to Address Utility System Needs



Financial Risks of Not Adjusting Rates



- **Inability to Fund All Revenue Requirements, Fund Capital Program, and Meet Financial Targets**
- **Inability to Secure Debt Financing for Critical Capital Needs**
- **User Rates Will Be Even Higher in the Future**
 - Capital Needs for Utility Will Not Go Away, But Will Be More Expensive to Address in the Future
 - Inflation in Operating and Construction Costs Continues to Affect System Costs to Provide Service
 - Can Lose Ability to Gradually Phase-In Rate Adjustments Over Time



Recommended User Rate Increase for Fiscal Year 2023



Summary of Proposed User Rate Revenue Adjustments

Fiscal Year	Effective Date	Index Adj. Already Adopted	Add'l Adj.	Total Adj.	Bill for Average SFR Customer Using 3,000 Gallons	Increase in SFR Customer Monthly Bill [1]	Total Cost Per Gallon of Service [1]	% of Median Household Income (< 4.5% Considered Affordable By EPA) [2]
<u>Water and Sewer Service:</u>								
		Existing			\$ 85.34			1.6%
2023	10/1/2022	8.0%	0.0%	8.0%	92.16	\$6.82	3.1¢	1.7%
<u>Water-Only Service:</u>								
		Existing			\$ 34.61			0.6%
2023	10/1/2022	8.0%	0.0%	8.0%	37.38	\$2.77	1.2¢	0.7%

[1] Based on proposed rates applied to single family residential ("SFR") customer with 3,000 gallons of monthly usage.

[2] EPA = United States Environmental Protection Agency.

- **Adjustment Is Equal to January 2021 to January 2022 Change in ENR Construction Cost Index (Indexing Provision of Current Rate Resolution) and Is Lower Than Recent Tampa-St. Petersburg-Clearwater CPI Increase**
- **Due to Current Economic Uncertainty (e.g., Due to Effects of Pandemic and Global Unrest), Recommend Monitoring Economic Conditions to Determine User Rate Recommendations for Fiscal Year 2024 and Beyond**

Capital Reinvestment in Utility System



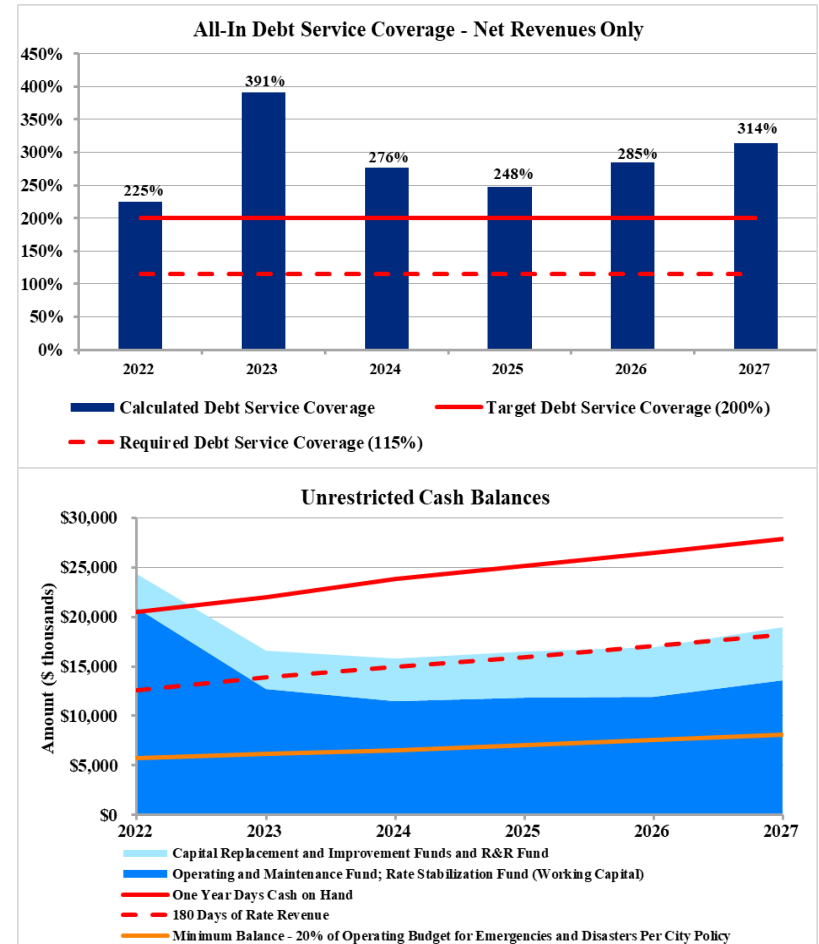
- **Need to Address Renewal and Replacement Needs of Aging System**
- **Long-Term Goal to Improve Capital Reinvestment**
 - To Replace Assets With 30-Year Life, Should Set Ideally Aside About 3.33% (1/30) of Replacement Cost Per Year

