



VILLAGE OF KEY BISCAINE

Office of the Village Manager

MEMORANDUM

Village Council
Robert L. Vernon, *Mayor*
Enrique Garcia, *Vice Mayor*
Michael W. Davey
Robert Gusman
Michael E. Kelly
Jorge E. Mendia
Thomas Thornton

DATE: December 7, 2010
TO: Honorable Mayor and Members of the Village Council
FROM: Genaro "Chip" Iglesias, Village Manager
RE: Stormwater Rate Study

RECOMMENDATION

This is a Stormwater Rate Study conducted by Burton & Associates as previously approved by Council on September 7, 2010. I recommended the rate study due to the revenue shortfall of this Enterprise Fund since the rate has been the same since it was established in 1993. The study recommends an increase to our current rate and it is before you for your consideration. Any rate increase would be brought back at a later date with appropriate legislation to enact such change.

BACKGROUND

The Stormwater utility rate was established by Council on October 12, 1993 with the adoption of Resolution 93-46. The billing rate established is \$5.00 per each Equivalent Residential Unit (E.R.U.) per month.

Due to the significant flooding problems faced by the Village, stormwater capital improvements were made and the new debt service, series 1999 bonds, impacted this enterprise fund. These costs have outpaced the rate established in 1993.

On September 7, 2010, I brought to Council an agenda item and the Village Council authorized Burton and Associates to conduct a Stormwater Rate Study. The rate study includes review of the existing stormwater charges, review of long term stormwater debt service, review of stormwater capital improvements and projections of revenue and expenditures for the next five years. Village staff has provided Burton and Associates with all necessary information to conduct the study.

Attached please find the Technical Memorandum from Burton and Associates which explains in greater detail their analysis and findings for the Stormwater Rate Study.

TECHNICAL MEMORANDUM

Burton & Associates

200 Business Park Circle, Ste. 101
St. Augustine, FL 32095

Telephone: (904) 247-0787

Facsimile: (904) 241-7708

DATE: November 30, 2010

TO: Genaro (Chip) Iglesias, Village Manager – Village of Key Biscayne

FROM: Andrew Burnham, Senior Vice President – Burton & Associates

COPY: Ana de Varona, Armando Nunez, John Gilbert, Bea Galeano, Jose Lopez, Mike Burton

RE: RESULTS OF THE FY 2010 STORMWATER RATE STUDY

SUMMARY: In 1993, the Village established a stormwater utility and enterprise fund to address the maintenance and capital cost requirements of its stormwater management system. The Village concluded that all citizens would benefit from the establishment of a stormwater utility as each developed property in the Village contributes to some extent to its stormwater problems. As such, the Village adopted a fee structure to recover the capital and maintenance costs of the stormwater utility. The fee approved in 1993 of \$5 per equivalent residential unit remains in place today, and has not been adjusted even though the Village has incurred significant additional operating and capital costs for the stormwater system. As such, the Village retained Burton & Associates to develop a multi-year financial management plan and associated plan of annual rate increases that would provide sufficient revenues to meet the stormwater utility's current and projected cost requirements.

OBJECTIVE

The Village of Key Biscayne (Village) has contracted with Burton & Associates to perform a rate study as part of the financial management of its Stormwater Enterprise Fund (Utility). The primary objective of this rate study was to evaluate the sufficiency of the Utility's current revenues to meet its current and projected cost requirements. As the intent of an enterprise fund (as codified by the Village in Ordinance 97-1) is to completely recover the cost of providing services through user fees or charges, to the extent that the current stormwater revenues are not sufficient to meet the Utility's current and future cost requirements, rate revenue increases were identified in order to satisfy the operating and capital requirements of the Utility over a multi-year projection period.

