



FY'26 Budget



Prepared by the Finance Department

April 2025

A RESOLUTION OF THE HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT COMMISSION ADOPTING A BUDGET FOR THE HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT, SOUTH CAROLINA, FOR THE FISCAL YEAR BEGINNING JULY 1, 2025 AND ENDING JUNE 30, 2026; AND OTHER MATTERS RELATING THERETO.

WHEREAS, the Hilton Head No. 1 Public Service District, South Carolina (the “*District*”) was created and established as a body politic and corporate pursuant to Act No. 596 of the Acts and Joint Resolutions of the General Assembly of the State of South Carolina for the year 1969, as amended. The District is located wholly within Beaufort County, South Carolina and was established for the purpose of providing waterworks and sewerage services within the boundaries of the District;

WHEREAS, Article X, Section 7(b) of the South Carolina Constitution (1895, as amended), requires each political subdivision of the State of South Carolina, including the District, to “prepare and maintain annual budgets which provide for sufficient income to meet its estimated expenses for the year”; and

WHEREAS, the Finance Manager of the District has prepared an estimate of revenues and expenditures for the fiscal year beginning July 1, 2025 and ending June 30, 2026; and

WHEREAS, Section 6-1-80 of the Code of Laws of South Carolina, 1976, as amended, requires that the District provide notice and hold a public hearing prior to the adoption of their annual budget; and

WHEREAS, the Commission has reviewed and approves the proposed budget, which includes appropriations for both operations and capital; and

WHEREAS, prior to the adoption of the budget, and in accordance with Section 6-1-80, a public hearing, after due notice and publication, was held on June 16, 2025 to consider the planned budget.

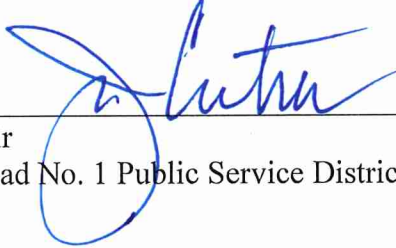
NOW, THEREFORE, BE IT RESOLVED by the members of the Hilton Head No. 1 Public Service District Commission in a meeting duly assembled, as follows,

1. That the District’s budget, a copy of which is attached hereto as Exhibit A, and which details the revenues and expenditures of the District for the fiscal year beginning July 1, 2025 and ending June 30, 2026, is hereby adopted as the official budget for the District for said fiscal year.
2. The Commission hereby directs the Finance Manager to notify the County Auditor of Beaufort County of the millage rate provided for by in the budget and to undertake any such additional actions as necessary to timely ensure the proper levy and collection of the District’s taxing millage.

3. As necessary, the District Manager or his designee shall administer the budget and may authorize the transfer of unused appropriated funds within and between departments and capital projects as necessary to achieve the goals of the budget and may carry forward unused appropriated capital and other project funds from the prior year into following years for completion.

DONE AND ADOPTED, this 16th day of June 2025,

**HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT,
SOUTH CAROLINA**

By: 
Vice Chair
Hilton Head No. 1 Public Service District Commission

(SEAL)

Attest:


Secretary
Hilton Head No. 1 Public Service District Commission



FY'26 Budget

Exhibit A

Prepared by the Finance Department

April 2025

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On the cover: Hilton Head PSD's Recycled Water Plant on Oak Park Drive is part of the Audubon Society of Hilton Head's annual Christmas Bird Count project. Our recycled water lagoons are frequented by a variety of waterfowl, including bufflehead and lesser scaup ducks, which are a particular treat for birders. The presence of waterfowl on the recycled water lagoons is an indicator of the quality of the water.

Executive Summary

A. Letter of Transmittal

The Hilton Head PSD staff is pleased to present to the PSD Commissioners the fiscal year 2026 (FY'26) Operating & Maintenance (O&M) Budget and the FY'26 Capital Improvement Plan (CIP). Staff believes the budgets are consistent with the Commission's budget directives and strategic planning efforts.

Fiscal year 2026 is poised to be another busy year tackling large grant funded capital projects as well as routine ongoing capital rehabilitation. It also appears to be another year of facing inflationary and supply chain uncertainties. Long lead times on equipment and parts continue to stretch out the timeline for large and small projects. In some cases, inventory and parts can take upwards of a year to arrive after an initial order is placed. This scarcity continues to fuel upward price momentum and bring a level of uncertainty to our ability to execute our capital projects. Additionally, it was unknown at the time of budget preparation what ultimate effects tariffs might have on the PSD's expenditures. Some suppliers have already sent notices about potential unspecified increases related to tariffs. At this time, the budget does not incorporate the effects of tariffs as there was not enough information to make a projection of the impact.

The operating and maintenance side of the District's operations have also continued to be affected by inflationary pressures. In FY'25, the District saw significant, inflationary increases in health insurance, its wholesale purchased water expense, and its electricity expense. This FY'26 budget provides for current, known higher inflationary increases as well as anticipating additional inflationary increases at a lower level during the next year, generally in the 3-4% range. During FY'26, the District expects to see another 20%+ increase in its purchased water expense, insurance increases ranging from 5%-30%, and additional biosolids increases.

Home prices have remained extremely high in the District's service area and the District continues to see new growth and redevelopment projects, often at high price points. The elevated housing market has continued to put a strain on workforce housing which was already limited. When combined with growth in the neighboring Bluffton area as well as overall inflationary strain, there continues to be increasing stress on Hilton Head Island businesses to attract and retain a workforce. This budget includes the addition of a new billet, a merit increase pool, and a one-time inflationary retention payment to enable the PSD to remain competitive in attracting and retaining employees to serve our growing customer base with exceptional customer service.

The PSD successfully applied for a \$10 million South Carolina Infrastructure Investment Program (SCIIP) grant to expand its Reserve Osmosis (RO) treatment plant capacity and build a second Aquifer Storage and Recovery (ASR) well. The District believes these projects will significantly meet its future water supply for the near term while providing additional resiliency and improving water quality. The initial expected local matching funds for both projects was estimated at \$7 million by the District's engineers at the time of grant application in 2022. In an example of the inflationary construction bidding environment, the final construction bids on these projects came in requiring a \$20 million match to complete the projects. The match is being funded by a \$20.4 million General Obligation (GO) bond issuance and a \$2.6 million SC State Revolving Fund (SRF) engineering only GO loan which were finalized during FY 2025. These GO debt issuances

will also be used for the matching funds needed to supplement a \$1,000,000 allocation from Beaufort County of its American Rescue Plan Act (ARPA) infrastructure funding to replace and upgrade the Leg O Mutton (LOM) booster pump station and to contribute towards an emergency generator at the RO plant. The \$2.3 million LOM project is anticipated to be finalized during the summer of 2025 and the RO generator will be completed with the SCIP RO plant expansion.

Additionally, in December 2024, the District successfully applied for a \$1.5 million State Grant from the SC Rural Infrastructure Authority (RIA) to replace all three of the screw pumps at its Wastewater Treatment Plant (WWTP) which have reached the end of their useful lives. This project is currently estimated at \$4.5 million and the 2024 GO bond proceeds will also be used to fund the remaining match. Staff estimates that all of these grant projects will wrap up in the spring of 2027 and currently anticipates that the District will need to fund an additional \$1 million in its 2027 budget to finalize these projects after applying all grant funds, all 2024 GO bond proceeds, and any interest earned on the bond proceeds. That estimate is subject to change after bids are received for the Screw Pump Replacement project and would also be affected by any change orders or changes in the interest income environment.

The District has also been informed that the South Carolina Department of Transportation (SCDOT) US 278 Hilton Head Island bridge replacement project may commence during the upcoming fiscal year. This project is expected to require the relocation of the District's 24" purchased water transmission pipeline that is buried in the vicinity of the bridges to Hilton Head Island. Under the current SC Utility Relocation Act, the District expects that up to 4.5% of the original construction bid amount of the transportation project will be reimbursable to the District and Broad Creek PSD, who are joint owners of the pipeline. However, the final project budget is unknown at this time as well as the overall cost of the relocation. The District may have to incur engineering costs up front during FY'26 and then request reimbursement from the SCDOT for those costs. If 4.5% does not cover the entire project cost, the District has received a commitment from Beaufort County of \$6.5 million towards the project. Additionally, Beaufort County and the Town of Hilton Head have committed that this project will receive top priority for any other available project reserve funds to cover any remaining shortage. Due to the uncertainty surrounding the project, it has not been included in this budget. The project may also impact other smaller water and sewer mains in the area which may not be covered by the relocation act or Beaufort County. If funds need to be expended up front and then await reimbursement, or are not reimbursable under the act or Beaufort County, the District plans to use its cash reserves to cover the timing lag and/or shortage. Even if all costs related to this project are ultimately fully reimbursed by the SCDOT and Beaufort County, this project will require a significant amount of District staff time to administer.

As with all asset intensive operations, routine asset management is an ongoing endeavor for the District which becomes more essential and challenging each year as our infrastructure, property, plant, and equipment totaling over \$160,000,000 ages. This budget proposes a cash funded CIP of \$9.85 million. When the grant funded projects discussed above are removed, the proposed ongoing CIP budget comes to \$3.35 million. Additionally, District staff has identified several larger projects it would like to consider funding by a debt issuance or with any additional grant opportunities that may arise over the next five years.

In line with the District's policy of fiscal conservatism, revenues are projected at levels that do not rely on significant additional customer growth. Weather is one major factor that the District cannot predict nor plan for. Cool, rainy weather will generally negatively affect the District's revenues while warm, dry weather will often have the opposite effect. Consumption levels for the FY'26 budget are based on the previous 12 months' consumption with a moderate allowance for customer growth. Expenditures are projected at levels that aim to ensure effective operation of our crucial water and sewer operations while maintaining our current service levels.

The FY'26 operating and capital budgets seek to conservatively project our revenue and expenditure needs for the upcoming year considering the continued volatile and inflationary environment while minimizing rate increases to our customers. All of these unknowns have led to a need for greater flexibility as the District analyzes and adapts to changing environments and opportunities. Longer lead times, price volatility, and a difficult labor market have made it necessary to ensure the District is financially positioned to meet these challenges in the upcoming year and beyond.

B. Organization Information

Hilton Head PSD is a special purpose district created by the South Carolina General Assembly in 1969 to provide water and sewer services to Hilton Head Island. The PSD serves more than 19,700 customer accounts in the north- and mid-island areas of Hilton Head Island where many of the Island's full-time residents reside. The PSD can provide a maximum water demand of 12.5 million gallons a day (mgd) and experiences an average demand of 7 mgd which is provided through its Reverse Osmosis (RO) water treatment plant, Upper Floridan wells, Aquifer Storage and Recovery (ASR) well, and wholesale water which is purchased from Beaufort Jasper Water & Sewer Authority (BJWSA). In addition to its RO plant, ASR, and Upper Floridan wells, the PSD maintains over 260 miles of water distribution mains, 220 miles of sewer collection mains, 5 elevated storage tanks, 3 ground-level storage tanks, 1,500 hydrants, 126 sewer lift stations, 13,700 customer water meters, 500 customer Low Pressure Sewer (LPS) systems, and a 6.4 mgd tertiary-treatment, return activated sludge (RAS) recycled water wastewater treatment plant.

C. Commission Directives

The Hilton Head Public Service District Commission has directed staff to create O&M budgets and a CIP for FY'26. The following general standards are used in budget preparation:

1. General Rate Review – Rates, charges and fees underwent a comprehensive Cost of Service Analysis (COSA) as part of the FY'26 budgeting process to ensure rates are sufficient to provide revenues to meet the District's FY'26 operating expenses and debt coverage ratios.
2. Operating and Maintenance Budget – As defined in the District's Finance Policies, operating expenses excluding depreciation will not exceed operating revenues.
3. Efficiency – Continued efforts to improve District efficiency and employee productivity.

4. Staff Compensation – Is to be adequate compensation for responsibilities, recognize individual productivity and be competitive with the labor market.
5. Customer Service - Maintain or improve current Operations and Customer Service levels.
6. Adequate Cash Flow – Maintain a positive cash flow and resources to meet anticipated events and increase overall cash reserves.

C. Condensed Schedule of Revenue, Expenses and Changes in Net Position, CIP Expenditures, and Cash Flow Projections

	FY'26 Budget	FY'25 Projected	Variance (FY'25 Proj. to FY'26 Budget)		FY'25 Budget
			Increase (Decrease)	% Change	
Total Operating Revenue	\$ 17,377,000	\$ 16,071,600	\$ 1,305,400	8.1%	\$ 16,055,400
Total Operating Expenses with Depreciation	20,030,400	18,831,900	1,198,500	6.4%	18,627,900
Change in Net Position from Operations	(2,653,400)	(2,760,300)	106,900	-3.9%	(2,572,500)
Total Non-Operating Revenue	5,053,400	5,290,200	(236,800)	-4.5%	4,233,200
Total Non-Operating Expenses	1,038,000	1,140,400	(102,400)	-9.0%	515,400
Non-Operating Income/Expenses - Net	4,015,400	4,149,800	(134,400)	-3.2%	3,717,800
Increase / Decrease in Net Position before Capital Contributions	1,362,000	1,389,500	(27,500)	-2.0%	1,145,300
Total Capital Contributions	6,770,000	6,211,700	558,300	9.0%	7,820,000
Change in Net Position	\$ 8,132,000	\$ 7,601,200	\$ 530,800	7.0%	\$ 8,965,300
Total CIP Budget Cash Flow	(9,850,000)	(10,970,000)	1,120,000	-10.2%	(11,295,000)
Add: Non Cash Depreciation Expense	5,550,000	5,422,500	127,500	2.4%	5,250,000
Less: Existing Debt Service Payments	(4,689,100)	(4,268,600)	(420,500)	9.9%	(3,853,000)
Add: Prior Year 2024A SRF GO Reimbursements		2,100,000			1,975,200
Other Debt Related Adjustments	993,000	1,125,900	(132,900)	-11.8%	515,400
FFA Assessments, net	413,000	162,000	251,000	154.9%	132,000
Total Non-CIP Other Cash Flow Adjustments	2,266,900	4,541,800			4,019,600
Project. Change in Cash Flow before GO Debt changes	\$ 548,900	\$ 1,173,000	\$ (624,100)	-53.2%	\$ 1,689,900
Less: Restricted Bond Interest Income	(327,000)	(536,700)			
Estimated Change in GO Restricted Cash	66,800	(118,200)			
Projected Change in Unrestricted Cash Flow	\$ 288,700	\$ 518,100			\$ 1,689,900