Amounts Available for Capital Reinvestment

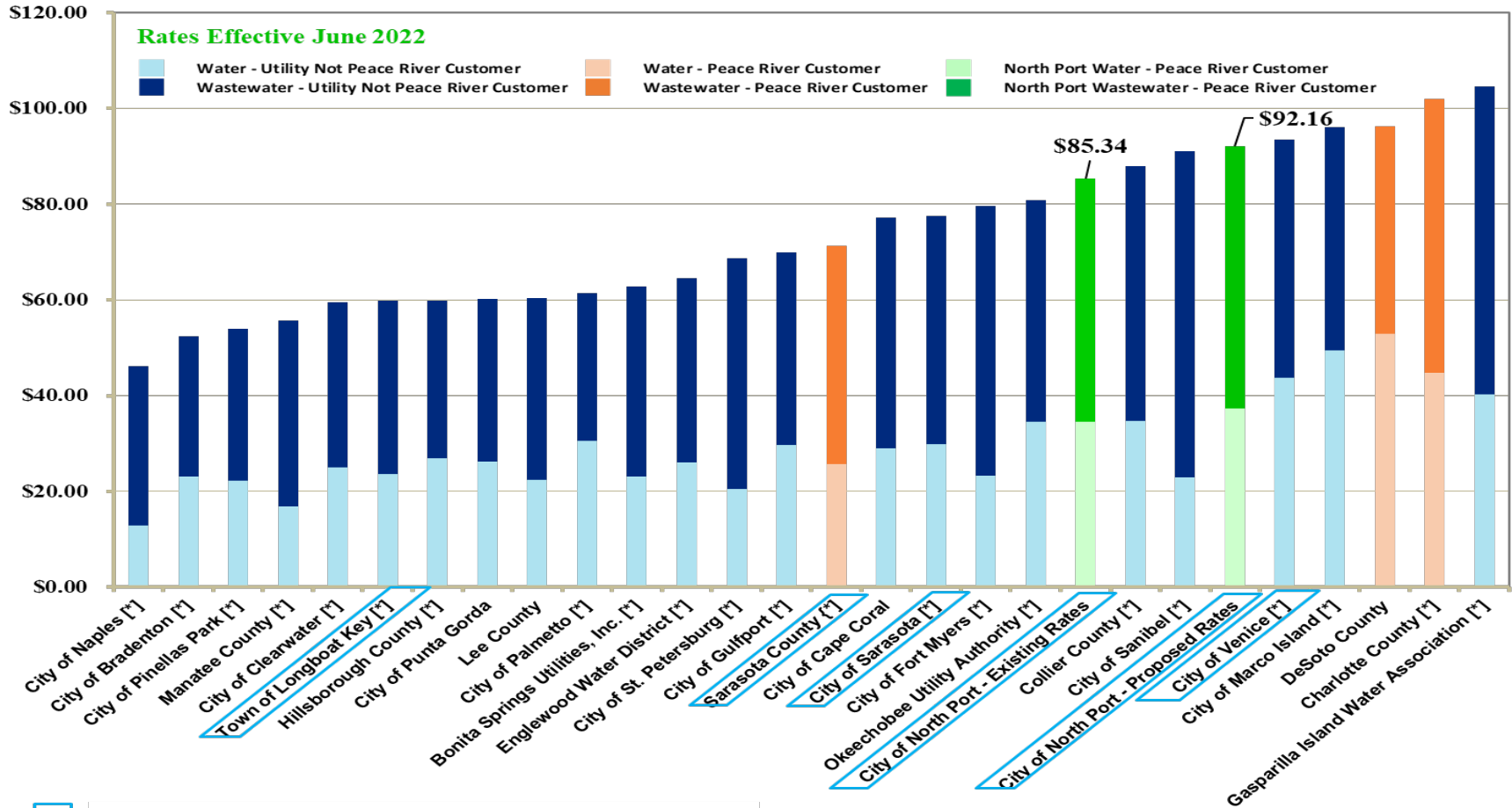
Description	Fiscal Year 2023
Gross Revenues with Adjustments	\$ 30,751,700
Operating Expenses	21,985,925
Net Revenues	\$8,765,775
Annual Debt Service	2,242,244
Amounts Available for Capital Reinvestment	\$6,523,531
Estimated Replacement Cost of Utility System Assets	\$362,000,000
Percent of Replacement Cost	1.8%