BASE DATA

The analysis was performed using the most current historical and projected information available for the Utility. The following sources of the data for the Utility were relied upon in the conduct of the rate study:

1. Comprehensive Annual Financial Report – Fiscal Year Ended September 30, 2009
2. FY 2009 & FY 2010 stormwater billings by account for the Utility per the Miami-Dade Water and Sewer Department (MDWASD)
3. FY 2010 Budget for revenue and expenditures
4. FY 2010 year-to-date actual revenue and expenditure data through 7/31/10
5. FY 2011 Budget for revenue and expenditures
6. Additional future operating and capital improvement requirements as identified by Village staff outside of the current FY 2011 Budget

KEY ISSUES & ASSUMPTIONS

Series 1999 Debt and Refinancing

Soon after establishing the Utility, the Village embarked upon significant stormwater capital improvements (\$7.2 million) that were ultimately funded from the proceeds of a bond issue (Series 1999 Bonds). Initially, Ordinance 95-3 1) authorized the issuance of Revenue Bond Anticipation Notes Series 1995 (ultimately refinanced by the Series 1999 Bonds) for the funding of the improvements in Basins 1 – 8 intended to address flooding problems, and 2) identified the express commitment of the Village Council to pay the financing cost of the improvements from the proceeds of stormwater utility fees. Later, Ordinance 98-9 1) authorized the issuance of the Series 1999 Bonds, and 2) reiterated the Council's desire that the bonds be secured primarily by revenues from stormwater utility fees and secondarily by a covenant to budget and appropriate from legally available Non-Ad Valorem revenues of the Village. However, upon issuing the Series 1999 Bonds, no adjustments were made to the stormwater utility fees to fully cover the annual debt service expense of the Series 1999 Bonds (initially \$209,000, steadily increasing to the current scheduled payment amount of \$588,000). As a result, a substantial portion of the debt service responsibility has been covered to date by the use of legally available Non-Ad Valorem revenues.

Presently, Village staff is working with the Village's Financial Advisor to potentially refinance the Series 1999 Bonds in order to take advantage of current low interest rates and to extend the repayment schedule by 10 years¹. It appears that the interest rate reduction from refinancing will offset the additional interest payments associated with the extension of the repayment schedule resulting in a present value savings to the Village. Even more important is that the refinancing would significantly lower the annual debt service expense to the Utility from almost \$600,000 per year to approximately \$330,000 per year. As such, based upon the significant expected benefits from refinancing, the analysis presented herein assumes the Village will refinance the Series 1999 Bonds during FY 2011.

Unbilled Accounts Audit/Verification

As part of the rate study, we requested and received two separate files from the MDWASD identifying all properties in the Village that are and are not presently being billed stormwater charges. We cross-referenced the folio id numbers of the unbilled properties with the Miami-Dade County Property Appraiser's database of properties for the Village to understand the types of properties not presently being billed stormwater charges and to identify the potential additional revenue that would be realized if they were billed stormwater charges. This analysis identified potential additional annual revenue of up to \$40,000 per year if all of these unbilled properties were billed stormwater charges.

It is important to note, however, that there may be valid reasons certain properties are not being billed stormwater charges. For instance, multiple properties may be served via a single utility account, and therefore the stormwater charges for each individual property are consolidated and billed to only one property. Moreover, certain properties may be newly

¹ The final payment for the Series 1999 Bonds is due in 2019; the final payment under the refinancing would be due in 2029.

developed, demolished, etc. and the data of the MDWASD and/or the Property Appraiser may not reflect the most current condition of these properties. The actual amount of additional revenue will be determined as Village staff proceeds with an investigation of the unbilled accounts and identifies the exact number of properties that should be billed stormwater charges. Village staff has initiated the process of investigating these accounts to determine 1) why each of these accounts is not being billed, 2) which accounts should be billed, and 3) the amount of additional revenue to be received from those accounts that should be billed. Village staff anticipates completing its investigation in time to inform the FY 2012 budget, including levels of required rate increases for FY 2012.

RESULTS

At the onset of the analysis, it was quickly determined that the current stormwater charges are not providing sufficient revenue to meet the Utility’s current cost requirements. In FY 2010, the Utility essentially exhausted its reserves and required approximately \$200,000 from the General Fund to meet its cost requirements. The table below identifies the anticipated cash flow for FY 2011 prior to any rate increases, refinancing, or any potential additional revenue from the unbilled account investigation/audit being performed by Village staff.

