



THE CITY OF KEY WEST

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MEMORANDUM

EXECUTIVE SUMMARY

TO: Jim Scholl, City Manager
E. David Fernandez, Asst. City Manager- Operations

FROM: Jay Gewin, Utilities Manager

DATE: March 20, 2012

SUBJECT: **Approving an Agreement with the Florida Keys Aqueduct Authority to Provide Utility Billing and Collection Services to the City of Key West's Sewer Utility. Agreeing to Amend the City's Sewer Billing Ordinances to Match the Delinquency Policies of the Aqueduct Authority at a Future City Commission Meeting.**

Action statement:

This agreement between the City and the Florida Keys Aqueduct Authority (FKAA) would move the responsibility for billing and collection of the City's sewer utility fees to FKAA for a fee of \$1.07 per customer per bill. The term of the agreement shall be for a period of three years, and will be renewed automatically at the conclusion of the term unless terminated by either party.

The City Commission will be required to adopt the billing delinquency rules of the Florida Keys Aqueduct Authority by ordinance once this agreement is approved. These ordinance amendments will come before the Commission at a meeting in the near future.

Background:

The City of Key West Revenue Division. currently handles all billing and collection for the City's sewer utility. The sewer fund budgets and contributes \$34,000 annually towards the annual utility bill printing and postage services, which are provided by a contractor. The sewer fund contributes 40% towards the total contracted cost.

Key to the Caribbean – Average yearly temperature 77° F.

The City's Revenue Division. staff manages our commercial and residential customer accounts, calculates the sewer base charge units (BCU) for commercial customers, and oversees collection responsibilities for our billing. The sewer fund pays a share of the salaries of two customer service representatives and the Collections Manager position.

The City's sewer flow charges are based on the water flow numbers provided to us monthly by FCAA. Sewer bills are based upon 80% of water flow, unless the customer has a deduct meter, in which case the customer is billed at 100% of water flow with the amount of water passing through the deduct meter subtracted from this total.

The City is not collecting our sewer utility bills at the rate we would prefer. There are several reasons for this, including the fact that we do not shut off sewer service for non-payment, due to concerns over public health issues. Recently, the City has re-instated the practice of placing a lien on properties for non-payment. The City's delinquency totals as of March 1, 2012 are as follows:

<i>Type of Customer</i>	<i>30 days past due</i>	<i>60 days past due</i>	<i>90 days past due</i>	<i>Over 120 days past due</i>	<i>Total Delinquency</i>
Residential	\$54,448.32	\$33,147.07	\$26,438.14	\$576,134.42	\$690,167.95
Commercial	\$25,954.36	\$9,478.69	\$8,571.17	\$123,485.07	\$167,489.29
Penalties	\$17,406.68	\$6,368.91	\$5,236.95	\$97,556.66	\$126,569.20
TOTAL	\$97,809.36	\$48,994.67	\$40,246.26	\$797,176.15	\$984,226.44

The City also bills for its solid waste and stormwater utility user fees. Those two fees will continue to be billed by the City until we move their billing to the Monroe County Tax Collector property bills for the year 2014. Stormwater and solid waste fees are not included in this agreement.

PURPOSE & JUSTIFICATION:

City Staff firmly believes it is in the best interest of the City to move our sewer utility billing and collection to the FCAA for several reasons. Primarily, their capability to collect on delinquent sewer utility fees will be superior to the City's. We will also benefit from an improved ability to maintain the correct water meters on our billing records. This could represent significant additional revenue to the sewer fund, possibly \$150,000-\$200,000.

FCAA has the ability to terminate water service for customer non-payment. Not only does this provide greater incentive for the customer to pay their FCAA bill, it provides a safer cut-

off procedure from a health and safety standpoint than plugging a sewer line without shutting off water.

FKAA has an established billing department that is much larger in size than the City's Revenue Dept. They are currently billing for sewer in the rest of the Florida Keys. Their staff includes field workers that can cut-off water accounts for non-payment, and is fully capable of adding the City's customers to their current workload.

