

Charlotte County Utilities

Water and Wastewater Rate and Charge Study

In support of the Proposed Series 2024 Revenue Bonds

Presented on June 11, 2024



Study Objectives / Tasks

- Ensure equity of fees and charges for new and existing customers
 - › Update water and wastewater connection fees
- Evaluate the adequacy of monthly service rates
 - › Develop a funding strategy to pay for system operations, maintenance and capital repairs & upgrades
- Review miscellaneous utility charges (*currently under review*)

Evolution of CCU's Capital Plan

- March and April: CCU staff worked with its Consulting Engineers to evaluate the adequacy of the capital improvement projects to ensure that the program:
 - › Incorporates appropriate levels of capital maintenance
 - › Addresses regulatory compliance
 - › Provides for capacity additions required to meet the needs of new customers
 - › Is reasonably valued

Evolution of CCU's Capital Plan (cont.)

- CCU staff received recommendations from the Consulting Engineers that significantly increased the estimated capital costs over the next 5-years and beyond
 - › CCU staff worked to prioritize projects within 5 categories and requested that Raftelis incorporate Priority 1 projects within the rate and charge studies as follows:

UTILITY CAPITAL TIERED PROJECTS

TIER 1	1	Regulatory, public safety, end of useful life, active CIP
	1	PW/FDOT-related (CIPs) OR vetted by CCU, but not yet in CIP
TIER 2	2	Likely necessary project in preliminary study but not vetted by CCU/Admin
TIER 3	3	Not yet determined to be necessary
TIER 4	4	Identified projects not vetted and / or outside "CIP Window"
TIER 5	5	In closeout, removed from CIP or Sales Tax repository

Priority 1 Capital Improvements

- Observations:
 - › Over the next 5-6 years, Priority 1 projects comprise 75% of the total program, or approximately \$1 billion including:
 - Wastewater Reclamation Facility (WRF) Expansions for East Port, Burnt Store, West Port and Rotonda
 - CCU’s commitment towards Peace River Project T9; Regional Integrated Loop – Phase 2B
 - CCU’s plans to obtain 3.0 MGD of water capacity from the Peace River Facility Expansion Project (16.67% of the 18.0 MGD expansion)
 - Other Peace River Projects identified in the project list as allocable to CCU
 - Based on conversations with Peace River, the project expenditures are unfunded or, if approved, will be funded through future Peace River Base Rates (*the “System-wide CIP Contribution”*)

Review of Connection Fees

Summary of Current Fees

Current Charlotte County WATER CONNECTION FEES		
A)	Connection Fees and Charges per ERC (TAP Fee)	\$2,407
B)	<i>Plant Capacity</i>	<i>\$910</i>
C)	<i>Transmission Capacity</i>	<i>\$380</i>
D)	<i>Water AGRF</i>	<i>\$1,117</i>
<i>"TAP Fee" Components</i>		
E)	Distribution Fee / Line Extension Charge (Non-MSBU)	\$2,940
F)	Water Service Line	\$1,070
F)	Water Meter	\$375
Full Cost of Water Fees		\$6,792

Current Charlotte County WASTEWATER CONNECTION FEES		
A)	Connection Fees and Charges per ERC (TAP Fee)	\$2,251
B)	<i>Plant Capacity</i>	<i>\$1,110</i>
C)	<i>Transmission Capacity</i>	<i>\$500</i>
D)	<i>Wastewater AGRF</i>	<i>\$641</i>
<i>"TAP Fee" Components</i>		
E)	Collection Fee / Line Extension Charge (Non-MSBU)	\$2,910
F)	Service Installation Charge	\$1,240
G)	LPS Installation - Residential per each LPS Tank	\$4,800
Full Cost of Wastewater Fees		\$11,201

The Connection Fee (TAP Fee) amounts were set based on a study published in 2012, which calculated the cost of existing and planned investments that provide capacity to serve new utility customers. The planned investments provided in the capital plan were based on projections for residential development, residential infill and commercial development coming out of the Great Recession. The Distribution / Collection Fees were subsequently removed from the Connection Fees and set equal to the Line Extension Charges. Updates to fee application methods per connection were also adopted.

Summary of Current Fees (cont.)

- A) Connection Fees: CCU invoices this charge as one "TAP Fee" for each newly connected ERC; the components are never broken out on an invoice.
ALL new connections pay the "TAP fee" for each ERC, but rarely pay any Distribution/Collection, LPS Tank or Service fees.
- B) Plant Capacity Fee: The amount of potable water production and wastewater treatment expressed as an average of millions of gallons per day (MGD).
- C) Transmission Capacity Fee: The capacity of the system pipes to and from the treatment plants.
- D) AGRF: These fees are collected for operations and maintenance of unused capacity in the system ("carrying costs").
- E) Local Infrastructure Fees: These fees are not paid by developers; very few people actually pay these for infill construction.
- F) Service Connection Fees: Amounts applicable to any new water and/or wastewater physical connection of the property to the system made by CCU.
- G) LPS Tank Fee: There are currently only 90 infill projects in queue which will eventually pay for an LPS tank installation.