Description	FY 2011 Amount
Stormwater Revenues	\$485,932
Less: O&M Expenses	(\$79,000)
Less: Series 1999 Debt Service	(\$588,785)
Less: Capital Improvement Requirements	(\$130,000)
Net Surplus/(Shortfall)	(\$311,853)

Moreover, in projecting the future cost requirements of the Utility, Village staff has identified additional annual system cleaning, maintenance, and capital expenditure requirements above FY 2011 levels that are necessary to maintain the current level of service in the Village. However, if the Village proceeds with the refinancing of the Series 1999 Bonds, the reduction to the annual debt service expense will offset a significant portion of these additional cost requirements over the FY 2011 levels.

Using our financial forecasting model, we determined the plan of annual stormwater rate increases identified in the table below that would provide adequate revenue to meet the Utility’s operating and capital costs, debt service, and reserve requirements through FY 2020 assuming 1) the Series 1999 Bonds are refinanced and 2) the Utility does not realize any additional revenue as a result of the unbilled account investigation/audit process.

Rate Adjustment Plan – Assuming Refinancing and \$0 Additional Revenue

Description	Current	FY 11	FY 12	FY 13	FY 14	FY 15	FY 16	FY 17	FY 18	FY 19	FY 20
Rate Increase	N/A	33.33%	32.00%	0.00%	0.00%	0.00%	-6.00%	0.00%	0.00%	0.00%	0.00%
Effective Date	N/A	3/1/11	10/1/11	10/1/12	10/1/13	10/1/14	10/1/15	10/1/16	10/1/17	10/1/18	10/1/19
MF Bill (per unit)	\$5.00	\$6.67	\$8.80	\$8.80	\$8.80	\$8.80	\$8.27	\$8.27	\$8.27	\$8.27	\$8.27
Single-Family Bill	\$7.50	\$10.00	\$13.20	\$13.20	\$13.20	\$13.20	\$12.41	\$12.41	\$12.41	\$12.41	\$12.41

As can be seen from the table above, the analysis indicates that there may be an opportunity to reduce stormwater charges in FY 2016. However, it is important to note that this would be

a policy decision of the Council. Presently, the Utility’s cost requirements do not include 1) an allocation of the Public Works Department expenses associated with time spent on the stormwater system, or 2) a transfer to the General Fund for services provided to the stormwater system for such things as purchasing, procurement, budgeting, human resources, legal services, etc. As such, in the future the Council may wish to include those cost requirements within the Stormwater Enterprise Fund as opposed to providing a rate reduction.

The table below presents the annual rate increase requirements for the Utility assuming 1) the refinancing of the Series 1999 Bonds, and 2) \$30,000 of additional revenue resulting from the unbilled account investigation/audit being performed by Village staff. As can be seen, this level of additional revenue would reduce the FY 12 increase from 32% to 25%.

Rate Adjustment Plan – Assuming Refinancing and \$30,000 Additional Revenue

Description	Current	FY 11	FY 12	FY 13	FY 14	FY 15	FY 16	FY 17	FY 18	FY 19	FY 20
Rate Increase	N/A	33.33%	25.00%	0.00%	0.00%	0.00%	-6.00%	0.00%	0.00%	0.00%	0.00%
Effective Date	N/A	3/1/11	10/1/11	10/1/12	10/1/13	10/1/14	10/1/15	10/1/16	10/1/17	10/1/18	10/1/19
MF Bill (per unit)	\$5.00	\$6.67	\$8.33	\$8.33	\$8.33	\$8.33	\$7.83	\$7.83	\$7.83	\$7.83	\$7.83
Single-Family Bill	\$7.50	\$10.00	\$12.50	\$12.50	\$12.50	\$12.50	\$11.75	\$11.75	\$11.75	\$11.75	\$11.75

The final table presented below identifies the annual rate increase requirements for the Utility assuming 1) the Series 1999 Bonds are not refinanced, and 2) no additional revenue is received as a result of the unbilled account investigation/audit being performed by Village staff. As can be seen, the consequences are 1) a significantly larger rate increase in FY 12 to meet the higher debt service requirements of the Series 1999 Bonds, and 2) a significant rate reduction in FY 20 once the Series 1999 Bonds have been completely repaid.

