

SUMMER STUDIES 2017

Water/Sewer/Stormwater Consultant Rate Study

Summer Study 17-012

Finance Department

August 7, 2017



Hallandale Beach
PROGRESS. INNOVATION. OPPORTUNITY.

Summer Studies

Water/Sewer/Stormwater Consultant Rate Study

Executive Summary

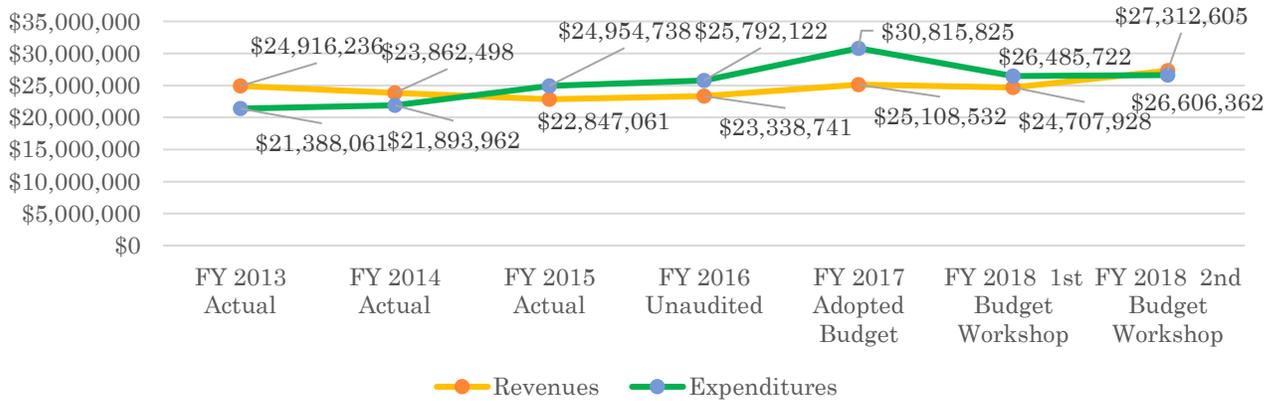
The City of Hallandale Beach financed various utility projects through the issuance of bank loans. The following bank loans contain various debt covenants that the City must adhere to in order to be in compliance.

- JP Morgan Chase Revenue Note, Series 2012 in the amount of \$2,770,000 at 1.5% interest. The note matures on November 1, 2022.
- Branch Bank and Trust (BB&T) Refunding Revenue Note, Series 2014 in the amount of \$5,390,000. The Note bears interest at 2.25% and matures on February 1, 2025.

Both notes contain a Rate Covenant that requires that the net revenues from Water, Sewer and Stormwater operations exceed 1.15% of annual debt service on all outstanding senior debt becoming due in such fiscal year.

The City has not increased water, sewer or stormwater rates in the past few years. In addition, as can be seen from the chart below, utility expenses have exceeded revenues requiring the use of reserves to balance the budget.

UTILITY FUND REVENUE & EXPENSES



These two factors resulted in a net operating deficit for the fiscal year ending September 30, 2016. Attachment A shows the calculation required by the Notes’ Rate Covenants. As indicated, the net revenues from the utility operations did not exceed the required 1.15% of annual debt service, putting the City in technical default of its debt covenants.

The Rate Covenant included in the loan agreements, states that, if in any fiscal year, the City fails to comply with the rate covenant, it must cause a rate consultant to review its rates, fees, charges, income, gross revenues, operating expenses and methods of operation and to make written recommendations as to the methods by which the City may promptly seek to comply with the rate covenant. The City must forthwith commence to implement such recommendations to the extent required so as to cause it to thereafter comply with said requirements.

The City Manager and Finance Director promptly met with the City’s banking representative from both JP Morgan Chase and BB&T to apprise them of the City’s inability to comply with the Note’s rate covenant. They

“...the net revenues from the utility operations did not exceed the required 1.15% of annual debt service, putting the City in technical default of its bond covenants.”

were also advised that the City would be procuring a utility rate study as required by the Note.