When analyzing how the cost of system expansion affects existing customers of the system, we recommend updating the TAP Fees.

- Where utilities are expanding services through an assessment program (like the septic-to-sewer conversions), TAP Fees, meter & service connection fees plus the actual costs of local infrastructure improvement costs are typically considered

Summary of Proposed Fees

See impact of proposed fees on
Preliminary Plan of Finance (Slide 13)

Proposed Charlotte County WATER CONNECTION FEES	
Connection Fees and Charges per ERC (TAP Fee)	
\$5,186	
<i>Plant Capacity</i>	<i>\$4,000</i>
<i>Transmission Capacity</i>	<i>\$660</i>
<i>Water AGRF</i>	<i>\$526</i>
<i>"TAP Fee" Components</i>	
Distribution Fee / Line Extension Charge (Non-MSBU)	\$3,825
Water Service Line	\$2,770
Water Meter (Without Backflow)	\$1,370
Full Cost of Water Fees	\$13,151
Existing Water Fees	\$6,792

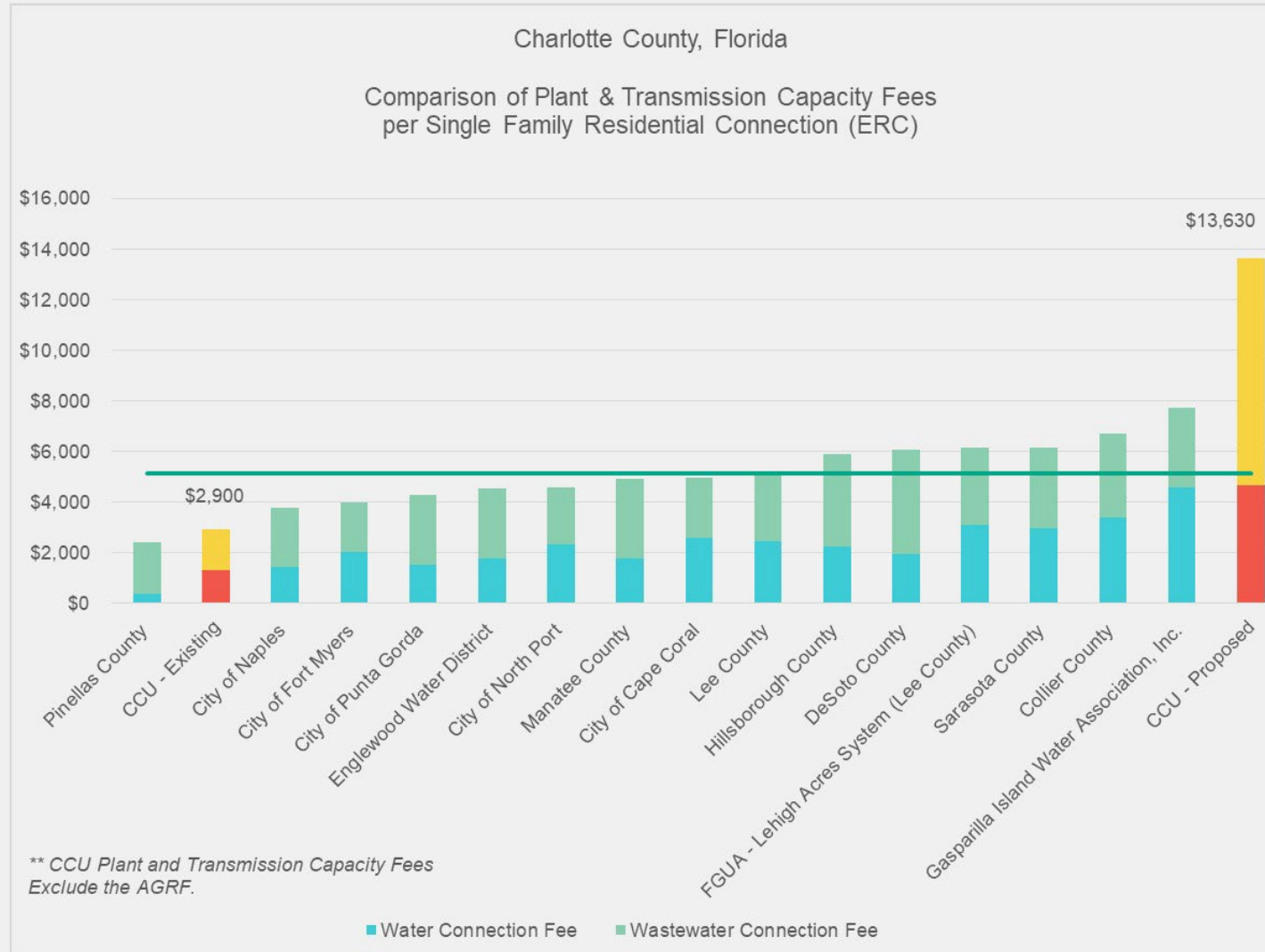
Proposed Charlotte County WASTEWATER CONNECTION FEES	
Connection Fees and Charges per ERC (TAP Fee)	
\$9,789	
<i>Plant Capacity</i>	<i>\$7,680</i>
<i>Transmission Capacity</i>	<i>\$1,290</i>
<i>Wastewater AGRF</i>	<i>\$819</i>
<i>"TAP Fee" Components</i>	
Collection Fee / Line Extension Charge (Non-MSBU)	\$3,785
Service Installation Charge	\$4,005
LPS Installation - Residential per each Tank (Conversion)	\$13,000
Full Cost of Wastewater Fees	\$30,579
Existing Wastewater Fees	\$11,201

