

The Villages®

Community Development Districts

Central Sumter Utility Rate Study Fact Sheet

The District has received several inquiries over the past months regarding proposed rate increases for Central Sumter Utility. Thank you to all residents who have contacted us for the facts or clarification. North Sumter County Utility Dependent District (NSCUDD) owns two potable water and wastewater facilities – North Sumter Utility (NSU) and Central Sumter Utility (CSU). Each of these utilities also include non-potable irrigation systems: The Villages Water Conservation Authority (VWCA) and the Sumter Water Conservation Authority (SWCA).

The Central Sumter Utility and the Sumter Water Conservation Authority (CSU/SWCA) currently services approximately 13,859 homes in Districts 9 – 11 and Brownwood. The CSU utility system is comprised of 138 miles of potable water mains, 107 miles of gravity sanitary sewer mains, and 29 lift stations. The SWCA irrigation system is comprised of 143 miles of non-potable irrigation mains. CSU and SWCA are regulated by the Southwest Florida Water Management District for water use, and CSU is regulated by the Florida Department of Environmental Protection, Orlando Office, for water and wastewater treatment and distribution.

False:

CSU/SWCA are raising rates because “everything” else is going up in price. What do we get for the rate increase?

True:

CSU/SWCA are raising rates to pay for normal maintenance/repair and to invest in critical infrastructure. District Utilities provide fresh, clean, safe water to residents who use that water for drinking, bathing, cooking, cleaning, pools, spas, etc., and then take that water back from the residence through a series of interconnected sanitary lines and lift stations to the wastewater treatment plant where it is processed for other uses, such as reclaimed water for irrigation at residential homes, golf courses and common areas throughout The Villages and residential homes South of SR44. This maximizes the use of available alternative water supplies and ensures that we minimize the amount of groundwater that is taken from the Floridan aquifer. Residents don’t have to worry about the quality of the water coming from their tap because they know they have a state-of-the art utility system that is well run, well managed and exceptionally well maintained. Maintaining this level of service and quality does take investment, maintenance and upgrades.

False:

The existing utility system is vulnerable to cyber-attacks, nothing is being done to protect us.

True:

All of our utility systems are safe and well protected from cyber and other attacks. To date, there have been no adverse security breaches of the physical or cyber facilities of the utilities. However, technology changes, and the sophistication of threats evolve, therefore we must invest in our systems to continually protect our critical infrastructure. Cyberattacks on energy infrastructure have increased over the last 5 years.

The Villages®

Community Development Districts

The Department of Homeland Security has designated Utility Systems and drinking water system as “Critical Infrastructure”. Critical infrastructure includes the vast network of highways, connecting bridges and tunnels, railways, utilities and buildings necessary to maintain normalcy in daily life. Transportation, commerce, clean water and electricity all rely on these vital systems. We work with the Department of Homeland Security (DHS) Science and Technology Directorate to improve infrastructure, reduce the threat of interruption to services and enhance the overall security of our nation. All of our Utility boards are entrusted with the responsibility to ensure that we are investing into our critical infrastructure to continually defend against potential threats, cyber-attacks and ransomware. The Capital Improvement Plan includes significant investment into programs which continually “harden” utility infrastructure to protect against threats. The cost to ignore the need to invest in our critical infrastructure means we put our residents and our utility systems at great risk.

False:

When CSU/SWCA were purchased, they were not in good condition and now we pay to “fix” it.

True:

When CSU/SWCA were purchased, both were fully evaluated by an independent engineering firm, which determined that both were in excellent condition. As a condition of the sale, various items were identified and corrected by the seller. This evaluation report was reviewed and accepted by the NSCUDD Board of Supervisors. CSU/SWCA remain in excellent condition.

False:

Boards should always vote against rate increases to protect the residents.

True:

Elected Utility Board of Supervisors have a fiduciary responsibility to properly oversee the security, financial position, operations and maintenance of critical infrastructure, as well as approve the budget and the Capital Improvement Plan. When CSU/SWCA were approved for purchase by the NSCUDD board, debts were issued in the form of Bonds to pay for the acquisition. The bonds are paid back annually as part of the overall budget and are funded from revenue streams generated from the utility. A fiduciary responsibility of the board is to ensure that the utility has adequate funding to meet its debt service and provide necessary funding for operation and maintenance, necessary capital improvements, and reserve funds.

False:

District Staff proposed a rate increase for CSU/SWCA without any justification.

True:

District Staff, at the direction of the board, commissioned an official Rate Study, which was required due to the failure to cover debt service. Part of the fiduciary responsibility of the Board is to adopt recommendations of the Rate Study to properly fund the utility operations, meet debt service coverage, fund the Capital Improvement Plan, and grow reserve funds. The Boards certainly have the discretion on how to implement the Rate Study recommendations, however they must take appropriate actions to address the shortfalls which are identified in the study.