Rate Adjustment Plan – No Refinancing and \$0 Additional Revenue

Description	Current	FY 11	FY 12	FY 13	FY 14	FY 15	FY 16	FY 17	FY 18	FY 19	FY 20
Rate Increase	N/A	33.33%	65.00%	0.00%	0.00%	0.00%	-6.00%	0.00%	0.00%	0.00%	-50.00%
Effective Date	N/A	3/1/11	10/1/11	10/1/12	10/1/13	10/1/14	10/1/15	10/1/16	10/1/17	10/1/18	10/1/19
MF Bill (per unit)	\$5.00	\$6.67	\$11.00	\$11.00	\$11.00	\$11.00	\$10.34	\$10.34	\$10.34	\$10.34	\$5.17
Single-Family Bill	\$7.50	\$10.00	\$16.50	\$16.50	\$16.50	\$16.50	\$15.51	\$15.51	\$15.51	\$15.51	\$7.76

FY 11 RATE SURVEY

Schedule 1 of this Technical Memorandum includes a survey of FY 2011 single-family residential monthly stormwater charges of other communities in the Village’s geographic area. In most communities, a single-family residence is defined as one equivalent residential unit (ERU) for stormwater fee structures as it is the most common property type. However, in the Village, a multi-family dwelling unit is defined as one ERU, as 80% of the residential dwelling units in the Village are multi-family dwelling units. As such, we have included the Village’s current stormwater charges for single-family and multi-family dwelling units in the survey. As can be seen on the survey, the Village’s charges per dwelling unit for both residential categories are within the range of charges of other communities in the area.

When reviewing these surveys it is important to note that there are several factors that influence the level of stormwater charges between communities. The level of service

provided, topography (i.e. propensity to flooding due to elevation), and level of cost recovery desired by stormwater charges can vary significantly between communities. Given the Village's high level of service, topography, and desired level of cost recovery, the Village's charges are certainly within the range of communities in its area and are comparable to other communities we have worked with throughout the state with similar level of service and cost recovery objectives.

CONCLUSIONS & RECOMMENDATIONS

Based upon the analysis presented herein, we have reached the following conclusions and recommendations regarding the Village's stormwater system:

Conclusions:

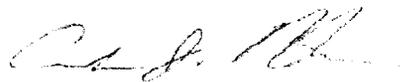
1. The Utility's current rates are insufficient to meet its current and projected costs.
2. Refinancing the Series 1999 Bonds would result in a significant reduction to the annual debt service requirements of the Utility and offset the impact of additional maintenance and capital expenditures needed to maintain the current level of service.
3. There could be up to \$40,000 of additional revenue to the Utility if all properties presently not being billed stormwater charges were able to be charged.
4. Given the level of service, topography, and desired level of cost recovery, the Village's charges for stormwater are comparable to neighboring communities as well as other systems in the state that have consistent level of service and cost recovery objectives.

Recommendations:

1. Village staff should audit/investigate the unbilled accounts to determine if they should be assessed stormwater charges.
2. The Village should proceed with the refinancing, adopt a 33.33% increase for FY 11 effective March 1, 2011, and consider adopting a 32% increase for FY 12 (effective October 1, 2011) that would be adjusted as appropriate prior to implementation based upon the final results of the unbilled account audit/investigation process.

