Key Largo Wastewater Treatment District
Board of Commissioners Meeting
Agenda Item Summary

Meeting Date:

October 15, 2024

Agenda Item Number: G-1

Action Required:

No

Department:

General Manager

Sponsor:

Peter Rosasco

Subject:

2024 Wastewater Rate Study Results presented by Raftelis

Summary of Discussion:

Raftelis will present its findings from the 2024 KLWTD Wastewater Rate Study.

Reviewed / Approved

Operations: ________

Administration: ________

Finance: ________

District Counsel: ________

District Clerk: ________

Engineering: ________

Financial Impact

$

Funding Source:

Budgeted:

N/A

Attachments

KLWTD 2024 Wastewater Rate Study

Approved By: ______________________ **Date:** 10/10/2024

General Manager

Key Largo
Wastewater Treatment District

2024 Wastewater Rate Study

October 15, 2024

RAFTELIS

Background

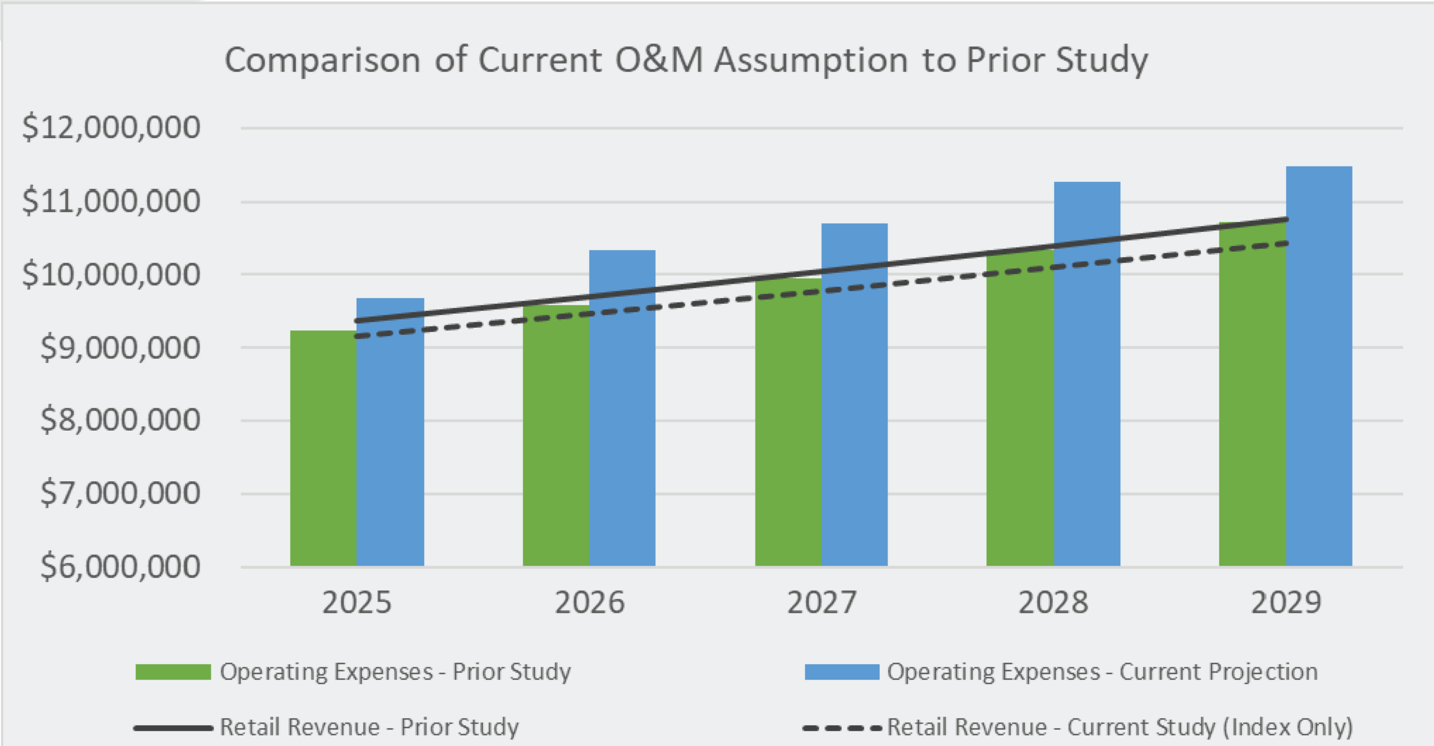
- Raftelis performed a Rate Study in 2019 and 2022
  - 2019 Study resulted in adoption of a 15% reduction in retail rates effective January 1, 2020
    - Strong cash balances and rates over recovering
    - Provided rate relief to customers
  - 2022 Study resulted in adoption of a 5% reduction in retail rates effective October 1, 2022
    - Rates set to cover operating expenses with the assumption grant funding would provide most of capital funding requirements
    - Study identified need for rate indexing by fiscal year 2025 to keep pace with inflation in operating costs

