ISLE OF PALMS WATER & SEWER COMMISSION

FINAL WATER AND SEWER RATE REPORT

June 25, 2025

Adopted June 18, 2025

CONFLUENCE
Consulting, LLC

EXECUTIVE SUMMARY

As part of its annual financial and capital planning, the Isle of Palms of Palms Water and Sewer Commission (Commission) asked Confluence Consulting, Inc. (Confluence) to update its five-year financial forecast (Financial Forecast) and evaluate the financial and customer impacts of its on-going operations and financial plan. In fiscal year (FY) 2025, the Commission completed the Forest Trails WWTP expansion project and the construction of the new pump station at Wild Dunes that diverts wastewater flows from the Wild Dunes WWTP which was decommissioned in May of 2025. The Commission began the Forest Trails WWTP expansion project in 2022 after the City of Isle of Palms (City) issued $16.1 million in the Series 2020 Water and Sewer Revenue Bonds (Series 2020 Bonds) to fund the project. Inflationary factors and supply chain challenges in 2021 resulted in significantly higher than anticipated building materials and other construction related costs, and since FY 2023 the Commission has used a combination of higher than anticipated rate increases, grant funding, and available cash balances to fund the incremental capital costs. The recommended FY 2026 rate increases represent more typical inflationary level rate increases as the Commission begins the process of building its cash reserves back up.

This water and sewer rate report (Rate Report) summarizes the Commission's existing utility rate structures, provides an updated five-year forecast of utility rate adjustments, and recommends water and sewer rates for the Commissioners to consider for implementation in FY 2026.

1. Existing Water & Sewer Rate Structures

The current water and sewer rate structures have been in place for many years and the billing system segregates the approximately 4,752 water and 2,831 sewer accounts into 116 different rate codes.[1] The water and sewer rate structures are similar as both consist of three basic charge components which include 1) fixed monthly basic facility charges (BFCs), tiered volumetric charges that increase as the customer's consumption increases, and tiered surcharges that increase as the customer's consumption increases.

A. Basic Facilities Charges (BFCs)

Table E-1 below presents the current FY 2025 water and sewer BFCs assessed to the various rate codes based on billing groups which are defined based on equivalent residential units (ERU), customer class, and/or meter size. It should be noted that the rate structure assesses BFCs to the pool rate codes and master metered (multi-family/resorts) residential rate codes based on the number of ERU assigned to an

[1] For the purposes of this rate analysis, the number of water and wastewater accounts served by the Commission are estimated based on the accounts billed during FY 2025. These accounts represent only those accounts that are billed user rates and charges, which excludes private fire line accounts, non-billable IOPWSC accounts, and certain grandfathered accounts. For this reason, the estimated utility accounts in this rate analysis are not necessarily consistent with the number of accounts presented in the monthly Manager's Report.

individual account, as determined by Commission staff and based on South Carolina Department of Health and Environmental Control (DHEC) wastewater contributory loading standards.[2]

Table E-1: Water and Sewer Basic Facilities Charges

Billing Group (1)	Category	Water Monthly Charge	Sewer Monthly Charge	Charge Ratio (2)
1	Residential and <1-inch meters	$ 19.20	$ 42.60	1.00
2	1-inch	$ 38.90	$ 81.65	2.02
3	1.5-inch	$ 71.60	$ 149.25	3.72
4	2-inch	$ 129.80	$ 270.65	6.75
5	3-inch	$ 241.50	$ 505.00	12.56
6	4-inch	$ 388.40	$ 809.50	20.20
7	6-inch	$ 743.00	$ 1,528.00	38.65

(1) The BFC for the residential and less than 1-inch meter assumes the base level of capacity required to serve one (1) ERU. For pools and master metered residential customers which are included in Billing Group 1, the BFC assessed per account is based on the number of ERUs assigned to that account multiplied by the BFC for one ERU, or $19.20 for water.

(2) Charge ratios presented in this table reflect the proposed water basic facilities charges. Charges for meter sizes greater than 6-inch have been negotiated.

B. Volumetric Charges and Penalty Surcharges

The Commission also assesses volumetric charges and penalty surcharges to customers based on the monthly amount of metered water use per units of 1,000 gallons. Both the volumetric charges and penalty surcharges are tiered block rates that price water and sewer at increasingly higher per unit charges as the customer's usage increases. Increasing tier volumetric charges are considered conservation rates that encourage efficient use of water resources as they focus on discouraging wasteful and inefficient use.

The water and sewer volumetric charge structures include five (5) increasing block volumetric charges assessed to customers based on water and sewer usage intervals and the demand characteristics of the six different billing group categories. The lowest tier one volumetric charge is assessed to the different billing groups based on increasingly higher tier one usage intervals that reflect higher base demands for higher use commercial customers with larger meters. Each subsequent tier (2 through 5) interval reflects the next 9,000 gallons of water and sewer usage for that billing group. The additional penalty surcharges are assessed for customer water usage above the tier one usage intervals.

Table E-2 summarizes the current increasing water tier block volumetric charges and penalty surcharges assessed based on usage interval for each of the water billing groups.

[2] The existing billing codes and rate structures refer to pool and multifamily equivalent residential units (ERU) as equivalent living units (ELU). To be consistent with DHEC and accepted industry terminology, this Rate Report will use the term ERU.

Table E-2: Water Volumetric Charges and Penalty Surcharges by Usage Interval

Usage	Volume Charges	Surcharges	Consumption in 1,000 gallons					
			Billing Groups					
			1	2	3	4	5	6
Tier 1	**$ 4.35**	**$ 0.00**	0-9	0-18	0-54	0-80	0-193-	0-326-
Tier 2	**$ 5.30**	**$ 2.50**	10-18	19-27	55-63	81-89	194-202	327-335
Tier 3	**$ 6.10**	**$ 3.00**	19-27	28-36	64-72	90-98	203-211	336-344
Tier 4	**$ 6.70**	**$ 3.70**	28-36	37-45	73-81	99-107	212-220	345-353
Tier 5	**$ 8.75**	**$ 5.50**	>36	>45	>81	>107	>220	>353

Table E-3 summarizes the current increasing sewer tier block volumetric charges and penalty surcharges assessed based on usage interval for each of the sewer billing groups.

Table E-3: Sewer Volumetric Charges and Penalty Surcharges by Usage Interval

Usage	Volume Charges	Surcharges	Consumption in 1,000 gallons					
			Billing Groups					
			1	2	3	4	5	6
Tier 1	**$ 7.85**	**$ 0.00**	0-9	0-18	0-54	0-80	0-193	0-326
Tier 2	**$ 9.65**	**$ 3.00**	10-18	19-27	55-63	81-89	194-202	327-335
Tier 3	**$ 10.95**	**$ 3.65**	19-27	28-36	64-72	90-98	203-211	336-344
Tier 4	**$ 13.40**	**$ 4.90**	28-36	37-45	73-81	99-107	212-220	345-353
Tier 5	**$ 17.05**	**$ 6.00**	>36	>45	>81	>107	>220	>353

2. Annual Revenue Requirements Forecast

The total annual costs for a water and sewer utility to provide services to its customers are referred to as the utility's annual revenue requirements. Revenue requirements include the utilities annual operating and maintenance (O&M) expenses and its annual capital expenditures. It is typical practice for government-owned utilities to recover revenue requirements that are determined on a cash-needs approach, with an objective to provide revenues sufficient to recover the total cash requirements during an annual period.

A. Operating and Maintenance

The forecast of water and sewer O&M during the five-year forecast period is based on the approved FY 2026 Operating Budget, which serves as the base year of the forecast. The FY 2026 O&M expenses are forecasted to escalate based on anticipated annual increases in personal costs (salaries and benefits) of 5.0%, power and chemicals of 5.0%, anticipated water purchases from Charleston Water System (CWS) of 2.5%, and inflation of 2.5% for all other recurring O&M expenses. The Commission categorizes its O&M expenses into nine (9) operating departments which include the following:

- Billing & Collection – Water
- Administration & General – Water
- Water Treatment – Water
- Transmission & Distribution – Water
- Source of Supply – Water
- Billing & Collection – Sewer
- Administration & General – Sewer
- Wastewater Treatment – Sewer
- Collection – Sewer

The annual O&M expenses are forecasted to range from the $4.0 million budgeted in FY 2026 to $4.6 million in FY 2030. Table E-4 presents the annual forecast of water and sewer O&M expenses during the five-year planning period.

Table E-4: Forecasted Annual Utility Operating & Maintenance Expenses

	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
Water	$ 2,235,892	$ 2,297,489	$ 2,350,874	$ 2,436,387	$ 2,525,375
Sewer O&M	$ 1,799,426	$ 1,871,322	$ 1,927,184	$ 2,005,561	$ 2,087,408
Total O&M	**$ 4,035,318**	**$ 4,168,811**	**$ 4,278,058**	**$ 4,441,949**	**$ 4,612,783**

B. Capital Expenditures

Because the Commission faces capital improvements that will require a significant use of available unrestricted cash balances, one of the objectives of the rate analysis is to integrate capital planning needs into the process of developing an appropriate five-year program of utility rates and charges, and to assess the impact of the capital needs over the five-year planning period.

Water Capital Improvements

The Commission is required to make total capital payments of nearly $2.5 million during the planning period for its portion of the annual improvements for its contract capacity with the Charleston Water System (CWS). The water CIP also includes several improvements to the Commission's distribution system, including hydrants, water line improvements for looping and increased capacity, and replacing smaller diameter lines with larger lines. There are also planned replacements of instrumentation and membranes at the Reverse Osmosis WTP. The total costs of the five-year water CIP are approximately **$15.2 million**.

