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City of Miami Beach, 1700 Convention Center Drive, Miami Beach, Florida 33139, www.miamibeachfl.gov

COMMISSION MEMORANDUM

TO: Finance and Citywide Projects Committee

FROM: Jorge M. Gonzalez, City Manager

DATE: September 3, 2009

SUBJECT: **Discussion regarding proposed Fiscal Year 2009/10 Water, Sewer and Stormwater Rates**

BACKGROUND – WATER AND SEWER RATES

The City's utility rates for water and sanitary sewer services are structured to collect the necessary revenues amounts 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 water and sanitary sewer rates in the amounts levied by the County and 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 a 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 Series 2000 Water and Sewer Revenue Bonds and the 2006 Gulf Breeze Loan (which financed some water and sewer projects); future issuance of water and sewer bonds operating and maintenance costs for the water and sewer utility; and a 7.5% fee of previous year total revenue paid to the Miami-Dade County Environmental Resource Management Department (DERM).

At the September 17, 2008, Budget Hearing, the City Commission approved water and sewer rates of \$3.88 and \$5.62 respectively, or a combined water and sewer rate of \$9.50 for FY 2008/09. The proposed water and sewer rates for FY09/10 are \$4.36 and \$6.04, respectively, for a combined water and sewer rate of \$10.40. Of this amount \$0.61 or 68% is the County increase and \$0.29 or 32% is the City increase for the issuance of future bonds to continue water and sewer improvements and to cover the increased cost of operations and maintenance.

In regard to water consumption, our projections are that water consumption levels will continue to be somewhat below historical year levels, yet we expect the water consumption decrease will be offset by decreased system water losses..

Sewer treatment volumes have remained fairly constant over the years and we expect them to remain at the previous FY volume. Therefore, we are using current fiscal year sewer treatment levels to forecast FY 2009/10 revenues.

A discussion of the County and the City components of the proposed FY 2009/10 rate increases are provided below.

FY2009/10 Miami Dade County Wholesale Water and Sewer Rates

Water

The Miami-Dade Water and Sewer Department (WASD) had informed all wholesale customers of rate changes proposed for FY2009/10. The proposed water rate would be \$1.7142, an increase of approximately \$0.25 or 17% above the current rate of \$1.4649. The cost of the proposed FY2009/10 water rate increase to Miami Beach, even with the decreased consumption, is approximately \$1.68 million. WASD has determined that the City incurred an additional expense of \$1,562,708 for FY2007/08 water treatment charges, largely due to increased expenses, maintenance and a geological survey mandated by the South Florida Water Management District (SFWMD), as well as security and source of supply expenses. While the City continues to have concerns regarding the County's cost allocation methodology, to date the County's position is that their methodology is sound.

Sewer

WASD has also notified wholesale customers that the proposed sewer rate will be \$2.0436, an increase of approximately \$0.36, or 21% above the current rate of \$1.6869. WASD has determined that the City is entitled to a credit of \$1,023,675 for FY2007/08 sewage treatment charges, which also includes a credit to the Satellite Cities of \$133,078. The cost of the proposed FY2009/10 sewer rate increase to Miami Beach is approximately \$3,092,889.

The Manager's proposed budget includes the increase in the City water and sewer fees in order to pass through the wholesale rate increases proposed by the County. 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 3, 2009 and September 17, 2009.

Rate Requirements for Additional Water and Sewer Bonds

The second component of the proposed water and sewer rates is the need for future water and sewer revenue to finance the replacement of the City's aged water and sewer infrastructure, the majority of which has been in place for over 50 years.

At the Special Finance and Citywide Projects Committee meeting of June 30, 2008, a summary of future water and sewer bond funding needs for the Neighborhoods Right-of-Way projects was presented. At this meeting, the additional water and sewer funding need of \$50 million and \$21 million respectively for CIP managed projects was presented. An additional \$8.9 million was identified for Public Works managed projects.