D. Budget Highlights

The FY'26 Budget highlights are:

1. Operating Revenues are budgeted at \$17,377,000 which is a \$1,305,400 or 8.1% increase from FY'25 projections. This increase is the result of proposed water and sewer rate increases and a small growth projection.
2. Operating Expenses are budgeted at \$20,030,400 which is a \$1,198,500 or 6.4% increase from FY'25 projections. Some key highlights include:
 - The staff level is budgeted at 44, which is an increase from the FY 25 budgeted level of 43.5. To address the challenging job market which has been intensified by the lack of workforce housing in our area, the budget includes a 4% merit pool as well as a one-time inflationary retention payment of \$2,000 per employee. Additionally, the State Health Plan enacted a 12.3% employer rate increase as of January 2025 and anticipates enacting another 3.9% employer rate increase in January 2026.
 - The District is in the final selection process for an asset management software package; the FY 2026 budget includes an allowance for one-time software implementation fees as well as ongoing maintenance fees.
 - Inflationary increases are anticipated in most areas with more significant increases anticipated in the following areas:
 - Purchased water is expected to significantly increase again in fiscal year 2026. The most current estimate of the increase at the time of budget preparation was 21%. However, it was noted that the final increase could be even higher.
 - The District has been notified that property, equipment, and business interruption insurance premiums will increase by 5%; tort insurance premiums will increase by 10%; automobile comprehensive and collision premiums will increase by 15%; and automobile liability insurance premiums will increase by 30%.
 - The District's electricity provider enacted a 6% rate increase effective January 2025.
 - The District was notified of additional forthcoming increases in its biosolids disposal rates but an estimate of the amount of the increase was not available at the time of budget preparation.
3. Non-Operating Revenues are budgeted at \$5,053,400 which is a \$236,800 or 4.5% decrease from FY'25 projections. This category primarily includes the District's GO Debt and Operations property tax levies as well as gains on asset sales, rental income, and tower lease income. The decrease to projections is primarily related to conservatively estimating interest income at 3.25%, which is lower than the 4.4% that the District is currently receiving. This ensures that the District does not overly rely on an unpredictable revenue

source to fund its operations should market conditions deteriorate in the upcoming year. It also accounts for declining investible balances as the District spends down its GO bond proceeds. The decrease in interest income was partially offset by an increase in GO Debt property taxes to accommodate the debt service on the new 2024 GO debt issuances.

4. Non-Operating Expenses are budgeted at \$1,038,000 which is a \$102,400 or 9.0% decrease from FY'25 projections. This category relates to debt service and is based on current debt schedules and an anticipated FY'26 Front Foot Assessment (FFA) loan issuance.
5. Capital Contributions include capacity fee payments, capital grant income, and other capital contributions. The capacity fees are budgeted conservatively. The District does not budget in anticipation of any large development projects as the timing on these is often tenuous and unpredictable; until the fees are paid, there is no guarantee any anticipated project will occur as planned. The current year projections include the \$1 million BC ARPA allocation which is projected to be used in the current year on the Leg O Mutton Booster Pump and RO Generator projects in accordance with the terms of the allocation. The SCIIP Grant revenue is projected at \$5 million or 50% completion in the current year and 50% in the upcoming budget year. There may be timing differences as to when these funds are actually earned based on how quickly the construction contracts are able to progress on the projects. The 2026 budget also includes the \$1.5 million RIA State Grant for the Screw Pump replacement project. As noted previously, this budget does not attempt to project the SCDOT Bridge relocation project, but the project is anticipated to be recorded as a capital project with the offsetting reimbursements from Beaufort County and the SCDOT reported in this line item. If any reimbursable funds are expended in the upcoming year, this is where they will be recorded.
6. Change in Net Position – The overall change in net position for FY'26 is budgeted at \$8,132,000 versus a projection of \$7,601,200 and a prior year budget of \$8,965,300. The large decrease to the prior year budget is mostly related to budgeting the SCDOT bridge project in FY 2025 which did not progress during 2025 as planned. As previously noted, this is not being budgeted in FY 2026 due to the continued uncertainty about the project timeline and the anticipated availability of reimbursement, which is expected to offset the majority, if not all, expenditures.
7. CIP Budget Cash Flow – The CIP budgeted cash flow for FY'26 is \$9,850,000 which is a \$1,120,000 or 10.2% decrease from the projected CIP cash flow of \$10,970,000. The FY'25 projected CIP cash flow is lower than the FY'25 budgeted CIP cash flow due to the carryover of FY'24 CIP projects less the \$1.5 million budgeted for the SCDOT bridge project which did not move forward in FY 2025. This budget anticipates that any budgeted CIP projects that are not completed at FY'25 year-end will be carried over into FY'26 for completion. This carryover is expected to be significant as District staff was notified when procuring several of the larger projects that lead times may extend past June 30, 2025.

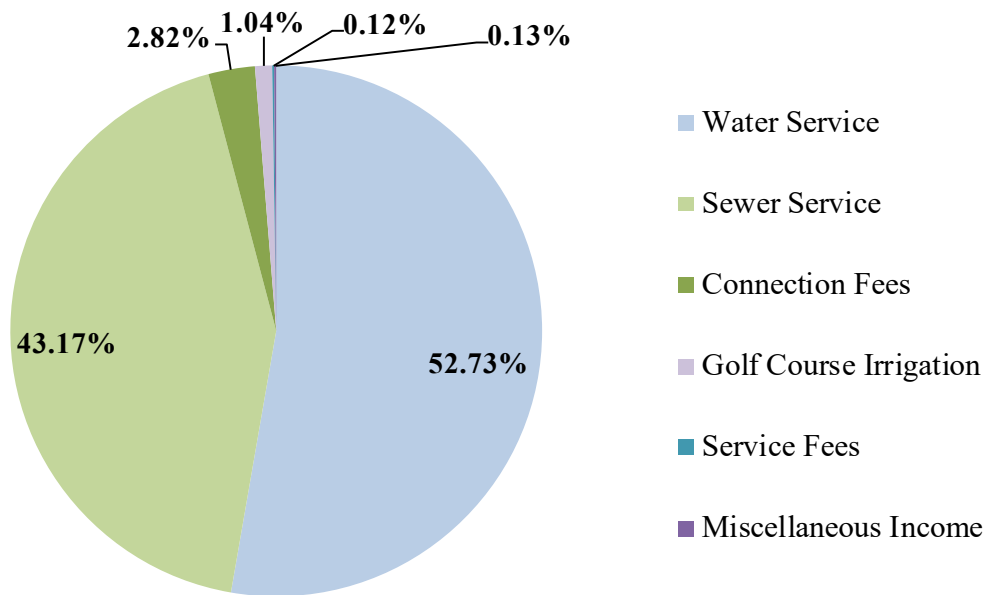
8. System Debt – Total anticipated FY'26 debt payments of \$4,689,100 consist of \$3,688,200 of principal and \$1,000,900 of interest (Interest expense is calculated on an accrual basis).

9. Unrestricted Cash Flow is projected to increase approximately \$288,700 as a result of this budget after adjusting for restricted GO debt related items. The District is anticipating that the current FY'25 will result in an increase in unrestricted cash of approximately \$518,100. While the \$518,100 projected increase for FY 2025 is less than the \$1,689,900 budgeted increase, this is mainly related to timing of CIP project completion. The District carried forward \$1,175,000 of its FY'24 CIP into FY'25 for completion. It is likely that a similar large portion of FY'25 projects will also be carried forward into FY'26 due to continued long lead times.

E. Operating Revenues

The FY'26 budgeted operating revenues are listed below:

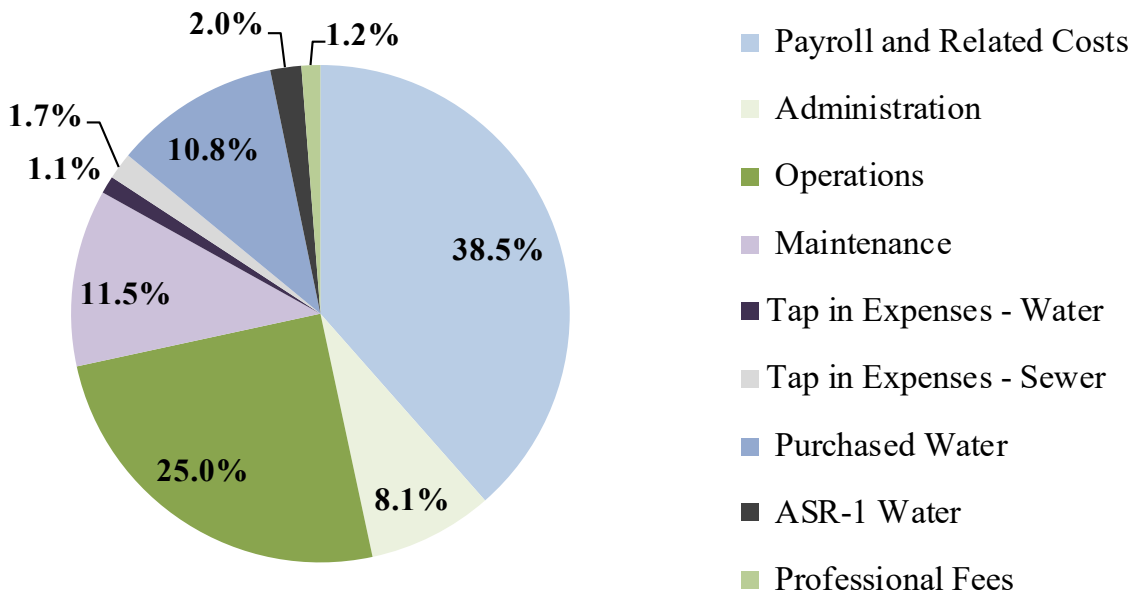
Operating Revenues	FY 2026	% Total
Water Service	\$ 9,162,500	52.73%
Sewer Service	7,501,000	43.17%
Connection Fees	490,800	2.82%
Golf Course Irrigation	180,300	1.04%
Service Fees	20,100	0.12%
Miscellaneous Income	22,300	0.13%
Total Operating Revenues	\$ 17,377,000	100%



F. Operating Expenses

The FY'26 operating expenses excluding depreciation are listed below:

Total Operating Expenses before Depreciation	FY 2026	% Total
Payroll and Related Costs	\$ 5,577,700	38.5%
Administration	1,176,600	8.1%
Operations	3,613,500	25.0%
Maintenance	1,665,900	11.5%
Tap in Expenses - Water	165,000	1.1%
Tap in Expenses - Sewer	252,000	1.7%
Purchased Water	1,562,200	10.8%
ASR-1 Water	290,500	2.0%
Professional Fees	177,000	1.2%
Total Operating Expenses before Depreciation	\$ 14,480,400	100%



G. Debt Service Coverage

Bond covenants require that the District maintain and collect rates and charges that together with income are reasonably expected to yield annual net earnings equal to at least the sum of one hundred twenty percent (120%) of annual principal and interest requirements for all revenue bonds outstanding. As shown in the following table, the District's FY'26 budget is in compliance with the necessary requirement and estimated at 256%.

	FY'25 Projected	FY'26 Budget
Net Income (loss) before capital contributions per Financial Statements	\$ 1,389,500	\$ 1,362,000
Capacity Fees	211,700	270,000
Add: Depreciation	5,422,500	5,550,000
Amortization	209,200	-
Bond Issuance Cost	175,200	45,000
Interest Expense (Bonds)	752,700	993,000
Assessments - Debt Service	212,000	218,000
Less: Property Taxes – GO Debt Service	<u>(1,835,000)</u>	<u>(2,177,000)</u>
Net Earnings Available for Debt Service	6,537,800	6,261,000
Debt Service on Revenue Bonds	2,468,300	2,445,200
Coverage of Debt Service by Net Earnings	265%	256%
Debt Coverage without Capacity Fees	256%	245%

H. Bond Debt Service

As of June 30, 2025, the District's total future debt service requirement is projected to be approximately \$49,403,000 including the estimated \$873,000 of additional Front Foot Assessment debt that is expected to be added during FY'26. The District completes a FFA debt issuance every three years as a part of its sewer connection financing program. For FY'26, the projected principal payments total \$3,688,202 while the projected interest payments are \$1,000,866 including the anticipated new FFA debt.

Fiscal Year 2026 Debt Service				
Revenue Debt	Interest	Principal	Total P&I	Revenue Source
Series SRF 2014 B	15,881	145,466	161,347	User Fees
Series 2017A	7,111	34,822	41,933	FFA
Series 2020 B	121,424	2,085,000	2,206,424	User Fees/ FFA
Series 2023 FFA	8,529	17,000	25,529	FFA
<i>New Debt - Series 2026 FFA</i>	<i>10,000</i>	<i>-</i>	<i>10,000</i>	<i>FFA</i>
Revenue Sub Total	162,945	2,282,288	2,445,233	
General Obligation Debt				
Series 2020 GO Bonds	40,312	1,300,000	1,340,312	GO Funded
Series 2024B GO Bonds	744,600	-	744,600	GO Funded
Series 2024A GO SRF	53,009	105,914	158,923	GO Funded
General Obligation Sub Total	837,921	1,405,914	2,243,835	
Total Principal & Interest	\$ 1,000,866	\$ 3,688,202	\$ 4,689,068	

Future Debt Service as of June 30, 2025				
Revenue Debt	Interest	Principal	Total P&I	Interest Rates
Series SRF 2014 B	91,920	1,642,562	1,734,482	1.00%
Series 2017 A	29,197	264,333	293,529	2.69%
Series 2020 B	355,378	10,035,000	10,390,378	1.21%
Series 2023 FFA	49,765	205,528	255,294	4.15%
<i>New Debt - Series 2026 FFA</i>	<i>198,073</i>	<i>675,000</i>	<i>873,073</i>	<i>4.00%</i>
Revenue Sub Total	724,333	12,822,423	13,546,756	
General Obligation Debt				
Series 2020 GO Bonds	71,500	3,225,000	3,296,500	1.25%
Series 2024B GO Bonds	9,021,048	20,400,000	29,421,048	3.65%
Series 2024A GO SRF	574,942	2,563,795	3,138,737	2.10%
General Obligation Sub Total	9,667,490	26,188,795	35,856,285	
Total Debt	\$ 10,391,822	\$ 39,011,218	\$49,403,040	

** FFA = Front Foot Assessment debt is repaid by affected properties on annual property tax bills.

Future Annual Debt Service Payments:

Fiscal Year	Annual Debt Service Requirements		
	Revenue	GO	Total
2026	2,445,233	2,243,835	4,689,069
2027	2,501,927	2,282,586	4,784,513
2028	2,506,457	1,823,648	4,330,105
2029	2,225,623	1,831,004	4,056,627
2030	2,152,875	1,831,694	3,984,569
2031	300,732	1,832,106	2,132,838
2032	300,732	1,833,205	2,133,937
2033	258,799	1,833,916	2,092,716
2034	258,800	1,834,204	2,093,005
2035	258,799	1,835,032	2,093,832
2036	192,934	1,836,327	2,029,261
2037	71,923	1,837,016	1,908,939
2038	71,923	1,837,063	1,908,986
2039	-	1,838,430	1,838,430
2040	-	1,839,009	1,839,009
2041	-	1,840,763	1,840,763
2042	-	1,841,583	1,841,583
2043	-	1,842,431	1,842,431
2044	-	1,843,236	1,843,236
2045	-	119,192	119,192
	<u>\$13,546,756</u>	<u>\$35,856,285</u>	<u>\$49,403,040</u>

Revenue Debt:

Series 2014 SRF – On July 26, 2014, the District executed a loan with the South Carolina State Revolving Loan Fund (SRF) in the amount of \$2,925,430 at an interest rate of 1% per annum. The proceeds of this loan were used to pay the costs of constructing the Automated Metering Infrastructure project. Principal and interest of \$40,336.78 are payable quarterly beginning April 1, 2015 through January 1, 2036.

