



October 18, 2023

Water and Wastewater Utility Rate Study

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Agenda



- **Utility Overview**
- **Major Cost Factors Affecting Water and Wastewater Utility System**
- **Projected Funding of Capital Improvement Program**
- **Cash Position With No Rate Adjustments**
- **Projected Need for Revenue Adjustments**
- **Projected Financial Position**
- **User Rate Comparison and Design**
- **Impact Fees and Other / Miscellaneous Service Charges**
- **Recommendations**





Utility Overview

■ Provides Essential Service

- Public Health and Safety – Primary Objective
- Highly-Regulated (FDEP/SFWMD/DOH/EPA)

■ Enterprise Fund: Operations Primarily Funded Through User Rates

- Last Formal Rate Review Established Rates for Fiscal Year 2016
- Consumer Price Index Adjustments in Fiscal Years 2017 Through 2021
- No Rate Adjustments Since Fiscal Year 2021

■ Substantial Infrastructure Under City Management

- \$136.7 Million Installed Cost of Assets
- Estimated \$360 Million Replacement Cost of Existing Depreciable Assets Based on Age

Major Cost Factors Affecting Water and Wastewater Utility System

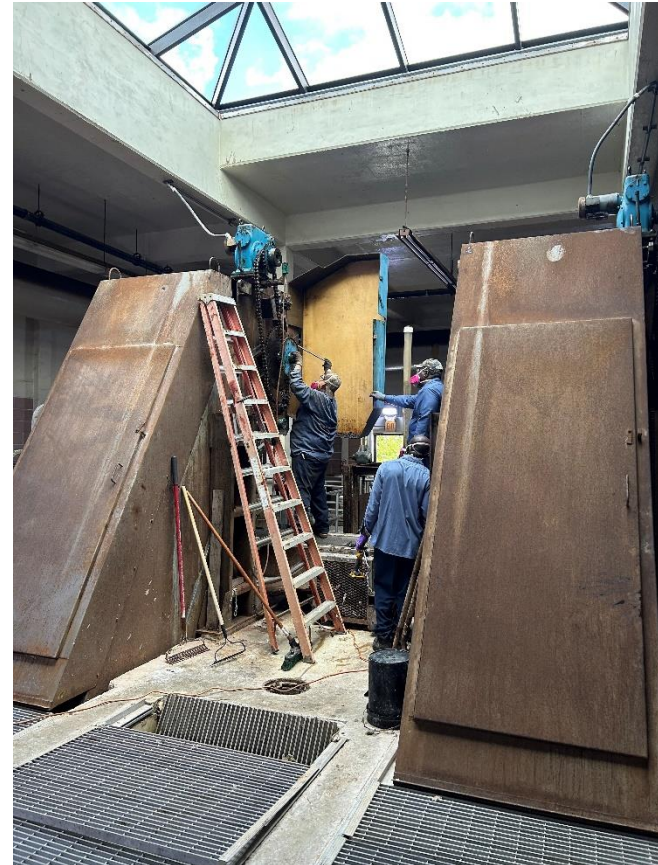


■ Many Assets Have Reached the End of Their Useful Service

- City Wastewater Treatment Plant Currently Requires Chemical Treatment to Compensate for Mechanical Weaknesses
- 213 Miles of Water Mains and 31 Miles of Force Mains Are Over 60 Years Old and Made of Asbestos Cement (Breaks Easily)
- In 2022, the City Had 6,717 Work Orders to Primarily Address Issues Related to Aging System (Average 550/Month)
- Addressing Customer Complaints of Water Color, Odor, and Taste

■ Estimated \$224.3 M Capital Needs Through FY 2033

- Costs of Utility's Capital Needs Could Be Higher Than Estimated
 - Volatile Market Conditions Are Impacting Project Costs



Major Cost Factors Affecting Water and Wastewater Utility System (cont.)



