



WATER AND WASTEWATER RATE QUESTION AND ANSWERS

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This document addresses some of the questions that the City of Miramar has received regarding its water and wastewater rates, including the proposed increases.

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1. What do we get for the rate increases?

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

Miramar has world-class utilities that provide some of the highest quality water in the State of Florida. The smart water meter project implemented by the Utilities department was recently honored with an international "Smart 50" award. Smart utilities use information and communication technologies to increase operational efficiency, share information with the public, and improve both the quality of government service and citizen welfare.

The rates are proposed to be increased to pay for normal maintenance/repair and to invest in critical infrastructure. Miramar Utilities provide clean and safe water to residents who use that water for drinking, bathing, cooking, cleaning, pools, spas, etc. The utilities then take that water back from the residence through a series of interconnected sanitary lines and lift stations to the wastewater treatment plant where it is processed for other uses, such as reclaimed water for irrigation at golf courses and common areas throughout Miramar. Residents do not have to worry about the quality of the water coming from their tap because they know they have a state-of-the-art utility system that is well-managed and well-maintained. Maintaining this level of service and quality requires investment, maintenance, and upgrades.

2. Are Miramar's water and wastewater rates high?

Miramar's water and wastewater rates are competitive with those of other Broward County utilities, and are considered affordable by utility industry standards. Miramar's state-of-the-art utilities do not have issues with emerging contaminant regulations like some utilities with lower rates and less sophisticated treatment processes. It is anticipated that these other utilities will need to raise rates substantially to upgrade their facilities to comply with the latest treatment regulations.

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.

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

3. Why is the proposed Fiscal Year 2024 rate increase so high? Can it be lowered?

The last rate study was completed in September 2019 before the COVID-19 pandemic and other factors caused substantial increases in the utility's costs. The utility rates have not kept up with the cost inflation. Examples of recent price increases for the utility include:

- Chemicals Used in Treatment Processes:
 - Sodium Hypochlorite/Bulk has increased from \$0.65 per gallon to \$1.38 per gallon (112% increase).
 - Polydyne Polymer has increased from \$0.95 per pound to \$1.55 per pound (63% increase).
 - Calcium Hypochlorite has increased from \$99 per 100-pound container to \$350 per 100-pound container (254% increase).

- Sludge Disposal:
 - Price has increased from \$31.75 per cubic yard to \$43.00 per cubic yard (35% increase).

- Contractual Services (Labor Costs):
 - Cleaning two aeration basins in 2022 was \$98,000 and is now \$198,000 (102% increase).

The proposed rate and financial plan should enable the City to maintain its world-class utilities, fund critical upgrades, and keep rates affordable and competitive. Many other utilities throughout the United States are facing similar increases in Fiscal Year 2024. The Fiscal Year 2024 rate increase is considered the minimum amount needed to maintain the utility's current "AA" bond rating. Alternative scenarios were explored with lower increases in Fiscal Year 2024 and higher increases in future years, but these scenarios were considered financially riskier options that would lead to increased borrowing costs and higher user rates over the long term.

The average single-family residential customer in Miramar uses 5,000 gallons per month. Under the proposed Fiscal Year 2024 rates, this customer would pay \$103.36, or 2.1¢ per gallon, for both water and wastewater 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 wastewater service. Compare Flint's \$144.87 to the \$103.36 for the safe and efficient utility service that Miramar provides.

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

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

Five (5) 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 utility will collect since projects usually take more than one year to complete.

If the utility seeks 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 the utility's ability to repay the debt, only rate adjustments that have already been adopted will be counted.

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

If the rates were not increased, the utility would not remain financially sustainable. Moreover, the utility may not be able to meet some of the rate and financial covenants

associated with its 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 utility's financial position deteriorated to the point that the utility could not fund projects to comply with regulatory requirements and avoid infrastructure failures, the City could face fines and consent orders from regulatory agencies. 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 Miramar to be in a position where a regulatory body forces the City to perform necessary improvements to its water and wastewater infrastructure.

6. Why is a bond rating important?

The utility may be considering bond financing in the near future to fund a portion of the multi-year capital program. A bond or credit rating is a measure of financial risk. Investors expect a higher interest rate with riskier bonds. The utility currently has 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.