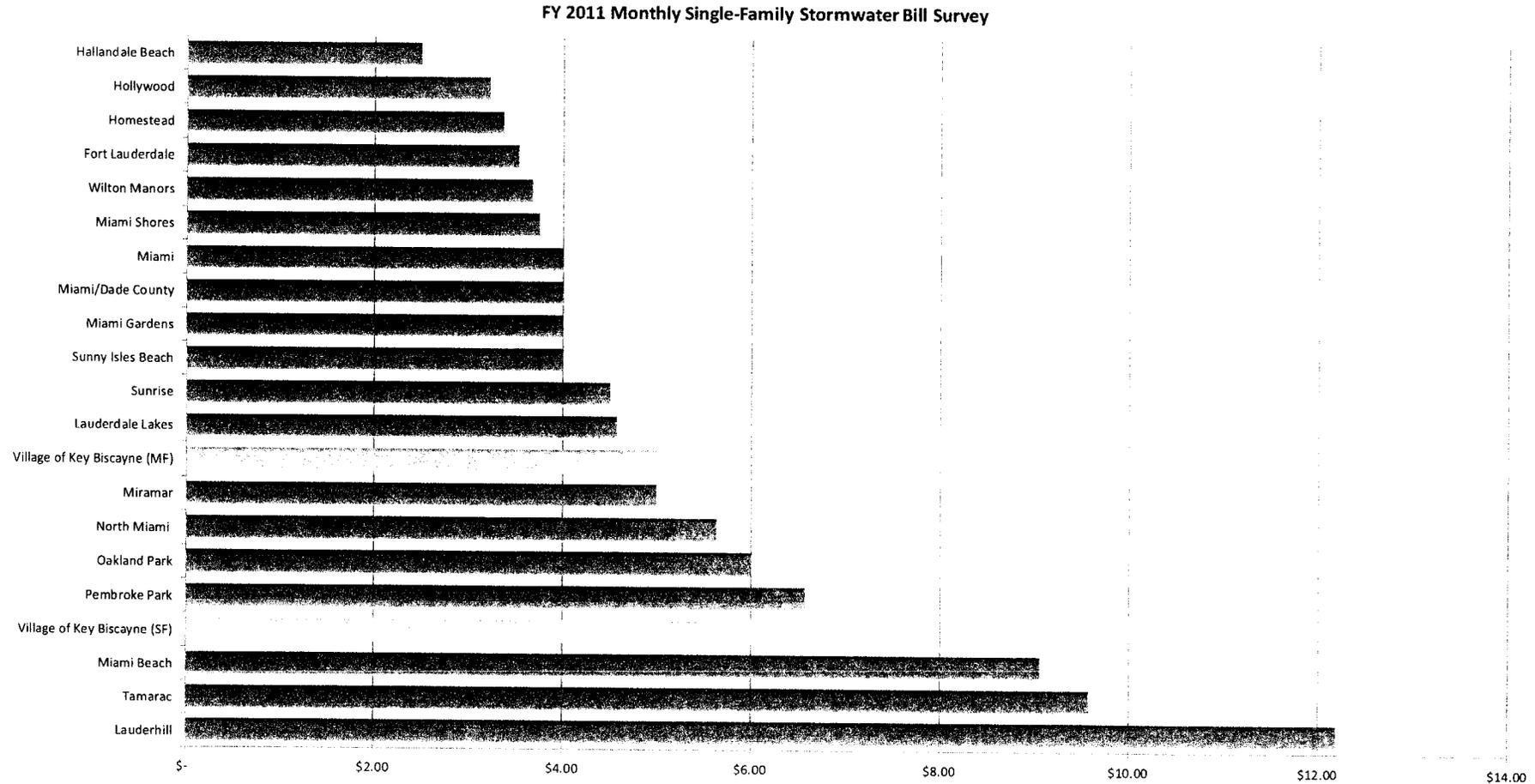
To the extent that you have any questions or would like to discuss, please do not hesitate to call me at (904) 247-0787.