■ Required Regulatory Compliance

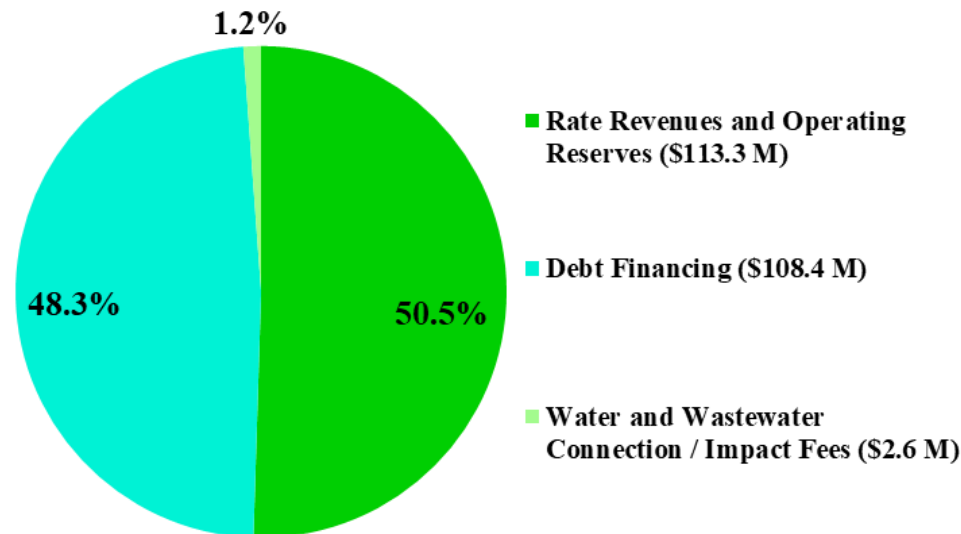
- Senate Bill 712 Passed in 2020 Requires Additional Collection System Maintenance to Address Inflow / Infiltration and Eliminate Sewer Overflows
- New FDEP Rule on Phosphorus Management Passed in 2021 Impacting Biosolids Disposal
- Revision of Federal Lead and Copper Rule in 2021 May Require Utility to Replace Galvanized Service Lines
- Upcoming Regulations on PFAS & PFOA (Forever Chemicals) May Require Additional Treatment Methods



Projected Funding of Capital Improvement Program



Capital Improvement Program Funding (\$224.3 M)



- **Assumed Three 30-Year Revenue Bond Issues for Debt Financing About \$108.4 Million of Capital Needs**
 - First Bond Issue in Fiscal Year 2024 to Finance About \$20 Million of Water Line Replacements and \$40 Million of West Wastewater Treatment Plant Replacements / Upgrades (Total = \$60 Million)
 - Second Bond Issue in Fiscal Year 2026 to Finance About \$25.3 Million of Projects, and Third Bond Issue in Fiscal Year 2030 to Finance About \$23.1 Million of Projects

Major Cost Factors Affecting Water and Wastewater Utility System (cont.)