Series 2017A Revenue Bond - On August 25, 2017, the District issued \$515,000 of Series 2017A revenue bonds for purposes of funding sewer connections in certain previously unserved areas of the District. The bonds are an obligation of the District, bear interest at the rate of 2.69% per annum and are payable in annual principal and semi-annual interest payments of \$41,932.75 starting June 2018 through June 2032. This bond may be redeemed in whole after June 1, 2025. If interest rates fall below the level of this bond, staff may recommend redemption of this debt. The bonds are payable from revenues derived from operations of the District’s systems and are secured by a lien upon these revenues and the collection of annual assessments by the Beaufort County Treasurer to the owners in the areas that were connected over a 20-year period.

Series 2020B Revenue Bonds - On November 2, 2020, the District issued \$14,926,000 of Series 2020B revenue bonds for purposes of refunding the District's 2014 FFA, 2015A, 2015B, 2017B SRF, and 2020 FFA revenue bonds. The bonds are an obligation of the District and bear interest at the rate of 1.25% per annum. These bonds are due in semi-annual interest payments due beginning June 2021 and annual principal payments starting June 2022 through June 2030. The bonds are payable from revenues derived from operations of the District's systems and are secured by a lien upon these revenues and the collection of annual assessments to the owners in the areas that were connected over a 20-year period which will be collected by the Beaufort County Treasurer. The original purpose of the refunded bonds are as follows:

- 2014 FFA: Funding sewer connections in previously unserved areas.
- 2015A: Refunded previous bond issues used for the construction of the BJWSA Segment 3 wholesale water pipeline and backbone system, acquisition of utility systems, and front foot assessment bonds.
- 2015B: Refunded previous bond issues used for wastewater treatment plant expansions and upgrades, sewer lift stations, and front foot assessment bonds.
- 2017B SRF: Construction of new sewer lift stations.
- 2020 FFA: Funding sewer connections in previously unserved areas.

Series 2023A Revenue Bond - On February 26, 2023, the District issued \$235,000 of Series 2023A revenue bonds for purposes of funding sewer connections in certain previously unserved areas of the District. The bonds are an obligation of the District, bear interest at the rate of 4.15% per annum and are payable in annual principal and interest payments of \$26,529.36 starting June 2025 through June 2035. This bond may be redeemed in whole at any time. If interest rates fall below the level of this bond, staff may recommend redemption of this debt. The bonds are payable from revenues derived from operations of the District's systems and are secured by a lien upon these revenues and the collection of annual assessments to the owners in the areas that were connected over a 20-year period which will be collected by the Beaufort County Treasurer.

General Obligation Debt:

Series 2020 - On November 2, 2020, the District issued \$9,910,000 of Series 2020 general obligation bonds for purposes of refunding the District's 2007, 2007 SRF, 2007 SRF, 2009, 2010, and 2014 SRF general obligation bonds. The bonds bear interest at a rate of 1.26% per annum. These bonds are due in semi-annual interest payments due beginning May 2021 and annual principal payments starting May 2021 through May 2028. The original purpose of the refunded bonds are as follows:

- 2007: Constructing new water wells and the reverse osmosis plant.
- 2007 SRF: Constructing the new reverse osmosis plant.
- 2007 SRF: Constructing new water wells.

- 2009: Constructing new water wells and the reverse osmosis plant.
- 2010: Constructing the new aquifer storage and recovery well.
- 2014 SRF: Expanding the reverse osmosis plant, the Bluffton flyover water line relocation, and constructing the Windmill Harbor booster pump station.

Series 2024A SRF GO - On August 30, 2024, the District executed a loan with the South Carolina State Revolving Loan Fund (SRF) in the amount of \$2,589,929 at an interest rate of 2.1% per annum. The proceeds of this loan were used to pay engineering costs associated with the RO Water Treatment Plant Expansion from 4 MGD to 6 MGD, the construction of a second ASR, and the addition of the Leg O' Mutton booster pump station. Principal and interest of \$39,730.86 are payable quarterly beginning May 1, 2025 through February 1, 2045.

Series 2024B GO Debt – On November 5, 2024, the District issued \$20,400,000 of Series 2024B general obligation bonds for purposes of expanding the RO Water Treatment Plant from 4 MGD to 6 MGD, constructing a second ASR, adding the Leg O' Mutton booster pump station, replacement of all three screw pumps at the District's WWTP, and to defray the costs of other system improvements. The bonds bear interest at a rate of 3.65% per annum. These bonds are due in semi-annual interest payments due beginning May 2025 and annual principal payments starting May 2028 through May 2044.

Proposed Revenue Debt:

Series 2026A Revenue Bonds – The District issues revenue bonds every three years to reimburse itself for FFA sewer connection costs accumulated during that period. The last issuance occurred in February 2023; another will be needed in February 2026. For the purposes of the above table and the budget projections, an estimated total issuance amount of \$675,000 (which includes Old House Creek), a useful life of 12 years, and a projected interest rate of 4.0% has been used. Customers may continue to elect to finance their connections as a FFA through the remainder of 2025 and the Old House Creek project has not been officially accepted so this amount could be materially different depending on customer demand.

I. Capital Improvement Plan (CIP)

The CIP for FY'26 is divided into separate categories for ease of explanation. The categories are not ranked according to importance. Non-recurring, non-routine projects have been ranked in priority order. As a part of asset management planning, the projects in the FY'26 column have been identified which staff believes should be completed within the next 12 months. The Commission is only approving the FY'26 projects as a part of this budget. Years 2027 through 2030 are provided as a high-level guide of expected projects in upcoming years to aid in evaluation of the District's long-term financial position.

Cash and Grant funded FY'26 projects total \$9,850,000 as follows:

<u>FY'26 CIP Rate/Cash Funded Projects</u>	
Wastewater Treatment Plant	\$ 740,000
Collection System	1,120,000
Distribution System	7,470,000
Facility & Equipment	<u>520,000</u>
Total Rate Funded CIP Projects	<u>\$ 9,850,000</u>

The FY'26 CIP plan also shows potential projects for which the District might seek debt financing or pursue any additional grant opportunities that come available during the upcoming five years.

J. Cash Flow, Operating Reserve Targets & Five-Year Projections

Projected FY'25 overall cash flow is anticipated to increase by \$15,441,800 which is mainly related to the 2024 GO debt issuances; unrestricted cash flow is projected to increase \$518,100 from \$13,876,300 to \$14,394,400 when factoring in changes in the GO debt restricted cash. The FY'26 budget projects an overall cash decrease of \$9,451,100 which is also mainly related to the spend down of the 2024 GO debt issuance; unrestricted cash for FY'26 is projected to increase by \$288,700 to \$14,683,100 as a result of this budget. The estimated changes in restricted GO cash are mainly related to the timing of the debt funded projects and may change significantly if the projects move faster or slower than anticipated.

This budget also includes an analysis of the unrestricted cash balance projected by this budget in relation to the District's Financial Policy regarding Unreserved and Reserved Funds. The projected unrestricted cash balance represents 370 days cash on hand which approximates the upper emergency reserve target of 12 months cash on hand. Further funding this unrestricted reserve in future years would represent progress towards the capital reserve target which would allow the District to fund larger capital projects on a cash basis instead of necessitating debt issuances.

A five-year projection based on FY'26 rates with no consideration of future rate increases and moderate growth projections shows the PSD remaining well over its 120 days cash on hand minimum and its 120% debt coverage requirement. The Commission is only approving the FY'26 budget at this time. Projections for years 2027 through 2030 are only provided to show a high-level review of the District's current expected long term financial position at currently proposed rates. Additionally, several larger CIP projects are listed in the cash CIP projections for years 2027 through 2030 which may be included as a part of a future debt issuance or grant opportunity instead of funded through cash.

Statement of Revenues, Expenses, and Changes in Net Position
FY'26 Operating & Maintenance Budget

	FY26 Budget	FY25 Projected	Variance (FY25 Project. to FY26 Budget)		FY25 Budget
			Increase (Decrease)	% Change	
TOTAL OPERATING REVENUES					
Water Service	\$ 9,162,500	\$ 8,629,800	532,700	6.2%	\$ 8,618,900
Sewer Service	7,501,000	6,716,800	784,200	11.7%	6,700,700
Water Tap In Fees	220,800	226,900	(6,100)	-2.7%	187,800
Sewer Connection Fees	270,000	274,500	(4,500)	-1.6%	315,600
Golf Course Irrigation	180,300	181,800	(1,500)	-0.8%	185,000
Service Fees	20,100	19,900	200	1.0%	20,100
Miscellaneous Income	22,300	21,900	400	1.8%	27,300
Total Operating Revenue	17,377,000	16,071,600	1,305,400	8.1%	16,055,400
OPERATING EXPENSES					
Payroll and Related Expenses					
Salaries	3,739,200	3,450,000	289,200	8.4%	3,501,600
Commission Honorarium	81,000	80,100	900	1.1%	81,000
FICA	284,700	264,700	20,000	7.6%	271,000
Group Insurance	661,400	603,300	58,100	9.6%	652,800
Retirement	640,700	602,800	37,900	6.3%	615,500
Workman's Comp	45,300	44,200	1,100	2.5%	47,400
Training/Continuing Education	85,500	82,500	3,000	3.6%	78,000
Uniforms	39,900	38,900	1,000	2.6%	38,100
Total Payroll and Related Expenses	5,577,700	5,166,500	411,200	8.0%	5,285,400
Administration					
Bad Debts	12,600	12,100	500	4.1%	15,000
Bank/Bond Administration Fees	147,300	142,700	4,600	3.2%	138,000
Billing and Accounting	49,200	47,000	2,200	4.7%	53,700
Communications	153,300	150,200	3,100	2.1%	152,400
Dues and Subscriptions	22,200	21,100	1,100	5.2%	21,800
Insurance Other than Group or Vehicle	289,500	272,400	17,100	6.3%	284,700
License and Permits	69,800	63,700	6,100	9.6%	70,500
Office Supplies	28,500	27,600	900	3.3%	28,200
Computer Software and Supplies	180,000	138,000	42,000	30.4%	148,200
Personnel Support	30,000	29,300	700	2.4%	28,800
Postage	77,400	75,400	2,000	2.7%	78,000
Public Education	34,800	33,500	1,300	3.9%	35,700
Recruitment and Advertising	5,100	4,400	700	15.9%	12,000
Special Functions	25,000	24,200	800	3.3%	25,000
Utilities	51,900	49,400	2,500	5.1%	51,600
Total Administration	1,176,600	1,091,000	85,600	7.8%	1,143,600

HiltonHeadPSD
FY'26 Budget

	FY'26 Budget	FY'25 Projected	Variance (FY'25 Project. to FY'26 Budget)		FY'25 Budget
			Increase (Decrease)	% Change	
Operations					
Biosolids Disposal	507,000	483,600	23,400	4.8%	504,000
Operations Chemicals	1,206,800	1,168,100	38,700	3.3%	1,168,300
Lab Chemicals and Supplies	26,700	25,700	1,000	3.9%	31,100
Fuel, Power and Utility	1,555,600	1,485,100	70,500	4.7%	1,421,900
Other Supplies and Materials	21,600	21,000	600	2.9%	23,700
Quality Analysis	24,300	23,600	700	3.0%	18,000
Safety	40,500	39,400	1,100	2.8%	30,000
SCADA Communications (Alarms)	36,600	35,400	1,200	3.4%	43,200
Tools and Small Equipment	38,700	37,600	1,100	2.9%	35,300
Vehicle Fuel	88,500	85,900	2,600	3.0%	95,400
Vehicles Insurance	33,600	25,400	8,200	32.3%	26,000
Vehicle Maintenance	33,600	32,600	1,000	3.1%	30,000
Total Operations	3,613,500	3,463,400	150,100	4.3%	3,426,900
Maintenance					
ASR Maintenance	7,200	7,000	200	2.9%	4,800
Biosolids Maintenance	6,900	6,600	300	4.5%	4,800
Meter Device Maintenance	20,100	19,100	1,000	5.2%	20,100
Effluent System Maintenance	28,200	24,600	3,600	14.6%	32,400
Equipment Maintenance	41,100	39,200	1,900	4.8%	39,000
Facilities Maintenance	106,800	101,200	5,600	5.5%	105,600
Generator Maintenance	24,000	23,000	1,000	4.3%	24,600
Operations Grounds Maintenance	68,700	66,600	2,100	3.2%	69,900
Hydrant Maintenance	62,100	60,100	2,000	3.3%	79,200
Lift Station Maintenance	417,600	406,300	11,300	2.8%	400,500
Plant Maintenance - WWTP	97,200	112,500	(15,300)	-13.6%	76,500
RO Maintenance	102,300	96,700	5,600	5.8%	102,000
SCADA Maintenance	27,000	25,900	1,100	4.2%	34,200
Water System Maintenance	168,000	146,200	21,800	14.9%	168,000
Sewer System Maintenance	225,000	201,100	23,900	11.9%	225,000
Tower & Tank Maintenance	167,700	162,900	4,800	2.9%	164,100
Well Maintenance	96,000	27,200	68,800	252.9%	45,000
Total Maintenance	1,665,900	1,526,200	139,700	9.2%	1,595,700
Tap in and Connection Expenses					
Water Tap In Expenses	165,000	143,400	21,600	15.1%	141,000
Sewer Connection Expenses	252,000	253,100	(1,100)	-0.4%	297,600
Total Connection Expenses	417,000	396,500	20,500	5.2%	438,600
Water Expenses					
Purchased Water	1,562,200	1,335,200	227,000	17.0%	987,900
ASR Water	290,500	282,000	8,500	3.0%	285,300
Total Water Expenses	1,852,700	1,617,200	235,500	14.6%	1,273,200