- Amounts consider existing and future facilities necessary to serve new customer connections
 - › System costs based on a prioritized listing of capital improvements

Why Capacity 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 per ERC
- Age of System
- Density / Size of System

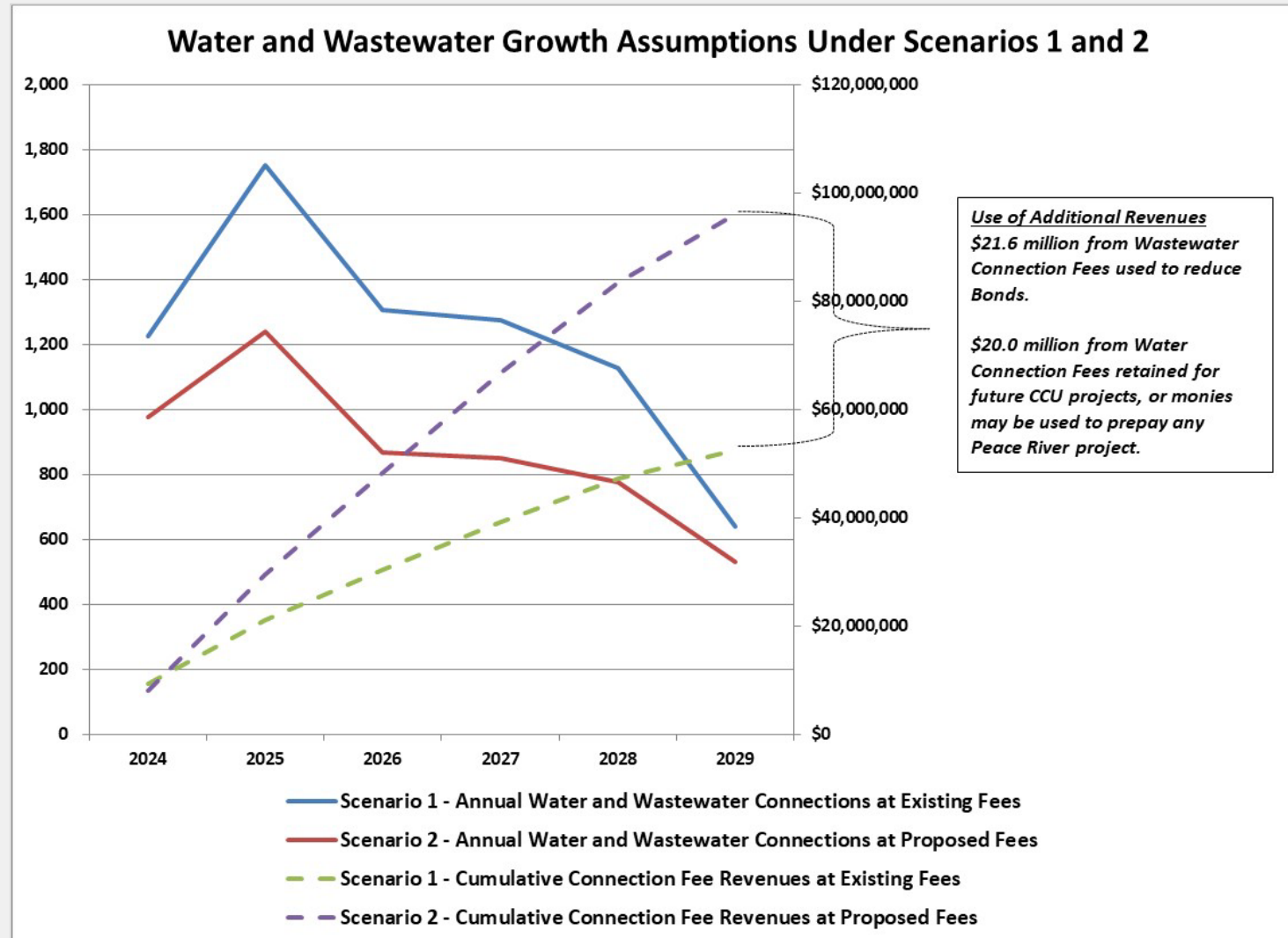
Comparison of Capacity Costs





Preliminary Plan of Finance

Summary of Growth Assumptions



Borrowing Needs for Priority 1 Projects (Millions)