Background - Key Changes Since 2022 Rate Study

- Cashflow Differences:
  - Projected FY25 retail rate revenues approximately 2% lower
  - Projected FY25 operating expenses are 5% higher
    - Additionally, $300,000/yr in O&M assumed in FY26 for District's Collection System Action Plan represents another 3% increase in O&M
- Capital and Grants:
  - FY25-29 CIP of $72.2 million; more than twice the prior study's identified 5-year funding needs
    - Still offset by grant funding, assumed to fund 67% of CIP ($48.2 m)
    - $24 million funded from internal resources (R&R fund, cash reserves, rates)
- Debt Service:
  - Outstanding SRF loan matures in FY29
  - Projected outstanding balance at EOFY24: $7 million @ interest rate of 2.5%

- ***Key takeaway:*** Inflation in operating expenses, costs associated with new regulatory requirements, and capital needs greater than previously projected, while rate revenues slightly underperformed.

Prior vs Current Study Projections

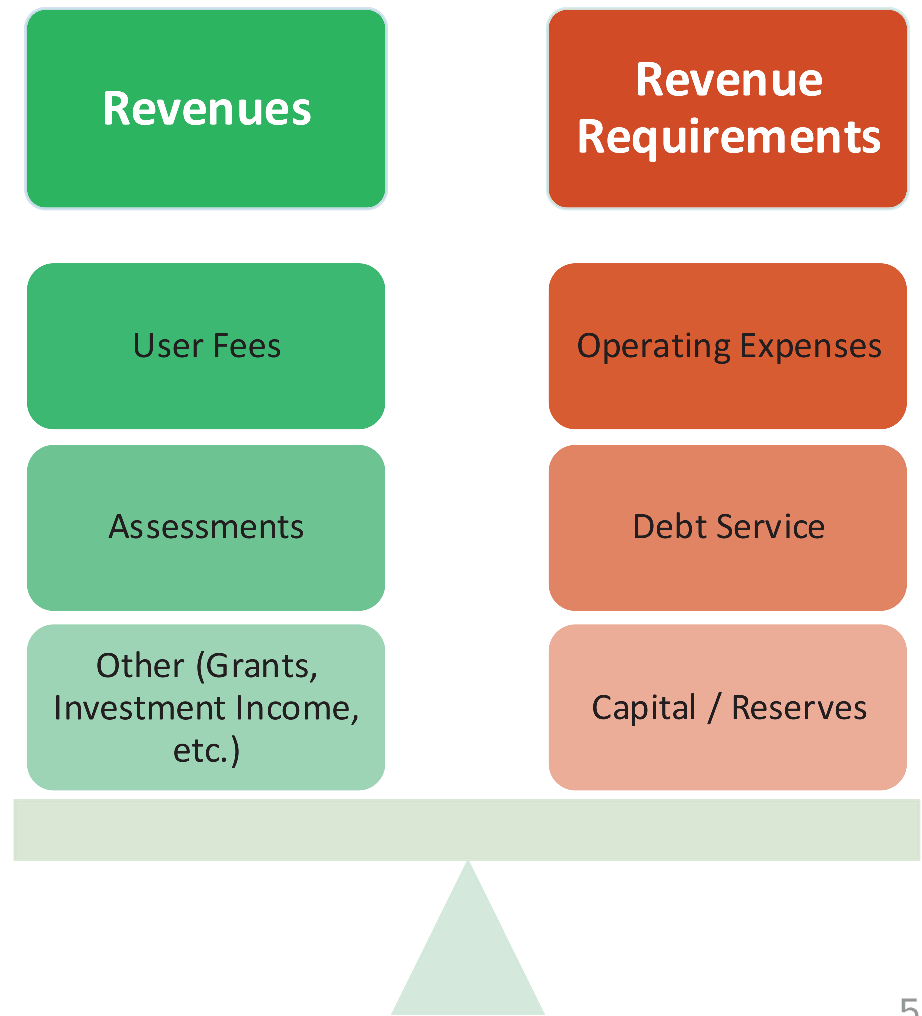


- Rate revenues 2% lower than prior projections
- Operating expenses 5% greater than prior projections