7. Is the utility at risk of a bond rating downgrade?

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

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

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

Utility rate studies should be performed as needed, as circumstances materially change, or during the final year of the adopted rate schedule. 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.

9. Why should I pay a base or monthly service availability charge if I don't use any water?

The monthly service availability charge, which many utilities refer to as a base rate or base charge, recognizes that the majority of the utility's costs are fixed and must be paid regardless of whether you use water. These fixed charges include staff salaries, benefits, and debt payments. The monthly service availability charges provide some revenue stability to help pay for the fixed costs. The utilities must remain in a "ready-to-serve" condition for when you turn on the water.

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

Capital assets deteriorate over time. As water and wastewater infrastructure ages, it requires maintenance and replacements which are costly. The cost of treating and distributing water can increase due to energy, labor, and chemical costs. It is therefore 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 and safety of the water supply and environmental compliance for wastewater treatment and disposal.

The utility system always needs more improvements, upgrades, and replacements than what can be accomplished in a five-year period. The installed cost of depreciable utility assets under City management was about \$503 million as of September 30, 2022. The replacement cost of these assets is much higher. Based on historical changes in the *Engineering News-Record* Construction Cost Index, a 30 year-old asset that cost \$1,000,000 would cost about \$2,600,000 to replace today.

The utility is 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 wastewater utilities need to invest in new technologies and processes to meet stricter environmental and safety standards, leading to higher operational costs. Identified capital needs are prioritized, and the highest priority projects are incorporated into the multi-year capital program.

As the population increases and land use densifies and intensifies, water demand rises, requiring additional infrastructure and resources to meet the growing needs.

11. Why have the utility salaries and benefits increased so much over the past few years?

A well-trained, experienced, and sufficient utility staff is critical for effectively running the utility 24 hours per day and 365 days per year, for maintaining the level of service, and for emergency preparedness (e.g., hurricanes). The utility has had substantial employee retention issues due to the City's salaries and benefits not being competitive with those offered by other local governments. Working with the labor union, the City has made compensation packages more attractive to keep valuable employees.

Since Fiscal Year 2020, the utility has added 12 positions. These positions are needed for regulatory staffing requirements, reliability, completing high-priority capital projects efficiently and more quickly, accommodating growth, and succession planning / addressing employees nearing retirement.

12. Can grants be used to reduce the rate increases?

Grants are typically awarded based on priority and how economically disadvantaged a utility's service area is. The City staff has applied for millions of dollars in grants for the utility, and plans to apply for millions of dollars more. To the extent that a large grant were awarded to pay for a substantial portion of the utility's capital needs, the rate and financial plan could be reevaluated. 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 utility's outstanding bonds and State Revolving Fund loans. As such, the grant funds do not help the utility meet the rate and financial covenants associated with its existing debt.

13. Why do transfers to the General Fund make up about 20% of the utility's operating expenses?

It is common for public utilities to have transfers to the General Fund for both indirect cost reimbursements and a return on investment. These transfers are policy decisions of the City, and the General Fund relies on these transfers to make ends meet. To the extent that the utility does not make these transfers, the City may need to identify an alternative funding source (e.g., property taxes) or make spending cuts within the General Fund.

Indirect cost reimbursements are for central services provided by the General Fund departments for the utility. These departments include the City Commission, City

Manager, Human Resources, Legal, City Clerk, Financial Services Administration, Building Maintenance, Information Technology, etc. The amounts charged to the utility are based on formal Central Services Allocation Plans prepared by a firm that specializes in these plans.

The payment-in-lieu-of-taxes (PILOT) paid by the utility is a form of return on investment and offsets losses in tax revenue given the utility's tax-exempt status. The PILOT is calculated by applying the City's millage rate to the total value of real assets that are owned by the utility. The current PILOT equates to about 6% of the utility's revenue, which is within the range of the amounts charged by other local Florida governments with this type of transfer. The PILOT helps the General Fund cover its costs.

14. Are affordability programs available to help low-income residents pay their water and wastewater bills?

Although the proposed rate and financial plan is considered very affordable by utility industry standards, every city has residents who live in poverty. Some local governments have established affordability programs to help low-income residents pay their utility bills. These programs are funded from a source other than user rates, such as late fees, the General Fund, unrestricted surtax funds, grants, etc.

Currently, the City's Social Services Department has a program to assist with utility payments, and the City staff is exploring other alternatives.