Holiday Island SID
Utility Rate Analysis

The compilation of this Utility Rate Analysis and other technical assistance is provided at no cost to the Holiday Island SID by Communities Unlimited through funding provided by the US Environmental Protection Agency

www.communitiesu.org

- October 31, 2024 -

COMMUNITIES Unlimited

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October 31, 2024

Larry Stamps, Chairman
Holiday Island SID
110 Woodsdale Drive
Holiday Island, AR 72631

Dear Mr. Stamps,

We are pleased to present you with this Utility Rate Analysis which was compiled using information derived from your current rate structures and your Fiscal Year 2024 (06/30/2024) financial statements. This assistance is provided to the Holiday Island SID at no cost through a technical assistance agreement with the US Environmental Protection Agency but we hope that you, your governing board, and your management team will find value in using this report as a tool to assist you in adjusting your rates.

Shown below is a summary of your current rates on the left and the proposed rates on the right. It is recommended that you consider implementing this rate adjustment on or before 10/01/2024. The proposed rates constitute an overall 7.00% increase from your Existing Average Combined Bill of $50.00 to the proposed Average Combined Bill of $51.50:

Residential Water -	Existing	**Proposed**	**Residential Sewer -**	**Existing**	**Proposed**
Minimum or Demand Rate:	$ 19.10	**$ 19.67**	Minimum or Demand Rate:	$ 12.00	**$ 12.36**
Volumetric Rate:	$ 7.70	**$ 7.93**	Volumetric Rate:	$ 4.85	**$ 5.00**
Average Monthly Residential Water Bill:	$ 28.84	**$ 29.70**	Average Monthly Residential Sewer Bill:	$ 20.36	**$ 20.98**

With the implementation of the proposed rates, the Holiday Island SID is proposed to increase their total cash by $950,429 to a projected fund balance of $3,579,041 by the end of 2028. Factors calculated for both this rate analyis, rate affordability, and the long-range projections include the following: Inflation Index-3.30%; Median Household (Monthly) Income-$4,328; Poverty Percentage-4.7%; Current Unemployment Rate to National Rate-2%; Affordability Factor (of Median Household Income)-2.0%; and, Calculated Maximum Affordable Monthly Bill of $86.56.

We appreciate this opportunity to work with the Holiday Island SID and understand that you may choose to have a more thorough rate analysis performed that benchmarks detailed customer usage patterns, other scenarios of debt retirement and new debt to be incurred, as well as additional multiple rate proposals. If you would like to discuss a more thorough analysis or additional proposals, Communities Unlimited has the capacity to provide this additional service on a fee-for-service basis. For more information on this or other services that we can provide to the Holiday Island SID, please contact me at 479-409-7424 or my supervisor, Arkansas State Coordinator Tonya Kendrix at 501-291-9229.

Sincerely,

Allen Spradling
CEMA

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TABLE OF CONTENTS

Holiday Island SID Utility Rate Analysis

October 31, 2024

SOURCE DOCUMENTATION

Utility System Data:

Residential Water -

Current Active Customer Count:	**1828**
Minimum or Demand Rate:	**$ 19.10**
Minimum Allowance (if applicable):	**1,500**
Volumetric Rate (if applicable):	**$ 7.70**

Residential Sewer -

Current Active Customer Count:	**1512**
Minimum or Demand Rate:	**$ 12.00**
Minimum Allowance (if applicable):	**1500**
Volumetric Rate (if applicable):	**$ 4.85**

Financial Data:

Date of Last Audit (or Compilation Report): **June 30, 2024**

Revenues -

Residential Water Service:	$	632,547
Residential Sewer Service:	$	369,378
Other Income:	$	345,008
Total Revenues:	**$**	**1,346,933**

Expenses -

Principal Installments:	$	292,213
Interest Installments:	$	72,344
Other Fixed Expenses:	$	609,620
Total Fixed Expenses:	**$**	**974,177**
Variable Expenses:	$	188,103
Total Expenses:	**$**	**1,162,280**

Fund Balance -

Fund Balance (July 1, 2023):	$	2,443,959
Net Change to Fund Balance:	$	184,653
Fund Balance (June 30, 2024):	**$**	**2,628,612**
Unrestricted Cash & Investments:	$	160,116
Restricted Cash & Investments:	$	2,468,496
	$	**2,628,612**