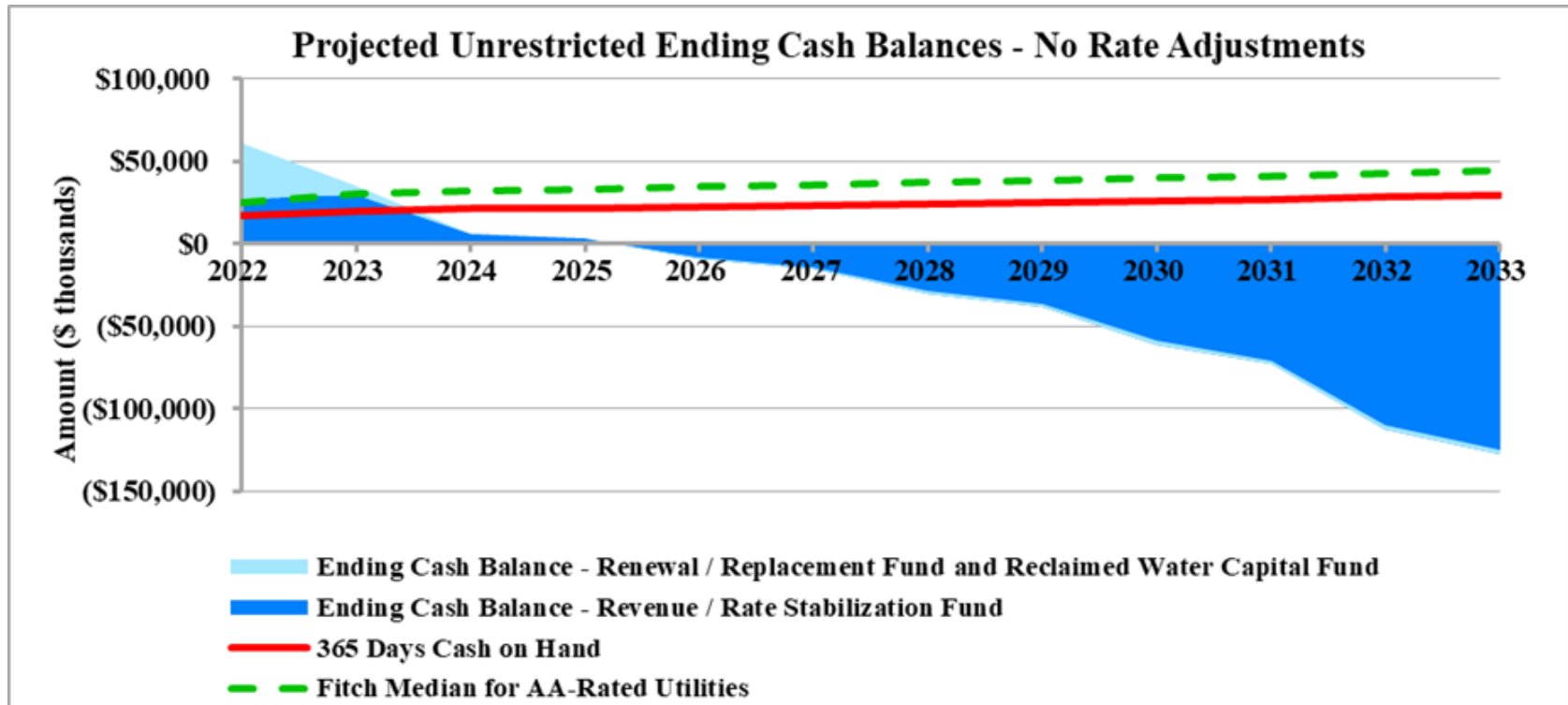


■ Increased Operating Expenses

- Budgeted Fiscal Year 2023 Operating Expenses Were About 95% of Revenues
 - Minimal Operating Margins for Debt Service or Capital Projects Funding
 - Capital Projects Are Currently Funded Through Existing Operating Reserves (Not Sustainable)
- Inflationary Effects
 - Miami-Fort Lauderdale-West Palm Beach Consumer Price Index (CPI) Has Increased by About 24% Since Monthly User Rates Were Last Adjusted in October 2020
 - Substantial Increases in Operational Costs Such as Energy, Chemicals, Steel, PVC Pipes, Other Parts and Materials
 - Permanent Increases in Costs Must Ultimately Be Passed Through to Customers Through Rates



Cash Position With No Rate Adjustments



Projected Need for Revenue Adjustments



Summary of Proposed User Rate Revenue Adjustments

Fiscal Year	Effective Date	Index Adj. Already in City Code	Add'l Adj.	Total Adj.	Bill for Average SFR Customer Using 6,000 Gallons [1]	Increase in SFR Customer Monthly Bill [2]	Total Cost Per Gallon of Water and Sewer Service [2]	% of Median Household Income (< 4.5% Considered Affordable By EPA) [3]
	Existing				\$67.36			1.5%
2024	1/1/2024	2.5%	22.5%	25.0%	83.85	\$16.49	1.4¢	1.9%
2025	10/1/2024	2.5%	6.5%	9.0%	91.39	7.54	1.5¢	2.0%
2026	10/1/2025	2.5%	6.5%	9.0%	99.62	8.23	1.7¢	2.1%
2027	10/1/2026	2.5%	1.5%	4.0%	103.61	3.99	1.7¢	2.2%
2028	10/1/2027	2.5%	1.5%	4.0%	107.75	4.14	1.8¢	2.2%
2029	10/1/2028	2.5%	1.5%	4.0%	112.06	4.31	1.9¢	2.3%
2030	10/1/2029	2.5%	1.5%	4.0%	116.54	4.48	1.9¢	2.3%
2031	10/1/2030	2.5%	0.5%	3.0%	120.03	3.49	2.0¢	2.3%
2032	10/1/2031	2.5%	0.5%	3.0%	123.63	3.60	2.1¢	2.3%
2033	10/1/2032	2.5%	0.5%	3.0%	127.34	3.71	2.1¢	2.4%

[1] Based on proposed rate design.