Scenario 1: Existing Connection Fees		
<u>Description</u>	<u>Series 2024</u>	<u>Series 2027</u>
Sources		
Par Amount	\$261.4	\$318.8
Premium	<u>\$18.8</u>	<u>\$22.7</u>
Total Sources	\$280.2	\$341.5
Uses		
	Project Fund \$606.8 million	
Project Fund	\$277.8	\$329.0
Capitalized Interest	\$0	\$9.6
Issuance Costs	<u>\$2.4</u>	<u>\$2.9</u>
Total Uses	\$280.2	\$341.5

Scenario 2: Proposed Connection Fees		
<u>Description</u>	<u>Series 2024</u>	<u>Series 2027</u>
Sources		
Par Amount	\$245.3	\$314.3
Premium	<u>\$17.7</u>	<u>\$22.6</u>
Total Sources	\$263.0	\$336.6
Uses		
	Project Fund \$585.2 million or \$21.6 million less	
Project Fund	\$260.8	\$324.4
Capitalized Interest	\$0	\$9.4
Issuance Costs	<u>\$2.2</u>	<u>\$2.8</u>
Total Uses	\$263.0	\$336.6

- Estimates provided by CCU's Financial Advisor. For illustration purposes only. Subject to change.

Preliminary Financing Plan Under Proposed Connection Fees (Scenario 2)

- Due to the lower connection rate assumption applied under Scenario 2:
 - › The projected annual rate adjustments for water and wastewater service are the same under Scenarios 1 or 2
 - › Long-term results under Scenario 2 may generate an additional \$20 million in available water fees that could be applied to future projects where CCU staff are anticipating the need for future water expansion projects, or monies may be used to prepay a portion of any Peace River project