PAST AND CURRENT OPERATING RATIO ANALYSIS

2024 Fiscal Year Operating Ratio: **1.16** **2024 Fiscal Year Projected Operating Ratio:** **1.15**

1.10 or Greater: **Sustainable** - *The utility is generating the necessary Operating Revenues to cover not only current expenses but to also set aside reserve funds for the replacement or repair of major system components. Financially Sustainable utilities should continue to review the financial sustainability of the utiliity each year and be prepared to increase rates before the operating ratio is projected to drop below 1.10 .*

1.03 - 1.09: **Operational** - *The utility is generating the necessary revenues to adequately cover current operational expenses but may fall short in maintaining or aquiring the resources to adequately plan for the replacement or repair of major system components. Usually, utilities considered financially Operational should soon consider a small rate increase before financial viability is threatened .*

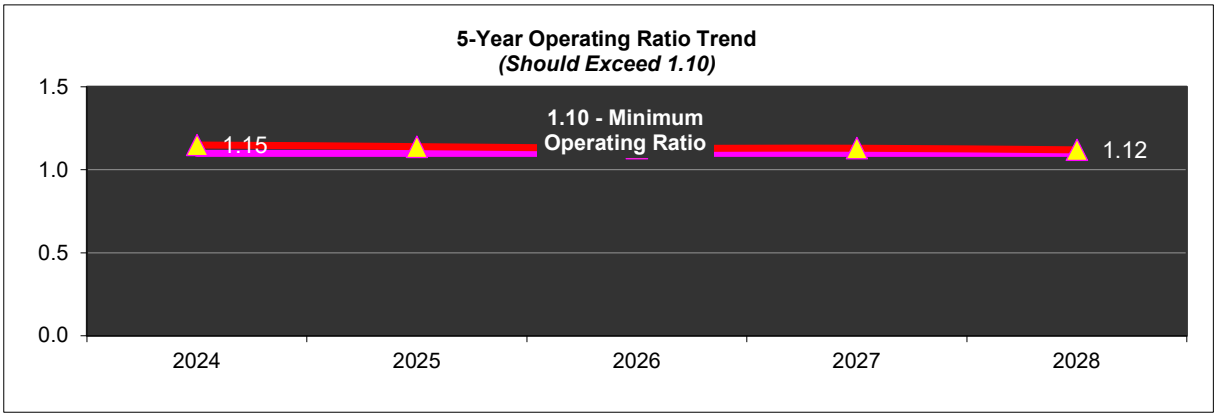
1.00 - 1.02: **Threatened** - *The utility is generating the necessary revenues to cover current operational expenses but may NOT be able to continue sustainable operations. Additionally, the utility can NOT expect to adequately plan for the replacement or repair of major system components. Usually, Utilities considered financially Threatened should implement a moderate rate increase as soon as possible.*

Less than 1.00: **Non-Sustainable** - *The utility is NOT generating the necessary revenues to cover operational expenses NOR is able to fund the replacement or repair of major system components without significantly depleting reserve funds. Financially Non-Sustainable utilities should significantly increase rates immediately .*

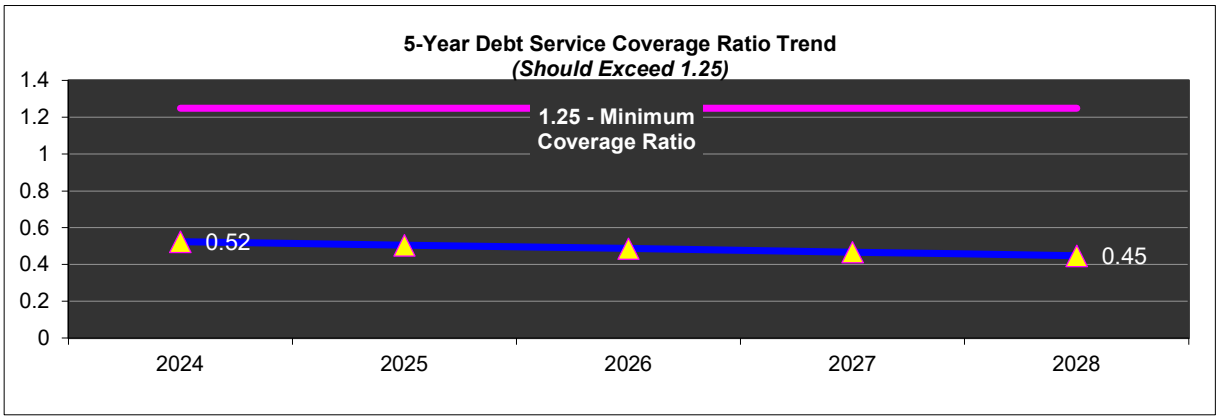
Holiday Island SID Utility Rate Analysis