[2] Based on proposed rates applied to single family residential ("SFR") customer with 6,000 gallons of monthly usage.

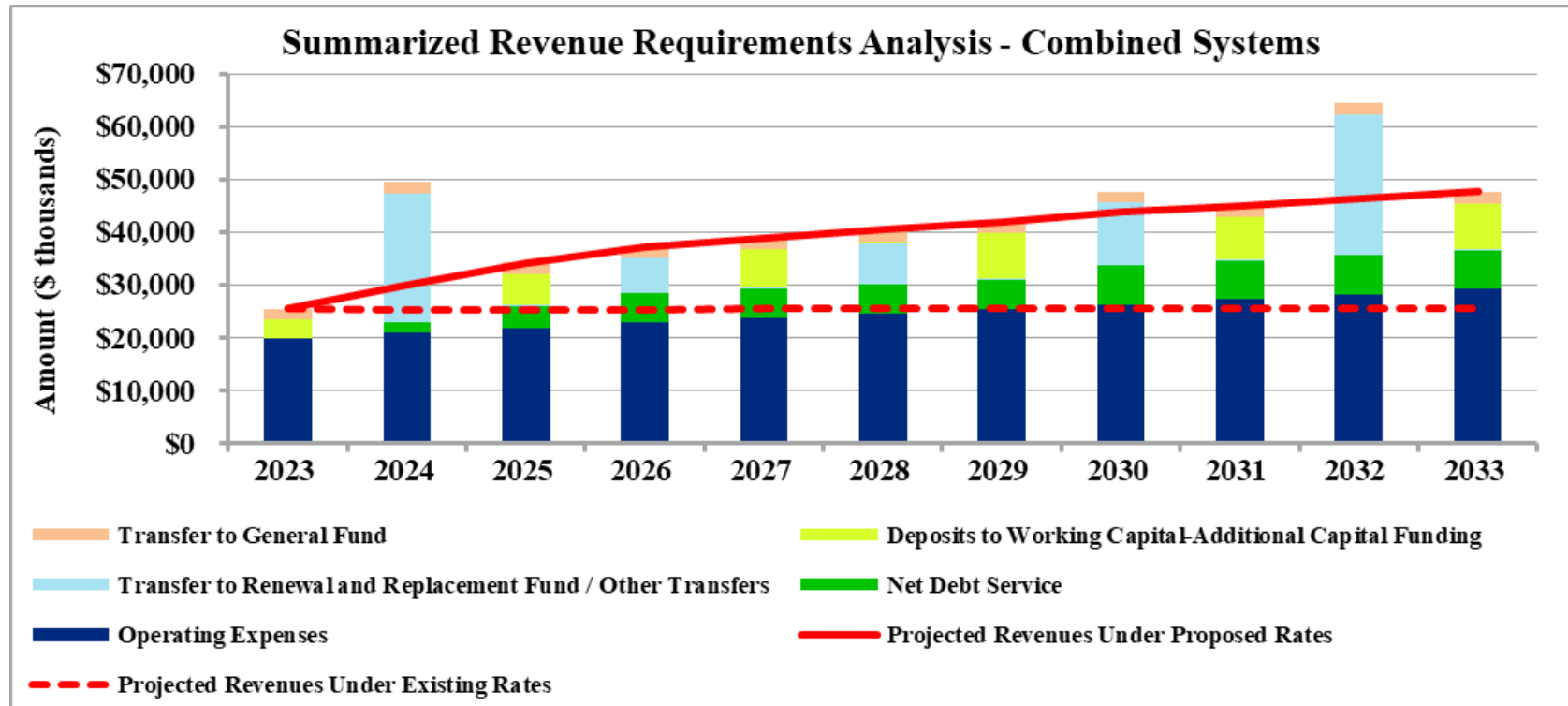
[3] EPA = United States Environmental Protection Agency. Assumes annual 2% cost of living salary increases after Fiscal Year 2023.

Only adjustments above the red line are proposed to be adopted at this time.