Sewer Capital Improvements

To increase wastewater treatment efficiencies and consolidate all its treatment services at the newer Forest Trails WWTP, on November 1, 2024 the Commission completed the expansion of the Forest Trails WWTP to 1.4 MGD and the new pumping station at the Wild Dunes WWTP to divert existing flows to the expanded Forest Trails WWTP, with the decommissioning of Wild Dunes taking place on May 14, 2025. The sewer CIP also includes annual improvements to the Commission's collection system, including installing a gravity sewer main in Basin N and upgrading electrical systems. The total costs of the five-year sewer CIP are approximately **$5.0 million**.

Financing Plan

Generally, the Commission utilizes four different financing methods which includes cash from rates, impact fee funds, debt, and grant funded capital. Cash from rates includes the accumulated operating reserves and annual cash reserves generated through monthly rates and charges while impact fee funds represent annual and accumulated balances of impact fee collections. Debt financing, which generally includes revenue bonds and/or SRF Loans for water and sewer, are typically limited to the larger and more expensive projects such as treatment capacity and major infrastructure needs to be met immediately, while spreading out costs over 20 years. The City and Commission issued 20-year revenue bonds to finance capital improvement costs for the Forest Trails WWTP expansions, with $4.4 million obtained through Federal Emergency Management Agency (FEMA) grant funds. The remaining sewer capital improvements will be funded through a combination of cash from rates ($1.4 million), impact fee funds ($1.0 million), and grant funding available through ARPA for the gravity sewer main in Basin N.[3] Approximately $15.2 million in water capital improvements will be funded through a combination of cash from rates ($14.4 million) and impact fee funds ($781,000).

Since the Commission issued debt to fund a significant portion of the Sewer CIP, annual debt service is incorporated as part of the analysis based on actual scheduled debt service payments on the $16.1 million 2020 Series Revenue Bonds. The recently issued Series 2020 Revenue Bonds have a 20-year term and an annual interest rate of 1.72%.[4]

Table E-5 provides the forecast of existing annual debt service requirements for the Commission's utility debt issues. At this time, no additional debt is anticipated to be issued during the five-year forecast period. Since the proceeds from the existing and proposed bonds fund improvements to the Forest Trails WWTP, all the debt service payments are included in the sewer revenue requirements.

Table E-5: Forecast of Annual Debt Service Requirements

Annual Debt Service Payments	**FY 2026**	**FY 2027**	**FY 2028**	**FY 2029**	**FY 2030**
Series 2020 Revenue Bonds - Proposed	977,000	975,250	976,875	976,750	974,875
TOTAL DEBT SERVICE PAYMENTS	**$ 977,000**	**$ 975,250**	**$ 976,875**	**$ 976,750**	**$ 976,875**

C. Revenue Sufficiency and Recommended Rate Revenue Adjustments

To evaluate whether revenues under existing rates would be adequate, or sufficient to recover the projected revenue requirements over the five-year planning period, revenues were estimated under the existing FY 2025 water and sewer user rates and charges assuming annual growth in new accounts and

[3] The initial bids to install the gravity sewer in Basin N came in well above the construction costs projected by engineering estimates. Based on these increased construction costs, the Commission may delay or eliminate the Basin N Gravity Sewer project.

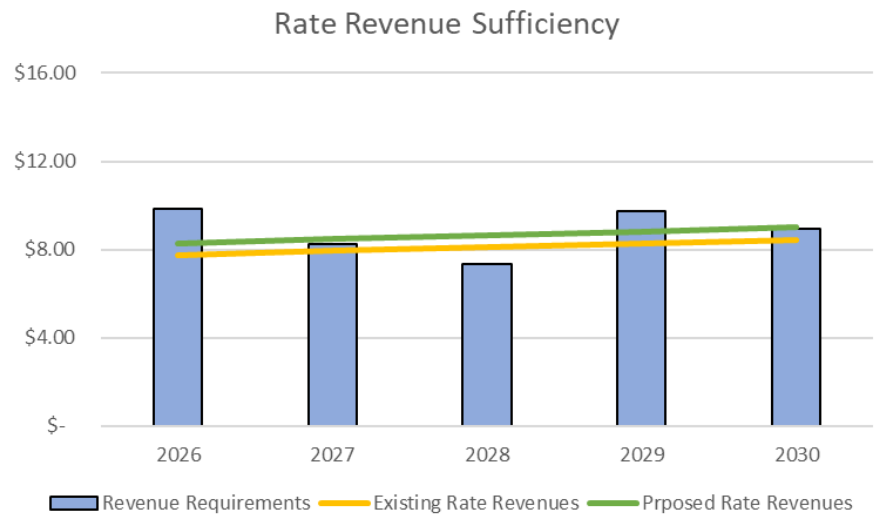
[4] The interest rate represents the True Interest Cost.

projected metered water use. (For more information on anticipated customer growth and demand, see Tables 1 and 2 on page 4.)

Forecasted revenue are then compared to the annual revenue requirements of the water and sewer systems. This analysis indicates that with the annual debt service and rate funded capital projects, customer demand and existing user rates and charges are not sufficient to recover the annual revenue requirements for the water and/or sewer system during each year of the planning period. The revenue deficiencies are anticipated in FY 2026 and FY 2029 as the Commission draws from its unrestricted cash balances to fund capital projects in those fiscal years yet contributes to the unrestricted cash balances in other fiscal years to the extent that the overall effect is an increase in cash balances during the planning period. This assumes annual rate increases to maintain minimum unrestricted cash balances during the planning period. Specifically, water and sewer rates are anticipated to need annual inflationary increases of 2.0% in each fiscal year of the forecast period.

The estimated annual revenue sufficiency/deficiency under the existing water and sewer rates and the proposed five-year program of sewer rate adjustments to address projected revenue deficiencies are shown in Chart E-1 below.

Chart E-1: Utility Revenue Sufficiency Under Recommended Rate Adjustments ($ in millions)



Annual Rate Revenue Adjustments	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
Water Rate Revenues	2.05%	2.00%	2.00%	2.01%	2.02%
Sewer Rate Revenues	1.98%	2.01%	2.01%	2.01%	2.01%
Combined Rate Revenues	2.01%	2.00%	2.01%	2.01%	2.02%
Forecasted Debt Coverage	**5.03x**	**5.10x**	**5.17x**	**5.20x**	**5.24x**

D. Debt Coverage and Unrestricted Cash Reserves

Two key measures of a utility's financial strength are its debt service coverage ratio and its cash liquidity, or available cash on hand. The debt service coverage ratio measures the utility's performance in generating sufficient operating revenues to cover its debt service obligations. The second key measure of a utility's financial health, cash liquidity provides a measure of the utility's available reserves to maintain operations, fund ongoing investments, and to respond to fiscal uncertainties, should they arise. Based on its Financial Policies Document, the Commission has a debt coverage target of 2.0x and unrestricted cash reserves on hand target equal to at least 360 days of annual O&M expenses.

Even after completing the Forest Trails WWTP expansion project, the Commission's current cash reserves represent 495 days of its current O&M expenses, which is over 1.35 times the recommended 360 days cash on hand minimum target. The Commission utilized these cash reserves to fund rate and cash funded capital projects while still maintaining the 2.0X debt coverage target during the five-year forecast period. This allowed the Commission to meet its operating and capital needs while continuing to mitigate the impact of the Forest Trails WWTP expansion on customer rates.

3. Proposed FY 2026 User Rates & Charges

Based on projected revenue requirements, rate increases of approximately 2.0% for both water and sewer are assumed in each fiscal year in the forecast. The FY 2026 water and sewer recommended rate increases mark a shift to more inflationary annual increases after several years of more substantial rate increases to maintain unrestricted cash balances. The increases to the water and sewer rates are recommended to generate approximately $82,000 and $78,000 in additional water and sewer user rate revenues respectively in FY 2026.

Table E-6 presents the current FY 2025 and proposed FY 2026 monthly water BFCs for the various billing groups which generally reflect customers with different meter sizes.

Table E-6: Current and Proposed FY 2026 Water Basic Facilities Charges

Billing Group	Meter Size	Current 2025	Proposed 2026	Increase
1	3/4" (1)	**$ 19.20**	**$ 19.55**	$ 0.35
2	1"	**$ 38.90**	**$ 39.70**	$ 0.80
3	1.5"	**$ 71.60**	**$ 73.00**	$ 1.40
4	2"	**$ 129.80**	**$ 132.40**	$ 2.60
5	3"	**$ 241.50**	**$ 246.35**	$ 4.85
6	4"	**$ 388.40**	**$ 396.20**	$ 7.80
7	6"	**$ 743.00**	**$ 757.85**	$ 14.85

(1) The BFC for Billing Group 1 is also applied for to each ERU assigned to a customer. Pools and multi-family residential (hotels, condominiums, resorts, etc.) are assigned ERUs and are included in Billing Group 1.

Table E-7 presents the current FY 2025 and proposed FY 2026 water volumetric charges and penalty surcharges assessed per 1,000 gallons of monthly water use. While these volumetric charges and surcharges are assessed to all billing groups, the increment or usage tier a particular customer is assessed these charges depends on the billing group to which that customer belongs.