Sincerely,



Andrew Burnham
Senior Vice President

SCHEDULE 1 – FY 11 Single-Family Residential Rate Comparison



	Lauderhill	Tamarac	Miami Beach	Village of Key Biscayne (SF)	Pembroke Park	Oakland Park	North Miami	Miramar	Village of Key Biscayne (MF)	Lauderdale Lakes	Sunrise	Sunny Isles Beach	Miami Gardens	Miami/Dade County	Miami	Miami Shores	Wilton Manors	Fort Lauderdale	Homestead	Hollywood	Hallandale Beach
Stormwater Fee \$	12.19	9.58	9.06	7.50	6.57	6.00	5.64	5.00	5.00	4.57	4.50	4.00	4.00	4.00	4.00	3.75	3.68	3.53	3.37	3.22	2.50

Within the Village of Key Biscayne, 80% of Dwelling Units are Multi-Family (MF); 20% are Single-Family (SF)

Village of Key Biscayne

Stormwater Rate Study

Council Meeting
December 7, 2010

Presented by:

BURTON & ASSOCIATES

Agenda

- Introduction of Burton & Associates
- Scope of Study
- Background of Stormwater Utility
- Key Issues
- Potential Mitigating Solutions
- Annual Rate Revenue Adjustments
- Conclusions & Recommendations
- FY 2011 Residential Charge Comparison
- Discussion

Introduction of Burton & Associates

▶ Firm Background

Multi-year financial planning and rate services to local governments since 1988

Emphasis in water resources financial planning & rates

Some of our clients in the Southeast FL area

Fort Lauderdale, Tamarac, Davie, Coconut Creek, Lake Worth, Opa-Locka, Coral Springs, Miami Beach

Some of our clients around the state

Ft. Myers, Clearwater, Palmetto, Lynn Haven, Crystal River, Dunedin, Lake City, North Port

▶ Project Staff

Mike Burton – President & Principal In Charge

Andy Burnham – Senior Vice President & Project Manager

Scope of Rate Study

1. **Develop a multi-year financial management plan that will:**
 - Satisfy operating, debt service, and capital cost requirements
 - Establish and maintain adequate operating reserves
 - Minimize rate impacts to the greatest extent possible

2. **Evaluate current rate structure and develop recommended modifications as appropriate**
 - Review properties to assist in audit/verification

3. **Prepare comparative rate survey**

Background of Stormwater Utility

- ▶ Stormwater Utility & Enterprise Fund Created in 1993
 - Intended to cover annual operating and capital costs of stormwater management system
- ▶ Current Fees Approved in 1993
 - \$5.00 per month per Equivalent Residential Unit (ERU)
 - Multi-Family Dwelling Unit = 1 ERU (80% of dwelling units)
 - Single-Family = 1.5 ERU's
 - Commercial # of ERU's = Impervious Area / 1,083 Sq. Ft. of Impervious Area
- ▶ Issued Bonds in 1999 to Fund \$7.2 Million of Infrastructure to Address Flooding
 - Steadily increasing annual debt service requirements
 - Initial payment was \$209,000; current payment is \$588,000
 - Intended to be paid primarily from stormwater user fees
 - Secondary pledge to budget and appropriate legally available Non-Ad Valorem revenues
 - Fees never adjusted to account for debt service

Key Issues

Current Rates Are Inadequate

FY 10 exhausted cash balances and required about \$200,000 from General Fund
FY 2011 cash shortfall summary:

Description	FY 2011 Amount
Stormwater Revenues	\$485,932
Less: O&M Expenses	(\$79,000)
Less: Series 1999 Debt Service	(\$588,785)
Less: Capital Improvement Requirements	(\$130,000)
Net Surplus/(Shortfall)	(\$311,853)

Additional Costs Above FY 11 Amounts to Maintain Level of Service

Additional contractual services for system cleaning

Pump Station Weirs/Station cleaning/maintenance

CRS Coordination, NPDES reporting & DERM Charges

Pump station rehab/replacement

Analysis does not include allocation of Public Works or General Fund costs for time/expenses for stormwater system

Potential Mitigating Solutions

▶ Refinance Series 1999 Bonds

Current interest rates are extremely low

Extend term of repayment 10 years (2019 to 2029)

Reduce annual debt service from almost \$600,000 to about \$330,000

Results in net present value savings

Reduction in interest rate offsets extended term

▶ Potential Additional Revenue From Unbilled Accounts

Identified 260 potential properties not presently being billed

If all were billed, results in \$40,000 of additional annual revenue

Require Village staff to audit/investigate each account

Investigation may identify that certain accounts should not be billed

Combined with other properties onto single utility bill

Properties may have been recently developed, demolished, etc.