Many Other Utilities Throughout the United States Are Facing Similar Rate Adjustments

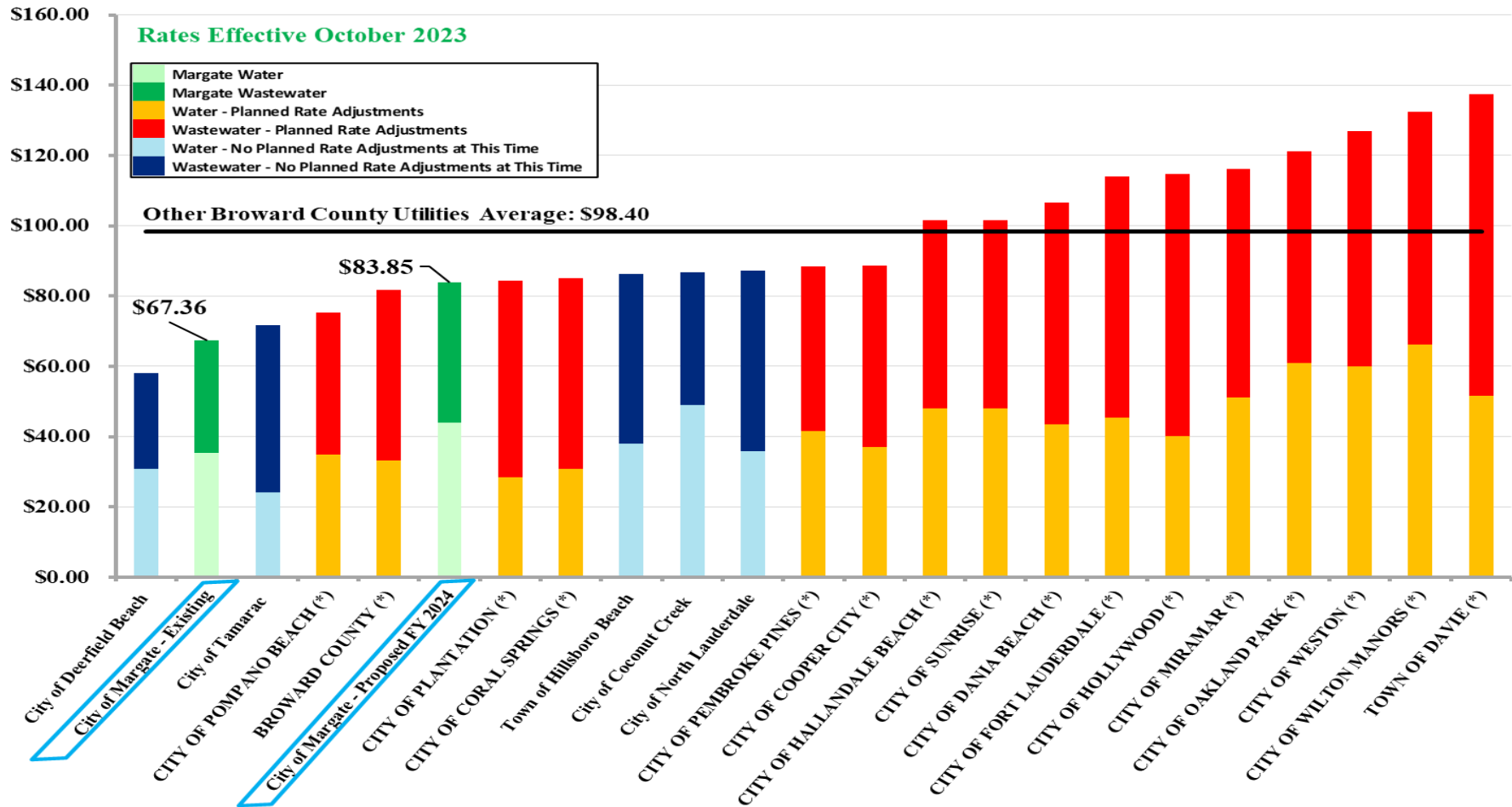
Prior to Its Infamous Water Crisis, the City of Flint, Michigan Charged \$162.37 for 6,000 Gallons of Water and Wastewater Service

