



COMMISSION MEMORANDUM

TO: Honorable Mayor and Members of the City Commission

FROM: Eric Carpenter, City Manager

DATE: March 19, 2025

TITLE: A RESOLUTION OF THE MAYOR AND CITY COMMISSION OF THE CITY OF MIAMI BEACH, FLORIDA, ACCEPTING THE FAVORABLE RECOMMENDATION OF THE FINANCE AND ECONOMIC RESILIENCY COMMITTEE AT ITS FEBRUARY 21, 2025 MEETING, AND DIRECTING THE CITY MANAGER TO: 1) PRESENT AN ORDINANCE FOR FIRST READING AT THE APRIL 23, 2025 CITY COMMISSION MEETING, AMENDING THE CITY'S WATER, SEWER AND STORMWATER RATES, WITH THE INITIAL IMPLEMENTATION OF THE MONTHLY RATE STRUCTURE TO TAKE EFFECT ON OCTOBER 1, 2025 AND THE IMPACT FEE ADJUSTMENT TO START AS PROPOSED IN THE COMMISSION MEMORANDUM ACCOMPANYING THIS RESOLUTION; AND 2) DEVELOP AND IMPLEMENT AN EDUCATIONAL CAMPAIGN REGARDING THE CITY'S INFRASTRUCTURE PROGRAM, INCLUDING AN EXPLANATION OF THE CITY'S WATER AND SEWER RATE STRUCTURE.

RECOMMENDATION

The Administration recommends accepting the favorable recommendation of the Finance and Economic Resiliency Committee at its February 21, 2025 meeting, and directing the City Manager to: 1) present an Ordinance to the City Commission at the March 19, 2025 meeting, amending the City's water, sewer and stormwater rates, with the initial implementation of the monthly rate structure to take effect on October 1, 2025 and the impact fee adjustment to start as proposed in the Commission memorandum; and 2) develop a marketing plan for the City's infrastructure program, including an explanation of the City's water and sewer rate structure.

Upon approval of the Resolution, the Administration will proceed with a First Reading of the Ordinance on April 23, 2025 and a Second Reading Public Hearing on May 21, 2025 contingent upon finding a sponsor, pursuant to Chapter 2 of the City Code.

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.

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.

Current Status:

The Public Works Department engaged GovRates, Inc. to conduct the rate study which is now completed (Attachment A). A water, sewer and stormwater rate study questions and answers were also provided (Attachment B).

A presentation of the formulation of the proposed rates (Attachment C), as well as public comments, were offered at the February 21, 2025 FERC meeting, in which the Administration made the following recommendations 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.
- 4) Continue to monitor the financial position of the Utility system and adjust the financial and rate plan as needed.

At the conclusion of the presentation and discussion, FERC members made a motion to proceed to the City Commission with a favorable recommendation to:

- 1) Discuss the water, sewer and stormwater rate Ordinance, with an initial implementation of the monthly rate structure to start October 1, 2025, and the impact fee adjustment to start as presented, and
- 2) For the Administration to develop a marketing plan for the infrastructure program.

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 became 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 includes 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% in FY 2026, 2027 and 2028, and 4.5% every year after through 2031 (in addition to any pass-through adjustments). 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%
2026	10/1/2025	9.0%	106.44	\$8.71	2.1¢	1.9%
2027	10/1/2026	9.0%	115.15	8.71	2.3¢	2.0%
2028	10/1/2027	9.0%	124.63	9.48	2.5¢	2.1%
2029	10/1/2028	4.5%	129.85	5.22	2.6¢	2.1%
2030	10/1/2029	4.5%	135.34	5.49	2.7¢	2.2%
2031	10/1/2030	4.5%	140.96	5.62	2.8¢	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 rate increase provisions for the Stormwater system do 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	Increase in SFR		
		Total Bill for SFR Customer	Customer Monthly Bill	% of Median Household Income [*]
	Existing	\$31.86		0.6%
2026	10/1/2025	39.00	\$7.14	0.7%
2027	10/1/2026	44.00	5.00	0.8%
2028	10/1/2027	49.00	5.00	0.9%
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.

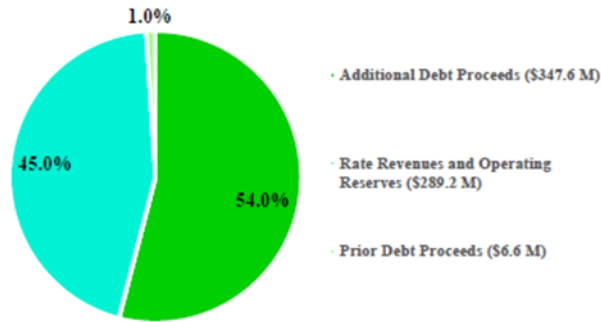
The rate increases, which will be implemented annually through FY 2031, will fully fund the ten-year capital plan for the City's water, wastewater, and stormwater systems – totaling \$1.1 Billion – while maintaining debt service coverage and cash reserves at levels sufficient to maintain the system's credit worthiness.