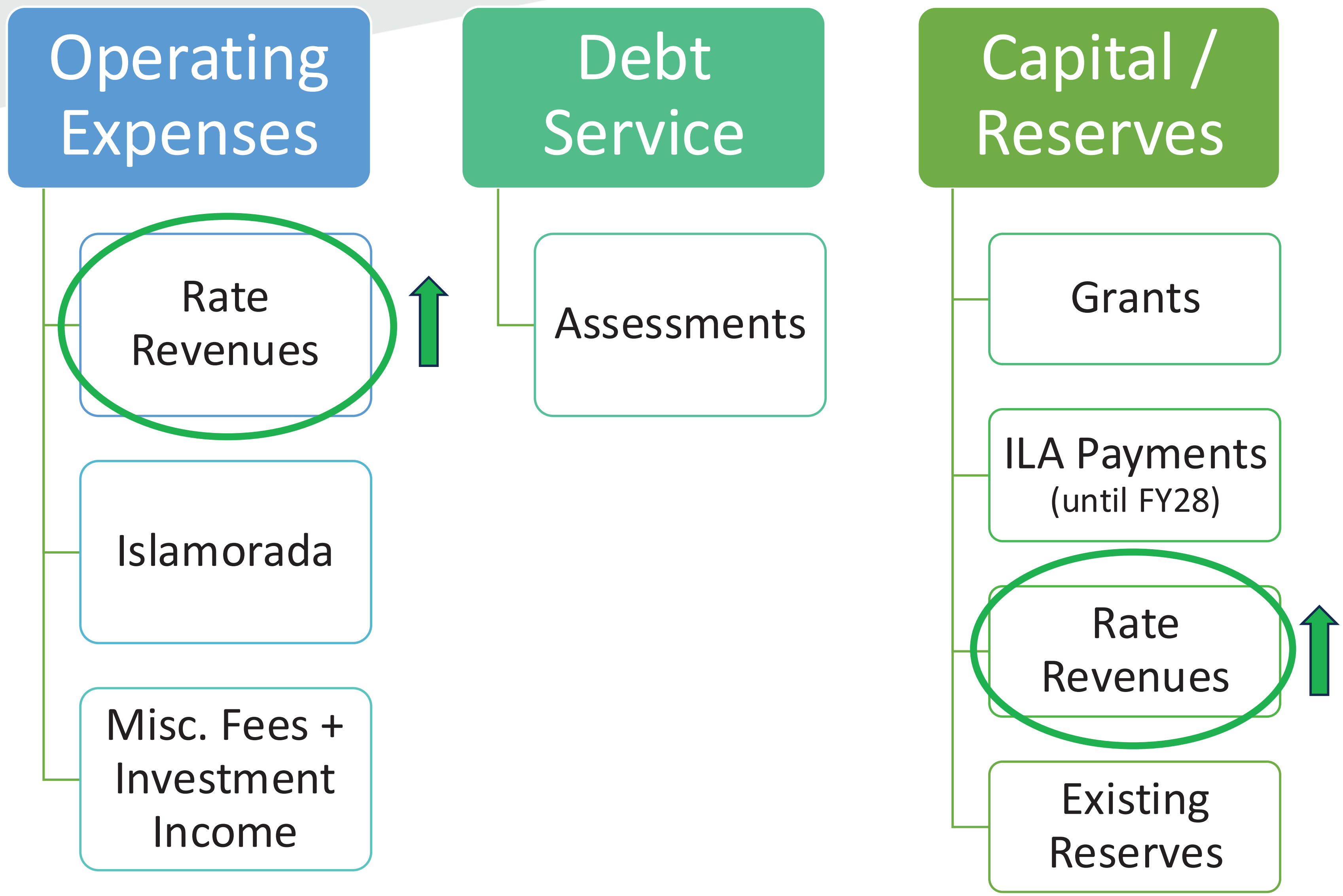
Methodology

- Updated Financial Forecast
  - FY24 base year + 10-year forecast
- Data Updated:
  - Customer accounts and demands
  - Past financial results & cash balances
  - Current budget & CIP
  - Escalation assumptions
  - Grant funding
- Primary Study Objectives:
  - Reassess funding needs & need for rate adjustments
  - Present Rate Options
  - Seek direction from Board

Determining Rate Adjustments



Methodology – Uses and Sources of Funds



Objectives and Findings

- Objective 1 – Recover Operating Expenses
  - FY25: Identified 10.5% rate increase to true-up rate revenues to cover operating expenses
  - FY26: An additional 7.0% increase to cover inflation and CSA plan O&M expenses
  - FY27+: Minimum 4.0% increases to keep pace with inflation
- Objective 2 – Maintain Operating and Capital Reserves
- Objective 3 – Meet overall revenue requirements (break-even cash flows) and debt service coverage
  - Phased approach
- Objective 4 – Evaluate need for rate adjustments with and without residential sewer cap
  - Identified eliminating billing cap allows reduction of monthly bill increase by $0.25 in each of the fiscal years FY25-FY29