Projected Financial Position



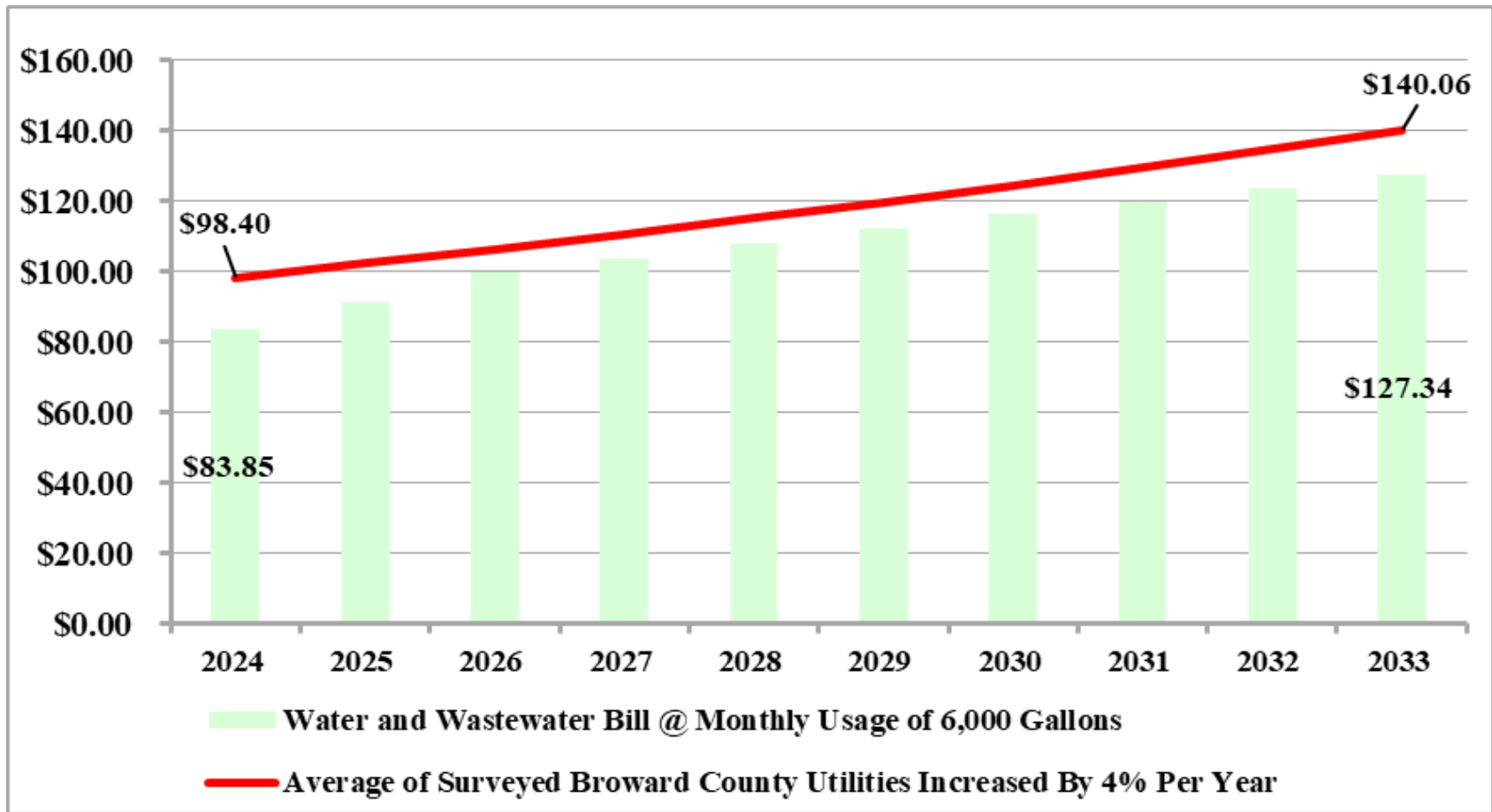
With Rate and Financial Plan, the Utilities are Projected to Meet All Financial Targets by the End of the Forecast Period and to Remain Financially Healthy

User Rate Comparison – 6,000 Gallons of Monthly Usage



(*) Utilities in CAPITALIZED letters and with orange and red bars i) are involved in rate study; ii) are planning to conduct rate study; or iii) will implement rate revision or price index / pass-through adjustment within twelve months

