

MIAMI BEACH

WATER, SEWER, AND STORMWATER RATE STUDIES QUESTIONS AND ANSWERS

Version Date: January 28, 2025

This document provides questions and answers for the City of Miami Beach's water, sewer, and stormwater rate studies.

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1. What do we get for the water and sewer rate increases? What are the benefits to Miami Beach residents?

For any city to flourish, it must have healthy water and sewer infrastructure. This vital infrastructure makes our community livable and attracts and retains residents, businesses, and tourists.

The rates are proposed to be increased to invest in critical infrastructure as well as to pay for normal maintenance/repair. Miami Beach has a tremendous amount of water and sewer infrastructure that has reached the end of its useful service life. Some of this infrastructure dates back to the 1930's. Residents should not have to worry about the quality of the water coming from their tap or whether their sewage will be safely disposed of – they need a utility system that is properly managed and maintained. Maintaining this level of service and quality requires ongoing investment, maintenance, and upgrades.

The benefits to Miami Beach residents of the water / sewer rate and financial plan include:

- The City is proactively addressing public health and safety issues and is following the recommendations of the City's adopted master plans.
- There will be improved water pressure and fire protection as a result of line replacements.
- There will be fewer water and sewer line breaks and less risk of fines / consent orders due to pollution or violation of system permits from regulatory agencies. Pipe failures can result in property damage and extensive roadway repairs.
- The rate plan provides access to debt financing / capital markets – the ability to "get the work done" at today's prices. One hundred percent (100%) pay-as-you-go funding of the water and sewer capital program would require much higher rate adjustments.
- The water and sewer rates will remain affordable and competitive.

2. What do we get for the stormwater rate increases? What are the benefits to Miami Beach residents?

As a coastal city, Miami Beach is particularly vulnerable to flooding, which causes property damage, infrastructure deterioration, and public health risks. Rising sea levels also present challenges for stormwater management. To effectively address these issues, the City requires substantial investment in its stormwater infrastructure, including the construction of new drainage systems and the enhancement of existing facilities.

Increasing the stormwater rates is essential to generate the necessary funding for the City's stormwater improvements. The current rates are insufficient to cover the costs associated with maintaining, upgrading, and reinvesting in the stormwater management system. By raising the stormwater rates, the City can help ensure that it has the resources needed to protect its residents, businesses, and environment from the adverse effects of flooding and stormwater runoff.

The benefits to Miami Beach residents of the stormwater rate and financial plan include:

- The City is proactively addressing public health and safety issues and is following the recommendations of the City's adopted master plan.
- There will be improved flood protection as a result of stormwater improvements.
- There will be less risk of fines / consent orders due to pollution or violation of the stormwater system permits from regulatory agencies.
- The rate plan provides access to debt financing / capital markets – the ability to "get the work done" at today's prices. One hundred percent (100%) pay-as-you-go funding of the stormwater capital program would require much higher rate adjustments.
- The stormwater rates will remain affordable and competitive.

3. Are Miami Beach's water and sewer rates competitive with those of other utilities? Are the water and sewer rates affordable?

Miami Beach's water and sewer rates are competitive with those of other Florida utilities and are considered affordable by utility industry standards. The Environmental Protection

Agency (EPA) has historically considered 4.5% of median household income to be the affordability threshold for combined water and sewer bills. The proposed water, sewer, and stormwater rates for the City are anticipated to generate bills that are significantly lower than the EPA's affordability threshold for water and sewer bills only.

A rate / bill comparison is not a "report card" on how well a utility is performing. There are many reasons why rates differ among utilities, including the source of water supply and treatment process, capital and renewal/replacement needs, customer demographics, and the time of the last rate review. Each utility has different circumstances. It is important to set the rates at affordable levels that will ensure the sustainability of the utilities, enabling them to accomplish their missions while keeping rates lower over the long term.