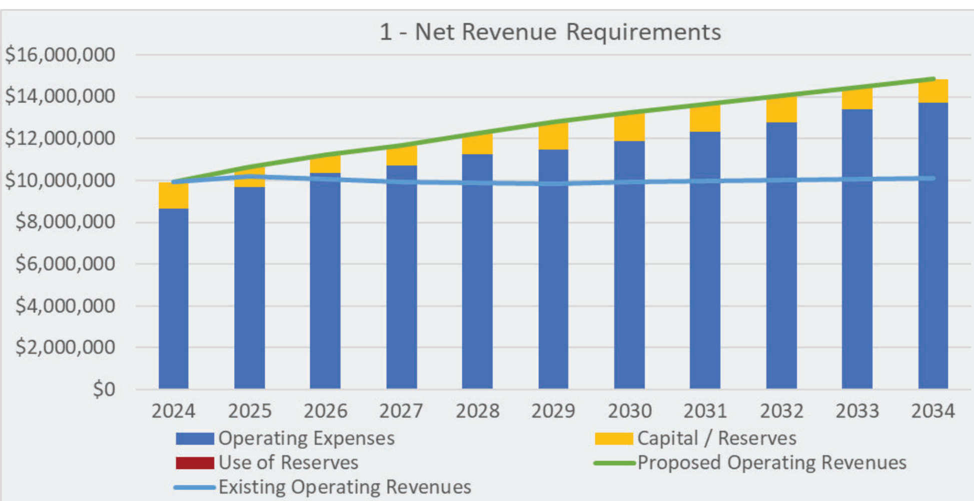
Proposed Rate Adjustments

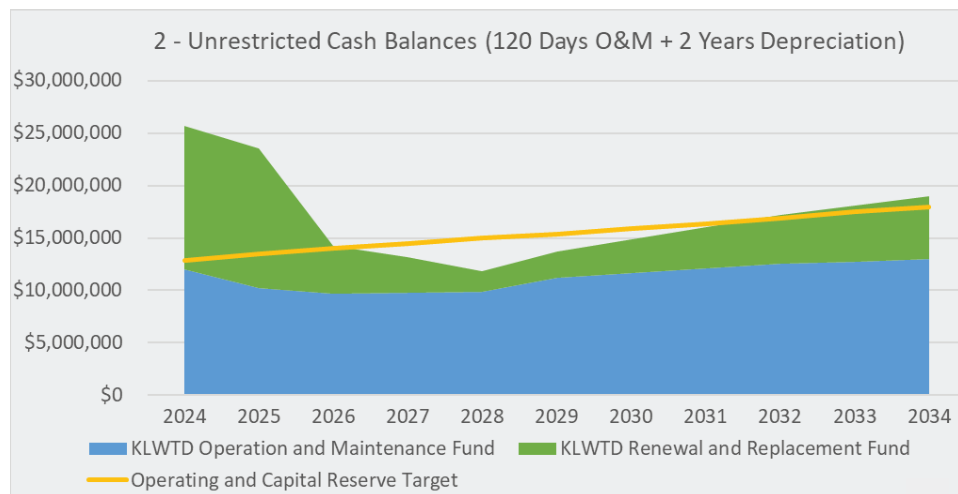
Proposed Increases – Maintain Residential Sewer Cap

	Exist.	FY25	FY26	FY27*	FY28	FY29	FY30	FY31	FY32	FY33	FY34