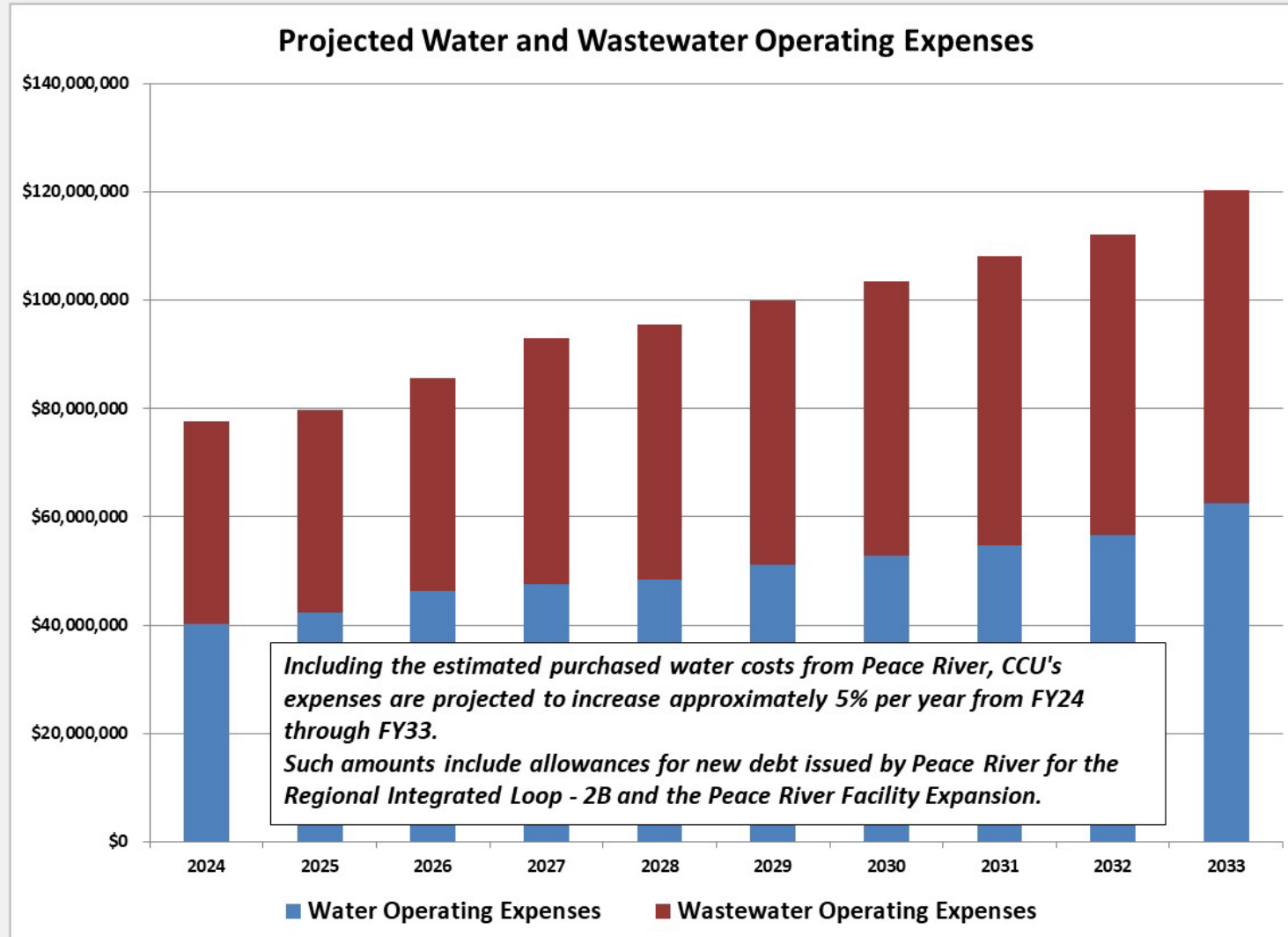


Preliminary Financial Results

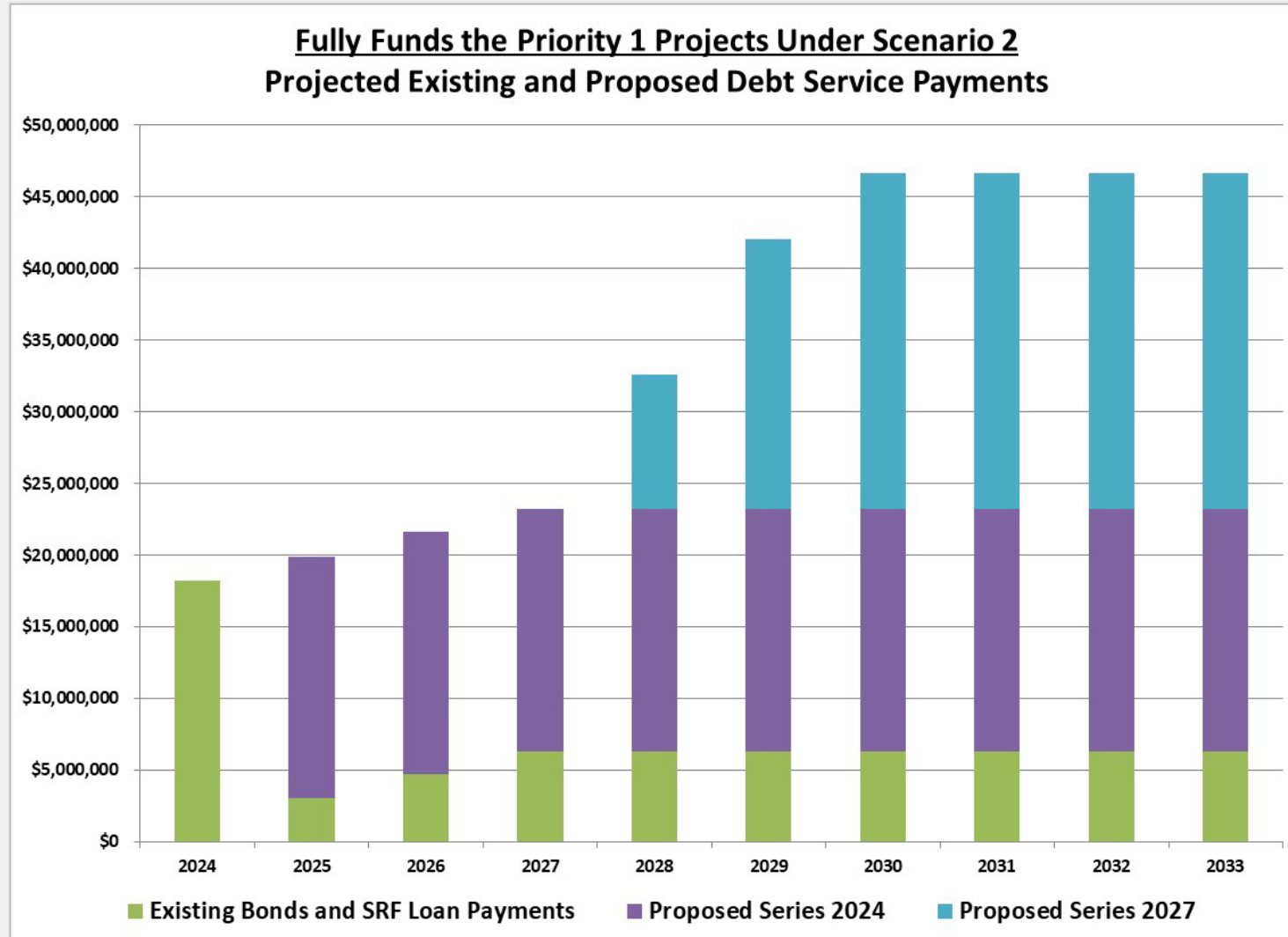
Principal Cost Drivers

- Supply chain issues affecting the availability of equipment, supplies and materials forcing local governments to appropriate resources and place orders well in advance of future demands
- Significant impacts on system operating and capital expenditures as a result of inflation
- Changes to the design criteria of critical expansion-related projects as more planning is completed requiring updates to the construction schedule and estimated operating expenses
- Significant changes to and increases resulting from Peace River's proposed budget and updated CNA schedule