Table E-7: Current and Proposed FY 2026 Water Volumetric and Penalty Surcharges (per 1,000 gallons)

	Current FY 2025		Proposed FY 2026		Increase	
Usage Tier	Volumetric Charges	Penalty Surcharges	Volumetric Charges	Penalty Surcharges	Volumetric	Surcharge
Tier 1	$ 4.35	N/A	$ 4.45	$ -	$ 0.10	$ -
Tier 2	$ 5.30	$ 2.50	$ 5.40	$ 2.55	$ 0.10	$ 0.05
Tier 3	$ 6.10	$ 3.00	$ 6.25	$ 3.05	$ 0.15	$ 0.05
Tier 4	$ 6.70	$ 3.70	$ 6.85	$ 3.75	$ 0.15	$ 0.05
Tier 5	$ 8.75	$ 5.50	$ 8.95	$ 5.60	$ 0.20	$ 0.10

Table E-8 presents the current FY 2025 and proposed FY 2026 monthly sewer BFCs for the various billing groups which generally reflect customers with different meter sizes.

Table E-8: Current and Proposed FY 2026 Sewer Basic Facilities Charges

Billing Group	Meter Size	Current 2025	Proposed 2026	Increase
1	3/4" (1)	$ 42.60	$ 43.45	$ 0.85
2	1"	$ 81.65	$ 83.30	$ 1.65
3	1.5"	$ 149.25	$ 152.25	$ 3.00
4	2"	$ 270.65	$ 276.05	$ 5.40
5	3"	$ 505.00	$ 515.10	$ 10.10
6	4"	$ 809.50	$ 825.70	$ 16.20
7	6”	$ 1,528.00	$ 1,558.55	$ 30.55

(1) The BFC for Billing Group 1 is also applied for to each ERU assigned to a customer. Pools and multi-family residential (hotels, condominiums, resorts, etc.) are assigned ERUs and are included in Billing Group 1.

Table E-9 presents the current FY 2025 and proposed FY 2026 sewer volume charge and penalty surcharges assessed per 1,000 gallons of monthly sewer use. While these charges and surcharges are assessed to all billing groups, the increment or usage tier that a specific customer is assessed these charges depends on the billing group to which that customer belongs.

Table E-9: Current and Proposed FY 2025 Sewer Volumetric and Surcharges (per 1,000 gallons)

	Current FY 2025		Proposed FY 2026		Increase	
Usage Tier	Volumetric Charges	Penalty Surcharges	Volumetric Charges	Penalty Surcharges	Volumetric	Surcharge
Tier 1	$ 7.85	N/A	$ 8.00	$ -	$ 0.15	$ -
Tier 2	$ 9.65	$ 3.00	$ 9.85	$ 3.05	$ 0.20	$ 0.05
Tier 3	$ 10.95	$ 3.65	$ 11.20	$ 3.75	$ 0.25	$ 0.10
Tier 4	$ 13.40	$ 4.90	$ 13.70	$ 5.00	$ 0.30	$ 0.10
Tier 5	$ 17.05	$ 6.00	$ 17.40	$ 6.10	$ 0.35	$ 0.10

A. Typical Bill Comparison With Local Communities

To demonstrate the impact and local competitiveness of the proposed FY 2026 user rates and charges, a comparison of the monthly bills for the typical residential customer (Billing Group 1) under the current FY 2025 and proposed FY 2026 user rates and charges to the monthly bills assessed to similar customers of other local utilities provides a benchmark when considering the impact of the proposed rate increases.

Table E-10 provides a comparison of a typical utility customer with average monthly water use of 6,000 gallons per month for the Commission and nine (9) other utilities in coastal South Carolina.

Table E-10: Comparison of Typical Monthly Customer Bills with Local Communities

Utility/Community	User Rates and Charges (6,000 gal/month)		
	Water	Sewer	Total
Sullivan's Island	$62.50	$100.25	$162.75
IOPWSC - Proposed	**$46.25**	**$91.45**	**$137.70**
IOPWSC - Current	**$45.30**	**$89.70**	**$135.00**
Charleston Water System	$30.87	$100.12	$131.00
MPW - Approved FY 2026	$51.66	$78.27	$129.90
MPW - Current FY 2025	$48.89	$72.54	$121.43
Dorchester County	$51.73	$66.15	$117.88
Seabrook Island	$59.95	$51.70	$111.65
Average (Excluding IOPWSC)	$43.65	$63.62	$107.27
Beaufort-Jasper	$40.20	$62.56	$102.76
Berkeley County	$37.36	$44.00	$81.36
Hilton Head Island PSD	$26.98	$33.36	$60.34
Summerville Public Works	$25.50	$27.50	$53.00

As the comparison demonstrates, even before the proposed FY 2026 rate adjustments the Commission is above the average of the comparison group. While the water rates are more in line with the comparison group average, the Commission's sewer rates are among the highest of the group. The higher sewer rates result as the Commission serves a very small sewer customer base and must recover the costs of wastewater treatment facilities from fewer customers, thus limiting its ability to achieve economies of scale through a larger customers base. Additionally, the Commission must pay annual debt service on the Series 2020 Bonds issued to fund the expansion of capacity at the Forest Trails WWTP which will serve as the lone wastewater treatment facility serving Isle of Palms.

It should also be noted that the bills calculated for the comparison group are based on the utilities' current FY 2025 rates, proposed FY 2026 rates, and/or published rates for FY 2026. It is likely that some of the comparison utilities will also be faced with FY 2026 rate increases that are not reflected in this comparison. Furthermore, it should be noted that many of the comparison utilities have recently adopted significant water and sewer rate increases. These utility rate increases most likely reflect the same recent inflationary trends that the Commission is facing resulting from labor shortages, wage pressures, and supply chain disruptions. Now that the Commission has completed the Forest Trails WWTP expansion, the Commission is anticipated to face less significant rate increases in future years that should help make future customer bills more competitive in relation to comparison group utilities.

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I. INTRODUCTION

Confluence Consulting, LLC (Confluence) is pleased to submit this water and sewer rate report (Rate Report) documenting the recommended fiscal year (FY) 2026 water and sewer rates and an updated five-year financial planning and utility rate forecast (Financial Forecast) conducted for the Isle of Palms Water & Sewer Commission (Commission). The Commission asked Confluence to provide this Financial Forecast as part of its annual long-term financial planning process.

FY 2025 marked the completion of the Commission's Forest Trails WWTP expansion project and the construction of the new pump station at Wild Dunes to divert wastewater flows from the decommissioned Wild Dunes WWTP. The Commission began the Forest Trails WWTP expansion project in 2022 after the City of Isle of Palms (City) issued $16.1 million in Series 2020 Water and Sewer Revenue Bonds (Series 2020 Bonds) to fund the project. Inflationary factors and supply chain challenges in 2021 resulted in significantly higher than anticipated building materials and other construction related costs, and since FY 2023 the Commission has used a combination of higher than anticipated rate increases, grant funding, and available cash balances to fund these incremental capital costs. The recommended FY 2026 rate increases represent more typical inflationary level rate increases as the Commission begins the process of building its cash reserves back up to more typical levels.

The Commission provides water and sewer service to Isle of Palms, a 6-mile barrier island located in Charleston County. The Commission is governed by a board of elected officials and provides service in areas that cannot be provided for by any other agency. The Commission was created in 1992 through an ordinance enacted by the City of Isle of Palms and Section 5-31-250, et. seq., of the Code of Laws of South Carolina 1976, as amended, to own, operate, and manage the water and sewer systems of the Isle of Palms. The Commission is governed by five Commissioners elected by the residents of the City of Isle of Palms and provides services to approximately 4,752 water accounts and 2,831 sewer accounts.[5] While all current sewer customers also receive water service from the Commission, approximately 1,135 water customers on the island have individual septic systems.

Because the Series 2020 Bonds are payable solely from the revenues derived from the operation of the Commission after first paying the costs and expenses of operating and maintaining the system, the Financial Forecast was developed to ensure that annual water and sewer user rates and charges are sufficient to fund operations, maintain adequate cash reserves, and meet debt coverage requirements during five-year forecast period. Following the completion of Forest Trails WWTP expansion, the Commission should continue monitor available cash as it begins to rebuild its cash on hand in FY 2026.

[5] For the purposes of this rate analysis, the number of water and wastewater accounts served by the Commission are estimated based on the accounts billed during FY 2025. These accounts represent only those accounts that are billed user rates and charges, which excludes private fire line accounts, non-billable IOPWSC accounts, and certain grandfathered accounts. For this reason, the estimated utility accounts in this rate analysis are not necessarily consistent with the number of accounts presented in the monthly Manager's Report.

The Commission expects to receive the remaining $1,089,375 in FEMA grant funds associated with the completed Forest Hills WWTP expansion sometime in FY 2026.

The purpose of this Rate Report is to summarize the analysis and recommendations of the Study. Specifically, the Rate Report is organized in the following sections:

I. Introduction;

II. Customer Growth and Demand;

III. Annual Revenue Requirements Forecast;

IV. Proposed FY 2025 User Rates & Charges;

V. Typical Customer Bill Impacts; and

VI. Comparison With Other Local Utilities.

II. CUSTOMER GROWTH AND DEMANDS

The Commission currently provides services to approximately 4,752 water accounts and 2,831 sewer accounts (exclusive of the 268 grinder pump accounts).[6] While all current sewer customers also receive water service from the Commission, there are approximately 1,135 water customers on the island that have individual septic systems. Properties served by individual septic systems are located in areas that do not currently have access or proximity to the Commission's wastewater collection infrastructure.