Bill at 4,000 gallons	$44.17	$47.67	$51.17	$54.67	$58.17	$61.67	$63.67	$65.67	$67.67	$69.67	$71.67
$ Change	N/A	$3.50	$3.50	$3.50	$3.50	$3.50	$2.00	$2.00	$2.00	$2.00	$2.00

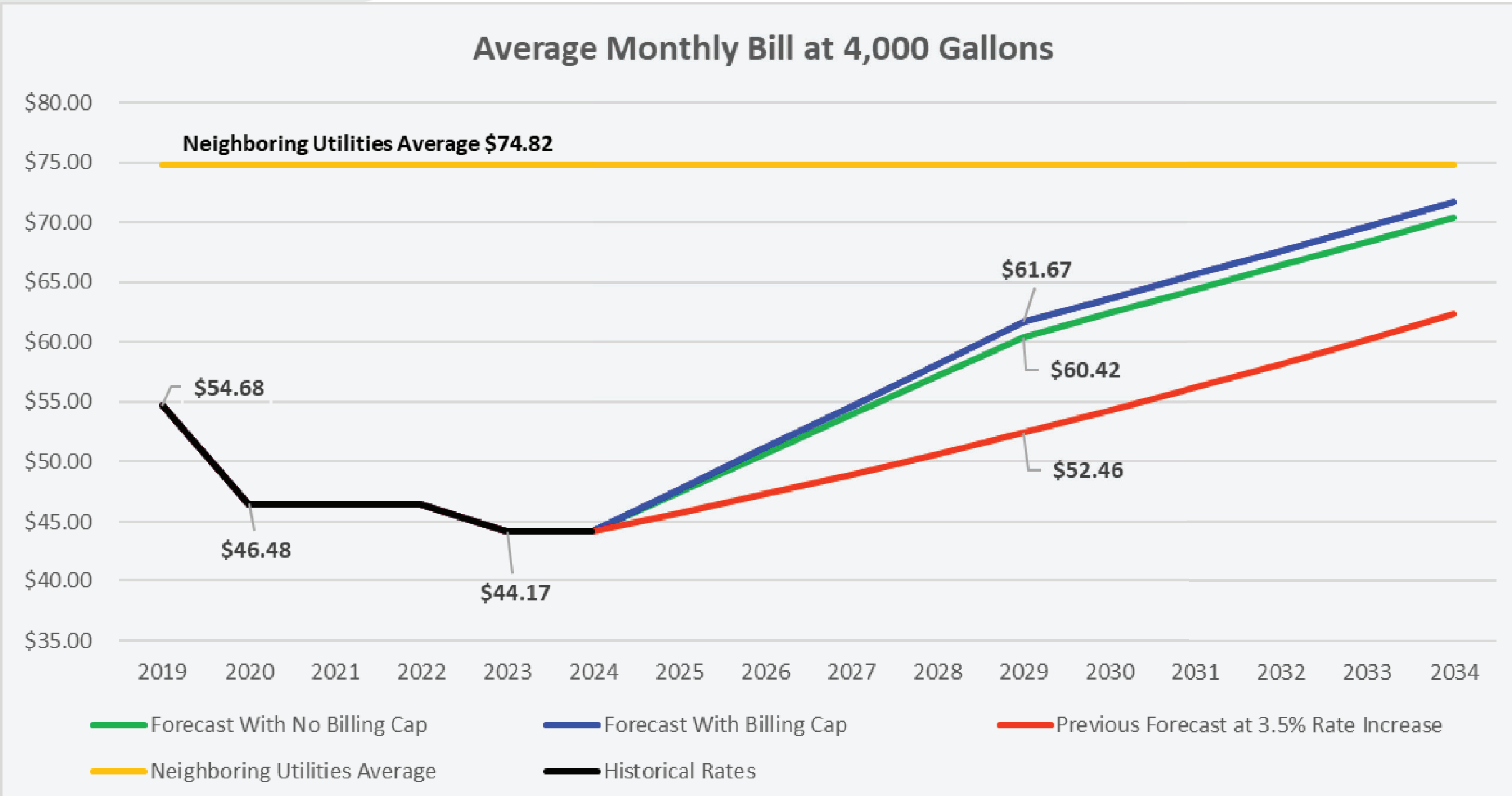
Proposed Increases – Remove Residential Sewer Cap