LONG RANGE BUDGET ANALYSIS MAINTAINING EXISTING RATE STRUCTURES - *NO CHANGE*

	Current Fiscal Year - 2024	Fiscal Year 2025	Fiscal Year 2026	Fiscal Year 2027	Fiscal Year 2028
Revenues -					
Residential Water Service:	$ 632,547	$ 632,547	$ 632,547	$ 632,547	$ 632,547
Residential Sewer Service:	$ 369,378	$ 369,378	$ 369,378	$ 369,378	$ 369,378
Other Income:	$ 345,008	$ 345,008	$ 345,008	$ 345,008	$ 345,008
Total Projected Income:	**$ 1,346,933**	**$ 1,346,933**	**$ 1,346,933**	**$ 1,346,933**	**$ 1,346,933**
Expenses -					
Variable Expenses:	$ 201,267	$ 207,909	$ 214,770	$ 221,857	$ 229,179
Principal Installments:	$ 296,597	$ 301,046	$ 305,561	$ 310,145	$ 314,797
Interest Installments:	$ 67,961	$ 63,512	$ 58,996	$ 54,413	$ 49,761
Other Fixed Expenses:	$ 609,620	$ 609,620	$ 609,620	$ 609,620	$ 609,620
Total Projected Expenses:	**$ 1,175,444**	**$ 1,182,086**	**$ 1,188,947**	**$ 1,196,034**	**$ 1,203,356**
Operational Earnings:	**$ 171,489**	**$ 164,847**	**$ 157,986**	**$ 150,899**	**$ 143,577**
Projected Operating Ratio:	**1.15**	**1.14**	**1.13**	**1.13**	**1.12**



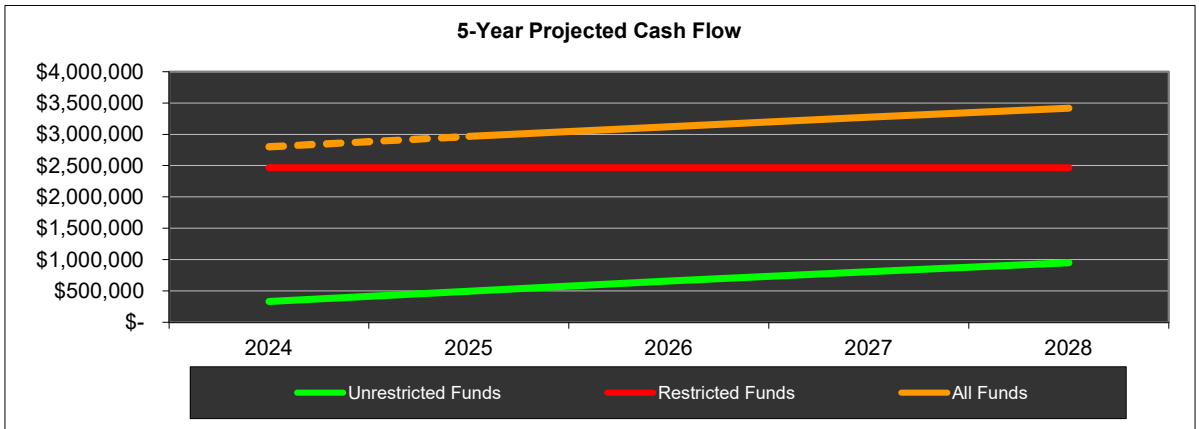
Projected Coverage Ratio:	**0.52**	**0.51**	**0.49**	**0.47**	**0.45**