Purchased Water Costs & System Expenses



CCU Debt Payments Under Proposed Rates



Financial Considerations

- The proposed rates should meet the following criteria:
 - › Fully fund the operating and capital requirements of the system over the study period
 - › Provide net revenues sufficient to maintain a strong debt service coverage margin to help ensure a better credit rating and lower borrowing costs
 - Debt service coverage requirement provides working capital in excess of the minimum of 120 days cash on hand in the operating fund to provide:
 - Adequate working capital to meet the operating needs of the system
 - A contingency to respond to natural disasters or other unforeseen events
- Rate adjustments should be phased in over time to the extent practicable

Projected Rate Adjustments (Scenario 2)

Projected Rate Adjustments – Residential Water and Wastewater Bill Comparison [*]

Description	FY25	FY26	FY27	FY28	FY29
Proposed Annual Adjustment	7.0%	7.0%	7.0%	7.0%	7.0%
Proposed Residential Water and Wastewater Bill [*]	\$130.04	\$139.14	\$148.88	\$159.30	\$170.45
Increase in Monthly Bill per Year	\$8.51	\$9.10	\$9.74	\$10.42	\$11.15
Debt Service Coverage – Senior Lien (110% minimum)	187%	251%	265%	242%	186%
Net Cashflow Margin for Working Capital	(10.8%)	5.5%	6.2%	4.3%	1.2%
Days of Operating Cash	280	287	296	310	302

[*] Residential water and wastewater monthly bill currently \$121.53 based on the average monthly metered water use of 4,000 gallons.

- To provide a strong financial position, CCU's Financing Team would like to see the System achieve a Senior Lien Debt Service Coverage of 150-200% while maintaining 150-200 days of operating reserves. By FY2029, approximately \$41 million may be available above the 150-day minimum operating reserve target, which could be used to lower the Series 2027 Bonds or address additional capital maintenance identified in Priorities 2 and 3 of the capital plan. Lowering the Series 2027 bond issue might provide a savings of approximately 2%.

Projected Rate Adjustments (Scenario 2)

Projected Rate Adjustments – Residential Water and Wastewater Bill Comparison [*]

Description	FY29	FY30	FY31	FY32	FY33
Proposed Annual Adjustment	7.0%	2.5%	2.5%	2.5%	2.5%
Proposed Residential Water and Wastewater Bill [*]	\$170.45	\$174.71	\$179.08	\$183.56	\$188.15
Increase in Monthly Bill per Year	\$11.15	\$4.26	\$4.37	\$4.48	\$4.59
Debt Service Coverage – Senior Lien (110% minimum)	186%	166%	148%	151%	144%
Net Cashflow Margin for Working Capital	1.2%	(1.1%)	(0.2%)	0.4%	(1.5%)
Days of Operating Cash	302	286	273	265	240

[*] Residential water and wastewater monthly bill based on the average monthly metered water use of 4,000 gallons.

Q&A



Thank you!