Subsequent to the meeting Public Works and CIP staff worked together to better define the scope of work requirements for water line replacements in future neighborhood projects and sewer improvements. In the case of the water main replacements, part of the objective is to identify water main sections in good condition, whose replacement could be deferred to at least 15 years in to the future. As part of this review, the City hired an engineering consultant to perform an updated hydraulic modeling of the City's water system; in addition, the consultant conducted soil resistivity tests to determine areas where the soil conditions would be a cause of pipe corrosion concern. Based upon the consultant's study, water main sections located in areas where soil conditions were considered corrosive were further investigated. To this end, Public Works staff took "coupons," cutting actual sections of pipe to visually examine levels of possible tuberculation, a condition that: (a) reduces the pipe's carrying capacity; (b) also causes loss of pressure; and, (c) can impact water quality.

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Using the engineering consultant's report and the results of the pipe coupons, City staff developed several tiers of potential funding level requirements based on water main construction opportunities and more recent costs estimates for future neighborhood projects. Using the information provided by the City and its Financial Advisor, the City's rate consultant completed a series of pro forma analyses that provide rate increase ranges for the different tiers that differentiate capital needs from a more to less conservative perspective.

In calculating the future rates, the City's consultant had to consider debt service coverage requirements which must be met for two conditions. The first condition, termed **the additional bonds test**, and requires that net revenues available for debt service must be not less than 110 percent of the maximum annual debt service of the outstanding plus prospective debt to be issued, for at least 12 months prior to the issuance of additional bonds. The second condition, which must be fulfilled annually, irrespective as to whether issuance of any prospective debt is contemplated, is termed **the rate covenant**. Net revenues available for debt service in each fiscal year must be not less than 110 percent of the principal and interest requirements for such fiscal year to meet the rate covenant. In addition to meeting the two debt service coverage conditions, annual revenues must be sufficient to meet other revenue requirements without resulting in a cash flow deficit.

To create a phased rate increase, the Administration has reviewed ways to spread out the tax-exempt bond issuance for the remaining water and sewer funded projects. As explained at the August 21, 2008 FCWP meeting, the proposed approach will be to seek a line of credit for water and sewer funded projects, which will allow the City to have the necessary funding capacity to enter into new projects while allowing the City more time to both build the necessary capacity to issue additional tax-exempt bonds through rate increases and also spend down the current fully committed but unspent bond proceeds. While the General Fund will obtain the line of credit, the Water and Sewer Enterprise fund will pay for the origination and carrying costs as well as for any payments required by draws against the lines. The City Commission approved a \$60 million line of credit to assist with the financing of the utility projects in May 2009.

Following a thorough review of the expected timing of funding needs for remaining water and sewer projects, it was decided to issue bonds in two series. The Water and Sewer Enterprise fund is expected to have the capacity to issue tax-exempt debt by October 2009, therefore, it could sell the first series of bonds to cover projects in the amount of \$27.2 million plus any costs required to refund the line of credit. The second issue of \$28 million could be issued in either October 2010 or 2011, as the funding is needed.

At the Commission Budget hearing on September 8, 2008, the Administration recommended a proposed rate for FY2008/09 for water of \$4.13/ 1,000 gallons and \$6.16/ 1,000 gallons for sewer, which resulted in a combined rate increase on \$2.13/ 1,000 gallons. The impact of the combined water and sewer rate increases would be \$23.43/ month for a typical user of 11,000 gallons per month. However, at the direction of the Commission, the Administration was directed to take a further look at the phasing of the projects, with the goal of reducing the impact of the initial rate increases. As part of this review, the 10% operating expense contingency was reduced to 5%, earnings in excess of \$1 million were carried forward as revenues in the subsequent year, the sewer WASH true-up credit of \$1.66 million was used to reduce operating expenses for FY2008/09, and the issuance of the first series of bonds was moved from October 2009 to mid 2010 and the second series of bonds to 2012. As a result of these modifications, the revised combined water and sewer rates were lowered; however, the water and sewer rates for 2009/10 will have to be set in order to be able to issue the first series of bonds in FY 2010.