City's Water and Wastewater Rates Are Anticipated to Remain Below the Average of Surveyed Broward County Utilities





User Rate Design

- **Water Rates: No Changes to Existing Rate Structure Are Recommended**
 - Elimination of Annual Hydrant Maintenance Charge
- **Wastewater Rates: Across-the-Board Adjustments**
- **Maintenance of 25% Outside-City Surcharge as Allowed Per Florida Statutes**
 - Applies to Customers in Coconut Creek and North Lauderdale Service Areas
 - Most Florida Utilities With Outside-Municipality Customers Charge the 25% Surcharge



Utility Connection / Impact Fees

- **Support Policy of "Growth Paying for Growth"**
 - Help to Reduce Need for Monthly User Rate Increases
- **Common in Utility Industry**
 - Used to Pay for Growth-Related Capital Projects and Growth-Related Debt Service
- **Dual Rational Nexus Requirements Established Through Case Law**
 - Must Relate Capital Expenditures to Growth
 - Fee Must Be Proportionate to Benefit Received
- **Last Reviewed in 2008**
 - *Engineering News-Record* Construction Cost Index Has Increased By About 62% Since Last Review

Proposed Utility Connection / Impact Fees Per Equivalent Residential Connection (ERC)



Existing and Proposed Water and Wastewater Connection Charges Per ERC

Description	Existing	Proposed	Difference		Level of Service (gpd) [1]	Calculated Cost per Gallon [2]
			Amount	%		
Water	\$1,790	\$1,995	\$205	11%	335	\$5.96
Wastewater	1,920	3,350	1,430	74%	335	10.00
Combined	<u>\$3,710</u>	<u>\$5,345</u>	<u>\$1,635</u>	<u>44%</u>		

ERC = Equivalent Residential Connection

gpd = gallons per day

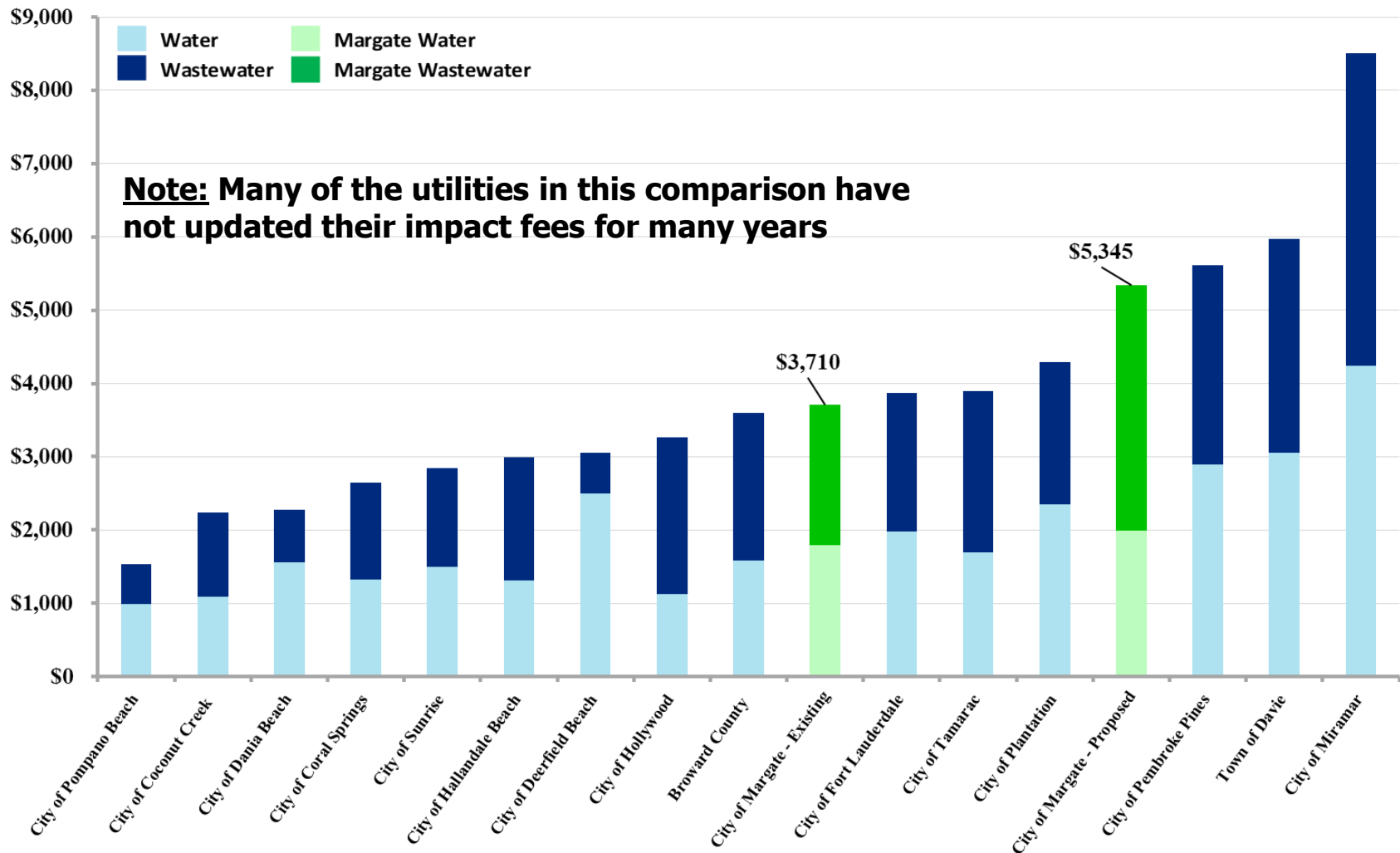
[1] Levels of service are defined in City's Code of Ordinances.