Under this agreement, the City would be billed at a rate of \$1.07 per customer by FKAA (including postage). This is the same rate FKAA bills the other municipalities in Monroe County. The per-customer fee would increase according to CPI annually. While this represents a higher cost for utility billing and collections than the City is currently paying, City Staff believes the sewer utility will benefit from this agreement because of an anticipated increased rate of collections from FKAA, along with an improved ability to match water meters to properties.

This agreement will also provide the benefit of improved customer convenience. A combined water/sewer bill will be easier for the customers, particularly when the City moves the solid waste and stormwater billing to the property tax roll in 2014, thereby eliminating the City's utility billing altogether. The billing for all three of our utilities would be contracted out by 2014.

Collection of existing/prior City utility bill delinquencies will still be the responsibility of the City under this agreement. FKAA will be responsible for collection of the City's delinquent sewer utility services dating from the time of this agreement forward.

Moving our billing to FKAA will eliminate the use of deduct meters for approximately 200 customers. FKAA uses irrigation meters instead, which the customer has the opportunity of installing at their own expense. City Staff believes many of the customers that choose to use deduct meters aren't saving themselves any money. Sewer is billed at 80% of water flow for regular customers. Sewer is billed at 100% of water use for those using deduct meters, with the flow going through the meter being deducted from the total water flow. Many of the customers using deduct meters are not seeing at least 20% of their water flow go through the meters, and are therefore not saving money by using them. The City will need to inform deduct meter customers these meters will soon be eliminated, and they will be required to convert to the FKAA's irrigation meters if they are interested.

City Customer Services and Utilities staff will continue to be responsible for calculating commercial and residential BCU totals on an annual basis. FKAA will update our billing information with any change in water meters, but the City will need to calculate the BCUs because it is tabulated using a formula different than FKAA's typical sewer billing. For example, there could be multiple dwelling units (each representing one BCU) within a structure that only has one water meter. FKAA bills customers based on the size of the meter, rather than the number of units.

The City plans on completing the move to FKAA for sewer utility billing during this summer, after the City initiates a public relations effort to inform residents and businesses of the impending change. During this time, the City will need to amend its sewer ordinances pertaining to billing delinquency to match FKAA's for billing consistency. This ordinance revision will be presented to the Commission in the very near future. Eligibility in the senior

citizen discount will be based on FKAA's requirements, but the dollar amount of discount will remain consistent with what it is today.

The delinquency fees and deposit for the City of Key West utilities are currently as follows:

SEWER (Sewer Sec. 74-201, 74-207, 74-209)

- Bills are delinquent after 30 days.
- After 20 days, a late fee of \$5.00 or 15% (whichever is higher) is applied
- After 15 days written notice, City Code authorizes permission to disconnect sewer, with owner paying to reconnect. However, the City has not been disconnecting delinquent customers for environmental safety reasons.

In FKAA billing there is

- A due date of 30 days from initial billing
- A \$90.00 per residential unit deposit, and the non-residential rate is based on meter size, or number of units if a single meter is used for multiple units.
- A charge for delinquent accounts the greater of \$4.00 or 10% of the outstanding balance unless that balance is less than \$5.00, in which case no charge is imposed

OPTIONS:

1. Approve the agreement with FKAA to provide utility billing and collection services. This option is recommended because it will result in an improved collection rate, and greater convenience for the customers in receiving a combined water/sewer bill.
2. The City Commission could continue to have the City bill and collect for our sewer utility. This option is not recommended as City Staff firmly believes that an agreement with FKAA is the best way to increase the City's collection rate.

FINANCIAL IMPACT:

FKAA will bill the City \$1.07 per bill per customer (postage included) for providing sewer utility billing and collection services. This extrapolates to an annual fee of approximately \$175,000 based on our current number of customer accounts (13,316).

While this fee is higher than the \$34,000 annual cost we are currently paying, it will more than be offset by anticipated increased revenues due to superior collection efforts by FKAA. Our delinquency figure which is now approaching \$1,000,000 will be vastly improved in the future, and there will also be additional revenue from an improved ability to correctly match new water meters installed.

RECOMMENDATION:

Staff recommends option # 1, that the City Commission approves this agreement for the FKAA to provide utility billing and collection services for the City's sewer utility billing. The City will then amend our billing delinquency ordinance to match FKAA's policies.