No Cap	Exist.	FY25	FY26	FY27*	FY28	FY29	FY30	FY31	FY32	FY33	FY34
Bill at 4,000 gallons	$44.17	$47.42	$50.67	$53.92	$57.17	$60.42	$62.42	$64.42	$66.42	$68.42	$70.42
$ Change	N/A	$3.25	$3.25	$3.25	$3.25	$3.25	$2.00	$2.00	$2.00	$2.00	$2.00

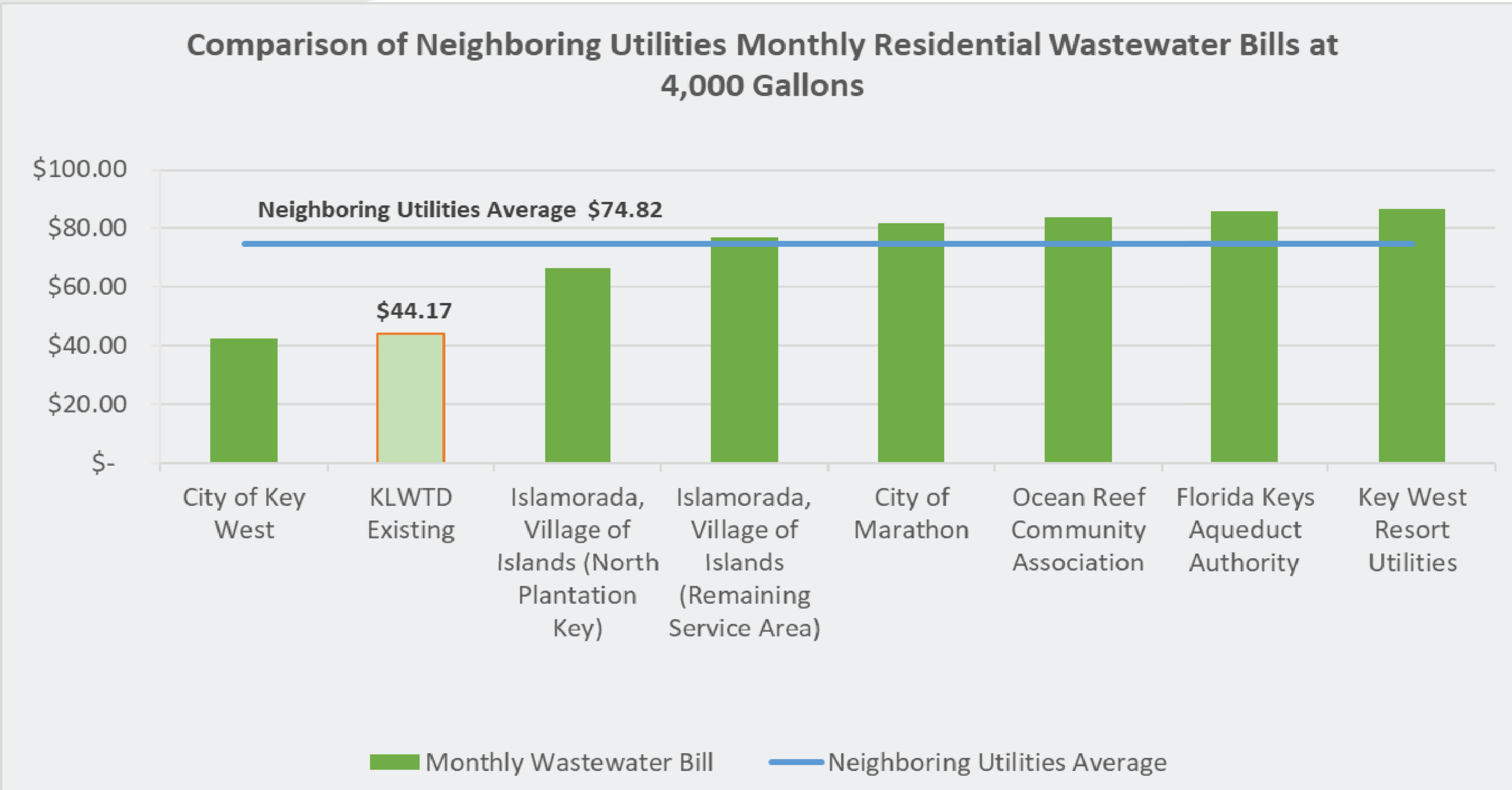




Comparison of Current and Prior Rate Recommendations



Rate Comparison



Proposed Rates

Maintain Residential Sewer Cap

Description	FY25	FY26	FY27	FY28	FY29
Base Charge (per EDU)	$29.27	$31.41	$33.55	$35.69	$37.83
Usage Charge (per kgal)	$4.60	$4.94	$5.28	$5.62	$5.96

Remove Residential Sewer Cap

Description	FY25	FY26	FY27	FY28	FY29
Base Charge (per EDU)	$29.14	$31.15	$33.16	$35.17	$37.18
Usage Charge (per kgal)	$4.57	$4.88	$5.19	$5.50	$5.81

Conclusions

- Prior study identified need to raise rates by FY25
- Recommend raising rates at level higher than previously forecast
- Higher inflation, costs related to regulatory requirements, and increases in capital funding needs are the main drivers of the proposed rate increases
- The proposed rate adjustments maintain average residential bills below the survey average
- Recommend adopting a 5-yr rate plan (FY25-FY29) and that the sufficiency of rates be reviewed after 3 years or if significant changes occur

Thank you!

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Potential Revenue Increase:
Removing Residential Billing Cap

	2023	2025*
Metered Flows (kgal)	400,491	397,988
Billed Flows (kgal)	350,968	351,274
Metered Flows Above Billing Cap (kgal)	49,973	46,714
Current Rate	$4.26	$4.26
Total Revenue Increase	**$212,885**	**$199,002**

* 2025 Flows are forecasted and assumes an average monthly metered flow of 3,570

- FY23 had 49,973 kgal of flow that were not billed due to billing cap.
  - Could have generated an additional $212,885 in revenue
- Assuming a conservative 3,570 average monthly metered flow for forecasted periods, FY25 would generate an additional $199,002 in revenue
- At a forecasted additional revenue of $200k per year, rate increases could be lowered by $0.25 per year for the next five years