Projected Financial Position

- **Currently Recognizing 4% Annual Adjustments After Fiscal Year 2023 - Slightly Higher Than Assumed Annual Index Adjustments**
 - Financial Metrics May Be Adequate, But Not Optimal
 - If Bond Financing, AA-Rated Utility Would Have Unrestricted Cash Equal to at Least 365 Days Cash on Hand and All-In Debt Service Coverage of at Least 200%
 - Long-Term Goal to Improve Financial Performance While Keeping User Rates Competitive and Affordable



User Rate Comparison – 3,000 Gallons of Monthly Usage



 Blue border around label reflects utility in Sarasota County

[*] Utility is currently involved in a rate study, is planning to conduct a rate study, or plans to implement a rate revision or price index / pass-through adjustment within the next twelve months following the comparison preparation date



Rate/Bill Comparison Not a "Report Card" on How Well Utility Is Performing



■ Some Reasons Why User Rates Differ Among Utilities

- Size of Existing Customer Base / Available System Growth
- Demographics (e.g., Customers Spread Out vs. Close Together, Types of Customers Served)
- Level of Capital Improvements to Meet Service Area Growth
- Amount of Needed Renewals and Replacements / Remaining Service Life of Assets
- Differences in Bond Covenants
- Source of Water Supply and Treatment Process Costs
- Plant Capacity Utilization and Assistance in Funding of Such Capacity (e.g., Grants, Impact Fees)
- Time of Last Rate Review
- Amount of General Fund and Administrative Fee Transfers

Proposed Utility Capacity Fees Per Equivalent Residential Connection (ERC)



Existing and Proposed Water and Wastewater Capacity Fees Per ERC

Description	Existing	Proposed	Difference	Level of Service (gpd)	Calculated Cost per Gallon [*]
Water	\$1,872	\$2,319	\$447	170	\$13.64
Wastewater	2,213	2,255	42	155	14.55
Combined	<u>\$4,085</u>	<u>\$4,574</u>	<u>\$489</u>		

