

TO: Finance and Economic Resiliency Committee Members  
FROM: Eric Carpenter, City Manager  
DATE: February 21, 2025  
TITLE: DISCUSS THE ISSUANCE OF NEW MONEY WATER, SEWER AND STORMWATER REVENUE BONDS

## **RECOMMENDATION**

The Administration recommends the following items for the Finance and Economic Resiliency Committee's (FERC) consideration:

1. Adopting the proposed monthly water, sewer, and stormwater rates.
2. Passing-through future wholesale rate increases from Miami-Dade County pursuant to the formula contained in the City's Code of Ordinances.
3. Adopt the proposed water and sewer impact fees.
4. Continue to monitor the financial position of the Utility system and adjust the financial and rate plan as needed.

Additionally, the Administration recommends holding a rate hearing at the City Commission meeting, scheduled for March 19, 2025 and proceeding with the aforementioned recommendations; including the recommended rate increases, which will take effect upon adoption.

## **BACKGROUND/HISTORY**

### **Water and Sewer**

On December 9, 2020, the Mayor and City Commission (City Commission) approved Ordinance No. 2020-4384, a multi-year schedule of monthly water and sewer rates. The total increase was phased in from 2021 through 2025, as follows: 0% in 2021; 1% in 2022; 3.6% in 2023; 3.6% in 2024; and 3.7% in 2025.

On April 29, 2021, the City Commission adopted Resolution 2021-31692 for issuance of the City's Water and Sewer Revenue Refunding Bonds, Series 2021A. The refunding of the existing bonds provided additional cash flow to fund a portion of the critical capital needs on a pay-as-you-go basis (balanced debt risk). The refinancing resulted in \$10.8 Million in net present value savings and \$12.9 Million in total savings over the life of the bonds. The estimated annual savings range from \$525,000 to \$840,000 in fiscal years (FY) 2022 through 2040.

On May 15, 2024, the City Commission adopted Resolution 2024-33024 authorizing the Administration to execute a Declaration of Official Intent to issue new Water and Sewer bonds in the amount of \$85.0 Million to support the unfunded FY 2024 and the FY 2025 Capital Improvement Program for the Water and Sewer fund and to perform a rate analysis to determine the rate increase needed to fund capital needs beyond FY 2025.

### **Stormwater**

On April 23, 2014, the City Commission approved Resolution 2014-28580 accepting the recommendations of the Mayor's Blue Ribbon Panel on Flooding and Sea Rise to design and

implement the upgrade of the City's storm drainage system to meet the new design criteria set by the City Commission with a potential estimated cost of \$400 Million and with the completion time of 3 to 5 years.

On May 20, 2014, the Finance and Citywide Projects Committee (FCWPC) presented the funding strategy for this program, and recommended the issuance of three separate \$100 Million stormwater tranches. The first bond was issued in July 2015, the second bond was issued in December 2017 and the third bond issuance was anticipated in FY 2022. The remainder of the required funds were provided by the 2015 updated interlocal agreement between the City and Miami-Dade County regarding the former Convention Development Tax.

In December 2017 a feasibility study was completed by Public Resources Management for the issuance of the Stormwater Revenue and Refunding Bonds, Series 2017. In this rate study, projected revenues were based on a schedule of rates as adopted by the City Commission on October 17, 2017. The application of the assumed rate indexing adjustment of 3.5% and an additional rate adjustment of approximately 19.7% anticipated to be effective October 1, 2018 would be necessary to provide sufficient revenues to meet the requirements for the issuance of the Series 2022 Bonds and to provide funding for future capital improvements. This equated to an equivalent residential unit adjustment to \$28.87 per month for fiscal year 18/19, a 23.2% increase. The rate increase would have provided sufficient revenues in order to issue the Series 2022 bonds. On July 27, 2018 FCWPC members discussed the 23.2% increase to the Stormwater Utility rate ultimately approving to only moving forward with the CPI increase of 3.5%.