Challenge

The Utility Rate study has presented two challenges:

- a. To procure a consultant to perform a rate study to bring the City back in compliance with the Notes' Rate Covenants as quickly as possible. This would include review and adoption of proposed rates by the City Commission.
- b. Adopt the City's budget for the Utility (Water and Sewer) and Stormwater Funds for Fiscal Year 2017/18 including rate increases proposed to balance the budget.

In order to quickly obtain compliance with the City's loan documents, staff was to expedite the procurement of a utility rate study. Based on preliminary estimates, it was determined that the cost to perform a comprehensive rate study for water, wastewater and stormwater operations would exceed \$50,000, requiring a competitive bid and the issuance of an Request for Proposal (RFP) or piggyback of another city's competitively bid contract.

During the time that the Finance Department determined that a utility rate study would be required, staff from other departments were reviewing a response to an RFP for various impact fee studies including utilities, police, fire, recreation, parking in lieu of and transportation. To save time, as well as receive better overall pricing for all the studies, the City Manager requested Commission consideration to expand the scope of services for the impact fee study to include a utility rate study. On May 3, 2017, the Commission approved Resolution 2017-79 declaring unique circumstances pursuant to Section 23-8(5) of the Hallandale Beach Code of Ordinances; authorizing the City Manager to negotiate

services for a utility rate study and waiving the Cone of Silence pursuant to Section 23-14 to permit expansion of advertised scope of services to include a utility rate study.

During this same time, budget preparations for the Fiscal Year 2017/18 budget were ongoing. Staff was directed to calculate rates for water, sewer and stormwater that would ensure that we were in compliance with our loan covenants and to balance the budget in those funds eliminating the use of reserves. Rate increases were calculated and presented to the City Commission at the second budget workshop. See Attachment 2.

On August 2, 2017, the City Commission approved Resolution No. 2017-85 authorizing the City Manager to executive an agreement with Tindale Oliver for the development of various impact fee studies, a utility rate study (for water, sewer and stormwater services) and establish in lieu fees for parking and affordable/workforce housing.

Staff is working on providing all requested information and documentation from Tindale Oliver. Based on the preliminary schedule (Attachment 3), it is anticipated that the utility rate study will be completed and presented to the Commission for approval in January 2018. The impact fee studies will be presented in April 2018.

Solution

The loans' Rate Covenant states that if the City does not comply with the rate covenant, it must cause a rate consultant to review its rates, fees charges, etc., and to make written recommendations as to the methods by which the City may promptly seek to comply with the rate covenant. As stated above, the utility rate study has been awarded and work has begun.

Although the rate study will not be completed before the start of the new fiscal year and the consultant's recommended rates implemented on October 1, 2017, the FY 2018 budget includes increased utility rates. The utility rates proposed in the budget were calculated to not only ensure we meet the 1.15% debt service Rate Covenant but to also balance the budgets in the Utility and Stormwater funds. Although these rates have not been recommended by the rate consultant, the rates will improve the overall financial position in the Funds.

At the second budget workshop, the Commission indicated their consent to increase the utility rates. Final approval of the FY 2018 budget with the proposed utility rates would increase revenues to eliminate an operating deficit, and position the City to be in compliance with the Rate Covenant for both bank loans. Rates proposed by the rate consultant, if materially different than those included in the FY 2018 budget, will be submitted to the City Commission for approval later in the fiscal year.

[Economics and Relationship to Millage Set on June 21, 2017](#)

Not applicable. The Utility (Water and Sewer) and Stormwater funds are accounted for by the City as Enterprise Funds and as such are self-supporting through user fees.

[Action Item\(s\)](#)

The increased rates for water, sewer and stormwater will be submitted to the Commission for approval as part of the Fee Booklet at the second budget hearing on September 25, 2017. Approval of the utility rates is necessary to balance the budget and ensure compliance with Rate Covenants for the JP Morgan Chase and BB&T notes.

As required by Florida Statutes, Sec. 180.136, Hallandale utility customers will be notified of the proposed utility rate increases on their utility bills commencing on August 14, 2017.

“...the Fiscal 2018 Budget includes rates that will not only ensure we meet the 115% debt service Rate Covenant...but will also balance the budget without the use of reserves.”