Based on a historical analysis of customer account growth and billed demands for water and sewer (customer meter readings), the Commission has added approximately 175 new water (including 88 irrigation accounts) and 215 new sewer accounts since July 2016. Billing data provided for fiscal years 2017, 2018, 2019, 2020, 2021, 2022, 2023, 2024 and 2025 indicated annual growth in customer accounts has been less than 1.0% annually for both water and sewer. The analysis of metered usage by water and sewer accounts during that same period indicates that metered usage has fluctuated according to weather patterns with little to no relationship with growth in accounts. Based on this historical analysis of customer growth and demands and the limited area for growth through developing vacant lots, minimal growth in new customer and metered usage are projected during the five-year planning period. Specifically, annual growth projections assume 5 new water residential accounts (less than 1-inch meter), 10 new irrigation accounts, and 10 new sewer residential accounts (less than 1-inch meter) each year of the five-year planning period. Because metered usage has fluctuated with no relationship to residential account growth, no growth in metered usage is assumed as part of this forecast.

Table 1 summarizes the recent historical customer account and demand growth and a five-year projection of the water accounts and metered water use (in 1,000 gallons) from FY 22 through FY 30.

[6] For the purposes of this rate analysis, the number of water and wastewater accounts served by the Commission are estimated based on the accounts billed during FY 2025. These accounts represent only those accounts that are billed user rates and charges, which excludes private fire line accounts, non-billable IOPWSC accounts, and certain grandfathered accounts. For this reason, the estimated utility accounts in this rate analysis are not necessarily consistent with the number of accounts presented in the monthly Manager's Report.

Table 1: Historical and Projected Water Customers and Demand (FY 22 through FY 30)

	Historical			Projected					
Accounts	**FY 22**	**FY 23**	**FY 24**	**FY 25**	**FY 26**	**FY 27**	**FY 28**	**FY 29**	**FY 30**
Residential	3,818	3,831	3,840	3,848	3,853	3,858	3,863	3,868	3,873
Commercial	122	121	121	122	122	122	122	122	122
Pools/Multi-fam	36	36	36	36	36	36	36	36	36
Irrigation	697	711	731	746	756	766	776	786	797
Total Water Accounts	4,673	4,700	4,728	4,752	4,767	4,782	4,797	4,812	4,828

Metered (kgal)	**FY 22**	**FY 23**	**FY 24**	**FY 25**	**FY 26**	**FY 27**	**FY 28**	**FY 29**	**FY 30**
Residential	265,491	265,687	252,502	259,058	259,058	259,058	259,058	259,058	259,058
Commercial	29,482	34,231	32,932	39,928	39,928	39,928	39,928	39,928	39,928
Pools	5,877	5,860	4,984	4,909	4,909	4,909	4,909	4,909	4,909
Irrigation	103,754	105,326	100,910	109,685	109,685	109,685	109,685	109,685	109,685
Total Water Metered Usage	404,604	411,104	391,328	413,580	413,580	413,580	413,580	413,580	413,580

Table 2 summarizes the recent historical customer account and demand growth and a five-year projection of the sewer accounts and metered sewer flows (in 1,000 gallons) from FY 22 through FY 30.

Table 2: Historical and Projected Sewer Customers and Demand (FY 22 through FY 30)

	Historical			Projected					
Accounts	**FY 22**	**FY 23**	**FY 24**	**FY 25**	**FY 26**	**FY 27**	**FY 28**	**FY 29**	**FY 30**
Residential	2,617	2,655	2,707	2,730	2,740	2,750	2,760	2,770	2,780
Commercial	87	87	89	90	90	90	90	90	90
Pools/Multi-fam	22	22	22	22	22	22	22	22	22
Total Sewer Accounts	2,715	2,753	2,807	2,831	2,841	2,851	2,861	2,871	2,881

Metered (kgal)	**FY 22**	**FY 23**	**FY 24**	**FY 25**	**FY 26**	**FY 27**	**FY 28**	**FY 29**	**FY 30**
Residential	172,147	173,097	167,212	170,945	170,945	170,945	170,945	170,945	170,945
Commercial	27,169	31,225	30,689	35,989	35,989	35,989	35,989	35,989	35,989
Pools	4,000	1,520	1,920	2,375	2,375	2,375	2,375	2,375	2,375
Total Sewer Metered Flows	203,316	205,842	199,821	209,309	209,309	209,309	209,309	209,309	209,309

III. ANNUAL REVENUE REQUIREMENTS FORECAST

The total annual costs for a water and sewer utility to provide services to its customers are referred to as the utility's annual revenue requirements. Revenue requirements include the utilities annual operating and maintenance (O&M) expenses and its annual capital expenditures. It is typical practice for government-owned utilities to recover revenue requirements that are determined on a cash-needs approach, with an objective to provide revenues sufficient to recover the total cash requirements during an annual period. Under the cash-needs approach, operating expenses are based on the utilities budgeted operating expenses for the initial test-year with anticipated inflationary and other demand related adjustments applied to project the operating expenses in the remaining forecast years. Annual capital expenditures include annual debt service (principal and interest) payments, cash funded capital expenditures, and funding of debt and other reserves which typically provide net revenues sufficient to meet annual debt service coverage requirements. Non-cash expenditures, such as depreciation are excluded from the revenue requirements determined under the cash-needs approach.

This section of the Rate Report provides a discussion of the projected annual O&M expenses and capital expenditures (revenue requirements) of the Commission's enterprise fund.

1. Operating and Maintenance

The first step in determining the program of water and sewer user rates and charges is to develop the forecast of annual O&M expenses for the water and sewer utilities. The forecast of water and sewer O&M during the five-year forecast period is based on the FY 2026 Operating Budget, approved on May 21, 2025, which serves as the base year of the forecast. The FY 2026 O&M expenses are forecasted to escalate based on anticipated annual increases in personal costs (salaries and benefits) of 5.0%, power and chemicals of 5.0%, anticipated water purchases from CWS of 2.5%, and inflation of 2.5% for all other recurring O&M expenses. The Commission categorizes its O&M expenses into nine (9) operating departments identified in Table 3 below.

Table 3: IOPWSC Water & Sewer Operating Departments

Isle of Palms Water & Sewer Commission Operating Departments	
Water Departments	**Sewer Departments**
Billing & Collection – Water	Billing & Collection – Sewer
Administration & General – Water	Administration & General – Sewer
Water Treatment	Wastewater Treatment
Transmission & Distribution	Collection
Source of Supply	

Billing & collection and administrative costs are shared expenditures that are allocated among water and sewer by the Commission as part of their annual budgeting process.

2. Capital Expenditures

One of the objectives of the rate analysis is to integrate capital planning needs into the process of developing an appropriate five-year program of utility rates and charges, and to assess the impact of the capital needs over the five-year planning period. Generally, the Commission utilizes four different financing methods which includes cash from rates, impact fee funds, debt, and grant funded capital.

A. Water Capital Improvements

The Commission does not have any planned expansions to its Reverse Osmosis (RO) WTP or Contract Capacity with CWS. However, the Commission is required to make total capital payments of nearly $2.5 million during the planning period for its portion of the annual improvements to the CWS water system. The water CIP also includes several improvements to the Commission's distribution system, including hydrants, water line improvements for looping and increased capacity, replacement of RO instrumentation, and replacing smaller diameter lines with larger lines.

Because these water improvements benefit both existing and new customers, impact fee funds are used to fund a portion of the annual capital projects. The total costs of the five-year water CIP are approximately $15.2 million.

Table 4 provides a summary of the five-year water capital projects and the anticipated funding sources in the water CIP.

Table 4: Five-Year Total for Water Capital Improvements Plan (FY 2026 through FY 2030)

Water Capital Improvements	Total
CCPW Capital Improvement Program	$ 2,500,000
Fairway Dunes/Duneridge-replace existing w/8" (phase 1)	2,372,456
Fairway Dunes/Duneridge-10"- loop across golf course (Phase 2)	2,348,357
Beach Club Villas North water line replacement	1,347,518
Twin Oaks Water Line Replacement	1,379,568
Beachwood East/Dunecrest Lane w/l replacement	2,189,253
RO Concentrate Discharge Temperature Study	28,100
Spare VFD WTP #1	10,000
Replace RO Membranes	125,000
RO Instrumentation Replacement	98,000
Ocean Point Replace existing w/8" water lines and Hydrants	2,630,433
Joint Project Allocated to Water	158,640
TOTAL WATER CAPITAL PROJECTS	**$ 15,187,325**

Funding Sources	
Annual Rate/Cash Funded	$ 14,406,719
Impact Fees	780,606
Grant Funding (ARPA)	-
TOTAL FUNDING SOURCES	**$ 15,187,325**

B. Sewer Capital Improvements

To increase treatment efficiencies and consolidate all its treatment services at the newer Forest Trails WWTP, the Commission completed the expansion of the Forest Trails WWTP to 1.4 MGD and the new pumping station at the Wild Dunes WWTP to divert existing flows to the expanded Forest Trails WWTP in November 2024, with the official decommissioning of Wild Dunes WWTP in May of 2025. These projects allow for the decommission of the old Wild Dunes WWTP and a consolidation of treatment operations at the Forest Trails WWTP.

The Commission's pay as you go funding approach and recent wastewater rate increases in anticipation of the Forest Trails WWTP expansion generated strong cash levels that have been utilized to fund the remaining incremental costs of the project. While the Commission has drawn down its cash balances, it has maintained sufficient available cash balances that meet its 360 days of annual O&M minimum target. The Commission will continue to fund the $5.0 million of sewer project costs through available cash and expects to receive the remaining $1.1 million in FEMA grant funding associated with the Forest Trails

WWTP expansion in FY 2026. Additionally, the Commission expects to receive $3.3 million in ARPA grant funding for a portion of the $4.5 million gravity sewer project in Basin N.[7]

The sewer CIP also includes minor annual improvements to the Commission's collection system, including gravity sewer cleaning, inspections, and repairs; and upgrading the existing electrical systems. These improvements benefit both existing and new customers and impact fee funds are used to fund a portion of the annual capital projects. The total costs of the five-year sewer CIP are $5.0 million.