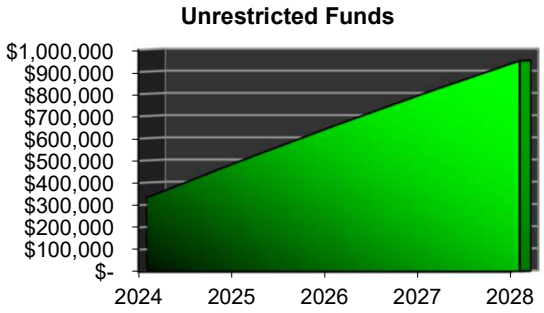


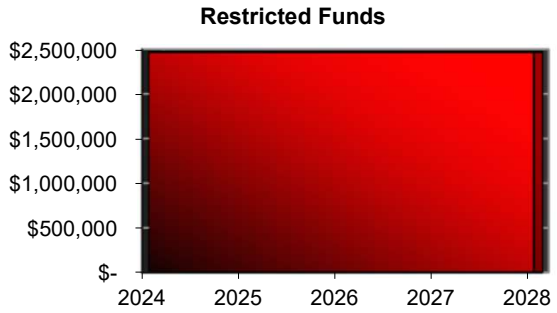
Holiday Island SID Utility Rate Analysis

LONG RANGE CASH FLOW ANALYSIS MAINTAINING EXISTING RATE STRUCTURES - *NO CHANGE*

	Current Fiscal Year - 2024	Fiscal Year 2025	Fiscal Year 2026	Fiscal Year 2027	Fiscal Year 2028
Operational Earnings:	**$ 171,489**	**$ 164,847**	**$ 157,986**	**$ 150,899**	**$ 143,577**
Financing and Construction Activities -					
Projected Loans:	$ -		$ -		$ -
Projected Grants:	$ -		$ -		$ -
Capital Outlay:	$ -	$ -	$ -	$ -	$ -
Cash from Financing and Construction Activities:	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Net Increase to Cash:	**$ 171,489**	**$ 164,847**	**$ 157,986**	**$ 150,899**	**$ 143,577**
Cash Beginning of Period:	$ 2,628,612	$ 2,800,101	$ 2,964,948	$ 3,122,933	$ 3,273,832
Net Increase (Decrease):	$ 171,489	$ 164,847	$ 157,986	$ 150,899	$ 143,577
Cash End of Period:	**$ 2,800,101**	**$ 2,964,948**	**$ 3,122,933**	**$ 3,273,832**	**$ 3,417,409**
Cash & Investments -					
Unrestricted Funds:	$ 331,604	$ 496,451	$ 654,437	$ 805,336	$ 948,913
Restricted Funds:	$ 2,468,496	$ 2,468,496	$ 2,468,496	$ 2,468,496	$ 2,468,496
Projected Fund Balance:	**$ 2,800,101**	**$ 2,964,948**	**$ 3,122,933**	**$ 3,273,832**	**$ 3,417,409**







OVERALL FINANCIAL SUSTAINABILITY ANALYSIS

Analysis of Current Financial Position

	Sustainable	Operational	Threatened	Non-Sustainable
Current Operating Ratio:	15			
Current Coverage:				0
Current Cash Flow:		10		
Current Financial Viability Rating:		25		
	34 - 45 76% or Higher	22 - 33 49% - 75%	11 - 21 24% - 48%	0 - 10 Less than 24%

Analysis of Long-Term Financial Position

	Sustainable	Operational	Threatened	Non-Sustainable
Long-Term Operating Ratio:	15			
Long-Term Coverage:				0
Long-Term Cash Flow:	15			
Long-Term Financial Viability Rating:		30		
	34 - 45 76% or Higher	22 - 33 49% - 75%	11 - 21 24% - 48%	0 - 10 Less than 24%

Overall Financial Viability Rating: 27.5 — OPERATIONAL

Urgency to Increase Rates: LOW

Extremely High	HIGH	Moderate	Low	None

GENERAL RECOMMENDATION:

Sustainable	*Systems which are considered to be financially Sustainable usually do not have to increase rates in the near-term but should review the rates on an annual basis to ensure that both operational funds and capital reserve funds are adequately funded and that the system is not in danger of falling below an Operating Ratio of 1.10.*
OPERATIONAL	***The current as well as long-term viability for the Holiday Island SID is considered to be financially Operational. The Operating Ratio is projected to drop to in which will cause a negative cash-flow of $171,489 and further deplete system reserves. It is recommended that the Holiday Island SID consider a rate increase soon.***
Threatened	*Systems which are considered to be financially Threatened are not generating enough revenues to cover more than two months of operational expenses. Additionally, capital reserve funds necessary for the repair / replacement of critical system components are not adequately funded and the system is at risk of depleting existing reserve funds. It is usually recommended that financially Threatened systems implement a moderate rate increase as soon as possible before the Operating Ratio falls below 1.10.*
Non Sustainable	*Systems which are considered to be financially Non-Sustainable are depleting reserve funds to cover operational expenses. Systems experiencing even brief periods of non-sustainable operations run the risk of deferring maintenance and at the least, not possess the capacity to feasibily plan for the repair / replacement of critical system components. Both of these resulting actions caused by financial non-sustainability will ultimately lead to serious regulatory compliance issues. It is usually recommended that Non-Sustainable systems implement a significant rate increase immediately.*

Holiday Island SID Utility Rate Analysis

PROPOSED NEW RATES

Overall Proposed Rate Increase: 3.0%

	Existing	Proposed
Residential Water -		
Minimum or Demand Rate:	$ 19.10	$ 19.67
Volumetric Rate:	$ 7.70	$ 7.93
Monthly Residential Water Bill:	$ 28.84	$ 29.70

	Existing	Proposed
Residential Sewer -		
Minimum or Demand Rate:	$ 12.00	$ 12.36
Volumetric Rate:	$ 4.85	$ 5.00
Average Monthly Residential Sewer Bill:	$ 20.36	$ 20.98

Existing Average Combined Bill $ 49.19 — $ 50.67 **Proposed Average Combined Bill**

(+$1.50)

Affordability -

The proposed increase of 3.0% more per month to an average monthly bill of is still within the affordability index of 2.0% of the annual Holiday Island SID Median Household Income of $51,938 ($86.56 per month).

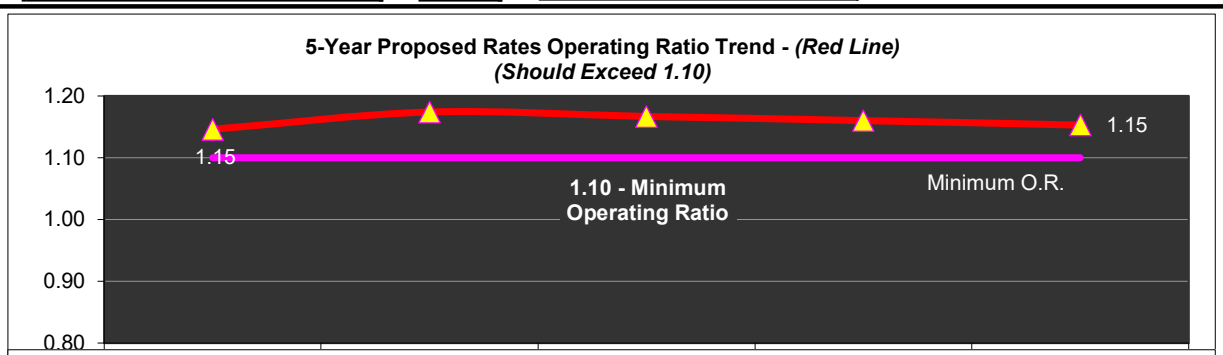
The affordability index of 2.0% was adjusted down to

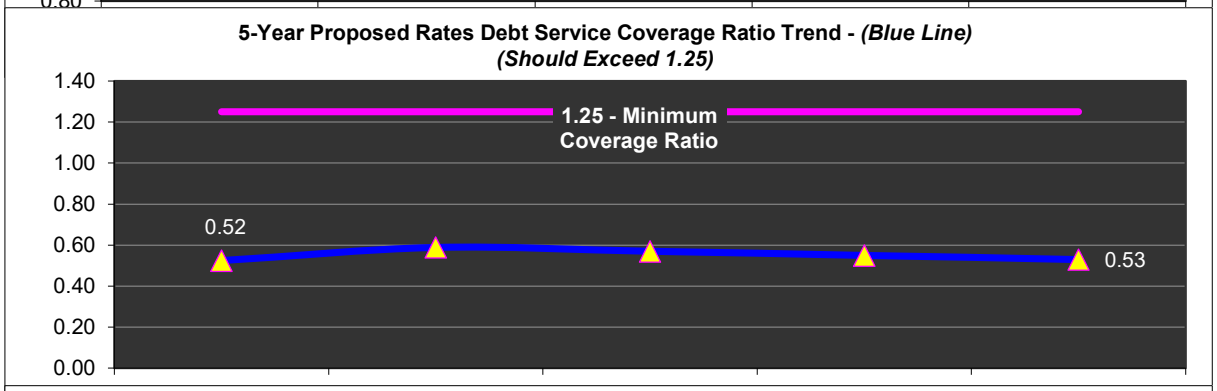
LONG RANGE BUDGET & CASH FLOW ANALYSIS - *Proposed New Rates*