ERC = Equivalent Residential Connection

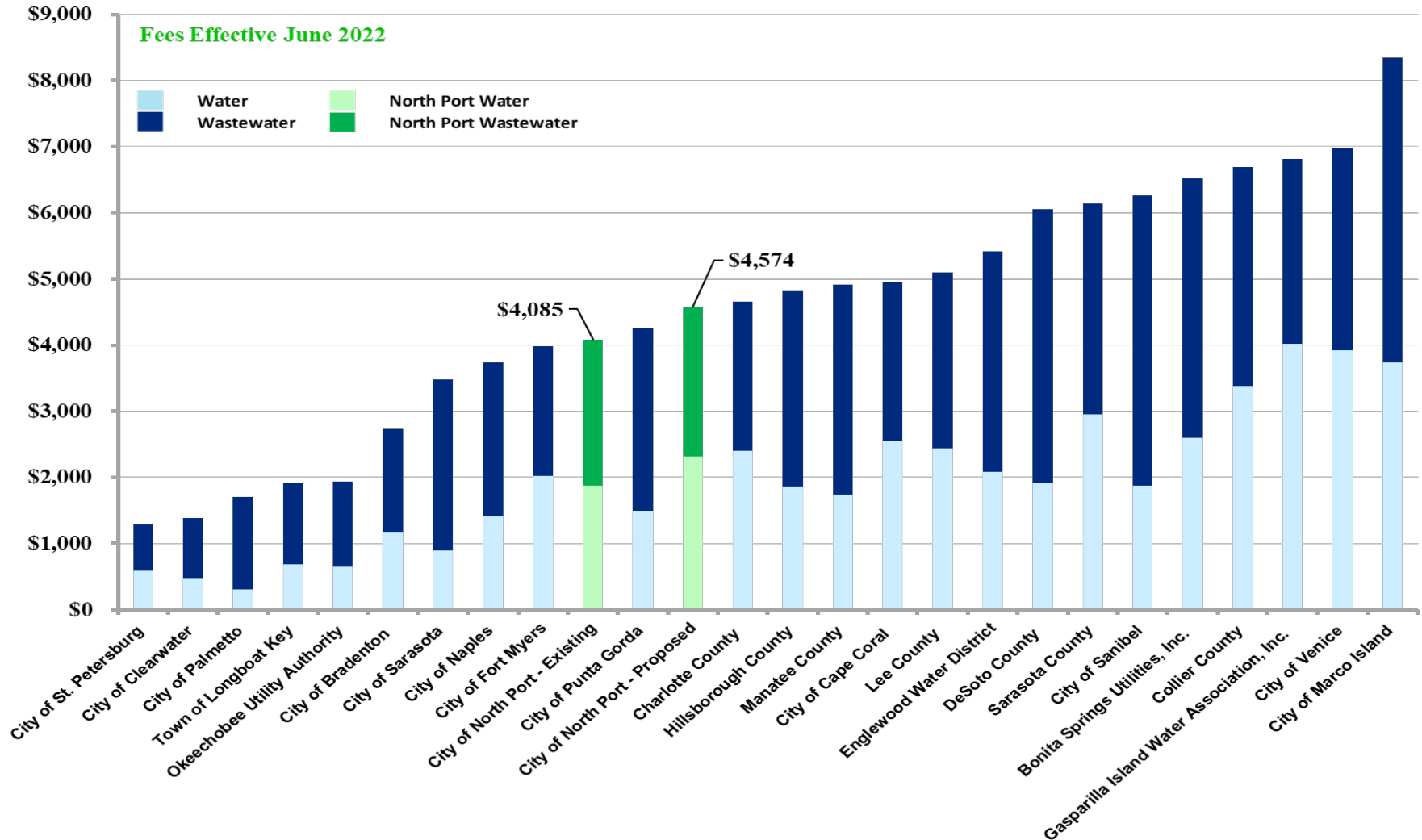
gpd = gallons per day

[*] Proposed fee divided by assumed level of service assumption.

■ Reasonableness of Proposed Capacity Fees

- Costs Per Gallon of Capacity Are Consistent With Those of Other Florida Utilities

Water and Wastewater Capacity Fee Per ERC Comparison



Other Charges

(Most Were Presented to the Commission on May 10th)



- **Considerations for Determining Proposed Other Charges**
 - Current Utility Costs to Provide Service, Comparison With Similar Charges of Other Florida Utilities, and City Policies

- **To the Extent These Charges Do Not Recover Cost of Providing Services, Cost Difference Must Be Paid Through Monthly User Rates**

- **Highlights of Proposed Other Charges:**
 - Reclaimed Water Rate Increased from \$0.55 per 1,000 Gallons to \$0.68 per 1,000 Gallons
 - Bulk Reuse Water Rate of \$0.21 per 1,000 Gallons Increased to \$0.31 per 1,000 Gallons for Southwest Water Reclamation Facility
 - Inside-City Bulk Water Rate of \$5.50 per 1,000 Gallons Increased By \$0.50 Per Year Over Next Three Years (Cost-Justified Rate of \$7.50 By Fiscal Year 2025); 15% Surcharge for Outside-City Service
 - Paper Bill Fee to Support City's Green Initiatives

Line Extension Charges

- **Discussed in Two (2) Workshops With City Commission**
- **Benefits of Line Extension Program Include Elimination of Septic Tanks Within City and Improving Water Quality via Expanding Customer Base**
- **\$7,500 per Water ERC and \$15,000 per Wastewater ERC Would Only Be Charged to New Development, But Not Where Developer Installed Infrastructure or to Assessment Areas**
- **Like Capacity Fees and Miscellaneous Service Charges, Help to Reduce Need for User Rate Increases**
- **Cost-Based and Competitive With Line Extension Charges of Other Utilities (e.g., Other Former GDC Utilities Such as Cape Coral's)**

Recommendations

- **User Rate Increase for Fiscal Year 2023 Has Already Been Adopted**
 - Index Adjustment Based on Actual Inflation
 - To Ensure Utility Sustainability, Increases in Utility's Costs Must Be Passed Through to Customers
 - User Rates Are Affordable and Competitive

- **Direct Staff to Bring Back to Commission a Resolution or Ordinance Incorporating Other Utility Rate Analysis Recommendations**
 - Need to Notify Customers of Public Hearings Through Utility Bills

- **Given Current Economic Uncertainty (e.g., Due to Effects of Pandemic and Global Unrest), Monitor Economic Conditions to Determine User Rate Recommendations for Fiscal Year 2024 and Beyond**
 - City Staff Has Been Provided With a Copy of Financial Model
 - To Secure Debt Financing and Obtain More Favorable Interest Rates, All Rate Adjustments Needed to Support Debt Repayments Should Be Adopted in Advance

Recommendations (cont.)

- **Recommendation Adopt to Proposed Water and Wastewater Capacity / Impact Fees**
 - "Right-Sized" Based on Most Recent and Local Data
 - Competitive With Capacity Fees of Neighboring Utilities
 - Help to Reduce Need for Future User Rate Adjustments
 - Help to Reduce Need to Finance Capital Improvements (Lower Interest and Issuance Costs)

- **Recommendation to Adopt Proposed Other / Miscellaneous Charges**

- **Recommendation to Adopt Proposed Line Extension Charges**

QUESTIONS AND DISCUSSION