HiltonHeadPSD
FY'26 Budget

	FY'26 Budget	FY'25 Projected	Variance (FY'25 Project. to FY'26 Budget)		FY'25 Budget
			Increase (Decrease)	% Change	
Professional Fees					
Professional Fees - Accounting	36,000	27,700	8,300	30.0%	30,600
Professional Fees - Engineering	81,000	37,500	43,500	116.0%	75,000
Professional Fees - Legal	36,000	27,800	8,200	29.5%	38,700
Professional Fees - Other	24,000	55,600	(31,600)	-56.8%	70,200
Total Professional Fees	177,000	148,600	28,400	19.1%	214,500
Total Operating Expenses before Depreciation	14,480,400	13,409,400	1,071,000	8.0%	13,377,900
Operating Income before Depreciation	2,896,600	2,662,200	234,400	8.8%	2,677,500
Depreciation	5,550,000	5,422,500	127,500	2.4%	5,250,000
Total Operating Expenses with Depreciation	20,030,400	18,831,900	1,198,500	6.4%	18,627,900
Change in Net Position from Operations	(2,653,400)	(2,760,300)	106,900	-3.9%	(2,572,500)
Non-Operating Revenue					
Property Taxes - GO Bond Levy	2,177,000	1,835,000	342,000	18.6%	1,763,100
Property Taxes - Operations Levy	1,361,000	1,340,800	20,200	1.5%	1,290,000
Gain on Disposition of Assets	15,000	23,300	(8,300)	-35.6%	15,000
Interest Income	717,000	1,299,700	(582,700)	-44.8%	390,000
Interest Income - Assessments	43,600	56,600	(13,000)	-23.0%	49,500
Rental Income	89,400	88,500	900	1.0%	88,400
Tower Lease Income	615,900	615,200	700	0.1%	605,100
Tower Lease Interest Income	34,500	31,100	3,400	10.9%	32,100
Total Non-Operating Revenue	5,053,400	5,290,200	(236,800)	-4.5%	4,233,200
Non-Operating Expenses					
Interest Expense - Vehicles	-	3,300	(3,300)	-100.0%	3,600
Interest Expense - Bonds	993,000	752,700	240,300	31.9%	260,100
Bond Defeasance Amortization	-	209,200	(209,200)	-100.0%	209,200
Bond Issuance Cost	45,000	175,200	(130,200)	-74.3%	42,500
Total Non-Operating Expenses	1,038,000	1,140,400	(102,400)	-9.0%	515,400
Non-Operating Income/Expenses - Net	4,015,400	4,149,800	(134,400)	-3.2%	3,717,800
Increase / Decrease in Net Position before Capital Contributions	1,362,000	1,389,500	(27,500)	-2.0%	1,145,300
Capital Contributions					
Sewer Capacity Fees	156,000	141,100	14,900	10.6%	156,000
Water Capacity Fees	114,000	70,600	43,400	61.5%	114,000
Capital Grant Income	6,500,000	6,000,000	500,000	8.3%	6,000,000
Capital Contributions	-	-	-	0.0%	1,550,000
Total Capital Contributions	6,770,000	6,211,700	558,300	9.0%	7,820,000
Change in Net Position	\$ 8,132,000	\$ 7,601,200	\$ 530,800	7.0%	\$ 8,965,300

Operating Revenues

TOTAL OPERATING REVENUES	FY'26		FY'25		Variance		FY'25
	Budget	Projected 8+4	Increase (Decrease)	% Change	Budget		
1 Water Service	\$ 9,162,500	\$ 8,629,800	532,700	6.2%	\$8,618,900		
2 Sewer Service	7,501,000	6,716,800	784,200	11.7%	6,700,700		
3 Water Tap In Fees	220,800	226,900	(6,100)	-2.7%	187,800		
4 Sewer Connection Fees	270,000	274,500	(4,500)	-1.6%	315,600		
5 Golf Course Irrigation	180,300	181,800	(1,500)	-0.8%	185,000		
6 Service Fees	20,100	19,900	200	1.0%	20,100		
7 Miscellaneous Income	22,300	21,900	400	1.8%	27,300		
Total Operating Revenue	17,377,000	16,071,600	1,305,400	8.1%	16,055,400		

Operating revenues consist of water services, sewer services, connection fees, service fees, golf course irrigation, and miscellaneous income. The total operating revenues are budgeted at \$17,377,000. This budget includes the following base rate, volumetric rate, meter set fee, and hourly labor rate increases:

Water/Irrigation Base Rate per Unit:	FY 2025	FY 2026	Sewer Base Rate per Unit:	FY 2025	FY 2026
	Current	Revised Rate		Current	Revised Rate
Residential Customers	17.50	18.25	Residential & Commercial Customers	19.50	20.25
Commercial Customers	22.50	22.50	Residential & Commercial Sewer Rates per 1,000 Gallons:	2025	2026
Residential Water Rates per 1,000 Gallons:	Current	Revised Rate	Residential sewer usage is capped at	2.31	2.85
Block 1 - 0 to 10,000 Gal	1.58	1.69	10,000 gallons per month. There is no cap on commercial sewer usage.		
Block 2 - 10,001 to 20,000 Gal	2.24	2.37	Meter Install Fees (Existing Service Line)	2025	2026
Block 3 - 20,001 to 30,000 Gal	2.79	3.04	3/4" Meter	1,180.00	1,360.00
Block 4 - All Over 30,000 Gal	3.72	4.06	1" Meter	1,500.00	1,840.00
Residential Irrigation Rates per 1,000 Gallons:	Current	Revised Rate	2" Meter and Backflow	3,440.00	4,110.00
Block 1 - 0 to 10,000 Gal	2.24	2.37	Any other size	Time & Materials	
Block 2 - 10,001 to 20,000 Gal	2.24	2.37	Meter Install Fees (No Existing Service Line)*	2025	2026
Block 3 - 20,001 to 30,000 Gal	2.79	3.04	3/4" Meter	1,390.00	1,620.00
Block 4 - All Over 30,000 Gal	3.72	4.06	1" Meter	1,710.00	2,100.00
Commerical Water & Irrigation Rates per 1,000 Gallons:	Current	Revised Rate	Any other size	Time & Materials	
Block 1 - 0 to 10,000 Gal	1.69	1.69	* Greater of fee listed or Time & Materials		
Block 2 - 10,001 to 20,000 Gal	2.24	2.37	Hourly Labor Rate	2025	2026
Block 3 - 20,001 to 30,000 Gal	2.79	3.04	for time and materials and for work	Current	Revised Rate
Block 4 - All Over 30,000 Gal	3.72	4.06	performed for outside agencies	65.00	75.00

Operating Revenues (continued)

Major/selected variances are as follows:

1. Water Service revenues are based on the above rate changes, current customer counts, the rolling 12 months billed consumption as of February 2025 of approximately 1.970 billion gallons, and a growth component of 0.75%. This consumption estimate is one of the most variable estimates in this budget document. Weather patterns can greatly affect consumption due to irrigation demand. A particularly cool, rainy year could lead to the PSD missing budgeted numbers while a very dry, hot year could lead to us exceeding the numbers.
2. Sewer Service revenues are based on the above rate changes, current customer counts, the rolling 12 months billed consumption as of February 2025 of approximately 1.095 billion gallons, and a growth component of 0.75%. While this number is also subject to fluctuation, it is not as negatively impacted by usage since irrigation-only customers are not charged sewer and residential customer usage is capped at 10,000 gallons a month.
3. Water Tap In Fees are budgeted at 120 connections at an estimated average tap in fee. Water tap in fees are partially offset by Water Tap In Expenses; the residual is estimated District employee labor cost recovery.
4. Sewer Connection Fees are budgeted at 120 connections at an estimated average connection cost and are offset by Sewer Connection Expenses less the \$150 connection fee.
5. Golf Course Irrigation is budgeted conservatively at its five-year average. While this revenue can be weather dependent, it is also dependent upon the operations of a small number of customers and, as such, can be highly variable depending on their management and operating practices.
6. Service Fees are budgeted at \$20,100 which is approximately the same level as the FY'25 projection. The customer service team continues to regularly communicate with non-payers to keep penalties down. This line item also contains miscellaneous fees such as reconnection fees, hydrant meter set fees, backflow inspection fees, and returned payment fees.
7. Miscellaneous Income is budgeted at \$22,300 and consists mostly of capital credits from the District's electricity provider.

Payroll and Related Expenses

	Proposed		<u>Variance</u>		<u>FY'25 Budget</u>
	FY'26 Draft Budget	FY'25 Projected 8+4	Increase (Decrease)	% Change	
Payroll					
1 Salaries	3,739,200	3,450,000	289,200	8.4%	3,501,600
2 Commission Honorarium	81,000	80,100	900	1.1%	81,000
3 FICA	284,700	264,700	20,000	7.6%	271,000
4 Group Insurance	661,400	603,300	58,100	9.6%	652,800
5 Retirement	640,700	602,800	37,900	6.3%	615,500
6 Workman's Comp	45,300	44,200	1,100	2.5%	47,400
7 Training/Continuing Education	85,500	82,500	3,000	3.6%	78,000
8 Uniforms	39,900	38,900	1,000	2.6%	38,100
Total Payroll	<u>5,577,700</u>	<u>5,166,500</u>	<u>411,200</u>	<u>8.0%</u>	<u>5,285,400</u>

Line Item Definitions – Payroll and Related Expenses

Payroll and Related Expenses

- | | |
|----------------------------------|--|
| 1. Salaries | Salaries, on-call, overtime, and goal payments for district employees as well as any payments for any temporary employee contract labor. |
| 2. Honorarium | Stipends paid to the commissioners. |
| 3. FICA | FICA/Medicare is calculated at 7.65% of total projected salaries and Commission honorariums. |
| 4. Group Insurance | State Health Plan which includes a 12.3% employer rate increase effective January 2025 and an anticipated 3.9% employer rate increase effective January 2026. |
| 5. Retirement | Retirement is calculated at 18.41% of total projected retirement eligible salaries. |
| 6. Workman's Comp | Based on expected premiums calculated by the state based on the prior calendar year's salary and claims. |
| 7. Training/Continuing Education | Continuing education for entire staff (Seminars, Operator/ Technician Exams, GFOA, SEDA, WEF, AWWA, etc.) including travel, meals, lodging and associated costs. |
| 8. Uniforms | Shirts, pants, shorts, jackets, and caps. |

FY'26 Budget Variance Summary

Payroll and Related Costs:

The budgeted FY'26 staffing level is 44 full time employees (FTEs) which is an increase of 0.5 FTEs from the FY'25 budgeted staffing level of 43.5 FTEs (which accommodated the mid fiscal year retirement of our Customer Service Supervisor). At the time of budget preparation, the current staff level is 42 FTEs. The District is planning to fill positions in the areas of operations field services. Given the current tight labor market and lack of workforce housing in the District's service area, staff believes it is important to budget in a way that allows staff to be flexible to attract and retain talent in this competitive and changing employment market. Given this, this budget only anticipates minimal vacancy allowances to allow the District to reach this full level should opportunities arise. Only including minimal vacancy allowances also shows what the projected level of staffing is anticipated to cost going forward. There may be savings to budget in this area should recruitment take time. The District staff always endeavors to take the appropriate time to select candidates that fit with the District's needs when hiring employees as opposed to simply filling a position within a given time frame. Board compensation is also included in this category. The total budget for payroll and related costs is \$5,577,700 reflecting a \$411,200 increase compared to the FY'25 projections. Selected/major variances are as follows:

1. Salaries for the FY'26 budget are \$3,739,200. This is a \$289,200 increase compared to the FY'25 projection of \$3,450,000 and a \$237,600 increase compared to the FY'25 budget. For FY'26, there is a proposed 4.0% merit pool available for increases. Staff is not guaranteed to receive a salary rate adjustment; salary rate adjustments are merit based and are determined on an individual basis. In consideration of the continued elevated housing market, tight labor market, and continued inflationary environment, this budget also contains a one-time inflationary retention payment to all District Employees of \$2,000. One-time payments are not subject to the SC retirement system (SCRS) contributions, thereby allowing employees to take home a greater percentage of this type of payment. The salaries line item also includes anticipated overtime and on call compensation which can vary based on customer after hour calls and disaster related events.
3. & 5. FICA and Retirement are based upon the Salaries line item with FICA due at 7.65% of wages and retirement at 18.41% of wages. The SCRS has not indicated that there will be any increase to the required employer contribution rate for FY 2026.
4. Group insurance for the FY'26 budget is \$661,400. This is a \$58,100 increase compared to the FY'25 projection of \$603,300. The SC Public Employee Benefit Authority enacted a 12.3% employer rate increase in January 2025 and the District has been notified of an additional anticipated 3.9% employer rate increase that is expected beginning January 2026.