Contact: Murray Hamilton and Diana Ling
407 628 2600

Supplemental Graphs

Days of Cash on Hand

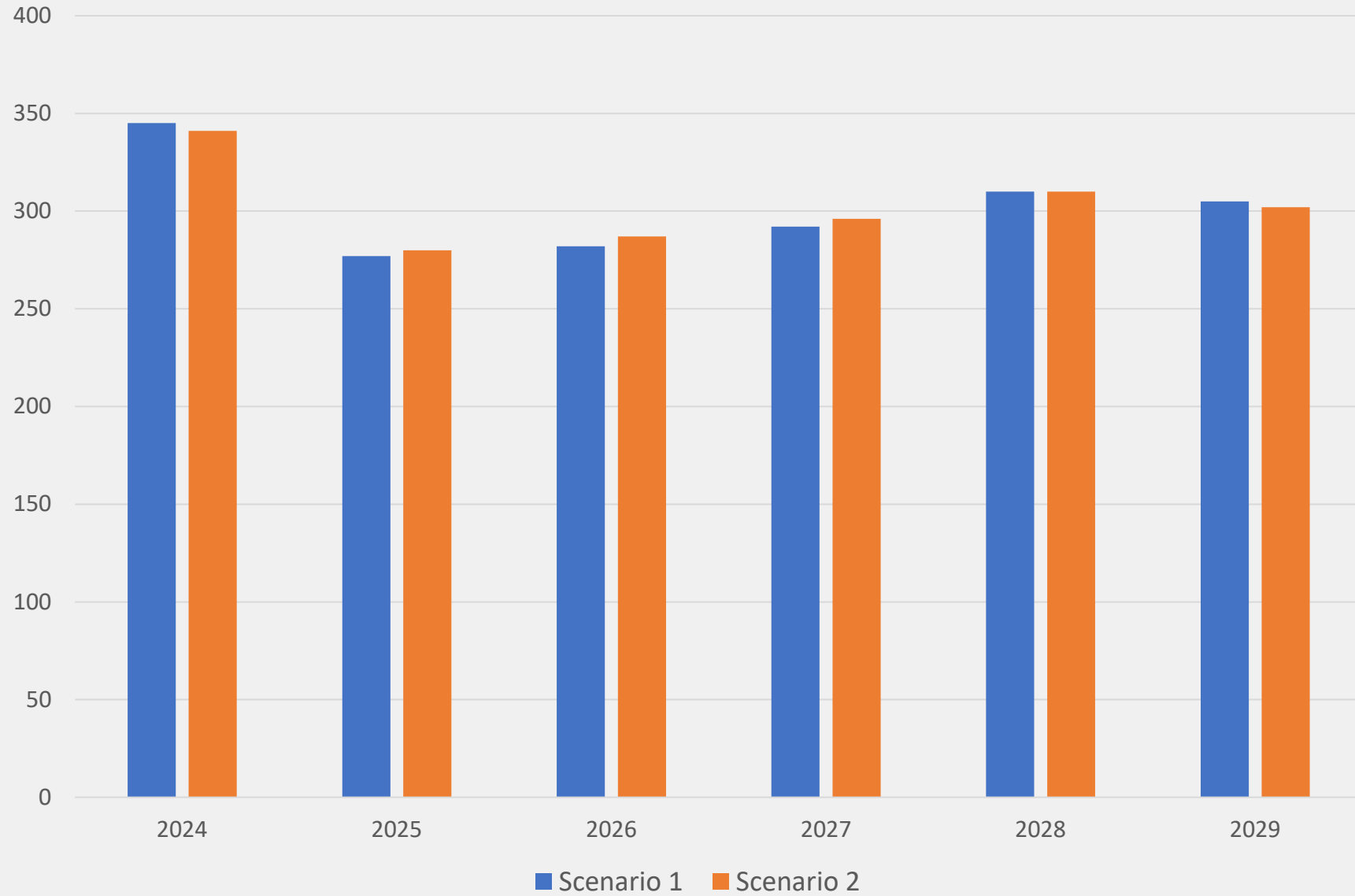
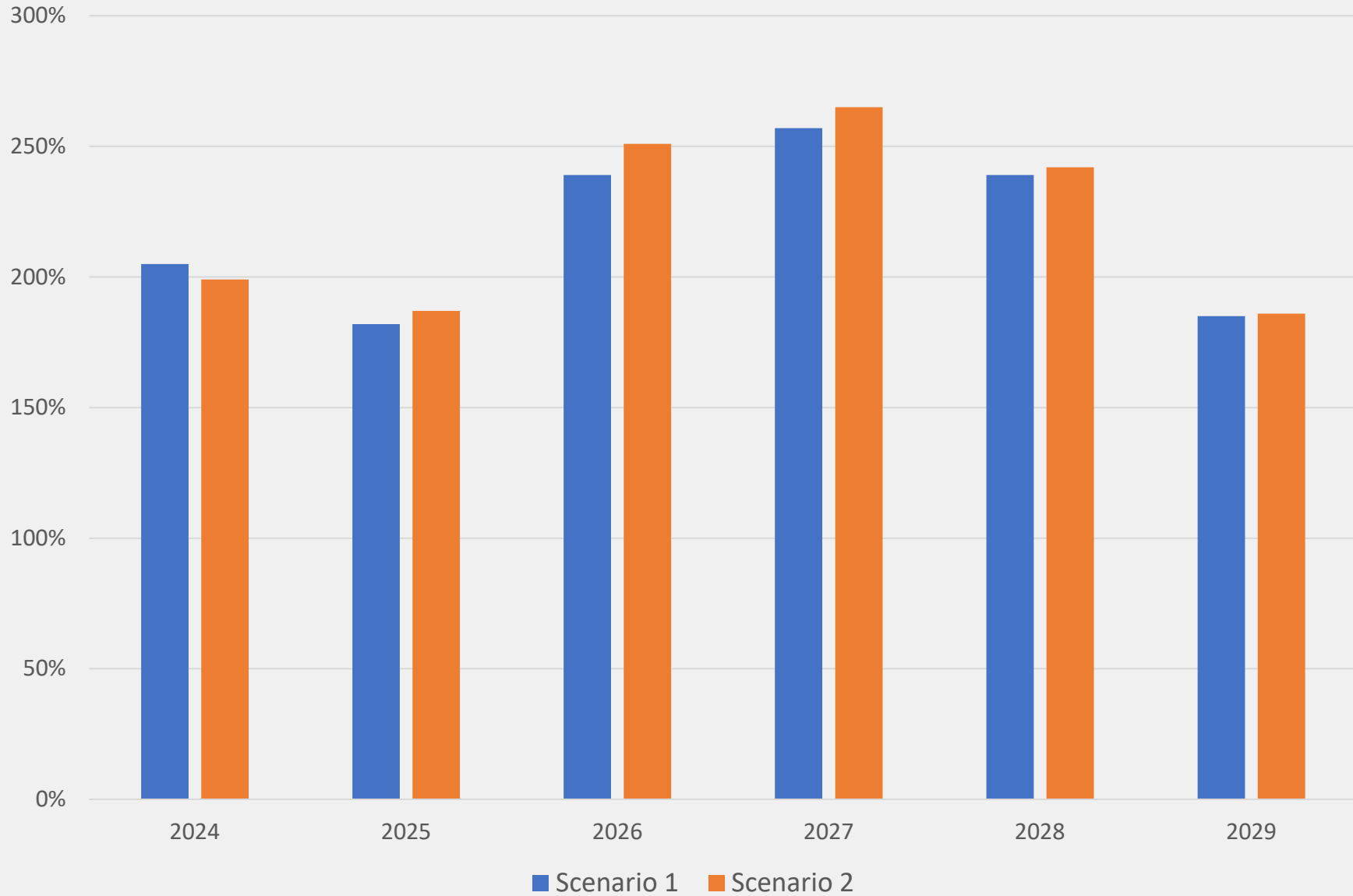