Table 5 provides a summary of the sewer capital projects and the anticipated funding sources in the sewer CIP.

Table 5: Five-Year Total for Sewer Capital Improvements Plan (FY 2026 through FY 2030)

Sewer Capital Improvements Plan	Total
Upgrade Existing Electrical Systems & Equip.	$ 27,252
Install Gravity Sewer Basin N (ARPA)	4,525,000
Spare VFDs LS #3 and Forest Trails	20,000
Replace Fence Lift Station 26	12,500
Spare Pump LS#3 (Wild Dunes Main Pump Station)	30,000
Gravity Sewer Cleaning/Inspection	36,000
Spare Permeate Pump (Forest Trails WWTP)	20,000
Wet Well Mixers	20,000
Forest Trails WWTP Sound Panels	132,000
Spare Grinder Pumps	75,000
Forest Trails WWTP Landscaping	10,000
Joint Project Allocated to Sewer	105,760
TOTAL SEWER CAPITAL PROJECTS	**$ 5,013,512**

Funding Sources	
Annual Rate/Cash Funded	$ 1,445,886
Impact Fees	1,040,808
Grant Funding	3,283,000
Debt Funding	-
TOTAL FUNDING SOURCES	**$ 5,769,694**

[7] The initial bids to install the gravity sewer in Basin N came in well above the construction costs projected by engineering estimates. Based on these increased construction costs, the Commission may delay or eliminate the Basin N Gravity Sewer project.

C. Financing Plan

In the project summaries in Appendix A, Schedule 2-A and Schedule 2-B, there are four different financing methods used. These methods include cash from rates, impact fee funds, debt, and grant funded capital. Cash from rates includes the accumulated operating reserves and annual cash reserves generated through monthly rates and charges. These funds are available after all annual O&M expenses have been funded. Impact fee funds represent annual and accumulated balances of impact fee collections.[8] In anticipation of the Forest Trails WWTP expansion and annual debt service associated with the Series 2020 Bonds the Commission implemented wastewater rate increases in each of the past six fiscal years (FY 2020, FY 2021, FY 2022, FY 2023, FY 2024, and FY 2025). These rate increases were designed to ensure revenue self-sufficiency for the wastewater system and provide adequate debt service coverage for the Series 2020 Bonds. These wastewater rate increases allowed the Commission to generate strong cash levels which the Commission utilized to fund the incremental costs of the Forest Trails WWTP expansion while still maintaining available cash balances above its 360 days of annual O&M minimum target.

The remaining sewer capital improvements will be funded through a combination of cash from rates ($1.4 million), ARPA grand funding ($3.3 million), and impact fee funds ($1.0 million). All $15.2 million in water capital improvements will be funded through a combination of cash from rates ($14.4 million) and impact fee funds ($781,000).

The CIP is a multi-year schedule that lays out a series of water and sewer capital projects and costs over a five-year capital planning period (FY 2026 through FY 2030). The CIP provides a specific plan for how the Commission expects to expand or construct its facilities and services to meet the demands of existing and/or new population and businesses. The Commission has designed a CIP to coordinate the financing and timing of capital improvements in a way that maximizes the benefits to the Commission and its water and sewer customers.

Since the Commission recently issued debt to fund a significant portion of the sewer CIP, annual debt service payments are an important part of the analysis based on actual scheduled debt service payments on currently outstanding debt. The Commission issued 10-year Revenue Bonds in 2012 to fund initial construction of Forest Trails WWTP and the final debt service payment on this bond series was made in FY 2022. The recently issued Series 2020 Revenue Bonds have a 20-year term and an annual interest rate of 1.72%.[9]

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[8] The Commission's long-term practice in funding its capital improvements is to use annual rate revenues and accumulated operating reserves. In those years where rate revenues are in excess of annual cash funded capital needs, the Commission builds up cash reserves. The accumulated unrestricted cash reserves as of June 30, 2025 are estimated to be approximately $5.2 million. Utilizing these cash reserves to fund capital projects allows the Commission to mitigate annual user rate increases during the five-year planning period.

[9] The interest rate represents the True Interest Cost.

Table 6 provides the forecast of existing annual debt service requirements for the Commission's utility debt issues. Since the proceeds from the bonds fund improvements to the Forest Trails WWTP, all the debt service payments are included in the sewer revenue requirements.

Table 6: Forecast of Annual Debt Service Requirements

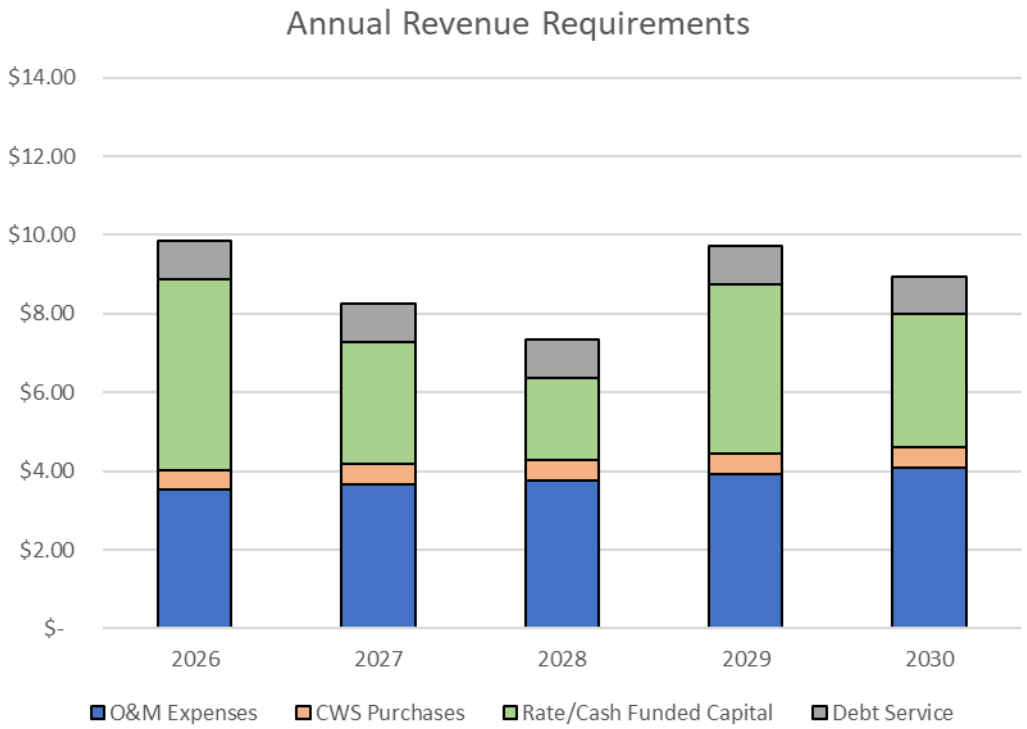
Annual Debt Service Payments	**FY 2026**	**FY 2027**	**FY 2028**	**FY 2029**	**FY 2030**
Series 2020 Revenue Bonds - Proposed	977,000	975,250	976,875	976,750	976,875
TOTAL DEBT SERVICE PAYMENTS	**$ 977,000**	**$ 975,250**	**$ 976,875**	**$ 976,750**	**$ 976,875**

3. Annual Revenue Requirements

The annual revenue requirements consist of the five-year forecast of O&M expenses, wholesale water purchases, annual capital costs based on the Commission's five-year financial plan, and debt service on existing revenue bond issues. As Chart 1 demonstrates, the revenue requirements throughout the five-year forecast include significant cash funded capital that will be funded primarily through rates and available unrestricted cash balances.

Chart 1 presents the annual water and wastewater revenue requirements during the five-year forecast.

Chart 1: Forecast of Annual Revenue Requirements ($ in millions)