Administration Expenses

	FY'26 Budget	FY'25 Projected 8+4	Variance		FY'25 Budget
			Increase (Decrease)	% Change	
Administration					
9 Bad Debts	12,600	12,100	500	4.1%	15,000
10 Bank/Bond Administration Fees	147,300	142,700	4,600	3.2%	138,000
11 Billing and Accounting	49,200	47,000	2,200	4.7%	53,700
12 Communications	153,300	150,200	3,100	2.1%	152,400
13 Dues and Subscriptions	22,200	21,100	1,100	5.2%	21,800
14 Insurance Other than Group or Vehicle	289,500	272,400	17,100	6.3%	284,700
15 License and Permits	69,800	63,700	6,100	9.6%	70,500
16 Office Supplies	28,500	27,600	900	3.3%	28,200
17 Computer Software and Supplies	180,000	138,000	42,000	30.4%	148,200
18 Personnel Support	30,000	29,300	700	2.4%	28,800
19 Postage	77,400	75,400	2,000	2.7%	78,000
20 Public Education	34,800	33,500	1,300	3.9%	35,700
21 Recruitment and Advertising	5,100	4,400	700	15.9%	12,000
22 Special Functions	25,000	24,200	800	3.3%	25,000
23 Utilities	51,900	49,400	2,500	5.1%	51,600
Total Administration	1,176,600	1,091,000	85,600	7.8%	1,143,600

Line Item Definitions – Administration Expenses

- | | |
|---|---|
| 9. Bad Debts | Write off of un-collectible receivables. |
| 10. Bank/Bond Administration Fees | Monthly fees for credit card processing and maintaining operating and trust accounts. |
| 11. Billing and Accounting | Monthly fees associated with producing customer statements, lockbox processing fees, e-box processing fees, and printing forms. |
| 12. Communications | Telephone lines, answering service, cell phones, tablets, radios, cable, internet, etc. |
| 13. Dues and Subscriptions | Yearly dues for professional industry organizations (i.e. AWWA, GFOA, SCRWA, WEASC, WEF, etc.). |
| 14. Insurance Other than Group or Vehicle | General Tort Liability, Building and Property, Surety Bond, Data Processing, Cyber Insurance, Inland Marine, Business Interruption. |
| 15. Licenses and Permits | SC DHEC Fees, Lab License, Property Tax Fees, Staff License renewals. |
| 16. Office Supplies | Includes all office supplies needed for administrative operations such as pens, paper, ink, and minor furniture such as chair replacements. |

Line Item Definitions – Administration Expenses (continued)

- | | |
|------------------------------------|---|
| 17. Computer Software and Supplies | Software and hardware upgrades, annual accounting/AMI/GIS software maintenance fees, computer supplies, computer repairs, etc. |
| 18. Personnel Support | Annual health screening, flu shots, DOT physicals, kitchen supplies, community room supplies, etc. as well as meals, lodging, personal vehicle mileage reimbursement using Federal guidance, and miscellaneous expenses to attend meetings other than training and continuing education; i.e. meetings with SCDES, etc. |
| 19. Postage | Postage for mailing monthly statements and customer communications, shipping charges, postage meter lease and supplies. |
| 20. Public Education | Customer newsletters and outreach, public notices, emergency notices, annual report, etc. |
| 21. Recruitment and Advertising | Costs such as newspaper and online advertising, travel and per diems for replacement of vacant positions and legal noticing. |
| 22. Special Functions | Special events, staff meetings, commission meetings and reimbursable expenses, costs of Commission elections as required by state law, and community support. |
| 23. Utilities | Electricity, water, sewer, for the Administration building. |

**FY'26 Budget
Variance Summary**

Administration Expense:

This category covers those items necessary to handle the administration of the day-to-day operations. Such items as insurance other than group health insurance, computer software, utilities, public education, billing and accounting are included. The total budget for administration is \$1,176,600 reflecting a \$85,600 increase compared to the FY'25 projections. Major/selected variances are as follows:

**FY'26 Budget
Variance Summary (Continued)**

Administration Expense (continued):

14. Insurance other than group or vehicle is budgeted at \$289,500 for FY'26 which is a \$17,100 increase from the FY'25 projections. The SC insurance reserve fund (IRF) anticipates a 5% increase in property, equipment, and business interruption insurance premiums and a 10% increase tort insurance premiums.

17. Computer software and supplies is budgeted at \$180,000 which is a \$42,000 increase from the FY'25 projections. This includes an allowance for annual software maintenance fees and one-time initial implementation and training for a new asset management software package. The District's asset management specialist is in the final stages of software selection and anticipates implementing the new software package in FY 2026.

Operations Expenses

	FY'26 Budget	FY'25 Projected 8+4	Variance		FY'25 Budget
			Increase (Decrease)	% Change	
Operations					
24 Biosolids Disposal	507,000	483,600	23,400	4.8%	504,000
25 Operations Chemicals	1,206,800	1,168,100	38,700	3.3%	1,168,300
26 Lab Chemicals and Supplies	26,700	25,700	1,000	3.9%	31,100
27 Fuel, Power and Utility	1,555,600	1,485,100	70,500	4.7%	1,421,900
28 Other Supplies and Materials	21,600	21,000	600	2.9%	23,700
29 Quality Analysis	24,300	23,600	700	3.0%	18,000
30 Safety	40,500	39,400	1,100	2.8%	30,000
31 SCADA Communications (Alarms)	36,600	35,400	1,200	3.4%	43,200
32 Tools and Small Equipment	38,700	37,600	1,100	2.9%	35,300
33 Vehicle Fuel	88,500	85,900	2,600	3.0%	95,400
34 Vehicles Insurance	33,600	25,400	8,200	32.3%	26,000
35 Vehicle Maintenance	33,600	32,600	1,000	3.1%	30,000
Total Operations	3,613,500	3,463,400	150,100	4.3%	3,426,900

Line Item Definitions – Operations Expenses

- | | | |
|-----|-------------------------------|--|
| 24. | Biosolids Disposal | Hauling and disposal of sludge. |
| 25. | Operations Chemicals | Sodium hypochlorite, granular chlorine, ammonia, re-agent pillows, lime, sulfur dioxide, polymers, degreasers. |
| 26. | Lab Chemicals and Supplies | Chemicals and supplies, such as beakers, stirrers, sample bottles, culture cups, colored buffers, chemical standards for quality analysis use, forceps, filters, rubber gloves, etc., necessary for laboratory operations and water quality testing. |
| 27. | Fuel, Power and Utility | Electricity, diesel, propane, and water for treatment plants, wells, lift stations, RO Plant, ASR, etc. |
| 28. | Other Supplies and Materials | Miscellaneous operating expense items such as batteries, marking paint, tape, cleaner, etc. |
| 29. | Quality Analysis | Quality analysis testing. |
| 30. | Safety | Mandatory staff meetings on topics such as forklift safety, lock-out/tag-out safety, driver safety, etc. Also, sanitation products, personal protection equipment (PPE) such as safety glasses, vests, boots, gloves, etc. and worksite safety equipment such as traffic cones, barricades, flashers, etc. |
| 31. | SCADA Communications (Alarms) | Monthly cost of network service for SCADA (Supervisory Control and Data Acquisitions System) communications equipment. |

Line Item Definitions – Operations Expenses (continued)

- | | |
|-------------------------------|--|
| 32. Tools and Small Equipment | Shovels, water meter pit pumps, flags, locator probes, manhole pullers, PVC pipe saws, miscellaneous hand tools (wrenches, screw drivers, pliers, etc.) and miscellaneous power tools (cordless drills, cut-off saws, rechargeable flashlights, etc.) under \$5,000.00. |
| 33. Fuel – Vehicles | Gasoline and diesel fuel for PSD's fleet of vehicles. |
| 34. Insurance – Vehicles | Liability, collision and comprehensive insurance for fleet vehicles. |
| 35. Vehicle Maintenance | Repairs to fleet vehicles such as oil changes, brakes, tires, batteries, windshield wipers, tire rotation, belts, fuel filters, alternators, water pumps, wheel alignment, major tune-ups, diesel injectors, engine and transmission repairs as well as vehicle management expenses. |

**FY'26 Budget
Variance Summary**

This category covers the direct costs of operating the water distribution system, sewage collection system, wastewater treatment plant, and vehicle fleet. Such items as bio-solids disposal, chemicals, power, and lab support are included. The total budget for operations is \$3,613,500 reflecting a \$150,100 increase compared to the FY'25 projections. Major/selected variances include:

- 25. Biosolids disposal is budgeted at \$507,000 for FY'26 which is a \$23,400 increase from the FY'25 projection of \$483,600 to allow for continued anticipated landfill rate increases.
- 26. Operations chemicals are budgeted at \$1,206,800 for FY'26. This is a \$38,700 increase from the FY'25 projection of \$1,168,100. While inflation on chemicals slowed from the double-digit levels seen in prior years, chemical costs have continued to see smaller inflationary increases.
- 27. Fuel, power, and utility are budgeted at \$1,555,600 for FY'26 which is a \$70,500 increase from FY'25 projections of \$1,485,100 and incorporates the anticipated effects of the approximately 6.0% rate increase enacted by Palmetto Electric Cooperative (PEC) effective January 2025. At the time of budget preparation, PEC did not have an estimate of whether there would be a further rate increase during the upcoming 2026 fiscal year. As this is such a large expense for the District, a rate increase here could significantly increase this line item should another increase be enacted during the upcoming fiscal year.

Operations Expense (continued):

34. Vehicle Insurance is budgeted at \$33,600 which is an \$8,200 or 32.3% increase from the FY'25 projection of \$25,400. The SC Insurance Reserve fund notified the District of a 15% automobile comprehensive and collision premiums increase and a 30% automobile liability insurance premiums increase. Additionally, the budget allows for insurance on an additional fleet vehicle to accommodate the additional operational staff member budgeted.

Maintenance Expenses

	FY'26 <u>Budget</u>	FY'25 <u>Projected 8+4</u>	<u>Variance</u>		FY'25 <u>Budget</u>
			<u>Increase (Decrease)</u>	<u>% Change</u>	
Maintenance					
36 ASR Maintenance	7,200	7,000	200	2.9%	4,800
37 Biosolids Maintenance	6,900	6,600	300	4.5%	4,800
38 Meter Device Maintenance	20,100	19,100	1,000	5.2%	20,100
39 Effluent System Maintenance	28,200	24,600	3,600	14.6%	32,400
40 Equipment Maintenance	41,100	39,200	1,900	4.8%	39,000
41 Facilities Maintenance	106,800	101,200	5,600	5.5%	105,600
42 Generator Maintenance	24,000	23,000	1,000	4.3%	24,600
43 Hydrant Maintenance	62,100	60,100	2,000	3.3%	79,200
44 Operations Grounds Maintenance	68,700	66,600	2,100	3.2%	69,900
45 Lift Station Maintenance	417,600	406,300	11,300	2.8%	400,500
46 Plant Maintenance - WWTP	97,200	112,500	(15,300)	-13.6%	76,500
47 RO Maintenance	102,300	96,700	5,600	5.8%	102,000
48 SCADA Maintenance	27,000	25,900	1,100	4.2%	34,200
49 Water System Maintenance	168,000	146,200	21,800	14.9%	168,000
50 Sewer System Maintenance	225,000	201,100	23,900	11.9%	225,000
51 Tower & Tank Maintenance	167,700	162,900	4,800	2.9%	164,100
52 Well Maintenance	<u>96,000</u>	<u>27,200</u>	<u>68,800</u>	<u>252.9%</u>	<u>45,000</u>
Total Maintenance	1,665,900	1,526,200	139,700	9.2%	1,595,700

Line Item Definitions –Maintenance Expenses

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|---------------------------------|--|
| 36. ASR Maintenance | Repairs and preventative maintenance for the ASR wells. |
| 37. Biosolids Maintenance | Repairs and preventative maintenance for the centrifuge, conveyor system, polymer system, and motor control system. |
| 38. Meter Device Maintenance | Repair and/or replacement of meter boxes/lids, touch readers, smartpoints, damaged meters, base stations and antennas. |
| 39. Effluent System Maintenance | Repairs and preventative maintenance to the effluent system. |
| 40. Equipment Maintenance | Repairs and preventative maintenance for operation equipment such as forklifts, bush hogs, sewer cleaning machines, leak detection equipment, lateral and main cameras, etc. |

Line Item Definitions – Maintenance Expenses (continued)

41. Facilities Maintenance	Administrative building landscaping services, pest control, air conditioner service, dumpster disposal, janitorial supplies and services, and building repairs and maintenance.
42. Generator Maintenance	Repairs and preventative maintenance to the administration building, WWTP, wells, and lift station emergency generators.
43. Hydrant Maintenance	Repairs, testing, and preventative maintenance for hydrants.
44. Operations - Grounds Maintenance	Contracted landscaping services at lift stations, wells, RO plant, WWTP, etc.
45. Lift Station Maintenance	Trouble shooting, repairs, and preventative maintenance at lift stations (pumps, electrical, float switches, etc.) and customer LPS systems.
46. Plant Maintenance - WWTP	Repairs and preventative maintenance on filter blowers, digester blowers, aeration blowers, equalization basin blowers, screw pumps, WWTP buildings, etc.
47. RO Maintenance	Repairs and preventative maintenance at the RO facility and wells.
48. SCADA Maintenance	Repairs, replacements, and maintenance of SCADA system including level indicators, radios, & antennas.
49. Water System Maintenance	Material, such as pipe, flanges, repair sleeves and clamps and contracted services to effect repairs to broken water lines including sod replacement, road and driveway repairs, and replacing asphalt.
50. Sewer System Maintenance	Material, such as pipe, flanges, repair sleeves and clamps and contracted services to effect repairs to broken sewer lines including sod replacement, road and driveway repairs, and replacing asphalt. Also includes sewer cleaning and camera work.
51. Tower & Tank Maintenance	Contracted maintenance for water towers at Union Cemetery, Pembroke, Seabrook, Marshland, and Wild Horse roads and ground storage tanks at Leg O Mutton, Ashmore, and Northpointe Circle.
52. Well Maintenance	Materials and services to repair chlorinators, thermal valves, pumps, motors, and meters. Also includes infrared and vibration analysis.

FY'26 Budget Variance Summary

Maintenance:

This category covers preventative maintenance and emergency repairs to water and sewer mains, ASR wells, RO system, generators, pump stations, wells, elevated water tanks, ground storage tanks and the wastewater treatment plant that do not meet the District's property, plant, and equipment capitalization policy. Items greater than \$5,000 which extend the useful life of the asset are capitalized and included in the CIP budget. The total FY'26 budget is \$1,665,900 reflecting a \$139,700 increase compared to the FY'25 projections.

