

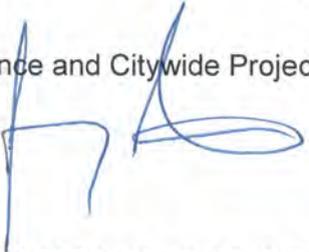
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COMMITTEE MEMORANDUM

To: Members of the Finance and Citywide Projects Committee

From: Jimmy L. Morales 

Date: July 22, 2016

Subject: **DISCUSSION AND UPDATE ON WATER/SEWER BUDGET AND RATES**

Water Budget

The 2016 approved and amended operating budget included revenues and expenditures of \$35,017,000. After six months revenues and expenditures were \$15,840,925 and \$12,546,181 respectively. All indications are that we will complete the year within the approved budget. The 2017 proposed budget is \$34,148,000 and no rate increases are being requested.

Sewer Budget

The 2016 approved and amended operating budget included revenues and expenditures of \$48,069,000. After six months revenues and expenditures were \$21,239,395 and \$23,775,944 respectively. The projections indicate sewer expenditures will exceed the approved budget by approximately \$2,335,000. The primary cause of the budget overage is sewage treatment fees.

Sewage treatment fees have been and continue to be impacted by dewatering at construction sites. DERM now prohibits typical dewatering into the stormwater system leaving the sanitary sewer as the simplest alternative. New construction projects are being designed with the contractors being responsible for dewatering cost reducing future impacts. Recently one property was confirmed and several others are suspected, of pumping its ground water directly into our sewer system. With higher than normal tides this past year the volumes and cost to the city was higher than in previous years.

The 2017 proposed budget is \$53,768,000; \$5,699,000 higher than 2016 as amended requiring new revenue. The additional revenue will be used for the following:

- Miami/Dade notified the City that the sewage treatment fees will increase 5.7% beginning in fiscal year 2017 for an increase in cost of \$1,502,000. And its "tru-up" will increase \$638,000.
- DERM fees will increase in fiscal year 2017 from 7.5% to 8% of total revenue, for an increase of \$612,000.
- Debt service in 2017 increases \$ 2,506,000:
 - \$1,309,000 increase due to existing debt structure obligations
 - \$1,197,000 increase for 2017 \$20,000,000 issue
- Other total operating costs for 2017 remain consistent with the past year (2016).

Rates

Currently the water rate is \$4.61 per 1000 gallons with a minimum purchase requirement at \$4.43 per 1000 gallons. For example a typical 3/4" meter has a minimum charge of \$22.15 for 5,000 gallons of water (\$4.43 per 1000 gallons). The difference in rate for the volume of water included in the minimum usage charge is a result of the volumetric charge being increased (Ordinance no. 2015 -3967, passed 09-30-2015) without the minimum usage charge being increased and this should be at a minimum adjusted to align the charges. Currently our sanitary sewer charge is \$8.23 per 1000 gallons without any minimum charges.

The current water rate structure does not promote conservation with a minimum usage included, although this tends to promote revenue stability it does encourage water consumption and may place an undue burden on the low water users. There should be a base charge collected from all users designed to recover between 30% and 40% of fixed costs and a flow charge for all water used which promotes conservation with a payment being only for what a customer uses. This structure is consistent with the rate of other local governments in Florida and is employed by the Florida Public Service Commission in the regulation of privately-owned utilities. Fitch Ratings, which rates the City's bonds, states "Because a greater percentage of fixed charges lead to less volatility in a utility's revenue stream than a system that relies extensively or completely on volumetric charges, Fitch views favorably utilities whose fixed-charge component generates a significant amount (greater than 30%) of their revenue stream." The base charge would be different by meter-size based on the implied capacity requested by a customer demanding the larger meter. The base charge should be applied year-round; currently part-time or seasonal residents are able to discontinue service when they are absent avoiding all water charges from the city yet we continue to experience operation and maintenance costs to be able to serve when needed (referred to as "readiness-to-serve"). Full-time residents, who use less than the monthly water minimum, may see relief in the total water bill.

The current sanitary sewer charge does not include any type of minimum cost or readiness to serve charge. The result is our full time residents and businesses pay a higher proportion of the sewer cost than part-time residents. Part-time residents receive no sanitary sewer charge when they are not here and we continue to experience maintenance cost to be able to serve them when needed. There should be a base charge collected from all users designed to recover between 30% and 40% of fixed costs and a flow charge for the exact amount used. This fee would also vary by class of service and meter size to recognize difference in capacity needs.

The DERM fees, water purchase costs and sewerage treatment fees are uncontrollable costs of the city that are passed on to our customers. We should have an automatic adjustment clause to account for any increase in DERM fees, water purchase costs, and sewerage treatment fees without having to go through a formal rate review process. In addition, many utilities in Florida have an annual inflationary or price index to recover the costs of general inflation on the cost of services absent a formal rate hearing. A price index should be applied, based on the CPI, for costs not associated with DERM fees, water purchases, sewerage treatment fees. Both the pass-through and price index provide a mechanism to maintain operating margins and capital funding from rates for the long-term fiscal benefit of the utility.

Conclusion

The information above is presented for discussion and direction.

JLM/ETC/JJF/RWC