On March 13, 2024, the City Commission adopted Resolution 2024-32969 to: 1) approve and adopt the 2024 Stormwater Modeling and Master Plan Update, which includes the prioritization of the ten-year critical needs plan and the continued implementation of neighborhood improvement projects incorporating blue-green infrastructure and water quality treatment improvements; and (2) commence a rate study of the stormwater utility to determine financial capacity for the stormwater infrastructure projects. The Public Works Department engaged GovRates, Inc. to conduct the rate study which is now complete (Attachment A). A water, sewer and stormwater rate studies questions and answers were also provided (Attachment B).

A preliminary rate hearing along with a PowerPoint is being presented today to the FERC members (Attachment C). This preliminary hearing will be followed by a rate hearing at the City Commission Meeting on March 19, 2025, for the proposed rates to take effect upon adoption.

## **ANALYSIS**

The City of Miami Beach owns, operates, and maintains a water and sewer utility. The City does not treat its water and sewer. Instead, it has long-established agreements with Miami-Dade County to purchase water and transmit sewage at volume rates.

The City was notified by the Miami-Dade County Water and Sewer Department (WASD) that a \$0.1320 decrease (-3.358%) on the wholesale sanitary sewer rate and a \$0.2873 increase (13.6%) on the wholesale water rate effective October 1, 2024. The City's water and sewer rates are typically adjusted on October 1 of every year to coincide with the fiscal year and the County's schedule.

The City's last formal water and sewer rate study was completed in the middle of the COVID-19 pandemic, with no way of knowing future inflation or deflation trends at the time. The focus of the 2020 rate study was to fund approximately \$122.2 Million in critical capital needs through FY 2024. The 56 Neighborhood Improvement Projects were not included in the financial plan of the 2020 rate study.

The City's water and sewer rates have not kept up with actual inflation – the Miami-Fort Lauderdale-West Palm Beach Consumer Price Index has increased 10.1% more than the water

and sewer user rates since 2020.

Nearly 60% of the City's water and sewer operating expenses are uncontrollable wholesale charges from Miami-Dade County. The City remits 6% of retail revenues to the Miami-Dade Department of Environmental Resources Management (DERM) to help pay for the costs of regulation of the City's water and sewer operation by Miami-Dade County. Factors such as cost increases from electric power providers, changes in fuel and oil prices resulting from global market changes, competition for scarce resources such as concrete and building materials, and union labor contracts often result in cost increases that are greater than the change in the consumer price index (general inflation). Utility costs also typically increase at a higher rate than general inflation due to regulatory requirements.

The \$643 Million ten-year Water and Sewer capital plan include approximately \$386 Million in critical needs projects, prioritized neighborhood improvement projects estimated at \$156 Million, and approximately \$101 Million in other and departmental capital needs. The proposed water and sewer rate increase to finance the capital plan is 9.0% now and in 2027 and 2028, and 4.5% every year after through 2031 (in addition to any pass-through adjustments). This plan would have no rate increase for FY 2026. Additional details are provided in the below table:

**Summary of Proposed Water and Sewer User Rate Revenue Adjustments**

Fiscal Year	Effective Date	Total Adjustment Not Including Pass-Through Adjustments [1]	Monthly Bill for SFR Customer Using 5,000 Gallons [2]	Increase in SFR Customer Monthly Bill [3]	Total Cost Per Gallon of Water and Sewer Service [3]	% of Median Household Income (< 4.5% Considered Affordable By EPA) [4]
	Existing		\$97.73			1.8%
ASAP	ASAP	9.0%	106.44	\$8.71	2.1c	1.9%
2026	10/1/2025	0.0%	106.44	0.00	2.1c	1.9%
2027	10/1/2026	9.0%	115.15	8.71	2.3c	2.0%
2028	10/1/2027	9.0%	124.63	9.48	2.5c	2.1%
2029	10/1/2028	4.5%	129.85	5.22	2.6c	2.1%
2030	10/1/2029	4.5%	135.34	5.49	2.7c	2.2%
2031	10/1/2030	4.5%	140.96	5.62	2.8c	2.2%

CPI and Pass-Through Adjustments After Fiscal Year 2031

[1] The water and sewer adjustments shown are to fund i) the City's operating expenses other than wholesale water and sewer charges from Miami-Dade County; and ii) the multi-year capital program that addresses the City's infrastructure needs. Additional pass-through adjustments are based on increases or decreases in the County's wholesale rates charged to the City. Adjustments include allowance for annual inflation.