Note: Many of the maintenance expense items can fluctuate significantly from year to year making them difficult to estimate. Depending on line item specific factors, budgeted amounts have been estimated utilizing future expectations and/or incremental budgeting (Using a previous period's budget or actual performance as a basis with incremental amounts adjusted for the new budget period). This area should also be considered in conjunction with the System Rehab line items on the CIP budget as that is where repairs and replacements that meet the District's capitalization threshold (i.e. are over \$5,000 and extend the useful life of an asset) are reported.

Major/selected variances include:

39. Plant Maintenance is budgeted at \$97,200 for FY'26 which is a decrease of \$15,300 from FY'25 projections. Discussions with operations management and a review of five-year history indicate that this is a reasonable budget amount for this line item.
49. Water System Maintenance is budgeted at \$168,000 for FY'26 which is a \$21,800 increase from the FY'25 projection of \$146,200. Discussions with operations management and a review of five-year history indicate that this is a reasonable budget amount for this line item.
50. Sewer System Maintenance is budgeted at \$225,000 for FY'26 which is a \$23,900 increase from the FY'25 projection of \$201,100. Discussions with operations management and a review of five-year history indicate that this is a reasonable budget amount for this line item.
52. Well Maintenance is budgeted at \$96,000 for FY'26 which is a \$68,800 increase from the FY'25 projection of \$27,200. This includes an allowance to begin the process of capping off and demolishing some of the District's well sites and housing that have been affected by saltwater intrusion and which management believes will not be returned to service at a future date.

Tap in and Water Expenses

	<u>FY26</u>	<u>FY'25</u>	<u>Variance</u>	<u>%</u>	<u>FY'25</u>
	<u>Budget</u>	<u>Projected 8+4</u>	<u>Increase</u>	<u>Change</u>	<u>Budget</u>
			<u>(Decrease)</u>		
Tap in and Connection Expenses					
53 Water Tap In Expenses	165,000	143,400	21,600	15.1%	141,000
54 Sewer Connection Expenses	<u>252,000</u>	<u>253,100</u>	<u>(1,100)</u>	-0.4%	<u>297,600</u>
Total Connection Expenses	417,000	396,500	20,500	5.2%	438,600
Water Expenses					
55 Purchased Water	1,562,200	1,335,200	227,000	17.0%	987,900
56 ASR Water	<u>290,500</u>	<u>282,000</u>	<u>8,500</u>	3.0%	<u>285,300</u>
Total Water Expenses	1,852,700	1,617,200	235,500	14.6%	1,273,200

Line Item Definitions – Tap in and Water Expenses

- | | |
|---------------------------------|--|
| 53. Tap-in Expenses - Water | Water meters, meter boxes, tapping saddles, brass ball valves, curb stop and corporation stop, brass and cut-off valves. These materials expenses are offset by Water Tap In Fees. |
| 54. Connection Expenses – Sewer | Expenses associated with sewer connections which are offset by Sewer Connection Fees. |
| 55. Purchased Water | Water that is purchased from BJWSA. |
| 56. ASR Water | Water withdrawn from the ASR well valued at the off-peak rate from BJWSA. |

FY'26 Budget Variance Summary

Tap in and Water Expenses:

- 53/54. Tap in/connection expenses are budgeted based on a conservative estimate of new connections. They are offset by connection/inspection fee revenue. The difference between water tap in revenues and expenses is related to staff labor. The difference between sewer connection revenues and expenses are sewer connection fees.
- 55/56. Purchased Water / ASR Water – Purchased Water expense has been budgeted at \$1,562,200, a \$227,000 increase from FY'25 projections. ASR water has been budgeted at \$290,500, an \$8,500 increase from FY'25 projections.

**FY'26 Budget
Variance Summary**

Tap in and Water Expenses: (continued)

55/56. Water Expenses for FY'26 consist of two line items: Purchased Water Expense and ASR Water Expense. Purchased water expense consists of water that is purchased from BJWSA and not used to fill the ASR. ASR water expense is for water that has been drawn out of the ASR well for sale to customers. Purchased water can also be affected by periods of down time at the RO Plant or Wells.

The current wholesale rate charged by BJWSA is \$2.71 per thousand gallons of water purchased during peak periods. BJWSA has notified the PSD that its cost of service model shows that a significant rate increase is necessary to fully cover the cost of providing water to the District. At the time of budget preparation, a rate of slightly higher than \$3.27 was the best available estimate that could be provided. This budget anticipates a 22% increase which would equate to a wholesale rate of \$3.30. Should the actual increase be higher, the District could exceed the budget in this area.

Additionally, the PSD had unanticipated downtime at its RO Plant during the first half of FY 2025 due to emergency repairs which resulted in 55 million gallons more water purchased than the previous year. Staff anticipates that there will be some downtime at the RO Plant during FY 2026 due to the SCIIP RO Expansion project and has left 30 million gallons of the 55 extra gallons used in FY 2025 in the budget to accommodate this. The actual amount of downtime is unknown and will depend on how the project progresses, which could result in this line item coming in higher or lower than budgeted.

The off-peak rate for FY'25 (generally October through February) is \$1.10 cents per 1,000 gallons of water purchased in excess of contracted requirements. The off-peak rate is currently adjusted annually based on the July Consumer Price Index and BJWSA will provide 60 days' notice of their intent to adjust the rates. ASR Water is valued at the off-peak rate and a 3.0% increase has been anticipated as a part of this budget which estimates the new off-peak rate at \$1.13. Staff is currently working with a rate consultant and BJWSA to discuss changes to its peak and off-peak rates and contract terms. While there have been discussions about changes to the methodology of calculating the off-peak rate, there was not enough information at the time of budget preparation to incorporate any potential changes.

Professional Fees and Depreciation Expense

	<u>FY'26</u> <u>Budget</u>	<u>FY'25</u> <u>Projected 8+4</u>	<u>Variance</u> <u>Increase</u> <u>(Decrease)</u>	<u>%</u> <u>Change</u>	<u>FY'25</u> <u>Budget</u>
Professional Fees					
57 Professional Fees - Accounting	36,000	27,700	8,300	30.0%	30,600
58 Professional Fees - Engineering	81,000	37,500	43,500	116.0%	75,000
59 Professional Fees - Legal	36,000	27,800	8,200	29.5%	38,700
60 Professional Fees - Other	24,000	55,600	(31,600)	-56.8%	70,200
Total Professional Fees	<u>177,000</u>	<u>148,600</u>	<u>28,400</u>	<u>19.1%</u>	<u>214,500</u>
Total Operating Expenses	<u>14,480,400</u>	<u>13,409,400</u>	<u>1,071,000</u>	<u>8.0%</u>	<u>13,377,900</u>
Operating Income before Depreciation	<u>2,896,600</u>	<u>2,662,200</u>	<u>234,400</u>	<u>8.8%</u>	<u>2,677,500</u>
61 Depreciation	5,550,000	5,422,500	127,500	2.4%	5,250,000
Total Operating Expenses with Depreciation	<u>20,030,400</u>	<u>18,831,900</u>	<u>1,198,500</u>	<u>6.4%</u>	<u>18,627,900</u>
Change in Net Assets from Operations	<u>(2,653,400)</u>	<u>(2,760,300)</u>	<u>106,900</u>	<u>-3.9%</u>	<u>(2,572,500)</u>

Line Item Definitions – Professional Fees and Depreciation

57. Professional Fees - Accounting	Annual audit and financial consultant fees.
58. Professional Fees - Engineering	Professional engineering services.
59. Professional Fees - Legal	General counsel/labor law/contract issues.
60. Professional Fees - Other	Various miscellaneous studies and consulting.
61. Depreciation	An allocation of the useful life of capital purchases.

FY'26 Budget Variance Summary

Professional Fees:

This category covers fees paid to professionals for legal, accounting, engineering, and other consulting assistance in the operation and administration of the District. The total FY'26 budget of \$177,000 reflects a \$28,400 increase compared to the FY'25 projections. Major/selected variances include:

**FY'26 Budget
Variance Summary**

Professional Fees (continued):

57. Professional fees accounting is budgeted at expected annual audit and financial consulting needs which includes an increase for FY'26 due to the need for a single audit related to spending over \$750,000 of federal funds under the SCIIP Grant and BC ARPA allocations in FY'25.
58. Professional fees engineering is budgeted at \$81,000 for FY'26 in anticipation of continued developer work, capital project studies, and other miscellaneous consulting needs.
59. Professional fees legal is budgeted at \$36,000 in consideration of SCIIP, ARPA, SCDOT, other infrastructure funding, and/or future water supply legal needs.
60. Professional fees other is budgeted at \$24,000 which is lower than FY'25 projections. The FY'25 projection includes the rate consulting study with BJWSA on purchased water rates and assistance with the application for the SC RIA State Grant. FY'26 includes an allowance for miscellaneous items such as additional rate consulting and assistance with any new grant opportunities that might come available.

Depreciation:

This category covers depreciation of the District's water and sewer systems as well as buildings and support equipment. Although this is a non-cash item, it is an expense to the District. Staff has performed an analysis of depreciation expense including a review of expected additions and assets reaching the end of their depreciable lives. The total budgeted depreciation for FY'26 is \$5,550,000, which is an increase of \$127,500 from the FY'25 projections based on staff's projection of anticipated depreciation on capital additions.

Non-Operating Revenue

Non-Operating Revenue	FY'26 <u>Budget</u>	FY'25 <u>Projected 8+4</u>	<u>Variance</u>		FY'25 <u>Budget</u>
			<u>Increase</u> <u>(Decrease)</u>	<u>%</u> <u>Change</u>	
62 Property Taxes - GO Bond Levy	2,177,000	1,835,000	342,000	18.6%	1,763,100
63 Property Taxes - Operations Levy	1,361,000	1,340,800	20,200	1.5%	1,290,000
64 Gain on Disposition of Assets	15,000	23,300	(8,300)	-35.6%	15,000
65 Interest Income	717,000	1,299,700	(582,700)	-44.8%	390,000
66 Interest Income - Assessments	43,600	56,600	(13,000)	-23.0%	49,500
67 Rental Income	89,400	88,500	900	1.0%	88,400
68 Tower Lease Income	615,900	615,200	700	0.1%	605,100
69 Tower Lease Interest Income	34,500	31,100	3,400	10.9%	32,100
Total Non-Operating Revenue	<u>5,053,400</u>	<u>5,290,200</u>	<u>(236,800)</u>	<u>-4.5%</u>	<u>4,233,200</u>

FY'26 Budget Variance Summary

Non-Operating Revenue:

62/63. The FY'25 assessed values of the District were estimated by the staff at \$446.9 million based on collections to date. The County had not provided an update of the estimated value at the time of budget preparation. Budgeted amounts were based on the prior year amount with a small growth component.

The General Obligation (GO) Debt Levy is estimated at \$2,177,000 for FY'26 to meet our general obligation debt payment requirements. This budget sets the GO Debt millage rate at 4.8 mills, which is an increase of 0.7 from the FY'25 millage rate of 4.1 mills to accommodate the new 2024 GO debt issuances. The Operations Levy is set at 3.0 mills, the same level as FY'25, and is estimated at \$1,361,000 for FY'26. These rates are calculated directly from the estimated values discussed above. Both the GO and Operations levies are collected annually via Beaufort County property tax bills.

64. Gain on Disposition of Assets is a conservative estimate related to the replacement of vehicles. The CIP budget includes an allowance for additional vehicles. Some vehicles may be used for new staff positions as opposed to replacing current vehicles. Additionally, if the timing of the purchase of vehicles is delayed, this line item would also be anticipated to be delayed.

65. Interest Income is based on balances of our operating and restricted accounts invested in interest bearing investments. Interest is estimated 3.25%. The District is currently earning in excess of 4.4% on its reserve funds. This is a particularly variable estimate. If rates continue at current levels, the District may earn significantly more revenue. If rates collapse, the District may earn significantly less income than budgeted.

Interest Income in both the current year and upcoming year also includes an estimate of the interest anticipated to be earned on the 2024 GO bond proceeds as they are spent down on the related capital projects. This interest income is removed from the change in unrestricted cash as this interest income is restricted to be spent on the capital projects related to the debt issuance.

- 66. Assessment Interest Receivable: Annual front foot assessments are billed and collected through Beaufort County property tax bills. These funds are collected to pay the District's front foot assessment revenue debt and are based on set amortization schedules.

- 67. Rental Income is collected from the Town of Hilton Head 911 Center located on the second floor of the District Administration Building and the Hilton Head Plantation POA Property Lease for the boat and RV storage lot (POA Property Lease is due an annual 3% increase each September).

- 68. Tower Lease Income is generated from the cellular companies that have leased space on the District's water towers. Projections for FY'26 are based on 3 cellular customers (AT&T, T-Mobile, Verizon) for a total of 14 leases which contain annual escalators ranging from 3.0% to 5.0%. During FY'23, Sprint cancelled one of their two leases due to the merger with T-Mobile. For the other Sprint site, T-Mobile has opted to cancel their lease with us which runs through 2026 and maintain the other Sprint lease. This will reduce the number of leases to 13 in the FY 2027 budget.

Non-Operating Expenses

			Variance		
Non-Operating Expenses	FY'26	FY'25	Increase	%	FY'25
	Budget	Projected 8+4	(Decrease)	Change	Budget
70 Interest Expense - Vehicles	-	3,300	(3,300)	-100.0%	3,600
71 Interest Expense - Bonds	993,000	752,700	240,300	31.9%	260,100
72 Bond Defeasance Amortization	-	209,200	(209,200)	-100.0%	209,200
73 Bond Issuance Cost	45,000	175,200	(130,200)	-74.3%	42,500
Total Non-Operating Expenses	1,038,000	1,140,400	(102,400)	-9.0%	515,400
Non-Operating Income/Expenses - Net	4,015,400	4,149,800	(134,400)	-3.2%	3,717,800
Increase / Decrease in Net Assets before capital Contributions	1,362,000	1,389,500	(27,500)	-2.0%	1,145,300

**FY'26 Budget
Variance Summary**

Non-Operating Expenses:

- 71. Interest Expense – Bonds is based on the District’s current debt schedules and the anticipated debt schedule for the planned 2026 FFA debt issuance.
- 72. Bond Defeasance Amortization was related to the District’s 2020C debt issuance which was fully paid off during FY’2025.
- 73. Bond Issuance Cost is the expected bond fees related to the planned 2026 FFA debt issuance.