A. Revenue Sufficiency and Recommended Rate Revenue Adjustments

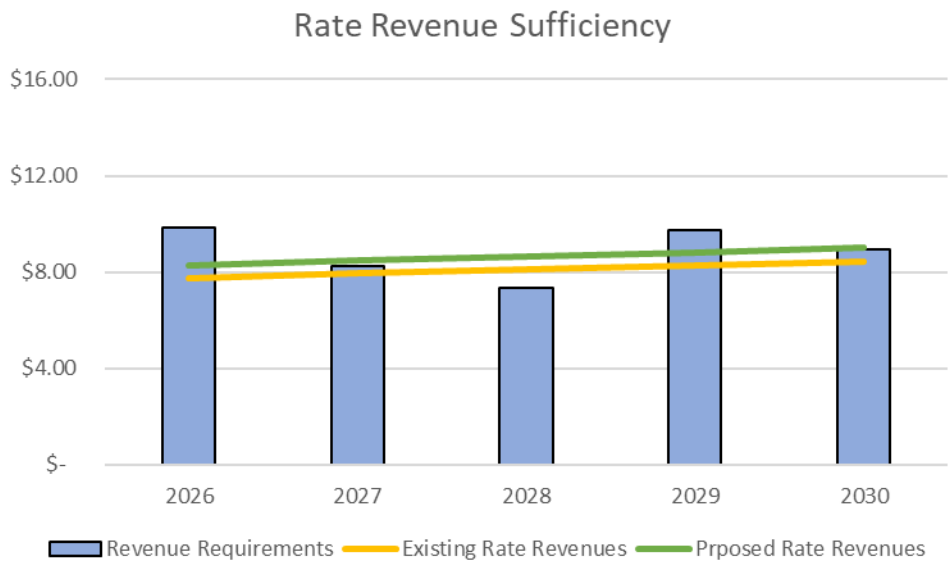
The next step of the rate analysis is to evaluate whether revenues under existing rates would be adequate, or sufficient to recover the projected revenue requirements over the five-year planning period. First, revenues were estimated under current FY 2025 water and sewer user rates and charges assuming annual growth in new accounts and projected metered water use from Section II. Forecasted revenue were then compared to the annual revenue requirements of the water and sewer systems. This analysis indicates that with rate funded capital projects, customer demand and existing user rates and charges are not sufficient to recover the annual revenue requirements for the water system and/or the sewer system in each year of the planning period. These revenue short falls occur in years (FY 2026 and FY 2029) where the Commission draws down cash to fund significant needed capital expenditures yet builds up the cash reserves in those years with revenue surpluses. To maintain the Commission's minimum unrestricted cash balance target of at least 360 days of annual operating expenses, and its debt service coverage ratio of at least 2.0x; the Commission should continue its program of annual adjustments to its water and sewer rates. However, under the current assumptions the annual rate adjustments during the forecast period reflect more inflationary level adjustments when compared to the more significant adjustments required over the previous four years.

Specifically, water and sewer rates are anticipated to need annual increases in FY 2026 and in each of the remaining years of the forecast period to provide approximately 2.0% in additional water and sewer user rate revenues to ensure long-term revenue sufficiency.[10] It should be noted that the projected annual adjustments to user rates and charges are designed to fully recover the anticipating O&M water and sewer expenses and fund capital expenditures during the five-year forecast period. Should operating conditions or capital needs change during the later years of the financial forecast period, the annual rate adjustments may need to be re-evaluated.

The estimated annual revenue sufficiency/deficiency under the existing water and sewer rates and the proposed five-year program of rate adjustments to address projected revenue deficiencies are shown in Chart 2 below.

[10] Increases to user charge revenues represent the additional revenues estimated to be generated by increases to Commission's various rates. The annual increases to user charge revenues do not necessarily equate to the recommended increase to the user rates, as certain rates (i.e. BFCs, volumetric charges, penalty surcharges) may be rounded to meet the Commission's billing and customer service objectives. Similarly, the impact on a particular customer's bill may not necessarily reflect the annual increase to user charge revenues.

Chart 2: Water Revenue Sufficiency Under Recommended Rate Adjustments ($ in millions)



Annual Rate Revenue Adjustments	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
Water Rate Revenues	2.05%	2.01%	2.01%	2.01%	2.03%
Sewer Rate Revenues	1.99%	2.01%	2.02%	2.02%	2.02%
Combined Rate Revenues	2.02%	2.01%	2.01%	2.02%	2.03%
Forecasted Debt Coverage	**5.03x**	**5.10x**	**5.17x**	**5.20x**	**5.24x**

While the proposed five-year program of rate adjustments does not achieve revenue sufficiency in FY 2026 and FY 2029, available cash balances and grant funding allow the Commission to mitigate rate increases without the issuance of additional debt to fund capital improvements. The Commission will draw down available cash balances in FY 2026 and FY 2029 to fund significant capital projects while either maintaining or building up cash balances in FY 2027, FY 2028, and FY 2030. Debt coverage and cash reserves are discussed below.

B. Debt Coverage and Unrestricted Cash Reserves

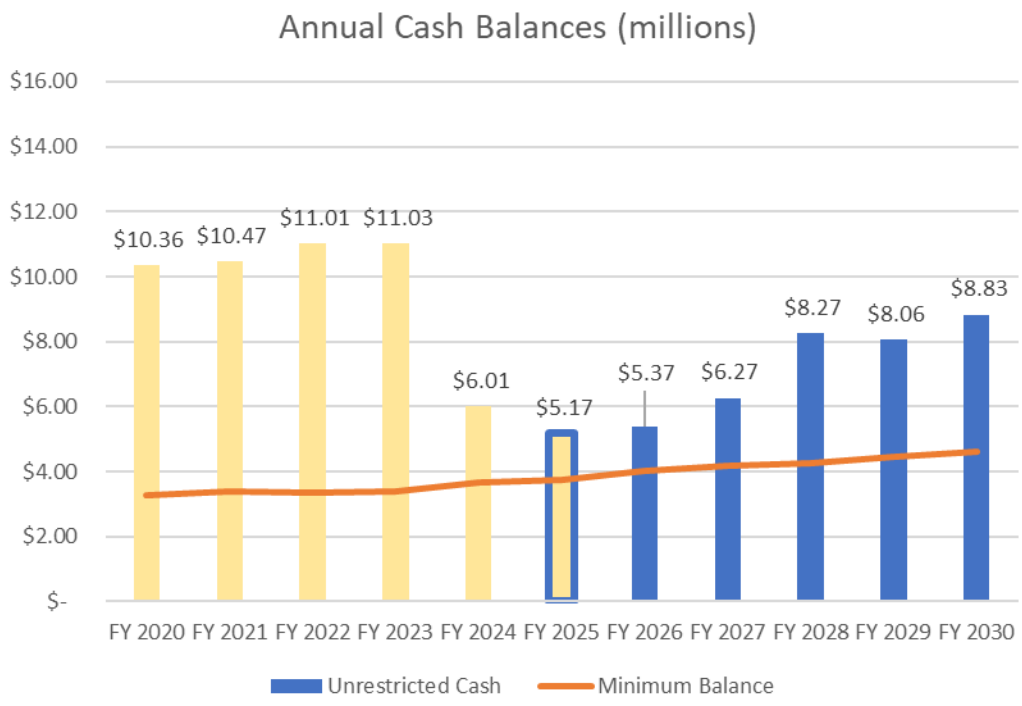
Two key measures of a utility's financial strength are its debt service coverage ratio and its cash liquidity, or available cash on hand. The debt service coverage ratio measures the utility's performance in generating sufficient operating revenues to cover its debt service obligations. Bond rating agencies give this metric significant weight when evaluating utility enterprise systems. The Commission's Financial Policies Document identifies a debt service coverage target policy objective of maintaining debt coverage of at least 2.0x. This level is consistent with the expectation of Aa2-rated utilities and the Commission has maintained debt coverages well above this target over the past five-years. The recommended rate

adjustment program is expected to help the Commission maintain this measure throughout the five-year planning period as demonstrated in Chart 2 on the previous page.

The second key measure of a utility's financial health, cash liquidity provides a measure of the utility's available reserves to maintain operations, fund ongoing investments and to respond to fiscal uncertainties, should they arise. Recent wastewater rate increases allowed the Commission to generate strong cash levels which the Commission utilized to fund the incremental costs of the Forest Trails WWTP expansion while still maintaining available cash reserves representing 495 days of its current O&M expenses, which is over 1.35 times the recommended 360 days minimum target. The Commission is now in the process of rebuilding these cash reserves while still maintaining the 2.0X debt coverage target during the five-year forecast period.

Chart 3 provides a history and projection of end of each fiscal year unrestricted cash reserves during the five-year planning period.

Chart 3: Historical and Projected Debt Coverage Ratios and Unrestricted Cash Reserves ($ in millions)



As Chart 3 indicates, the Commission has steadily accumulated unrestricted cash reserves from FY 2020 through FY 2023 which provided the liquidity and flexibility to fund those planned water and sewer projects that are not funded through the Series 2020 Bond Issue. It is the Commission's practice and goal to fund the majority of its capital projects through pay-as-you-go revenues and available cash reserves; and to limit debt issues for funding major projects like the Forest Trails WWTP.

IV. PROPOSED FY 2026 USER RATES & CHARGES

The FY 2026 water and sewer rate recommendations in this section are limited to increases to the existing fiscal year (FY) 2025 rates, charges, and/or surcharges. As mentioned in the previous section, based on projected revenue requirements rate increases of approximately 2.0% for both water and sewer are needed in 2026 followed by similar 2.0% rate increases to both water and sewer in each subsequent year in the forecast. The FY 2026 water and sewer recommended rate increases marks the end of several years of more significant rate increases to maintain sufficient cash reserves while funding the incremental costs of the Forest Trails WWTP expansion. The increases to the water and sewer rates are recommended to generate approximately $82,000 and $78,000 in additional water and sewer user rate revenues respectively in FY 2026.

The proposed FY 2026 user rates and charges represent increases to the Commission's current rate structure and do not include any recommended changes to the rate structures, customer classes, and/or rate codes. The current structures and rate codes have evolved over the years to incorporate the Wild Dunes customers and in some cases accommodate customers with unique circumstances and use characteristics.

1. FY 2026 Water Rate Recommendations

Due to anticipated increases in the costs of certain water capital projects; and the addition of water capital projects to increase water distribution capacity, 2.0% rate increases are needed in FY 2026 for water rates followed by similar 2.0% rate increases in each of the subsequent years of the forecast.

Based on projections of the FY 2026 rate revenues, the current water rate structure generates approximately 35% of the water rate revenues through the fixed monthly BFCs which is close to the national average for smaller utilities.

A. FY 2025 Water Basic Facilities Charges

Table 7 presents the current FY 2025 and proposed FY 2026 monthly water BFCs for the various billing groups which generally reflect customers with different meter sizes.

