



City of Eustis

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TO: EUSTIS CITY COMMISSION

FROM: TOM CARRINO, CITY MANAGER

DATE: May 18, 2023

RE: RESOLUTION NUMBER 23-49 WATER, WASTEWATER, AND
RECLAIMED WATER RATE ADJUSTMENT

Introduction:

The purpose of Resolution Number 23-49 is to establish new water, wastewater, and reclaimed water rates to ensure that the facilities used and required are maintained in proper working order and comply with regulatory mandates. Resolution 21-20 established rate adjustments for water, wastewater, and reclaimed water for the period beginning June 1, 2021 and each June 1st through 2025. The effective date of the new rates will always be the July 1st billing each year. A notice of a 2.5% increase will be included on every utility bill issued in June.

Recommended Action:

Staff recommends approval of Resolution Number 23-49 as submitted.

Background:

In 2016, the City contracted with Public Resource Management Group, Inc. (PRMG) to perform a Utility rate study. PRMG presented the results and recommendations of the 2016 Water, Wastewater, and Reclaimed Water Study to the Commission on February 18, 2016.

In 2021, the Finance Department conducted an in-house study covering the current status and projections of the water, wastewater, and reclaimed water systems through the year ending June 30, 2025. Consideration was given to current financial conditions, projected operation costs, proposed system upgrades, required system upgrades, customer growth, economic assumptions and revenue streams necessary to deliver reliable and quality service to customers.

Based on the analysis of the water, wastewater, and reclaimed water systems, it was determined that an annual increase of 2.5% each year through June 1, 2025, would be sufficient. Other rates were explored in the study, however, it was determined that the 2.5% increase allowed the City to balance funding operations with keeping costs reasonable for users.

The Commission has always provided for and ensured proper rates are in effect for the City. This due diligence has been able to satisfy outside agencies such as lending institutions and bond rating companies, allowing us to obtain financing for major expansions when necessary. The rates will go into effect June 1st of each year. The previous study had an initial increase of 7.7% followed by 4 years at 1.7%, which averaged out to 2.9% a year over the five years ending 6-1-2020. As it turned out, the CPI for the same period was also 2.9%. The study currently in use maintained a consistent 2.5% each year, totaling 12.5% for the period reviewed.

Based on the growth of customers as well as future Consumer Price Index, we felt the rates were adequate and just. It is imperative that the City continue to ensure that rates are available to support the operation, maintenance and necessary replacement of the infrastructure; as well as provide assurances to outside agencies, lending institutions and bond rating companies that the City is compliant in providing for operational needs. The current increase in rates should still fulfill that commitment for the coming year.

The previous study provided for the expectation that the City would borrow to fund the expansion project which will begin next year. We also have some reserves set aside to cover inflationary cost which have occurred. Since the in-house study, the City has encountered a number of issues that have prompted the need for a new rate study. Those include:

- The cost of the expansion has increased substantially to approximately \$12,000,000.
- Inflation last year was 7.036% and continues to increase at a rate of 8.259% for April. These rates have not been this high since 1980-12.52%, 1979-13.29%, 1974-12.34% and 1946-18.13% (see all years highlighted in Exhibit B).
- Construction cost continues to rise along with most commodities.

Fortunately, the City was awarded enough money from the American Rescue Plan Act (ARPA) in the amount of \$10,669,685. With the purchase of a Fire Truck for \$1,358,316, the City will have \$9,311,369 to apply to the construction of the sewer plant expansion. This, combined with a solid fund reserve, will allow the City to keep the rate at 2.5% this year, which will assist in helping our customers deal with other inflationary concerns.

While it was anticipated that a 2.5% rate increases would suffice through 2025, it is apparent that a new study should be performed. Exhibit B has a history of the CPI and the highlighted area represents years where the rate exceeds 6.0%.

Based on the above, Commission authorized a new rate study be performed by an outside consultant. Raftelis, a local government & utility management consulting company with national exposure, has been awarded the contract. They have a system to deal with inflationary factors previously not projected. The previous 14 years average inflation was only 2.51%.

- The 12-31-21 inflation rate was 7.04%
- The 12-31-22 inflation rate was 6.45%
- The 03-31-23 inflation rate was 4.98%

As of March 2023, inflation has decreased from the end of 2022 another 3.14% which is a positive going forward. Raftelis will be taking into consideration many economic factors including the June 1, 2023 2.5% rate increase being proposed. The next rate increase experience to the citizens will be June 1, 2024.

The exhibit below illustrates the proposed rate increases based on a typical residential 5,000-gallon monthly bill for water, reclaimed water, and wastewater usage. The cost of irrigation using an additional 5,000-gallon has been included for both those having potable water as well as those able to utilize reclaimed water.

Regular water and sewer bills would increase \$1.21 monthly, irrigation meter for potable water would increase \$0.39 monthly, while the reclaimed meter cost increase would only be \$0.30 monthly.

City of Eustis Residential Bill Comparison - 5,000 Gallon Monthly Usage Inside City Rates June 1, 2023		
Description	Current Rate	New Rate 6/1/2023
Water Availability	\$ 12.05	\$ 12.35
Consumption Cost	12.60	12.92
Utility Tax	2.47	2.53
Total Water Charges		
Sewer Availability	\$ 28.36	\$ 29.07
Consumption Cost	17.75	18.19
Total Sewer Cost	\$ 46.11	\$ 47.26
Total	\$ 48.58	\$ 49.79
Cost of Irrigation based on 5,000 Usage		
Irrigation Potable Water	15.65	16.04
Reclaimed Water	7.80	8.10

Customer located outside the City pay an additional 25% premium as provided by Florida Statute 180.191

Alternatives:

- Approve Resolution 23-49
- Deny Resolution 23-49 and provide direction to staff on how they would prefer to fund ongoing operations and debt service needs in the Water and Sewer System as well as the \$34.3 million in capital needs over the next five years.

Discussion of Alternatives:

Approval of Resolution 23-49:

Advantages: Approval of the resolution will adequately fund the operations and debt service requirements of the system and allow it to go forward with its five-year capital program at a modest increase of \$1.21 per month. This is less than a cup of premium coffee each month.

Additionally, Raftelis will be factoring in the above increase into the June 1, 2024 increase and 5 years beyond.

Disadvantages: The customer rates will be increased by 2.5% next year.

Denial of Resolution 23-49:

Advantages: The customer rates will not increase, which is not truly an advantage when the system cannot adequately supply the needs of the citizens.

Disadvantages: The system will no longer be able to afford its basic operating needs and will not be able to support its debt service payments. Capital repairs and improvements will have to cease or the system will become financially unattainable. Failure to fund the operations and the repairs and maintenance items could lead to major fines from State and Federal Government, environmental impairment, and real potential concerns for public health. The system may also become limited in its ability to serve water and conduct sewer collection for the residents and businesses of the City of Eustis.

Community Input:

The meeting has been advertised according to requirements. Starting on June 1st, notices will be included in customer bills which will provide the rates for the upcoming year, thereafter, each year in June the rate increase will be included in the utility bills for users.

Budget/Staff Impact:

These rate increases have been determined by the recent rate study to meet the projected immediate operational needs as well as provide revenue projections to meet debt service requirements.

Prepared By:

Mike Sheppard, Finance Director

Attachments:

Resolution 23-49

Exhibit A Utility Rate Comparison Current Rate and Proposed new Rate

Exhibit B Bureau of Labor Statistics – Consumer Price Index through March 2023