The Villages®

Community Development Districts

The utility system should have revenues equal to the costs of the services provided by the utility, and the District should establish rates sufficient to cover the cost of operating, maintaining, repairing, and financing the System. There are also rate covenants associated with the System's outstanding debt that require the District to establish the rates at certain levels to meet the debt obligations. The costs associated with operating and maintaining a utility system, as well as the costs of financing the renewals and replacements of existing facilities and the capital improvements for upgrades and expansions, are generally considered to be the revenue requirements of public utilities. CSU/SWCA must maintain appropriate debt service coverage ratios and adequate operating margins and reserves to fund ongoing capital needs, unplanned emergency maintenance and repairs, and stabilize the financial condition of the utility. CSU's annual debt service is currently higher than annual operating expenses and this utility rate study represents the first time that the user rates have been formally reviewed since acquisition.

The Rate Study recommended either a one-time increase of 25% for CSU/SWCA rates followed by four consecutive years of 3% increases (Option 1), or an alternative of 10% for three consecutive years, followed by two consecutive years of 3% increases (Option 2). The staff recommendation for Option 1 was based on the fact that it was a one-time large increase (versus three large increases) and that it ultimately would be less costly to the residents than Option 2. In addition, the utility would meet debt service coverage faster, it would build adequate reserves more quickly, and gain the time-value of money over the 5-year period by implementing the larger one-time increase. The 25% increase would increase the average bill (water and irrigation) by \$21.41 per month. At the January meeting, the NSCUDD board directed staff to prepare Option 2 for consideration and approval by the board. At the February meeting, the NSCUDD board approved a 10% rate increase effective 1 April, a monthly average increase of \$8.55. The board will need to provide direction and approval on future annual rate increases.

False:

Only one (1) year of rate increase should to be approved at any given time.

True:

In order for a utility to be financially healthy, a rate plan should be put in place covering a minimum of five (5) years to allow for planning of system improvements and to provide the necessary funding for multi-year projects. With only one year of approved rate increases, the utility will not be able to undergo any projects other than basic maintenance and repair. For any given year that a rate increase is approved as part of a multi-year plan, the Board has the ability to review financial conditions and projected expenses, and make a downward adjustment to the approved increase. Any adjustments should be made cautiously, keeping in mind the need for healthy reserves and the unpredictable nature of future costs. The District cannot effectively plan, fund and execute Capital Improvement Projects without knowing what our multi-year revenue stream will be.

False:

The method of determining the value of CSU & SWCA when purchased was inappropriate.

True:

Business valuation professionals typically utilize one of three different approaches to valuing a business: (1) cost, (2) market, and (3) income. In the Agreement for Purchase and Sale, it was indicated that the

The Villages®

Community Development Districts

valuation was to be based on and prepared in accordance with the income approach of valuation. The income approach was chosen because the utility was an ongoing business concern, the seller was not liquidating the utility and was under no compulsion to sell. The District is a governmental unit that was formed for the purpose of providing utility services to residents and businesses under its jurisdiction, and was under no obligation to purchase and would only do so if it was in the best interest of its constituents. In addition, all other prior and subsequent utility sales, as well as all amenity sales, have been based on the income approach. The NSCUDD board accepted this approach, accepted the valuation of CSU/SWCA, and ultimately approved the purchase. As has been previously done with other utilities in the NSCUDD territory, the at a future meeting, the Board will consider adoption of Financial Management Policies, adopting a multi-year schedule of rates, fees, and charges, based on results of the rate study for CSU/SWCA.

False:

Rates are being increased because NSCUDD paid too much for CSU/SWCA.

True:

The value of each utility system was based on an industry-accepted valuation method, and if all of the conditions and presumptions made in the valuation process had held accurate, then no rate increase beyond what was anticipated in the valuation would be needed. Significant financial environment changes that have occurred since the utility purchase, including:

- Rate of inflation that impacts the cost of goods and services;
- Interest rate increases that impact the cost of goods and services;
- Construction cost increases (Infrastructure projects have increased 25-50%) since 2021-22;
- Cost increases for electricity, chemicals and fuel;
- COVID impacts related to labor shortages and supply chain issues;
- Decision of NSCUDD to implement advanced metering, which is a system improvement, and the current estimated overall cost to all utilities is approximately \$33 million;
- Decision of NSCUDD to implement an enhanced SCADA security system, which is a system improvement, and the current estimated overall cost to all utilities is approximately \$9 million.

When you read something or hear a rumor while enjoying this wonderful lifestyle, please take a moment to “fact check” before you become concerned or pass along misinformation. In a community this large, misinformation can be one of our biggest challenges. For additional information or clarification, please visit DistrictGov.org or contact Bruce Brown, Assistant District Manager at 352-753-4022 or Bruce.Brown@districtgov.org.