[2] Based on proposed rate design without future pass-through adjustments.

[3] Based on proposed rates applied to single family residential ("SFR") customer with 5,000 gallons of monthly usage.

[4] EPA = United States Environmental Protection Agency. Assumes annual 3% cost of living salary increases throughout Forecast Period.

The Stormwater Master Plan approved by the City Commission on March 13, 2024, is comprised of critical needs projects estimated at \$95 Million, prioritized neighborhood improvement projects estimated at \$800 Million (excluding FDOT right-of-way), and approximately \$6 Million previously approved and already budgeted water quality improvement projects. The current adopted user rates increase provisions for the Stormwater system does not have the financial metrics to enable the City to maintain a favorable AA bond rating and has minimal debt capacity to finance future projects. Based on current estimates of revenues and the cost of improvements currently contemplated in the Stormwater program, if the recommended rate increases are not approved, the City may have to delay or forego certain improvements. However, the City's renewal and replacement needs will not go away and will be more expensive to address in the future.

The proposed stormwater rate increases each FY to finance the ten-year stormwater capital plan as seen in the below table:

### Summary of Proposed Stormwater Rates Per Equivalent Residential Unit

Fiscal Year	Effective Date	Total Bill for SFR Customer	Increase in SFR	
			Customer Monthly Bill	% of Median Household Income [*]
	Existing	\$31.86		0.6%
ASAP	ASAP	39.00	\$7.14	0.7%
2026	10/1/2025	39.00	0.00	0.7%
2027	10/1/2026	44.00	5.00	0.8%
2028	10/1/2027	49.00	5.00	0.8%
2029	10/1/2028	54.00	5.00	0.9%
2030	10/1/2029	56.00	2.00	0.9%
2031	10/1/2030	57.68	1.68	0.9%

CPI Adjustments After Fiscal Year 2031

SFR = Single Family Residential

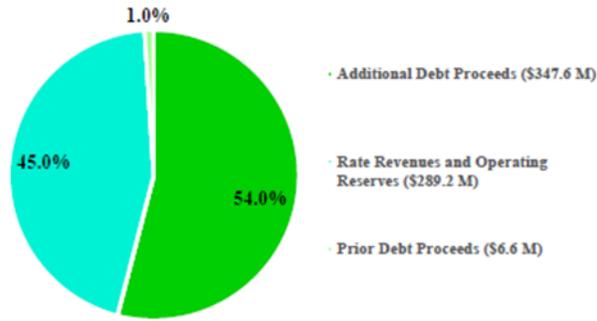
[\*] Assumes annual 3% cost of living salary increases throughout Forecast Period.

Approximately \$67 Million in grants have been awarded to fund additional costs for projects such as Wastewater Stations Rehabilitation, Water Pump Station Improvements, First Street Alton Road-Washington Phase I & 2, North Shore D/Town Center Phase 1, Middle Beach Seawalls and Living Shorelines, and Citywide Gravity Sewer Mains Replacement. The city could possibly lose grant funding if unable to proceed with projects due to lack of adequate financial resources.