Summary of Capital Contributions

Capital Contributions	FY'26 Budget	FY'25 Projected 8+4	Variance		FY'25 Budget
			Increase (Decrease)	% Change	
74 Sewer Capacity Fees	156,000	141,100	14,900	10.6%	156,000
75 Water Capacity Fees	114,000	70,600	43,400	61.5%	114,000
76 Capital Grant Income	6,500,000	6,000,000	500,000	8.3%	6,000,000
77 Capital Contributions	-	-	-	0.0%	1,550,000
Total Developer Contributions of Systems	6,770,000	6,211,700	558,300	9.0%	7,820,000
Change in Net Assets	\$ 8,132,000	\$ 7,601,200	\$ 530,800	7.0%	\$8,965,300

**FY'26 Budget
Variance Summary**

Developer Contribution of Systems:

- 74/75. Water and Sewer Capacity Fees: These are payments received from new taps/connections to the system. Sewer capacity fees are budgeted at \$156,000 and water capacity fees are budgeted at \$114,000 using a conservative estimate of new connections. The District does not budget in anticipation of any large developer capacity fee payments as the timing of these are often tenuous and there is no guarantee that any known potential development will materialize.
- 76. Capital Grant Income is budgeted at \$6,500,000. Staff estimates that 50%, or \$5,000,000 of the \$10,000,000 SCIIP grant money will be earned during the upcoming fiscal year. Additionally, staff is anticipating that the \$1,500,000 SC RIA State Grant screw pump replacement project will be earned in the upcoming fiscal year. The timing on these may vary depending on how the projects progress. However, this is offset by a related CIP project in the CIP budget. Should more or less be earned than anticipated in each year, these will offset each other.

Acronyms	
AMI	Advanced Metering Infrastructure
ARPA	American Rescue Plan Act
ASR	Aquifer Storage and Recovery
BC ARPA	Beaufort County American Rescue Plan Act Allocation
BIC	Bond Issuance Costs
CCR	Consumer Confidence Report
CIP	Capital Improvement Plan
COSA	Cost of Service Analysis
FTE	Full-time Employee
FY	Fiscal Year
GO	General Obligation (Debt)
GFOA	Government Finance Officers Association
IRF	Insurance Reserve Fund
IVR	Integrated Voice Response System
IT	Information Technology
LGIP	Local Government Investment Pool
LOM	Leg O Mutton Booster Site/Well/GST
LPS	Low Pressure Sewer
O&M	Operation and Maintenance
RAS	Return Activated Sludge
RD	Revenue Debt
RF	Rate Funded
RO	Reverse Osmosis
SCADA	Supervisory Control and Data Acquisition System
SCDES	South Carolina Department of Environmental Services
SCIIP	South Carolina Infrastructure Investment Program
SC RIA	South Carolina Rural Infrastructure Authority
SRF	State Revolving Fund
SIRF	State Infrastructure Revolving Fund
TF	Town Funded
VFD	Variable Frequency Drive
WWTP	Wastewater Treatment Plant

FY'26 Rate/Cash Funded Capital Improvement Plan Budget

CIP Projects			2026	2027	2028	2029	2030
CIP Rate/Cash Funded Projects (Amounts in 000's)		Priority Ranking					
WWTP							
Clarifier	Clarifier #2 replace sweeper arm/suction line	1	150.0				
Return Activated Sludge (RAS) Building	Electrical cabinet improvements.	2	85.0				
Filter Building Blowers	6 new actuator (air) valves	3	75.0				
Reuse Water System	Upgrades, improvements, etc. to the reuse water system including new flow meters, valves, piping, etc.	4	100.0	110.0	115.0	120.0	125.0
CROM Tank	Install isolation valve on CROM tank line	5	55.0				
Holding Ponds	Install 2 aerators in Pond #3	6	50.0				
System Rehab	Replace valves, actuators, motors, parts, etc.	*	225.0	250.0	275.0	300.0	350.0
Grit Removal Chamber	Sandblast and Coat Bridge #2			50.0			
Mobile Belt Press	Serves as a Backup to the Centrifuge				200.0	50.0	50.0
Centrifuge	Air conditioned structure to house centrifuge panel				250.0		
Sludge Building	Replace metal shed sludge handling building					900.0	
Warehouse/Garage	Build new warehouse building						2,400.0
TOTAL WWTP			\$ 740.0	\$ 410.0	\$ 840.0	\$ 1,370.0	\$ 2,925.0
Wastewater Collection System							
Gravity Main Line Refurbishment	Gravity sewer main line repairs and relining	1	400.0	400.0	400.0	450.0	450.0
Lift Stations - Rehab	Rehab and pumps	*	325.0	350.0	375.0	400.0	425.0
Lift Stations - Control Panels	Place control panels	*	105.0	110.0	115.0	120.0	125.0
District Funded MSP Projects	District Funded MSP Projects	*	-	25.0	25.0	25.0	25.0
LPS System	LPS Changeouts	*	65.0	70.0	75.0	80.0	85.0
System Rehab	Replace pipes, manholes, laterals, equipment as dictated by inspections	*	225.0	250.0	250.0	250.0	275.0
Royal James L/S	Install Screening Devices			175.0			
TOTAL COLLECTION SYSTEM			\$ 1,120.0	\$ 1,380.0	\$ 1,240.0	\$ 1,325.0	\$ 1,385.0
Water Production/Distribution System							
Water Line Replacement	Replace 12" Ribaut Island Road line	1	170.0				
Metering System	Changing out meters and base stations	*	600.0	625.0	650.0	675.0	700.0
Fire Hydrants	New and replacement hydrants	*		115.0	115.0	115.0	115.0
Grant Projects	Construction Costs from Grant Projects	R	6,500.0	1,000.0			
System Rehab	Replace VFDs, PLCs, valves, equipment, RO membranes etc.	*	200.0	210.0	220.0	230.0	240.0
RO Plant	Replace actuator on Booster Pump #3			40.0			
TOTAL DISTRIBUTION SYSTEM			\$ 7,470.0	\$ 1,990.0	\$ 985.0	\$ 1,020.0	\$ 1,055.0
Facilities and Equipment							
SCADA Improvements	Upgrade Processors at Wild Horse & Seabrook	1	50.0	95.0	95.0	115.0	120.0
SCADA Improvements	Upgrade PLC and Fiber at Marshland	2	30.0				
SCADA Improvements	Ashmore Upgrades	3	30.0				
Operations Equipment - Sewer	Camera to inspect gravity sewer lines	4	80.0				
Operations Equipment	Enclosed trailer for safety equipment	5	10.0				
Vehicles	Fleet replacements	6	260.0	260.0	260.0	275.0	275.0
Admin Building	Building Improvements, furniture, etc.	*	30.0	35.0	40.0	45.0	50.0
Technology	General computer equipment	*	30.0	35.0	40.0	45.0	50.0
Admin Building - AC	Admin Building Cooling Tower	7			300.0		
Excavator	Mini Excavator				75.0		
TOTAL FACILITIES AND EQUIPMENT			\$ 520.0	\$ 425.0	\$ 810.0	\$ 480.0	\$ 495.0
TOTAL RATE/CASH FUNDED CIP PROJECTS			\$ 9,850.0	\$ 4,205.0	\$ 3,875.0	\$ 4,195.0	\$ 5,860.0
* These are ongoing projects to be performed and completed on an as needed basis. As such, they have not been given a ranking.							
R These projects are funded by reimbursements from the SCIP Grant and RIA State Grant in FY 2026. FY 2027 is expected to need to be funded from cash.							

**FY'26 Rate Related CIP Projects
Funded from User Fees**

Wastewater Treatment Plant

- Clarifier\$150,000**
 - Replace sweeper arm and suction line of clarifier #2.
- RAS Pump Building.....\$85,000**
 - Electrical cabinet improvements at the RAS pump building.
- Filter Building Blowers.....\$75,000**
 - Replace 6 actuator (air) valves.
- Reuse Water System.....\$100,000**
 - Replace flow meters, valves, and piping at Palmetto Hall, Cypress Conservancy, and Bear Creek.
- CROM Tank.....\$55,000**
 - Install an isolation valve on the CROM tank line.
- Holding Ponds.....\$50,000**
 - Replace 2 aerators in Holding Pond #3.
- System Rehab.....\$225,000**
 - Replace valves, actuators, motors, parts, etc.
- Total Wastewater Treatment Plant.....\$740,000***

WWTP (Amounts in 000's)	2026	2027	2028	2029	2030
Clarifier	150.0	-	-	-	-
Return Activated Sludge (RAS) Building	85.0	-	-	-	-
Filter Building Blowers	75.0	-	-	-	-
Reuse Water System	100.0	110.0	115.0	120.0	125.0
CROM Tank	55.0	-	-	-	-
Holding Ponds	50.0	-	-	-	-
System Rehab	225.0	250.0	275.0	300.0	350.0
Grit Removal Chamber	-	50.0	-	-	-
Mobile Belt Press	-	-	200.0	50.0	50.0
Centrifuge	-	-	250.0	-	-
Sludge Building	-	-	-	900.0	-
Warehouse/Garage	-	-	-	-	2,400.0
	\$ 740.0	\$ 410.0	\$ 840.0	\$1,370.0	\$2,925.0

Wastewater Collection System

- Gravity Main Line Refurbishment.....\$400,000**
- Reline 26” and 30” metal pipe in Indigo Run.
- Lift Station Rehab\$325,000**
- Major rehab and part replacements to PSD lift stations.
- Lift Station Control Panels\$105,000**
- Lift Station control panel replacements.
- District Funded MSP Projects.....\$0**
- This District anticipates carrying over enough from the FY’25 budget for this line item in FY’26 for continued funding of unserved MSP areas.
- LPS System.....\$65,000**
- Change out customer LPS pumps.
- System Rehab.....\$225,000**
- Replace equipment, pipes, manholes, laterals as dictated by inspections.
- Total Collection System\$1,120,000**

Collection System (Amounts in 000's)	2026	2027	2028	2029	2030
Gravity Main Line Refurbishment	400.0	400.0	400.0	450.0	450.0
Lift Stations - Rehab	325.0	350.0	375.0	400.0	425.0
Lift Stations - Control Panels	105.0	110.0	115.0	120.0	125.0
District Funded MSP Projects	-	25.0	25.0	25.0	25.0
LPS System	65.0	70.0	75.0	80.0	85.0
System Rehab	225.0	250.0	250.0	250.0	275.0
Royal James L/S	-	175.0	-	-	-
	\$ 1,120.0	\$1,380.0	\$1,240.0	\$1,325.0	\$1,385.0

Water Distribution System

Water Line Replacement.....\$170,000

- Replace 12” Ribaut Island Road water line.

Metering System.....\$600,000

- Change out customer meters. The District has over 13,700 water meters which equates to over 900 change outs a year assuming a 15-year lifespan.

Fire Hydrants\$0

- New hydrants and hydrant repairs/replacements. The District anticipates carrying over enough from the FY’25 budget for this line item in FY’26

Grant Projects\$6,500,000

- This represents and is offset by Capital Grant Income on the Statement of Revenues, Expenses, and Changes in Net Position and estimates 50% of the \$10,000,000 SCIIP Grant and 100% of the \$1,500,000 SC RIA State Grant for screw pump replacement.

System Rehab\$200,000

- Replace valves, pumps, piping, equipment, RO membranes, etc.

Total Distribution System\$7,470,000

Distribution System (Amounts in 000's)	2026	2027	2028	2029	2030
Water Line Replacement	170.0	-	-	-	-
Metering System	600.0	625.0	650.0	675.0	700.0
Fire Hydrants	-	115.0	115.0	115.0	115.0
Grant Projects	6,500.0	1,000.0	-	-	-
System Rehab	200.0	210.0	220.0	230.0	240.0
RO Plant	-	40.0	-	-	-
	\$ 7,470.0	\$1,990.0	\$ 985.0	\$1,020.0	\$1,055.0

Facilities and Equipment

- SCADA Improvements.....\$50,000**
 - Finalize the upgrade of the processors at Wild Horse & Seabrook sites.
- SCADA Improvements.....\$30,000**
 - Upgrade the PLC and Fiber at Marshland site.
- SCADA Improvements - Ashmore.....\$30,000**
 - Finalize the upgrade of SCADA systems at Ashmore site.
- Operations Equipment - Sewer.....\$80,000**
 - Camera to inspect gravity sewer lines.
- Operations Equipment.....\$10,000**
 - Enclosed trailer for safety equipment.
- Vehicles.....\$260,000**
 - Funding for three to five new fleet vehicles. Vehicle prices have risen dramatically during the past fiscal years and many governmental incentive programs have been reduced.
- Admin Building.....\$30,000**
 - General major repairs, furniture, and fixtures for the administrative building.
- Technology.....\$30,000**
 - General computer equipment.
- Total Facilities and Equipment.....\$520,000**

Facilities and Equipment (Amounts in 000's)	2026	2027	2028	2029	2030
SCADA Improvements	50.0	95.0	95.0	115.0	120.0
SCADA Improvements	30.0	-	-	-	-
SCADA Improvements	30.0	-	-	-	-
Operations Equipment - Sewer	80.0	-	-	-	-
Operations Equipment	10.0	-	-	-	-
Vehicles	260.0	260.0	260.0	275.0	275.0
Admin Building	30.0	35.0	40.0	45.0	50.0
Technology	30.0	35.0	40.0	45.0	50.0
Admin Building - AC	-	-	300.0	-	-
Excavator	-	-	75.0	-	-
	\$ 520.0	\$ 425.0	\$ 810.0	\$ 480.0	\$ 495.0

Total FY'26 Rate/Cash Funded CIP Projects \$9,850,000

NOTE: The District will also carry over any unfinished FY'25 CIP projects into FY'26 for completion.

Future Year Potential Debt or Grant Funded Projects

Staff has compiled the following list of larger projects that it may recommend financing with debt in years subsequent to FY'26. These projects would also be considered if any additional grant funding opportunities arise. The estimated project totals below are staff estimations only. The PSD would need to engage an engineer to provide a more accurate project total prior to commencing any of these projects. Some of these projects are also included on subsequent years of the Rate Funded CIP on the previous pages. If these were to be funded by other means, it would free up additional cash in those years.