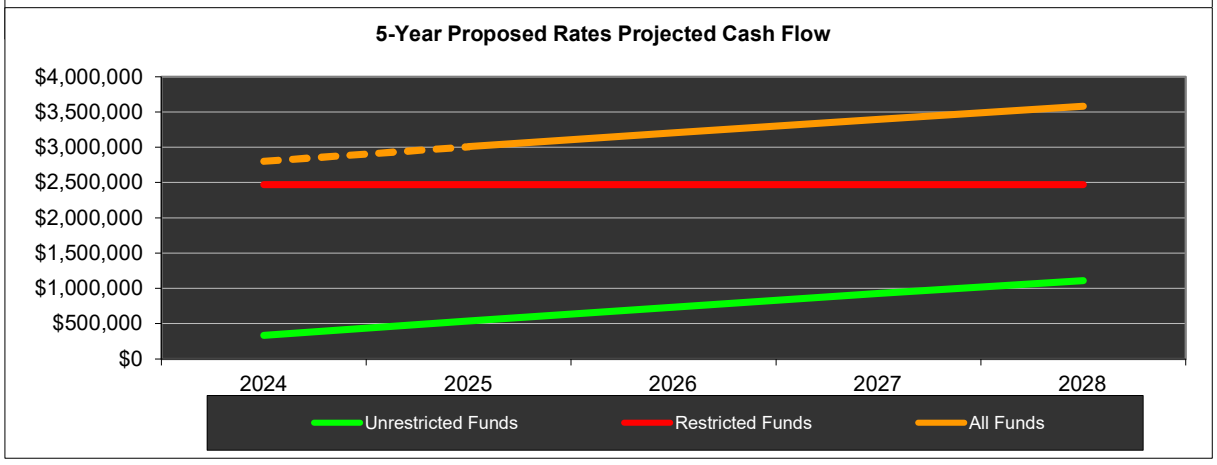
	Current Fiscal Year - 2024	Fiscal Year 2025	Fiscal Year 2026	Fiscal Year 2027	Fiscal Year 2028
Revenues -					
Residential Water Servi	$ 632,547	$ 651,523	$ 651,523	$ 651,523	$ 651,523
Residential Sewer Servi	$ 369,378	$ 380,460	$ 380,460	$ 380,460	$ 380,460
Other Income:	$ 345,008	$ 355,358	$ 355,358	$ 355,358	$ 355,358
Total Projected Income:	**$ 1,346,933**	**$ 1,387,341**	**$ 1,387,341**	**$ 1,387,341**	**$ 1,387,341**
Expenses -					
Variable Expenses:	$ 201,267	$ 207,909	$ 214,770	$ 221,857	$ 229,179
Principal Installments:	$ 296,597	$ 301,046	$ 305,561	$ 310,145	$ 314,797
Interest Installments:	$ 67,961	$ 63,512	$ 58,996	$ 54,413	$ 49,761
Other Fixed Expenses:	$ 609,620	$ 609,620	$ 609,620	$ 609,620	$ 609,620
Total Projected Expenses:	**$ 1,175,444**	**$ 1,182,086**	**$ 1,188,947**	**$ 1,196,034**	**$ 1,203,356**
Operational Earnings:	**$ 171,489**	**$ 205,255**	**$ 198,394**	**$ 191,307**	**$ 183,985**
Financing and Construction Activities -					
Projected Loans:	$ -	$ -	$ -	$ -	$ -
Projected Grants:	$ -	$ -	$ -	$ -	$ -
Capital Outlay:	$ -	$ -	$ -	$ -	$ -
Cash from Financing and	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Net Increase to Cash:	**$ 171,489**	**$ 205,255**	**$ 198,394**	**$ 191,307**	**$ 183,985**
Cash Beginning of Period:	$ 2,628,612	$ 2,800,101	$ 3,005,356	$ 3,203,749	$ 3,395,056
Net Increase (Decrease):	$ 171,489	$ 205,255	$ 198,394	$ 191,307	$ 183,985
Cash End of Period:	**$ 2,800,101**	**$ 3,005,356**	**$ 3,203,749**	**$ 3,395,056**	**$ 3,579,041**
Cash & Investments -					
Unrestricted Funds:	$ 331,604	$ 536,859	$ 735,253	$ 926,560	$ 1,110,545
Restricted Funds:	$ 2,468,496	$ 2,468,496	$ 2,468,496	$ 2,468,496	$ 2,468,496
Projected Fund Balance:	**$ 2,800,101**	**$ 3,005,356**	**$ 3,203,749**	**$ 3,395,056**	**$ 3,579,041**