A typical average single-family residential customer within the State of Florida uses 5,000 gallons per month. Under the initial proposed rates, this customer would pay \$106.44, or 2.1¢ per gallon, for both water and sewer service. To provide some perspective, many people are familiar with the infamous water crisis in Flint, Michigan. Prior to this crisis, residents in Flint paid \$144.87 for 5,000 gallons of water and sewer service. These rates for Flint were effective in 2015 (ten years ago). Compare Flint's \$144.87 to the \$106.44 for the safe and reliable utility service that the City provides.

Miami Beach is often compared to the City of Fort Lauderdale. Fort Lauderdale currently charges \$107.13 for 5,000 gallons of water and sewer service – higher than the \$106.44 under the initial proposed water and sewer rates for Miami Beach. Fort Lauderdale increased its water and sewer rates by 14% in Fiscal Year 2024 and by 14.4% in Fiscal Year 2025. For Fiscal Years 2026 and 2027, Fort Lauderdale has adopted a 9% increase and a 6.7% increase, respectively.

Compare 2.1¢ per gallon for water and sewer service to the cost per gallon of bottled water or something else you buy. Water and sewer service is a bargain.

Most of the utilities in Florida are currently reviewing their rates or already have planned rate adjustments. As these other utilities increase their rates, the City's rates will continue to be competitive.

4. Are Miami Beach's stormwater rates competitive with those of other utilities? Are the stormwater rates affordable?

Miami Beach's stormwater rates are considered competitive and affordable by utility industry standards. The EPA has historically considered 4.5% of median household income to be the affordability threshold for combined water and sewer bills. The proposed water, sewer, and stormwater rates for the City are anticipated to generate bills that are significantly lower than the EPA's affordability threshold for water and sewer bills only.

Given the vulnerability to flooding and the costs of mitigating such risks, coastal communities often have higher stormwater rates than inland areas. It is important to recognize that the City's stormwater operations are accounted for in an enterprise fund that is intended to be self-sufficient. In many other communities, the stormwater rates do not fund all of the stormwater operating and capital needs – there is subsidization from the General Fund.

5. Have Miami Beach's rates kept up with inflation? Has the City implemented the recommendations of rate reviews completed in previous years?

The COVID-19 pandemic, supply chain delays, labor shortages, and other factors have caused substantial increases in utility costs. The water and sewer rates have not kept up with the cost inflation. The City's water and sewer rates have increased by 18.2% since 2020, consistent with the recommendations of the last rate study, but the Miami-Fort Lauderdale-West Palm Beach Consumer Price Index has increased by 28.3% since that time – a 10% deficiency. The initial rate adjustments proposed for the current rate study could be considered catch-up increases.

The last water and sewer rate study was completed in 2020 in the middle of the COVID-19 pandemic, and there was 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 the Fiscal Year 2024. The 56 Neighborhood Improvement Projects were not included in the financial plan of the 2020 rate study.

With respect to the stormwater rates, the City did not implement a rate increase identified for the Fiscal Year 2019 that would have put the stormwater system in a much better financial position today. The current stormwater rate per equivalent residential unit (ERU) is \$31.86, but if the financial plan had been followed, the stormwater rate in Fiscal Year 2025 would have been \$37.63. The initial stormwater rate adjustments could be considered catch-up increases.

Many other utilities throughout the United States are facing similar rate increases. Given the recommended capital improvement plan based on the City's master plans, the rate plans are considered the minimum increases needed to maintain the current "AA" bond ratings. Alternative scenarios were explored with lower increases, but these scenarios were considered financially riskier options that would lead to credit rating downgrades, increased borrowing costs, and higher user rates over the long term.

The City could choose not to fund certain projects and defer them indefinitely. However, the City's renewal and replacement needs will not go away and will be more expensive to address in the future.

6. How many years of rate adjustments should be adopted?

Six (6) years of rate adjustments are recommended to be adopted. To implement the multi-year capital program, the City staff needs to know how much revenue the utilities will collect since projects usually take more than one year to complete.