About \$643.4 Million in water and sewer capital needs – net of grant-funded project costs – are recommended to be completed through 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.

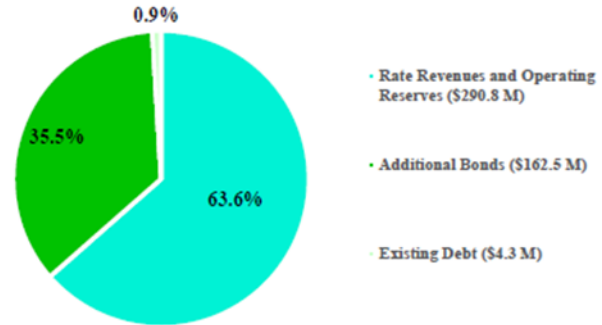
About \$457.5 Million in stormwater capital needs – net of grant-funded project costs – are recommended to be completed through FY 2034. Approximately 36.5% (\$167 Million) of these capital needs are projected to be funded with bond proceeds, with the remainder funded through internal funding sources.

The funding plan assumes: i) the use of the remaining proceeds from the Series 2017 Bonds; ii) the issuance of additional bonds to finance 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
All Customer Classes - City Portion Only					
	<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.

FISCAL IMPACT STATEMENT

The proposed water and sewer rate increase is 9.0% in fiscal years 2026 through 2028, and 4.5% every year after through 2031 (in addition to any pass-through adjustments). The proposed stormwater rate increases by 22.4%, 12.8%, 11.4%, 10.2%, 3.7%, and 3.0% for the fiscal years 2026, 2027, 2028, 2029, 2030, and 2031, respectively. The proposed increases in water and sewer impact fees will be effective upon approval.

FY 2025 revenue will increase with the proposed rate adjustments as follows:

Water	\$ 24,630,700
Sewer	\$ 32,882,900
Total	\$ 57,513,600

Storm \$ 39,174,400

CONCLUSION

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 (NIP) were not included in the financial plan of the 2020 rate study.

Without stormwater adjustments, all NIPs and a portion of the Citywide seawalls rehab program would be deferred indefinitely and remain unfunded including: West Avenue Phase III, First Street Phase I and II, FDOT Alton Road, 17th Street between Alton Road and Washington Avenue, North Shore D – Town Center Phase I, Normandy Isles A and Flamingo.

Additionally, in FY 2026, approximately \$37 Million of water and wastewater main projects will have to be deferred (there is only \$14 Million available in 2027, \$14 Million in 2028, and \$15 Million in 2029), including: replacement of transmission water main along 41st Street, replacement of transmission water main along Normandy Isle, sanitary sewer pump station No. 2 forcemain replacement and sanitary sewer pump station No. 14 discharge forcemain replacement.

Without water and sewer rate adjustments, projects would have to be deferred including: sanitary sewer pump station No. 29 discharge force main replacement and rehabilitation, sanitary sewer pump stations No. 18 and 27 discharge force mains replacement.

Additionally, in FY 2027, approximately \$32 Million of water and wastewater main projects will have to be deferred including: Water main replacement on MacArthur Causeway, Hawthorne forcemain replacement, sewer pump station No. 5 force main replacement, Normandy Isle sanitary pump station No. 22 discharge force main, and North Bay Road and Lakeview gravity sewer collection upgrades.

Taking the above into consideration, the Administration recommends accepting the favorable recommendation of the Finance and Economic Resiliency Committee at its February 21, 2025 meeting, and directing the City Manager to: 1) present an Ordinance to the City Commission at the March 19, 2025 meeting, amending the City's water, sewer and stormwater rates, with the initial implementation of the monthly rate structure to take effect on October 1, 2025 and the impact fee adjustment to start as proposed in the Commission memorandum; and 2) develop a marketing plan for the City's infrastructure program, including an explanation of the City's water and sewer rate structure.

Upon approval of the Resolution, the Administration will proceed with a First Reading of the Ordinance on April 23, 2025 and a Second Reading Public Hearing on May 21, 2025 contingent upon finding a sponsor, pursuant to Chapter 2 of the City Code.

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

Accept Rec, Proceed with Water, Sewer, & Stormwater Rate Ordinance/Marketing Plan. PW

Previous Action (For City Clerk Use Only)