SUSTAINABILITY COMPARISION OF EXISTING RATES TO PROPOSED RATES

	2024	2025	2026	2027	2028
Current Rates Operating Ratio:	1.15	1.14	1.13	1.13	1.12
Proposed Rates Operating Ratio:	1.15	1.17	1.17	1.16	1.15
Current Rates Coverage Ratio:	0.52	0.51	0.49	0.47	0.45
Proposed Rates Coverage Ratio:	0.52	0.59	0.57	0.55	0.53
Current Rates Fund Balance:	$2,800,101	$2,964,948	$3,122,933	$3,273,832	$3,417,409
Proposed Rates Fund Balance:	$2,800,101	$3,005,356	$3,203,749	$3,395,056	$3,579,041
Current Rates Viability / Score:	27.5	OPERATIONAL			
Proposed Rates Viability / Score:	43	SUSTAINABLE			







Notes

1. The Holiday Island SID provided Communities Unlimited (CU) with the minimal source documentation necessary to complete this rate analysis. Among the information provided included the Holiday Island SID Monthly Financial Report for the year-ending June 30, 2024 compiled by N/A. Information included in this financial report including the year-ending cash balances (restricted and unencumbered), revenues generated by utility rates, other revenues and income, expenses (excluding depreciation expense), and debt service including existing prinicipal and interest note payments was intregral in analyzing the impact of the Holiday Island SID's existing rate structures.

2. U.S. Census Data from the 2022: ACS 5-Year Estimated Data Profiles was obtained to determine the Holiday Island SID's estimated service area Median Household Income of $51,938, a Poverty Rate of 4.7%, and an Local Unemployment Comparison to the national average of 1.7%. The standard affordability index of 2.0% for one utility service was adjusted down to

3. Historical growth in the number of the Holiday Island SID Water System customers over the last five years, (since 2019), was calculated at 4.0% (or 0.79% per year). This 0.79% percentage factor is projected as future annual growth in revenues over the next five years for the Holiday Island SID

4. A detailed cost analysis was not performed but rather the Holiday Island SID's audited expenses were calculated at 24% variable expenses ($201,267 excluding debt service in 2023) and 76% fixed expenses ($631,445 plus $364,557 in existing debt service). An annual inflation factor of 3.30% was used in projecting increases in future variable expenses.

Disclaimer

The accuracy of future projections with any financial analysis depends upon not only using accurate source data but can also be influenced by other factors which could significantly effect current and long-term projections. Other factors include unanticipated exceptional increases in operating costs, increased O&M system repair and rehabilitation needs, decline in customer population, and the significant slowing of customer water meters. All of which may negatively impact current and long-term financial projections. Additionally, inaccurate source documentation obtained from the Holiday Island SID may also negatively impact projections. As such, Communities Unlimited and its Federal and/or State Contracting Agencies offers NO warranty or guarantee related to the projections contained herein this analysis.

COMMUNITIES Unlimited

October 31, 2024

COMMUNITIES Unlimited
Rural Community Assistance Program

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Holiday Island SID
Asset Management Plan

Inventory of System Assets:

The following table represents the short-lived assets of the Holiday Island Suburban Improvement District utility systems. These components have a normal life expectancy of 1-5 years; 5-10 years; or 10-15 years. Line replacement falls in a category of more than 15 years, and while there is a need to save funds towards these replacements, that amount is not included in the asset management plan. Replacement costs were obtained by research of a water line replacement project under construction and through the internet.