[2] Proposed fee divided by assumed level of service assumption.

Reasonableness of Proposed Impact Fees

- Combined 44% Increase Is Lower Than Cumulative 62% Historical Change in ENR Construction Cost Index Since Last Impact Fee Review
- Costs Per Gallon of Capacity Are Consistent With Those of Other Florida Utilities

Water and Wastewater Impact Fee Per ERC Comparison





Other / Miscellaneous Service Charges

- **Include Meter Installation Charges, Turn On/Off Fees, etc.**
- **Considerations for Determining Proposed Other/Miscellaneous Charges:**
 - Current Utility Costs to Provide Service
 - Comparison With Similar Charges of Other Florida Utilities
 - City Policies
- **To Extent Charges Do Not Recover Cost of Providing Services, Cost Difference Must Be Paid Through Monthly User Rates of All Customers**



Recommendations

- **Adopt Proposed Schedule of Water and Wastewater User Rates for Fiscal Years 2024 to 2028**
 - User Rates Considered Affordable and Competitive
 - Necessary to Secure Debt Financing for Utility's Major / Critical Capital Needs (Cannot Issue Bonds Without Adoption of Multi-Year Rate Plan)
 - 100% PayGo Funding of Capital Program Would Require Much Higher Rate Adjustments
 - Funding to Implement Multi-Year Capital Projects Must Be in Place to Enable Bidding for Projects



Recommendations (cont.)

- **Adopt Proposed Schedule of Water and Wastewater User Rates for Fiscal Years 2024 to 2028 (cont.)**
 - Fiscal Year 2024 Increase Is Close to the Change in the Miami-Fort Lauderdale-West Palm Beach Consumer Price Index (CPI) Since User Rates Were Last Adjusted
- **Adopt Proposed Water and Wastewater Connection / Impact Fees**
 - "Right-Sized" Based on Most Recent and Local Data
 - Competitive With Impact Fees of Other Broward County Utilities
 - Help to Reduce Need for Future User Rate Adjustments
 - Help to Reduce Need to Finance Capital Improvements (Lower Interest and Issuance Costs)



Recommendations (cont.)

- **Adopt Proposed Other / Miscellaneous Service Charges**
 - Eliminate Subsidization By All Customers
 - Help to Reduce Need for Future User Rate Adjustments

- **Update Financial and Rate Plan as Needed**
 - Financial Checkup or Review at Least Once Every Three Years
 - Proactive Financial Planning Helps to Preserve Ability to Gradually Phase-In Any Rate Adjustments

QUESTIONS AND DISCUSSION