Audit can be completed and results available/integrated via FY 12 Budget process

Annual Rate Revenue Adjustments

Rate Adjustment Plan – Refinancing & \$0 Additional Rev.

Description	Current	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20
Rate Increase	N/A	33.33%	32.00%	0.00%	0.00%	0.00%	-6.00%	0.00%	0.00%	0.00%	0.00%
Effective Date	N/A	3/1/11	10/1/11	10/1/12	10/1/13	10/1/14	10/1/15	10/1/16	10/1/17	10/1/18	10/1/19
MF Bill (per unit)	\$5.00	\$6.67	\$8.80	\$8.80	\$8.80	\$8.80	\$8.27	\$8.27	\$8.27	\$8.27	\$8.27
Single-Family Bill	\$7.50	\$10.00	\$13.20	\$13.20	\$13.20	\$13.20	\$12.41	\$12.41	\$12.41	\$12.41	\$12.41

Rate Adjustment Plan – Refinancing & \$30k Additional Rev.

Description	Current	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20
Rate Increase	N/A	33.33%	25.00%	0.00%	0.00%	0.00%	-6.00%	0.00%	0.00%	0.00%	0.00%
Effective Date	N/A	3/1/11	10/1/11	10/1/12	10/1/13	10/1/14	10/1/15	10/1/16	10/1/17	10/1/18	10/1/19
MF Bill (per unit)	\$5.00	\$6.67	\$8.33	\$8.33	\$8.33	\$8.33	\$7.83	\$7.83	\$7.83	\$7.83	\$7.83
Single-Family Bill	\$7.50	\$10.00	\$12.50	\$12.50	\$12.50	\$12.50	\$11.75	\$11.75	\$11.75	\$11.75	\$11.75

Rate Adjustment Plan – NO Refinancing & \$0 Additional Rev.

Description	Current	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20
Rate Increase	N/A	33.33%	65.00%	0.00%	0.00%	0.00%	-6.00%	0.00%	0.00%	0.00%	-50.00%
Effective Date	N/A	3/1/11	10/1/11	10/1/12	10/1/13	10/1/14	10/1/15	10/1/16	10/1/17	10/1/18	10/1/19
MF Bill (per unit)	\$5.00	\$6.67	\$11.00	\$11.00	\$11.00	\$11.00	\$10.34	\$10.34	\$10.34	\$10.34	\$5.17
Single-Family Bill	\$7.50	\$10.00	\$16.50	\$16.50	\$16.50	\$16.50	\$15.51	\$15.51	\$15.51	\$15.51	\$7.76

Conclusions & Recommendations

➤ Conclusions:

Current rates are insufficient to meet current and projected costs

Refinancing the Series 1999 Bonds would result in a significant reduction to the annual debt service requirements of the Utility

Offset a large portion of the additional costs needed to maintain current level of service

There could be \$40,000 of additional revenue if all properties presently not being billed stormwater charges were charged

Village staff is in the process of auditing/investigating these accounts

In the future the Village could either reduce rates or include cost allocations of Public Works and General Fund within stormwater

➤ Recommendations:

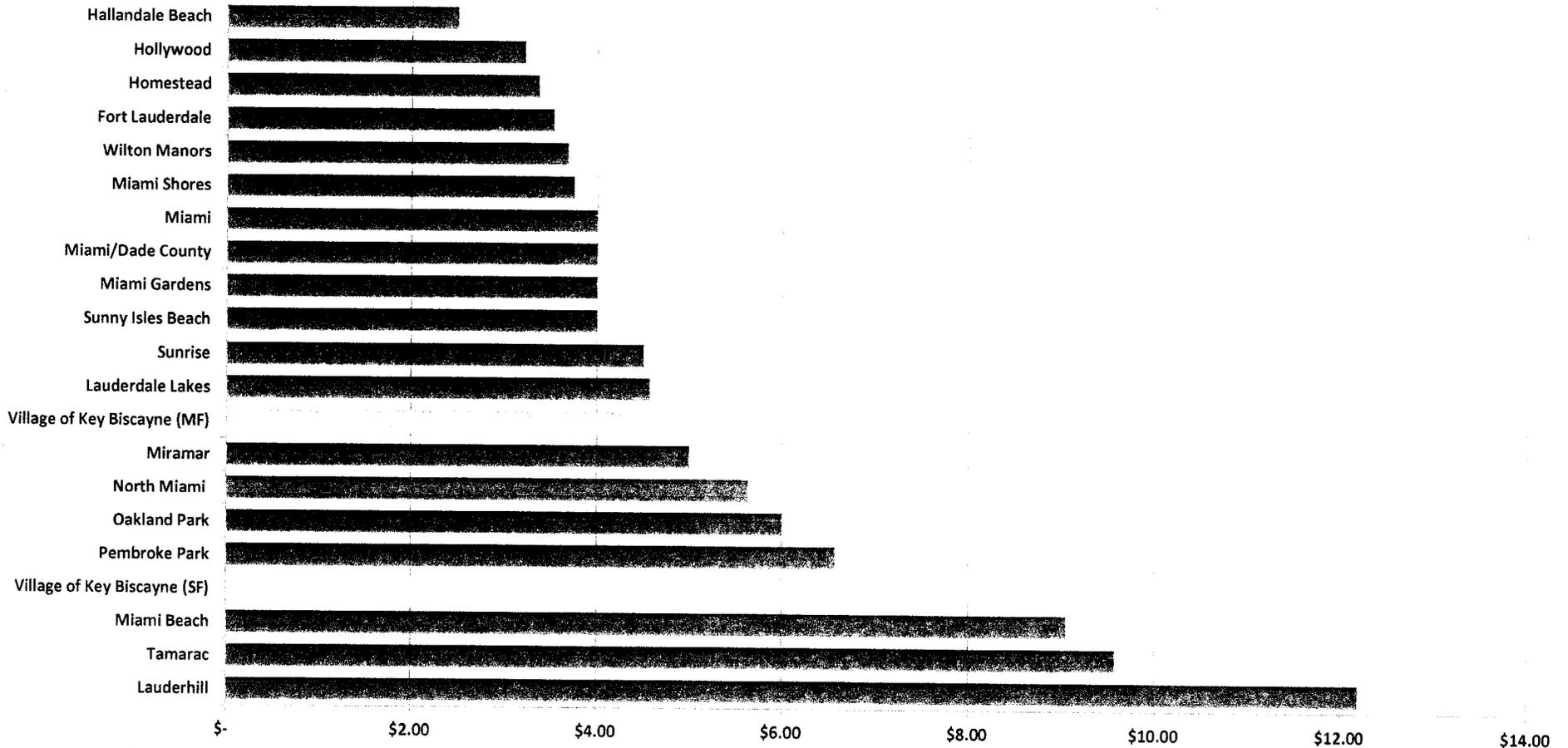
The Village should proceed with the refinancing,

The Village should adopt a 33.33% increase for FY 11 effective March 1, 2011,

The Village should consider adopting a 32% increase for FY 12 (effective October 1, 2011) that would be adjusted as appropriate based upon the results of the unbilled account audit/investigation

FY 11 Residential Charge Comparison

FY 2011 Monthly Single-Family Stormwater Bill Survey



▶80% of residential dwelling units in the Village are Multi-Family; 20% are Single-Family dwelling units

FY 11 Residential Charge Comparison

▶ Factors for Differences in Charges Between Communities

Level of Service

Higher level of service typically results in higher charges

Topography

Level of flooding dictates amount of capital and maintenance requirements for each community

Level of Cost Recovery in Stormwater Charges

Policy decision of elected officials in each community

Some communities subsidize significant portion of stormwater costs

▶ Given Village's high level of service and level of desired cost recovery, charges are very comparable

Locally and statewide given our experience with other similar systems

Clearwater = \$12.51 (per ERU), Palmetto = \$13.64 (2,000 – 2,500 sq. ft.)

Discussion