When the utilities seek debt financing for a portion of the capital program, bond rating agencies and lending institutions / programs typically want to see five years of projections. In the evaluation of a utility's ability to repay the debt, only rate adjustments that have already been adopted will be counted.

7. What would happen if the rates were not increased?

If the rates were not increased, the utilities would not remain financially sustainable. Moreover, the utilities may not be able to meet some of the rate and financial covenants associated with existing outstanding bonds and State Revolving Fund loans. Defaulting on rate covenants could lead to a credit downgrade, possible acceleration of some debt payments (e.g., all principal due), and an inability to secure additional debt financing.

If the financial position of the utilities deteriorated to the point that the utilities could not fund projects to comply with regulatory requirements and avoid infrastructure failures, the City could face fines and consent orders from regulatory agencies, as well as associated legal expenses. In 2013, Miami-Dade County entered into a consent order with the Florida Department of Environmental Protection under which the County agreed to pay a \$978,100 civil fine and \$825,000 to hire an outside agency to monitor and oversee the implementation of \$1.6 billion over the next 15 years to fix the County's antiquated water and sewer pipes. It is not advisable for Miami Beach to be in a position where a regulatory body forces the City to perform necessary improvements to its water and sewer infrastructure. The City would have to increase its rate more to pay for the penalties and legal expenses.

If the rates were not adjusted:

- All Neighborhood Improvement Projects and a portion of the Citywide Seawall Rehab would be deferred indefinitely and remain unfunded, including
 - West Avenue, Phase 3 – Would have to forfeit \$15M in grants.
 - First Street, Phases 1 through 4 – Would have to forfeit \$35M in grants.
 - FDOT Alton Road.
 - 17th Street between Alton Road and Washington Avenue.
 - North Shore D – Town Center Phases 1 and 2 – Would have to forfeit \$10M grant.
 - Normandy Isles A.
 - Flamingo.

- The following water and sewer projects would be deferred (includes portion of critical capital needs):
 - Replacement of transmission main along 41st Street – originally installed in the 1960s.
 - Replacement of transmission main along Normandy Isle – originally installed in 1943.
 - Sanitary sewer pump station No. 2 discharge force main replacement – originally installed in 1957. The Master Plan identified this force main as having a high likelihood of failure with significant consequences if it does occur.
 - Sanitary sewer pump station No. 14 discharge force main replacement.
 - Sanitary sewer pump station No. 29 discharge force main replacement and rehabilitation of two 30-inch diameter mains that cross under Indian Creek Canal – originally installed in 1937 and 1967, respectively
 - Sanitary sewer pump stations No. 18 and No. 27 discharge force mains replacement – originally installed in 1968.
 - Water main replacement on MacArthur Causeway – originally installed in 1938.
 - Hawthorne force main replacement. This force main has experienced failures in recent months.
 - Sewer pump station No. 5 force main replacement – originally installed in 1957.
 - Normandy Isle sanitary pump station No. 22 discharge force main. This main experienced a failure that resulted in a sanitary sewer overflow in September 2024.
 - North Bay Road and Lakeview gravity sewer collection upgrades.

8. Why is a bond rating important? Why should the utilities maintain strong financial metrics?

The City is planning to issue bonds in the near future to fund a portion of the multi-year capital program of the utilities. A bond or credit rating is a measure of financial risk. Investors expect a higher interest rate with riskier bonds. The utilities currently have an "AA" bond rating, which is the minimum rating that most utilities would like to achieve. An "AA" bond rating provides for lower interest rates and issuance costs, which help to keep user rates lower.

A utility's bond rating is a reflection of the utility management, which includes the City Commission. A utility with at least an "AA" bond rating is considered to have a healthy financial position that can help the utility navigate volatile market conditions and new regulatory requirements.

The City should maintain strong financial metrics (e.g., cash and debt service coverage) to mitigate the financial risks associated with operating the utilities, including:

- Cyclicalities of water sales/revenue collection. Most of a utility's costs are fixed and must be paid each month regardless of how much revenue is collected. Major fixed costs include salaries, benefits, and debt service.
- Revenues lower than expected.