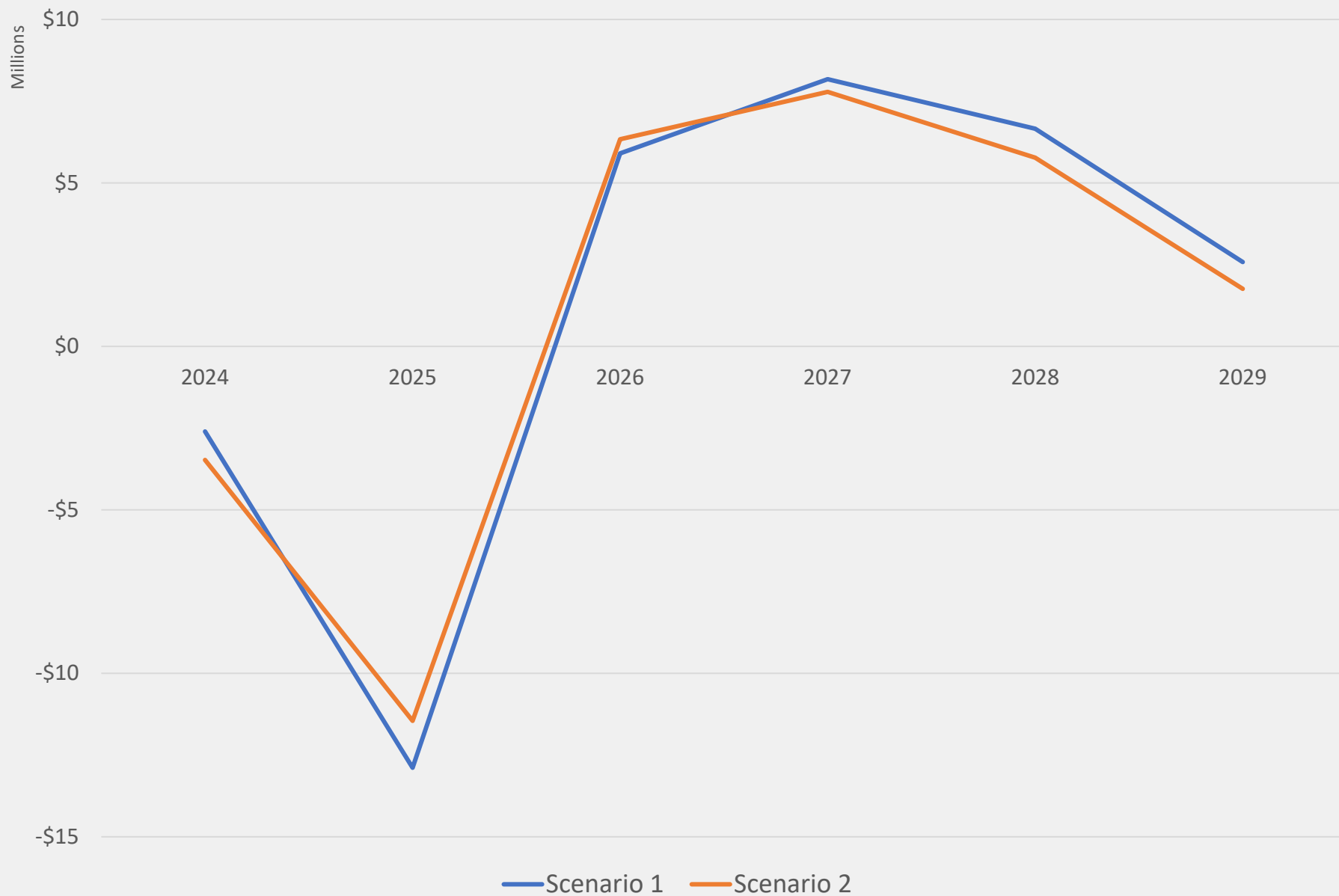


Chart Debt Service Coverage - Senior Lien (110%)



Annual Surplus/(Deficiency)



CCU Modeled Revenues