CIP Projects - Potential WWTP Debt/Grant Projects (Amounts in 000's)		Est. Project Total
WWTP Warehouse & Garage	Replacement of Warehouse & Garage Buildings	\$ 2,400.0
WWTP Sludge Shed	Replace Sludge Building	900.0
WWTP UV Treatment System	Conversion to UV Filtration	1,500.0
WWTP Centrifuge	Purchase of Backup Centrifuge	1,500.0
Collections-Royal James Lift Station	Tank, Pump, and Site Upgrade	3,500.0
TOTAL		\$ 9,800.0

Additionally, the District also maintains the ability to purchase an additional 1.3 MG of capacity from BJWSA for \$2,015,000. If the District wanted to exercise this option, it would need to consider whether to fund that out of cash reserves or through another financing means.

These projects are not included in any of the cash flow projections and are provided for planning purposes only at this time. If staff were to consider it advantageous to move forward with any of these projects during FY'26, a separate financing plan would be brought forward to the Commission.

Cash Flow and Five-Year Projections

Cash Flow

The table below shows a summary of FY'24 actual cash flow, FY'25 projected cash flow, and FY'26 budgeted cash flow. Total cash is currently projected to increase by approximately \$15,441,800 for FY'25 and decrease by approximately \$9,451,100 for FY'26 mainly due to the receipt and use of the 2024 GO Bond proceeds. The Debt Capital Improvement Projects line item, which factors into Restricted Cash on hand for Debt Service, estimates the spend down of these projects; if these projects progress quicker or slower than estimated, these figures could change significantly. Unrestricted cash is projected to increase by approximately \$518,100 in FY'25 and increase by approximately \$288,700 in FY'26 after factoring out changes in the restricted GO cash.

Preliminary Cash Flow Projections	Actual FY 2024	Projected FY 2025	Budgeted FY 2026
Beginning Cash on Hand	\$ 14,589,300	\$ 16,205,300	\$ 31,647,100
(Projected) Change in Net Position	4,162,100	7,601,200	8,132,000
Less Financed Assessments Capacity and Tap Fees	(120,300)	(50,000)	(480,000)
Accrual Changes	50,400	-	-
Add Depreciation	5,215,500	5,422,500	5,550,000
Add Amortization / Bond Defeasance	325,500	209,200	-
Add Interest Expense	277,000	756,000	993,000
Add Assessment Collections	237,100	212,000	218,000
Less Use of Restricted Grant	-	(1,000,000)	-
Add Debt Proceeds	-	22,989,900	675,000
- Debt Payments including anticipated FY'26 FFA	(4,014,500)	(4,268,600)	(4,689,100)
- Debt Capital Improvement Projects	-	(5,460,400)	(10,000,000)
- Cash Capital Improvement Projects (transfer & additions)	(4,516,800)	(10,970,000)	(9,850,000)
(Projected) Cash on Hand	<u>\$ 16,205,300</u>	<u>\$ 31,647,100</u>	<u>\$ 22,196,000</u>
Composition of Cash	Actual FY 2024	Projected FY 2025	Budgeted FY 2026
Restricted Cash on hand for Debt Service	\$ 705,000	\$ 705,000	\$ 705,000
Restricted Cash on hand for Capital Grant/Debt Service	1,000,000	15,805,500	6,132,500
Restricted Cash on hand for Debt Service - GO Debt Levy	624,000	742,200	675,400
Unrestricted Cash	<u>13,876,300</u>	<u>14,394,400</u>	<u>14,683,100</u>
Total Cash on Hand	<u>\$ 16,205,300</u>	<u>\$ 31,647,100</u>	<u>\$ 22,196,000</u>
(Projected) Change related to Cash on Hand	<u>\$ 1,616,000</u>	<u>\$ 15,441,800</u>	<u>\$ (9,451,100)</u>

The actual FY'24 contains a line called accrual changes. The District uses the accrual method of accounting whereby revenues and expenses are recorded when earned or incurred rather than when paid. This line item reconciles the change in net position for accrual purposes to the cash received/paid. The FY'25 projection, FY'26 budget, and future year projections do not attempt to project these timing-related accrual differences. In particular, FY'25 CIP projects that are not completed by the fiscal year end, may be carried over into FY'26 for completion. The table above also does not attempt to project any cash flow related to debt financing of the infrastructure or future water supply projects shown on the previous page.

Cash Flow and Operating Reserve Targets

The District's Financial Policy for Unreserved and Reserved Funds states that "the District shall maintain unrestricted cash reserves equal to at least four months of the total budgeted operating expenses, net of depreciation, for the current fiscal year as an operating reserve fund. These funds shall be available in the District's general bank operating cash account and operating reserve investment and/or cash accounts and used for the purpose of floating the District's operations throughout each applicable Fiscal Year, which currently runs from July 1 to June 30." The policy further states that "to prepare for emergencies or contingencies, the target balance of operating reserve funds is six months to one year of the total budgeted operating expenses, net of depreciation. To increase the District's ability to fund capital expenditures on a pay as you go basis, the District may also target one to two years of annual depreciation expense in this reserve."

The emergency and contingency portion of this policy anticipates maintaining appropriate cash levels to ensure the District is poised to mitigate potential risks, handle cash flow timing variances, and take advantage of potential opportunities that may arise. Some examples of items that might necessitate use of this reserve include:

- Economic or social conditions which negatively impact the District's revenue.
- Self-funding repairs and replacements to the District's underground assets which were dropped by the South Carolina Insurance Reserve Fund.
- Self-funding repairs and replacements to uninsured lower value assets such as fences where insurance premiums are prohibitively high.
- Recovering from natural disasters or other emergency situations. While the District may receive FEMA or insurance reimbursement for such items, it is often necessary to pay the expenses up front and await reimbursement which may take many months.
- Emergency repairs to District assets caused by wear and tear that are not covered by insurance. While the District aims to preventatively plan for and budget routine maintenance, with such a large volume of high valued assets there is always a risk of unanticipated failure. This is particularly true for underground assets which cannot be inspected as frequently as above ground assets.
- The availability of matching funding to apply for grant opportunities as well as the ability to pay grant or otherwise reimbursable expenses up front and await reimbursement.

Staff would recommend funding this emergency reserve at its upper target 12-month level first and then applying any remaining unrestricted cash to the capital portion of the reserve. Having a fully funded emergency reserve lowers the likelihood of needing a mid-year or large year over year rate increase due to unusual or emergency situations. It also increases the District's ability to take advantage of opportunities that require up-front cash flow.

Funding the capital portion of this policy would allow the District to plan to pay for larger capital projects out of cash instead of needing a debt issuance for larger projects. The list of potential wastewater treatment plant debt projects on page 43 would be examples of the types of larger projects that could be funded by cash if the capital portion of this reserve were fully funded.

An analysis of the targets set by this policy and the anticipated unrestricted cash projected by this budget follow:

		Days	Balance Based
		Cash on	on FY'26
Financial Policy Targets:		Hand	Budget
Minimum Operating Reserve	4 Months	120	4,826,800
Lower Contingency Operating Reserve Target	6 Months	183	7,240,200
Upper Contingency Operating Reserve Target	12 Months	365	14,480,400
Lower Capital Operating Reserve Target	1 Year Depreciation	140	5,250,000
Upper Capital Operating Reserve Target	2 Years Depreciation	265	10,500,000
Combined Lower Contingency & Capital Target	6 Mo + 1 Year Deprec	322	12,490,200
Combined Upper Contingency & Capital Target	12 Mo + 2 Years Deprec	630	24,980,400
<i>Unrestricted Cash from Proposed FY'26 Operating Budget</i>		370	14,683,100
<i>Amount from the Proposed FY'26 Operating Budget Available for Capital if Contingency Reserve is set at Upper 12 Month Target</i>		5	202,700

Cash Flow and Five-Year Projections

Five-Year Projections

The table below provides a five-year projection of change in net position, cash flow, days cash on hand, and debt service. FY'25 and FY'26 are based on the current year projections and budget. Water and Sewer revenues for FY'26 – FY'29 are projected based on a 0.75% water and sewer customer growth rate; no additional rate increases are shown as a part of this projection. Other revenues and expenses are projected based on any known expectations and growth rates from 0-4% with most expense growth rates set at 2%. This projection is meant to be a high-level snapshot of the District's five-year financial position at current rates with current expectations only. Future year budgets and rates will be prepared and proposed based on the updated needs of the District at that time. This projection also does not include any impacts related to the potential debt or grant funded infrastructure or future water supply projects shown on page 43.

	Projected FY'25	Budget FY'26	Projection FY'27	Projection FY'28	Projection FY'29	Projection FY'30
Total Operating Revenue	\$ 16,071,600	\$ 17,377,000	\$ 17,476,000	\$ 17,575,800	\$ 17,676,300	\$ 17,777,600
Total Operating Expenses with Depreciation	18,831,900	20,030,400	20,390,400	20,761,200	21,143,200	21,536,800
Change in Net Position from Operations	(2,760,300)	(2,653,400)	(2,914,400)	(3,185,400)	(3,466,900)	(3,759,200)
Total Non-Operating Revenue	5,290,200	5,053,400	5,213,800	4,810,900	4,875,500	4,934,700
Total Non-Operating Expenses	1,140,400	1,038,000	971,000	921,400	868,500	803,700
Non-Operating Income/Expenses - Net	4,149,800	4,015,400	4,242,800	3,889,500	4,007,000	4,131,000
Increase in Net Position before Capital Contributions	1,389,500	1,362,000	1,328,400	704,100	540,100	371,800
Total Capital Contributions	6,211,700	6,770,000	270,000	270,000	270,000	270,000
Change in Net Position	\$ 7,601,200	\$ 8,132,000	\$ 1,598,400	\$ 974,100	\$ 810,100	\$ 641,800
Total CIP Budget Cash Flow	(10,970,000)	(9,850,000)	(4,205,000)	(3,875,000)	(4,195,000)	(5,860,000)
Add: Non Cash Depreciation Expense	5,422,500	5,550,000	5,550,000	5,550,000	5,550,000	5,550,000
Less: Debt Service Payments	(4,268,600)	(4,689,100)	(4,784,500)	(4,330,100)	(4,056,600)	(3,984,600)
Add: (Projected) Debt Proceeds	2,100,000	675,000				
Less: Restricted Bond Proceeds Interest	(536,700)	(327,000)				
Less: GO Cash Change	(118,200)	66,800				
Other Debt Related Adjustments	1,125,900	993,000	971,000	921,400	868,500	803,700
FFA Assessment, net	162,000	(262,000)	218,000	218,000	218,000	218,000
Total Non-CIP Other Cash Flow Adjustments	3,886,900	2,006,700	1,954,500	2,359,300	2,579,900	2,587,100
Projected Change in Unrestricted Cash Flow	\$ 518,100	\$ 288,700	\$ (652,100)	\$ (541,600)	\$ (805,000)	\$ (2,631,100)
Projected Beginning Unrestricted Cash	13,876,300	14,394,400	14,683,100	14,031,000	13,489,400	12,684,400
Projected Ending Unrestricted Cash	\$ 14,394,400	\$ 14,683,100	\$ 14,031,000	\$ 13,489,400	\$ 12,684,400	\$ 10,053,300
Projected Days Cash on Hand	392	370	345	324	297	230
Projected Net Earnings Available for Debt Service	6,537,800	6,261,000	6,054,900	5,839,900	5,615,700	5,381,900
Parity Revenue Debt Service	2,468,300	2,445,200	2,501,900	2,506,500	2,225,600	2,152,900
Projected Debt Coverage with Capacity Fees	265%	256%	242%	233%	252%	250%
Projected Debt Coverage without Capacity Fees	256%	245%	231%	222%	240%	237%

FY' 26 Schedule of Rates, Fees, and Deposits

<u>Water & Irrigation Monthly Base Rate per Unit:</u>		<u>Sewer Base Monthly Rate per Unit:</u>	
Residential Customers	18.25	Residential Customers	20.25
Commercial Customers	22.50	Commercial Customers	20.25
<u>Residential Water</u>		<u>Residential & Commercial Sewer</u>	
<u>Monthly Usage Rates per 1,000 Gallons:</u>		<u>Monthly Usage Rates per 1,000 Gallons:</u>	
Block 1 - 0 to 10,000 Gal	1.69	Residential sewer usage is capped at 10,000 gallons per month.	
Block 2 - 10,001 to 20,000 Gal	2.37	There is no cap on commercial sewer usage.	
Block 3 - 20,001 to 30,000 Gal	3.04	<u>Reclaimed Golf Course Irrigation</u>	
Block 4 - All Over 30,000 Gal	4.06	Non-pressurized Usage Rate per 1,000 Gallons	0.61
<u>Commercial Water & Irrigation</u>		Pressurized Usage Rate per 1,000 Gallons	0.91
<u>Monthly Usage Rates per 1,000 Gallons:</u>		<u>Meter Install Fees (Existing Service Line)</u>	
Block 1 - 0 to 10,000 Gal	1.69	3/4" Meter	1,360.00
Block 2 - 10,001 to 20,000 Gal	2.37	1" Meter	1,840.00
Block 3 - 20,001 to 30,000 Gal	3.04	2" Meter and Backflow	4,110.00
Block 4 - All Over 30,000 Gal	4.06	Any other size	Time & Materials
<u>Residential Irrigation</u>		<u>Meter Install Fees (No Existing Service Line)</u>	
<u>Monthly Usage Rates per 1,000 Gallons:</u>		3/4" Meter	Greater of Time & Materials or \$1,620.00
Block 1 - 0 to 10,000 Gal	2.37	1" Meter	Greater of Time & Materials or \$2,100.00
Block 2 - 10,001 to 20,000 Gal	2.37	Any other size	Time & Materials
Block 3 - 20,001 to 30,000 Gal	3.04	<u>Sewer Lateral Installation Fees</u>	
Block 4 - All Over 30,000 Gal	4.06	Greater of \$1,200 or Time & Materials	
<u>Other Fees & Charges</u>		<u>Capacity Fees (per unit):</u>	
Grease Trap Inspection Fee	100.00	Water Capacity (House)	2,400.00
Backflow Inspection Fee	175.00	Water Capacity (Mobile Home)	1,800.00
Sewer Connection Fee	150.00	Sewer Capacity	3,040.00
Hydrant Meter Set Fee	200.00	<u>Deposits:</u>	
Late Fees	Greater of \$5 or 2%	Residential Deposit	100.00
Returned Payment Fees	15.00	Contractor Deposit	100.00
Reconnection Fee	35.00	Commercial Deposit	200.00
Meter Tampering	50.00	<u>Hourly Labor Rate</u> for time and materials and for	
System/Meter Damage	Time & Materials	work performed for outside agencies	
			75.00