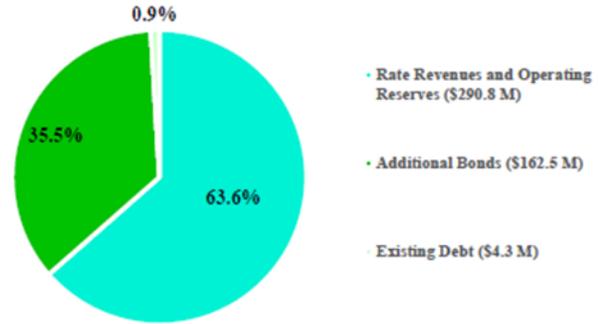
The rate increases, which will be implemented annually through FY 2031, will fully fund the ten-year capital plan for the City's water, wastewater, and stormwater systems – totaling \$1.1 Billion – while maintaining debt service coverage and cash reserves at levels sufficient to maintain the system's creditworthiness. About \$643.4 Million in water and sewer capital needs – net of grant-funded project costs – are recommended to be completed through the FY 2034. Approximately 55% (\$354 Million) of these capital needs are projected to be funded with bond proceeds, with the remainder funded through internal funding sources. About \$457.5 Million in stormwater capital needs – net of grant-funded project costs – are recommended to be completed through the FY 2034. Approximately 36.5% (\$167 Million) of these capital needs are projected to be funded with bond proceeds, with the remainder funded through internal funding sources.

The funding plan assumes: i) the use of the remaining proceeds from the Series 2017 Bonds; ii) the issuance of additional bonds to finance of projects; and iii) the remainder funded through internal funding sources as shown in the charts below.

6) Capital Improvement Program Funding (\$643.4 M)



6) Capital Improvement Program Funding (\$457.5 M)



Additionally, water and sewer impact fees will be right-sized, in order to accurately recover the cost of transmission capacity. Separate impact fees are paid to Miami-Dade County for water and sewer treatment capacity. The City's water and sewer impact fees were last adjusted in 1995, or 30 years ago. The City now has a higher cost per unit of capacity than what was calculated 30 years ago due to inflation, new treatment technology, increased government regulations, and changing capital needs. The purpose of Impact Fees is to assign the proportionate share of growth-related capital costs to new customers benefiting from such additional costs.

The recommended increase in impact fees is shown in the table below:

**Proposed Water and Sewer Impact Fee Schedule - City Portion Only**

Line No.	Description	Meter Equivalent Factor [*]	Water	Sewer	Combined
<b>All Customer Classes - City Portion Only</b>					
<u>Meter Size (Inches)</u>					
1	5/8"	1.00	\$1,630	\$2,030	\$3,660
2	1"	2.50	4,075	5,075	9,150
3	1.5"	5.00	8,150	10,150	18,300
4	2"	8.00	13,040	16,240	29,280
5	3"	16.00	26,080	32,480	58,560
6	4"	25.00	40,750	50,750	91,500
7	6"	50.00	81,500	101,500	183,000
8	8"	80.00	130,400	162,400	292,800
9	10"	115.00	187,450	233,450	420,900
10	12"	215.00	350,450	436,450	786,900

[\*] Reflects meter equivalent factors implied by the size of the meter serving the premises based on information published by the American Water Works Association (AWWA) regarding meter capacities.

These proposed rate increases reflect the funding of the projects identified in the capital plan, as adopted by the City Commission.

**CONCLUSION**

The Administration recommends the following items for the Committee's consideration:

1. Adopting the proposed monthly water, sewer, and stormwater rates.
2. Passing-through future wholesale rate increases from Miami-Dade County pursuant to the formula contained in the City's Code of Ordinances.
3. Adopt the proposed water and sewer impact fees.
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**Applicable Area**

Citywide

**Is this a "Residents Right to Know" item, pursuant to City Code Section 2-17?**

Yes

**Is this item related to a G.O. Bond Project?**

No

**Was this Agenda Item initially requested by a lobbyist which, as defined in Code Sec. 2-481, includes a principal engaged in lobbying?** No

If so, specify the name of lobbyist(s) and principal(s):

**Department**

Public Works

**Condensed Title**

DISCUSS THE ISSUANCE OF NEW MONEY WATER AND SEWER REVENUE BONDS