- Operating expenses higher than expected or unforeseen operating expenses.
- Bids for capital projects that are higher than planning estimates. Because of supply chain delays, labor shortages, and other factors, some utilities have received bids for projects that have been twice the estimated cost.
- New regulatory requirements that represent unfunded mandates.

Strong financial metrics also enable the utilities to have less dependence on debt financing and the associated interest and issuance expenses. Recurring or routine capital needs should ideally be paid on a pay-as-you-go basis.

9. Are the utilities at risk of a bond rating downgrade?

Yes. There have been cases of a utility being placed on "credit watch" prior to a public hearing on rates. The proposed rate and financial plans are aimed at preserving the existing "AA" bond ratings of the utilities. To the extent that the plan is not adopted, the utility bond ratings could possibly be downgraded shortly after the public hearing on the rates.

As there are many elements that comprise a bond rating, an "AA" bond rating is never guaranteed. However, not adopting rates when needed greatly reduces the chances of maintaining a bond rating and negatively affects a utility's financial sustainability and creditworthiness.

10. How often should the City perform a utility rate study?

Utility rate studies should be performed as needed, as circumstances materially change, or every five years. In general, proactive utility financial planning helps to keep rates lower while still enabling the utility to accomplish its mission. Rate studies typically have at least five years of projections, and it is important for the City to compare actual results with the projections. Through in-house monitoring of the utility's financial position, the City staff can determine whether it makes sense to have another formal review of utility revenue sufficiency.

11. Is the utility's multi-year capital program really needed?

Capital assets deteriorate over time. Water main failures, sewer main breaks, and sewer lateral breaks and blockages are trending upward within the City service area. As water, sewer, and stormwater infrastructure ages, it requires maintenance and replacements which are costly. It is necessary to adopt a comprehensive, fiscally sustainable, and multi-year capital program to ensure effective management of capital assets. Rate increases help cover these expenses and ensure the reliability, safety, and environmental compliance of the water, sewer, and stormwater systems.

The City updates its utility master plans every few years to evaluate system condition and to identify capital reinvestment needs to optimize system operations. The utility systems always need more improvements, upgrades, and replacements than what can be accomplished in a five-year period. The installed cost of depreciable water and sewer utility assets under City management was about \$354 million as of September 30, 2023, while the installed cost of depreciable stormwater utility assets was about \$316 million. The replacement cost of these assets is much higher. Based on asset age and historical changes in the *Engineering News-Record* Construction Cost Index, a high-level replacement cost of the City's water and sewer depreciable assets is estimated at \$936 million. Meanwhile, the high-level replacement cost for the depreciable stormwater assets is estimated at \$361 million. These high-level replacement cost estimates do not consider newer technology, changes in regulatory requirements, and cost factors specific to Miami Beach.

The utilities are regulated by the Florida Department of Environmental Protection, the South Florida Water Management District, and the Department of Health, and many capital needs are driven by regulatory requirements. Water and sewer utilities need to invest in new technologies and processes to meet stricter environmental and safety standards, leading to higher operational costs. Capital needs identified in the master planning process are prioritized, and the highest priority projects are incorporated into the multi-year capital program.

12. How about using grants to help cover some of these utility costs?

Grants are typically awarded based on priority and how economically disadvantaged a utility's service area is. The City staff has applied for and the City has been awarded millions of dollars in grants for the utilities. The staff plans to apply for millions of dollars more. The rate and financial plans reflect the project cost savings from awarded grants. It is important to note that a utility often must fund a capital project prior to receiving a grant reimbursement, and there can sometimes be a few years between the capital expenditure and the grant reimbursement.

Grant funds are not considered pledged revenues toward the repayment of the utilities' outstanding debt. As such, the grant funds do not help the utilities meet the rate and financial covenants associated with their existing debt.