Asset Type	Year Installed	Useful Life - Vendor Specified	Anticipated Date of Replacement	Number of Units Installed	Replacement Cost Per Unit	Total Replace Cost	Annual Maintenance Cost
Water Meters	Before 2015	15-20 Years	By 12/31/2029	457 (25% of 1828)	$151.62	$71,369.06	$14,273.81
SCADA System Premiums	N/A	8-15 Years	Annually	1	N/A	$15,550.00	$3,110.00
Work Truck	N/A	5-15 Years	By 12/31/2029	1	$68,243.00	$70,290.29	$14,058.06
Totals						**$157,209.35**	**$31,441.87**

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ASSET TYPE	Score	PROJECTED CONSEQUENCE OF FAILURE
Water Meters (Radio Read)	5	Water meters have an efficiency lifespan of 10 to 15 years. After that the unregistered water flow correlates into lost revenues. This can show a loss of 10% or more on the unaccounted water loss report. The Arkansas Department of Health has set a goal of less than 15% water loss for a PWS.
SCADA System Upgrades	4	SCADA systems enable remote monitoring and control of processes in real-time providing early warnings of potential problems and reducing the need for manual intervention. This allows operators to quickly identify and resolve problems, thereby reducing downtime and increasing productivity and quality.
Work Truck	5	Reliable transportation vehicles are necessary to allow for quick response to emergencies and the safety of workers traveling to and from worksites.

CONDITION OF ASSET SCORING

Excellent (1-2)		Good (3-4)		Moderate (5-6)		Poor (7-8)		Critical (9-10)	
Asset is like new, fully operable, well maintained, and performs consistently at or above current standards. Little wear shown and no further action required.		Asset is sound and well maintained but may be showing some signs of wear. Delivering full efficiency with little or no performance deterioration. Virtually all maintenance is planned preventive in nature. At worst, only minor repair might be needed in the near term.		Asset is functionally sound, showing normal signs of wear relative to use and age. May have minor failures or diminished efficiency and some performance deterioration. Likely showing modest increased maintenance and/or operations costs. Minor to moderate refurbishment may be needed in the near term		Asset functions but requires a sustained high level of maintenance to remain operational. Shows substantial wear and is likely to cause significant performance deterioration in the near term. Near term scheduled rehabilitation or replacement needed.		Effective life exceeded and/ or excessive maintenance cost incurred. A high risk of breakdown or imminent failure with serious impact on performance. No additional life expectancy; immediate replacement or rehabilitation needed.	
1	2	3	4	5	6	7	8	9	10

Source: www.epa.gov

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Schedule for Replacement:
During assessments conducted with the Holiday Island Suburban Improvement District, the above outlined water assets were identified. The system has 1828 water connects that contain water meters. The system only changes meters as necessary but should account for a total change out over time. A meter change-out policy would account for 457 meters being changed out during the next five years. Replacement of the meters in 5 years, including inflation cost is $71,369.06. The annual cost would be $14,273.81 or $1,189.48 per month to put in a reserve account to replace the meters.

The Holiday Island Suburban Improvement District currently has a SCADA system for the water treatment plant. The cost of premiums in 5 years is $15,550.00 or $3,110.00 per year. The system would need to budget $259.17 of savings each month to meet the required cost.

The Holiday Island Suburban Improvement District intends to replace one work truck in the next five years. The cost in 5 years including inflation is $70,290.29 or $14,058.06 per year. The system would need to budget $1,171.51 of savings each month to meet the required cost.

Overall, the total replacement cost for the water assets listed totals $157,209.35. The system would have to budget $31,441.87 dollars each year or $2,620.16 each month for 60 months to prepare for water asset replacements and maintain operational health of the system.

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To: Holiday Island SID

WE are pleased to present you with your 2024 rate study. The information to develop this rate study was gathered through the information posted on the Holiday Island website, emails, and through conversations with personnel connected to the water/wastewater system.

The rate study proposes a 3% rate increase to cover the cost of inflation, maintenance, and repairs.

Please take note that this rate study does not meet the Arkansas Act 605 timeline for submittal for a water system that has over 1000 customers. The timeline for Holiday Island submittal is July 1, 2026.

Communities Unlimited was happy to help with this rate study. If your system has any other technical assistance needs in the future, please let us know.

Thank you,
Allen Spradling