Table 7: Current and Proposed FY 2026 Water Basic Facilities Charges

Billing Group	Meter Size	Current 2025	Proposed 2026	Increase
1	3/4" (1)	$ 19.20	$ 19.55	$ 0.35
2	1"	$ 38.90	$ 39.70	$ 0.80
3	1.5"	$ 71.60	$ 73.00	$ 1.40
4	2"	$ 129.80	$ 132.40	$ 2.60
5	3"	$ 241.50	$ 246.35	$ 4.85
6	4"	$ 388.40	$ 396.20	$ 7.80
7	6"	$ 743.00	$ 757.85	$ 14.85

(1) The BFC for Billing Group 1 is also applied for to each ERU assigned to a customer. Pools and multi-family residential (hotels, condominiums, resorts, etc.) are assigned ERUs and are included in Billing Group 1.

B. FY 2026 Water Volumetric Charges and Penalty Surcharges

Table 8 presents the current FY 2025 and proposed FY 2026 water volumetric charges and penalty surcharges assessed per 1,000 gallons of monthly water use. While these volumetric charges and surcharges are assessed to all billing groups, the increment or usage tier for which a particular customer is assessed these charges depends on the billing group to which that customer belongs.

Table 8: Current and Proposed FY 2026 Water Volumetric and Penalty Surcharges (per 1,000 gallons)

	Current FY 2025		Proposed FY 2026		Increase	
Usage Tier	Volumetric Charges	Penalty Surcharges	Volumetric Charges	Penalty Surcharges	Volumetric	Surcharge
Tier 1	$ 4.35	$ -	$ 4.45	$ -	$ 0.10	$ -
Tier 2	$ 5.30	$ 2.50	$ 5.40	$ 2.55	$ 0.10	$ 0.05
Tier 3	$ 6.10	$ 3.00	$ 6.25	$ 3.05	$ 0.15	$ 0.05
Tier 4	$ 6.70	$ 3.70	$ 6.85	$ 3.75	$ 0.15	$ 0.05
Tier 5	$ 8.75	$ 5.50	$ 8.95	$ 5.60	$ 0.20	$ 0.10

Again, the volumetric charge structure includes five (5) increasing block volumetric charges assessed to customers based on water usage intervals and the demand characteristics of the seven (7) different billing group categories. The lowest Tier 1 volumetric charge is assessed to the different billing groups based on increasingly higher tier one usage intervals that reflect typical base demands for higher use commercial and irrigation customers with larger meters. Each subsequent tier (2 through 5) interval reflects the next 9,000 gallons of water usage. The additive penalty surcharges are assessed for customer water usage above the tier one usage intervals.

Table 9 summarizes the increasing water usage intervals at which each of the water billing groups are assessed the tiered block volumetric charges and penalty surcharges.

Table 9: Usage Intervals for Each Billing Group

Usage Tier	Consumption in 1,000 gallons Billing Groups						
	1	2	3	4	5	6	7
Tier 1	0-9	0-18	0-54	0-80	0-193-	0-326	0-723
Tier 2	10-18	19-27	55-63	81-89	194-202	327-335	724-732
Tier 3	19-27	28-36	64-72	90-98	203-211	336-344	733-741
Tier 4	28-36	37-45	73-81	99-107	212-220	345-353	742-750
Tier 5	>36	>45	>81	>107	>220	>353	>750

2. FY 2026 Sewer Rate Recommendations

Following the completion of the Forest Trails WWTP expansion project Confluence recommends sewer rate increases of 2.0% in FY 2026 followed by similar 2.0% rate increases in each of the subsequent years of the forecast.

Based on projections of the FY 2026 rate revenues, the current sewer rate structure generates approximately 51% of the sewer rate revenues through the fixed monthly BFCs which is above to the national average for smaller utilities. These fixed monthly revenues provide the Commission with significant revenue stability as these revenues are more certain than the volumetric rates which tend to vary with the customer demands. This revenue stability is viewed favorably by rate agencies and bond investors.

A. FY 2026 Sewer Basic Facilities Charges

Table 10 presents the current FY 2025 and proposed FY 2026 monthly sewer BFCs for the various billing groups which generally reflect customers with different meter sizes.

Table 10: Current and Proposed FY 2025 Sewer Basic Facilities Charges

Billing Group	Meter Size	Current 2025	Proposed 2026	Increase
1	3/4" (1)	$ 42.60	$ 43.45	$ 0.85
2	1"	$ 81.65	$ 83.30	$ 1.65
3	1.5"	$ 149.25	$ 152.25	$ 3.00
4	2"	$ 270.65	$ 276.05	$ 5.40
5	3"	$ 505.00	$ 515.10	$ 10.10
6	4"	$ 809.50	$ 825.70	$ 16.20
7	6”	$ 1,528.00	$ 1,558.55	$ 30.55

(1) The BFC for Billing Group 1 is also applied for to each ERU assigned to a customer. Pools and multi-family residential (hotels, condominiums, resorts, etc.) are assigned ERUs and are included in Billing Group 1.

B. FY 2026 Sewer Volumetric Charges and Penalty Surcharges

Table 11 presents the current FY 2025 and proposed FY 2026 sewer volume charge and penalty surcharges assessed per 1,000 gallons of monthly sewer use. While these charges and surcharges are assessed to all billing groups, the increment or usage tier that a specific customer is assessed these charges depends on the billing group to which that customer belongs.

Table 11: Current and Proposed FY 2025 Sewer Volumetric Surcharges (per 1,000 gallons)

	Current FY 2025		Proposed FY 2026		Increase	
Usage Tier	Volumetric Charges	Penalty Surcharges	Volumetric Charges	Penalty Surcharges	Volumetric	Surcharge
Tier 1	$ 7.85	$ -	$ 8.00	$ -	$ 0.15	$ -
Tier 2	$ 9.65	$ 3.00	$ 9.85	$ 3.05	$ 0.20	$ 0.05
Tier 3	$ 10.95	$ 3.65	$ 11.20	$ 3.75	$ 0.25	$ 0.10
Tier 4	$ 13.40	$ 4.90	$ 13.70	$ 5.00	$ 0.30	$ 0.10
Tier 5	$ 17.05	$ 6.00	$ 17.40	$ 6.10	$ 0.35	$ 0.10

Table 12 summarizes the increasing sewer usage intervals at which each of the sewer billing groups are assessed the tiered block volumetric charges and penalty surcharges.

Table 12: Usage Intervals for Each Billing Group

Usage Tier	Consumption in 1,000 gallons Billing Groups						
	1	2	3	4	5	6	7
Tier 1	0-9	0-18	0-54	0-80	0-193	0-326	0-723
Tier 2	10-18	19-27	55-63	81-89	194-202	327-335	724-732
Tier 3	19-27	28-36	64-72	90-98	203-211	336-344	733-741
Tier 4	28-36	37-45	73-81	99-107	212-220	345-353	742-750
Tier 5	>36	>45	>81	>107	>220	>353	>750

V. CUSTOMER BILL IMPACTS

Section V presented the proposed user charge and rate increases for FY 2026 based on specific increases to the monthly water and sewer BFCs and tiered volumetric charges per 1,000 gallons. This section compares the impacts of the proposed FY 2026 rate adjustments on typical residential water and sewer customers to provide additional information for policy makers. For comparison purposes, the typical residential customer of the Commission has a ¾-inch water meter and is included in Billing Group 1.

1. Water Residential Customer Bill Impacts

Residential customers with ¾-inch meters represent approximately 81% of the Commission's water accounts. Based on detailed billing data, the yearly residential customers use approximately 6,000 gallons per month.

Table 13 demonstrates how residential water customers (Billing Group 1) at different amounts of monthly water use will be impacted by the proposed FY 2026 water user rates.

Table 13: ¾-Inch Meter Residential Customer Impacts Under Proposed FY 2026 Water Rates

Residential Water Customer With ¾-inch Meter				
Monthly Usage	Current FY 2025	Proposed FY 2026	Increase	
			($)	(%)
0	$ 19.20	$ 19.55	$ 0.35	1.8%
4,000	$ 36.60	$ 37.35	$ 0.75	2.0%
6,000	**$ 45.30**	**$ 46.25**	**$ 0.95**	**2.1%**
10,000	$ 66.15	$ 67.50	$ 1.35	2.0%
18,000	$ 128.55	$ 130.70	$ 2.15	1.7%
20,000	$ 146.75	$ 149.20	$ 2.45	1.7%

Residential water customers with a ¾-inch water meter (Billing Group 1) will experience between 1.7% and 2.1% increases to their monthly bill depending on monthly water use. The typical residential water customer with 6,000 gallons of water use per month will experience a monthly increase of $0.95, or 2.1%. The impacts for customers with larger meters within other billing groups differs from Billing Group 1 based on higher BFCs and usage tiers which provide larger usage increments in the initial tier for larger meter customers (See Table 9 for tier usage increments for all billing groups).

2. Sewer Residential Customer Bill Impacts

Residential customers with ¾-inch meters represent approximately 94% of the Commission's sewer accounts.

Table 14 demonstrates how residential sewer customers (Billing Group 1) at different levels of monthly sewer use will be impacted by the proposed FY 2026 sewer user rates.