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The proposed, combined water and sewer rate increase for FY2009/10 is \$0.90 per 1,000 gallons. Of this amount, \$0.61 or 68% is the County increase and \$0.29 or 32% is the City increase for the future issuance of water and sewer bonds. It should be noted that the increase for the City portion of the combined water and sewer rate for FY 2009/10 was previously projected at \$0.82. However, as a result of further refinements in the rate calculation along with higher than expected revenue collections, the City increase for FY2009/10 is now \$0.29.

For the average 11,000 gallons per month customer, the combined water and sewer rates result in a monthly increase of \$9.86 in FY2009/10. For the minimum usage customer (5,000 gallons or less per month), the combined monthly impact would be a total of \$4.48.

Fee (per thousand gallons)	FY 2009/10 Proposed Fees				
	FY 2008/09 Fee	Proposed FY10 CMB Debt Svc	Proposed FY10 M-D County Incr.	Prop. FY 2009/10 Fee	Difference From FY 2008/09
Water	\$3.88	\$0.23	\$0.25	\$4.36	\$0.48
Sewer	\$5.62	\$0.06	\$0.36	\$6.04	\$0.42
Total Increase		\$0.29	\$0.61		\$0.90
Combined Fee	\$9.50			\$10.40	
Monthly Cost to 11,000 gallon Customer	\$104.50	\$3.19	\$6.67	\$114.36	\$9.86
Monthly Cost to 5,000 gallon Customer	\$47.50	\$1.45	\$3.03	\$51.98	\$4.48

BACKGROUND – STORMWATER RATES

At the Special Finance and Citywide Projects Committee (FCWPC) meeting of June 30, 2008, a summary of future stormwater bond funding needs for the Neighborhoods Right-of-Way projects were presented. At that meeting, the additional stormwater funding need of \$94.6 million was identified, based on anticipated scope of work requirements for future stormwater construction across the not-yet-started neighborhood projects. The Committee also requested that the rate be spread over two years.

At the Commission Budget hearing on September 8, 2008, the Administration recommended a proposed rate for FY 2008/09 for stormwater of \$9.45 per month. However, the Administration took a further look at the phasing of the projects, with the goal of reducing the impact of the initial rate increases. As part of this review, the 10% operating expense contingency was reduced to 5%, earnings in excess of \$1 million were carried forward as revenues in the subsequent year, the issuance of the first series of bonds was moved from October 2009 to mid 2010 and the second series of bonds to 2012. As a result of these modifications, the revised stormwater rate was lowered for FY 2008/09 to \$7.42 per ERU. However, the stormwater rates for 2008/09 and 2009/10 will have to be set in order to be able to issue the first series of bonds on or about April 2010

At the September 17, 2008 Budget Hearing, the City Commission approved a rate increase for stormwater. This rate increase was necessary to have the capacity to issue \$39.1m stormwater bonds in mid FY2009/2010. The approved increase was \$1.62 taking the rate from \$5.80 to \$7.42.

Rate Requirements for Additional Stormwater Bonds

In order to be able to provide coverage to issue the first series of additional bonds the proposed monthly stormwater rate increase for a residential customer of \$1.64 is necessary in FY 2009/10 rather than the previously projected rate increase of \$2.01. The Ordinance amendment only includes a rate increase proposal for FY 2009/2010.

	FY 2008/09 Rate	FY 2009/10 Proposed Rate	Difference From FY2008/09 Rate	% Change
Stormwater	\$7.42	\$9.06	\$1.64	22%

The recommended rate is conservative in the area of needed bond coverage based on the information developed to date. The Administration will continue to work on the financing needs and anticipates having more information before it is necessary to actually issue the bonds. If less financing is required or the market is substantially improved, it may be possible to reduce the rates at that point.

JMG/TH/FHB