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MIAMI BEACH

COMMITTEE MEMORANDUM

TO: Finance and Citywide Projects Committee

FROM: Jimmy L. Morales, City Manager

DATE: August 22, 2013

SUBJECT: **DISCUSSION REGARDING WATER/SEWER RATES AND POTENTIAL MODIFICATION OF RATE STRUCTURE FOR SINGLE FAMILY WATER ACCOUNTS**

BACKGROUND

The Miami-Dade Water and Sewer Department (WASD) has proposed a sewer rate increase to all wholesale customers of \$.2995 per 1000 gallons effective October 1, 2013. The last increase to the City of Miami Beach customers for water and sewer rates was effective for billings on or after October 1, 2009. In order to ensure the financial viability of the water fund, in the past, the City has passed through County rate increases to its customers.

ANALYSIS

The City's utility rates for water and sanitary sewer services are structured to collect the necessary revenues to meet annual operating and maintenance costs of the water and sanitary sewer infrastructure, to cover debt service for water and sewer bonds to maintain adequate operating fund reserves, and, to pay Miami-Dade County for wholesale water purchased, the treatment of the City's sewage and other fees. Increasing the sanitary sewer rate in the amount levied by the County, and maintaining the existing water rate to pay all other costs listed above will keep the City water and sewer funds balanced.

In general, the rates for water supply and sanitary sewer services consist of:

- Pass-through of the wholesale rate the City pays to Miami-Dade County for the purchase of potable water and treatment of sewage;
- Debt service for the Water and Sewer Revenue Bonds;
- Operating and maintenance costs for the water and sewer utility;
- 7.5% fee of previous year total revenue paid to the Miami-Dade County Environmental Resource Management Department (DERM).

FY2013/14 Miami Dade County Wholesale Water and Sewer Rates

The Miami-Dade Water and Sewer Department (WASD) has informed all wholesale customers that the proposed water rate for FY2013/14 would remain the same as the current rate, \$1.7142 per thousand gallons. All operational expenditure increases related to proposed Cost of Living Adjustment to salaries, increased costs of health insurance and pension, and increases in other

operating costs can be absorbed without fee increases.

WASD has also notified wholesale customers that their proposed sewer rate will be \$2.4523, an increase of \$0.2995, or 13.91% above the current rate of \$2.1528. The cost of the proposed FY2013/14 sewer rate increase to Miami Beach is approximately \$2,425,278. The proposed wholesale water and sewer rates are subject to approval by the Board of County Commissioners at their Public Budget Hearings, scheduled for September 10 and September 19, 2013.

The sewer rate increase for FY2013/14 is \$0.2995 per 1,000 gallons. There is no increase in the water rate. For the average 11,000 gallons per month customer, the combined water and sewer rates result in a monthly increase of \$3.29 in FY2013/14. For the minimum usage customer (5,000 gallons or less per month), the combined monthly impact would be a total of \$1.50.

Fee (per thousand gallons)	FY 2012/13 Fee	Proposed FY14 M-D County Incr.	Prop. FY 2013/14 Fee	Difference From FY 2012/13
Water	\$4.36	\$0.00	\$4.36	\$0.00
Sewer	\$6.04	\$0.30	\$6.34	\$0.30
Total Increase		\$0.30		\$0.30
Combined Fee	\$10.40		\$10.70	\$0.30
Monthly Cost to 11,000 gallon Customer	\$114.40	\$3.29	\$117.69	\$3.29
Monthly Cost to 5,000 gallon Customer	\$52.00	\$1.50	\$53.50	\$1.50

Conservation Rate Structure

The following portion of the discussion is submitted as a follow up to the June 6, 2012 Commission Meeting wherein Agenda item C4G was referred to the Finance and Citywide Projects Committee (FCWPC) by Commissioner Wolfson.

In general, conservation rates are a tool to influence water consumption behavior. The benefits of implementing conservation rates may include reducing water demand and potentially saving capital infrastructure costs, depending on the unique characteristics of the city. Based on the existing customer base and growth projections furnished by the City, the CDM Smith projected rate impacts by meter size (the existing customer billing classification) and number of dwelling units, which may be recommended as a customer billing classification. Because revenues are affected when usage decreases (a likely consequence of an inclining block rate structure), a utility has to carefully analyze its consumption patterns to ensure that revenues will be sufficient to cover utility costs. The study included annual revenue requirements projected separately for the water system and the wastewater system, and on a combined basis. The study also included an assessment of the significant impact the prospective rate changes on a range of customers (single family, multi-family, hotels, hospital, and businesses).

At the April 25, 2013 FCWPC meeting, the CDM Smith presentation reaffirmed the conclusion that it still makes sense to foster water conservation (even though it's not required by Miami Dade County). Assistant City Manager Kathie Brooks explained that the goal of such a program is to structure the rates so that those individuals using more water pay more for the water that

they use. CDM Smith stated that there currently is no incentive to save on water usage, given that the existing rate structure imposes a minimum charge on all accounts. Elimination of the minimum allowance would likely lead to a revenue shortfall that would have to be made up by the other volume customers. CDM Smith recommended that the study be updated with more current financial information. Assistant City Manager Brooks asked that the additional analysis be done in order to evaluate impact on the City Budget, and noted that there would need to be community input in considering the adoption of a conservation rate structure. The Committee requested additional analysis (based upon the FY2012/13 Adopted budget and existing utility data) to include the following;

1. Development of five year pro forma projections of the water and wastewater systems for prudent financial planning.
2. Evaluate rate structures for single family customers eliminating the minimum monthly allowance, thus mitigating the charges to low volume consumers
3. Assess the impact of combined monthly water and wastewater billings of various customer classes.

The consultant is scheduled to complete the additional analysis for the end of August, a draft presentation will be presented to the committee on August 22, 2013. In addition, information on rate increases related to future debt service for capital project will also be presented at the August 22, 2013 meeting.


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