Table 14: ¾-Inch Meter Residential Customer Impacts Under Proposed FY 2026 Sewer Rates

Residential Sewer Customer With ¾-inch Meter				
Monthly Usage	Current FY 2025	Proposed FY 2026	Increase	
			($)	(%)
0	$ 42.60	$ 43.45	$ 0.85	2.0%
4,000	$ 74.00	$ 75.45	$ 1.45	2.0%
6,000	**$ 89.70**	**$ 91.45**	**$ 1.75**	**2.0%**
10,000	$ 125.90	$ 128.10	$ 2.20	1.7%
18,000	$ 227.10	$ 229.30	$ 2.20	1.0%
20,000	$ 256.30	$ 258.50	$ 2.20	0.9%

Residential water customers with a ¾-inch water meter (Billing Group 1) will experience between 0.9% and 2.0% increases to their monthly bill depending on monthly water use. The typical residential sewer customer with 6,000 gallons of monthly water use will experience a $1.75, or 2.0% bill increase per month. The impacts for customers with larger meters within other billing groups differs from Billing Group 1 based on higher BFCs and usage tiers which provide larger usage increments in the initial tier for larger meter customers (See Table 12 for tier usage increments for all billing groups).

3. Combined Residential Customer Bill Impacts

All the approximately 2,730 residential sewer customers receive water service from the Commission while approximately 1,135 residential water customers on the island have individual septic systems. So, approximately 71% of the Commission's residential customers with ¾-inch meters will receive a bill for both water and sewer services.

Table 15 demonstrates how residential customers (Billing Group 1) receiving both water and sewer services at different amounts of monthly water use will be impacted by the proposed FY 2026 water and sewer user rates.

Table 15: ¾-Inch Meter Residential Customer Impacts Under Proposed FY 2026 Water and Sewer Rates

Residential Water & Sewer Customer With ¾-inch Meter				
Monthly Usage	**Current FY 2025**	**Proposed FY 2026**	**Increase**	
			($)	**(%)**
0	$ 61.80	$ 63.00	$ 1.20	1.9%
4,000	$ 110.60	$ 112.80	$ 2.20	2.0%
6,000	**$ 135.00**	**$ 137.70**	**$ 2.70**	**2.0%**
10,000	$ 192.05	$ 195.60	$ 3.55	1.8%
18,000	$ 355.65	$ 360.00	$ 4.35	1.2%
20,000	$ 403.05	$ 407.70	$ 4.65	1.2%

Residential customers with a ¾-inch water meter (Billing Group 1) receiving both water and sewer services from the Commission will experience similar impacts to their monthly bill depending on monthly water use. The typical residential sewer customer with 6,000 gallons of monthly water use will experience a $2.70, or 2.0% bill increase. The impacts for customers receiving both water and sewer with larger meters within other billing groups differs from Billing Group 1 based on higher BFCs and usage tiers which provide larger usage increments in the initial tier for larger meter customers (See Table 9 for tier usage increments for all billing groups).

VI. COMPARISON WITH LOCAL UTILITIES

One of the Commission's objectives is determining a rate structure that maintains competitive water and sewer rates in comparison to similar customers in other coastal communities in South Carolina. Therefore, a comparison of the monthly bills for the typical residential customer (Billing Group 1) under the current FY 2025 and proposed FY 2026 user rates and charges to the monthly bills assessed to similar customers served by other local utilities provides a benchmark when considering the impact of the proposed rate increases.

Table 16 provides a comparison of the typical monthly combined water and sewer bills for the Commission and nine (9) other utilities in coastal South Carolina. Again, for comparison purposes a typical customer is assumed to use 6,000 gallons per the average month.

Table 16: Comparison of Typical Monthly Customer Bills with Local Communities

	User Rates and Charges (6,000 gal/month)		
Utility/Community	**Water**	**Sewer**	**Total**
Sullivan's Island	$62.50	$100.25	$162.75
IOPWSC - Proposed	**$46.25**	**$91.45**	**$137.70**
IOPWSC - Current	**$45.30**	**$89.70**	**$135.00**
Charleston Water System	$30.87	$100.12	$131.00
MPW - Approved FY 2026	$51.66	$78.27	$129.90
MPW - Current FY 2025	$48.89	$72.54	$121.43
Dorchester County	$51.73	$66.15	$117.88
Seabrook Island	$59.95	$51.70	$111.65
Average (Excluding IOPWSC)	$43.65	$63.62	$107.27
Beaufort-Jasper	$40.20	$62.56	$102.76
Berkeley County	$37.36	$44.00	$81.36
Hilton Head Island PSD	$26.98	$33.36	$60.34
Summerville Public Works	$25.50	$27.50	$53.00

As the comparison demonstrates, even before the proposed FY 2026 rate adjustments the Commission is above the average of the comparison group. While the water rates are more in line with the comparison group average, the Commission's sewer rates are among the highest of the group. The higher sewer rates result as the Commission serves a very small sewer customer base and must recover the costs of wastewater treatment facilities from fewer customers, thus limiting its ability to achieve economies of scale through a larger customers base. Additionally, the Commission must pay annual debt service on the Series 2020 Bonds issued to fund the expansion of capacity at the Forest Trails WWTP which will serve as the lone wastewater treatment facility serving Isle of Palms.

It should also be noted that the bills calculated for the comparison group are based on the utilities' current FY 2025 rates, proposed FY 2026 rates, and/or published rates for FY 2026. It is likely that some of the comparison utilities will also be faced with FY 2026 rate increases that are not reflected in this comparison. Furthermore, many of the comparison utilities have recently adopted significant water and sewer rate increases. These utility rate increases most likely reflect the same recent inflationary trends that the Commission is facing resulting from labor shortages, wage pressures, and supply chain disruptions. Now that the Commission has completed the Forest Trails WWTP expansion, the Commission is anticipated to face less significant rate increases in future years that should help make future customer bills more competitive in relation to comparison group utilities.

APPENDIX A

Schedule 2-A
Isle of Palms Water & Sewer Commission
Water and Sewer Financial Planning & Rate Model
Water Capital Improvements Plan (CIP)

			Fiscal Year Ending, June 32					FY 2026 - 2030
Water Capital Improvements			2026	2027	2028	2029	2030	**Total**
W1	CCPW Capital Improvement Program		$ 500,000	$ 500,000	$ 500,000	$ 500,000	$ 500,000	$ 2,500,000
W5a	Fairway Dunes/Duneridge-replace existing w/8" (phase 1)		2,372,456					2,372,456
W5b	Fairway Dunes/Duneridge-10"- loop across golf course (Phase 2)			2,348,357				2,348,357
W6	Beach Club Villas North water line replacement				1,347,518			1,347,518
W7	Twin Oaks Water Line Replacement					1,379,568		1,379,568
W8	Beachwood East/Dunecrest Lane w/l replacement					2,189,253		2,189,253
W10	RO Concentrate Discharge Temperature Study		28,100					28,100
W11	Spare VFD WTP #1		10,000					10,000
W12	Replace RO Membranes		125,000					125,000
ENG	RO Instrumentation Replacement		98,000					98,000
	Ocean Point Replace existing w/8" water lines and Hydrants						2,630,433	2,630,433
	Joint Project Allocated to Water		52,140	45,300	20,400	20,400	20,400	158,640
Total Water Capital Projects			**$ 3,185,696**	**$ 2,893,657**	**$ 1,867,918**	**$ 4,089,221**	**$ 3,150,833**	**$ 15,187,325**
Water Capital Funding Sources								
Annual Rate Funded			$ 3,035,696	$ 2,740,657	$ 1,711,858	$ 3,930,040	$ 2,988,468	$ 14,406,719
Impact Fees			150,000	153,000	156,060	159,181	162,365	780,606
Grant Funding (ARPA)		67%	-	-	-	-	-	-
Debt Funding								-
Total Funding Sources			$ 3,185,696	$ 2,893,657	$ 1,867,918	$ 4,089,221	$ 3,150,833	$ 15,187,325

Schedule 2 - B
Isle of Palms Water & Sewer Commission
Water and Sewer Financial Planning & Rate Model
Sewer Capital Improvements Plan (CIP)

			Fiscal Year Ending, June 32					FY 2026 - 2030
			2026	2027	2028	2029	2030	Total
Sewer Capital Improvements								
S1	Upgrade Existing Electrical Systems & Equip.		$ 13,626	$ 13,626				$ 27,252
S3	Install Gravity Sewer Basin N (ARPA)		4,525,000					4,525,000
S4	Spare VFDs LS #3 and Forest Trails		20,000					20,000
S6	Replace Fence Lift Station 26		12,500					12,500
S8	Spare Pump LS#3 (Wild Dunes Main Pump Station)		30,000					30,000
S9	Gravity Sewer Cleaning/Inspection		36,000					36,000
S10	Spare Permeate Pump (Forest Trails WWTP)		20,000					20,000
S11	Wet Well Mixers		20,000					20,000
S12	Forest Trails WWTP Sound Panels		132,000					132,000
S14	Spare Grinder Pumps		75,000					75,000
S15	Forest Trails WWTP Landscaping		10,000					10,000
	Joint Project Allocated to Sewer		34,760	30,200	13,600	13,600	13,600	105,760
Total Sewer Capital Projects			**$ 4,928,886**	**$ 43,826**	**$ 13,600**	**$ 13,600**	**$ 13,600**	**$ 5,013,512**
Sewer Capital Funding Sources								
Annual Rate Funded			$ 1,445,886	$ -	$ -	$ -	$ -	$ 1,445,886
Impact Fees			200,000	204,000	208,080	212,242	216,486	1,040,808
Grant Funding (SCIIP)		67%	3,283,000	-	-			3,283,000
Debt Funding			-	-	-			-
Total Funding Sources			$ 4,928,886	$ 204,000	$ 208,080	$ 212,242	$ 216,486	$ 5,769,694