



THE CITY OF KEY WEST

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Executive Summary

TO: Bob Vitas, City Manager

Cc: Mark Finigan, Asst. City Manager

FROM: E. David Fernandez, Assistant City Manager- Operations

DATE: December 19, 2012

SUBJECT: **Water Rate Increase Counter Proposal**

Action Statement:

Resolution rejecting the proposed FKAA Water Agreement and directing the City Manager and City Attorney to the Counter Proposal consistent with the City/FKAA Distribution System Lease as outlined below.

Background:

On September 9, 1941 the City leased the water distribution system in Key West to FKAA Commission (later to become the Authority). In exchange for responsibilities assumed by the lessee, discussed below, the Authority received use of City land and streets, use of the City water distribution system and access to the associated revenue related to that distribution system. The City retained ownership and the lease provided as follows:

- Lease remains in effect as long as any Revenue Bonds are outstanding
- FKAA is responsible to make all repairs, improvements and extensions necessary to operate the distribution system without cost to the City
- FKAA was to provide water to the City at a fixed rate (\$0.40/1,000 gallons at the time). Said rate is not to exceed rates charge to other wholesale customers
- Maintain in good condition and return the system to the City at no cost at the end of the lease

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

MEMORANDUM

- Upon reversion of the distribution system FKAA shall sell water to the City at a wholesale rate mutually agreed on by the parties
- Other related terms

The Florida Keys Aqueduct Authority was recreated in 1976 by the Legislature of the State of Florida Chapter 76-441, Laws of Florida for purposes of obtaining, supplying and distributing an adequate supply of water to the Florida Keys. The water rate charged to the City was established to reflect the actual cost of water provided to the City on September 14, 1976 to \$2.149 per 1,000 gallons. The rate has not changed for the City of Key West since 1976.

FKAA desires that the water rate imposed on the City of Key West to be the same as the water rate for retail customers. FKAA Agreement includes the following:

- Transition to the FKAA retail rate over four years
- Add base charge to all City accounts with no change in flow charge effective October 1, 2012
- Adjust flow charge to \$4.00 effective October 1, 2013
- Adjust flow charge to \$5.85 effective October 1, 2014
- Adjust flow charge to full "Rack Rates" effective October 1, 2015

Once fully implemented the average cost per 1,000 gallons of water paid by the the City will increase from \$2.15 to approximately \$9.89. The lowest retail rate available is projected to be \$5.85 per 1,000 gallons. Under the FKAA proposal the combined water cost for the City would increase from FY 2012 amount of \$143,151 to the approximately \$245,420 by FY 2015 and \$379,270 by FY 2016 (see attached Water Rate Increase Financial Summary).

The proposed rate is not a wholesale rate required to be extended to Key West under Section 6 of the "Key West Distribution System" lease (see attached agreements). Pursuant to the lease agreement the City retains ownership of the water distribution system and continues to have a right to a wholesale water rate as long as the lease remains in effect in effect. The City retains a preferred rate (wholesale rate) based on a cost of service and ownership of the Key West Distribution System. FKAA also provides the Navy with preferential wholesale rate. Ownership of the distribution system sets both the Navy and City of Key West apart from other government and retail FKAA customers.

Purpose / Justification:

The resolution directs the City Manager and City Attorney to submit the City's Counter Proposal to the FKAA based on provisions of the City/FKAA Distribution System Lease Agreement. The Counter Proposal provides for a phased transition to the FKAA tier 1 rate which is the lowest rate available to FKAA customers as follows:

- The City proposes a transition over three years instead of four years
- Add base charge to all City accounts and adjust the flow charge to \$3.15 effective October 1, 2012

- Adjust the flow charge to \$4.30 effective October 1, 2013
- Adjust the flow charge to \$5.85 or actual tier 1 rate effective October 1, 2014
- For FY 2014 (year 3) and beyond, the proposed City of Key West consumption rate would be the lowest tier 1 rate available to other FKAA customers (currently \$5.47/1,000 gallons) plus the monthly base charge related to actual meter size
- The rate will automatically adjust for cost of service and CPI increases passed on to all other FKAA customers. The rate will index for inflation May 1 each year with all other FKAA Rates.
- The City and FKAA will work together to identify meters that have exceeded tier 1 flow limits for the last 3 consecutive years. Meter size will be adjusted based on flow patterns (at least 3 years). The City will have the right to retain the existing meter where flow is not expected to maintain the 3 year average. Base charge will be adjusted to actual meter size once new meters are installed.

Once fully implemented the average cost per 1,000 gallons of water paid by the the City will increase from \$2.15 to approximately \$5.85 or the lowest rate available to other FKAA customers. Under the City proposal the combined water cost for the City would increase from FY 2012 amount of \$143,151 to the approximately \$245,420 by FY 2015 and increase by CPI adjustments implemented for other FKAA Customers (see attached Water Rate Increase Financial Summary).

Options / Advantages / Disadvantages:

1. The Commission could direct the City Manager and City Attorney to submit the City's Counter Proposal as outlined above to bring the water rate in compliance with the City/FKAA Lease. Under the proposal City's water cost would increase by \$102,269 by FY 2015 (October 1, 2014). The rate per 1,000 gallons of water would paid by the City would go from \$2.15 to an approximately \$5.85. The rate would be equal to the lowest rate available to all FKAA Customers and would provide a stable rate for Municipal services. This option is recommended by City Staff.
2. The Commission could approve the FKAA Agreement as proposed. Under the agreement City's water cost would increase by \$236,119 by FY 2016 (October 1, 2015). The rate per 1,000 gallons of water would paid by the City would go from \$2.15 to an average \$9.89. The rate would be volatile based on public demand placed on Municipal facilities such as public rest rooms, parks ball fields, utilities and other City services. Retail rack rate pricing will create budgetary pressure on General Fund services such as parks, ball fields, and restrooms; marina services at KW Bight (Fund) and Garrison Bight (Fund); and Waste Water operations at pump stations and the WWTP (Sewer Fund). This option is not recommended by City Staff.

Financial Impact:

The table below highlights key financial impacts. See the attached Financial Summary for more detail.

		General Fund 001	Sewer 401	Solid Waste 403	KWB 405	KWDOT 411	GB 413	City Combined Water Bill	
FY 12 Bill	(Incl \$2.17 rack rate billing)	60,259	25,060	\$2,716	\$45,798	\$27	9,291.49	143,151.38	

City Counter Proposal by Fund (Wholesale Rate tier 1 only)

Total Water Bill FY 2015	\$	115,576.35	\$	67,373.81	\$	1,916.60	\$	39,007.07	\$	458.24	\$	21,088.60	\$	245,420.65
Proposed Rate per 1,000 gallons	\$	5.85	\$	5.85	\$	5.85	\$	5.85	\$	5.85	\$	5.85	\$	5.85
Net Increase Wholesale Rate FY 12 vs FY 2015	\$	55,317.84	\$	42,313.81	\$	(799.52)	\$	(6,791.09)	\$	431.13	\$	11,797.11	\$	102,269.27
% Increase of Wholesale Rate over FY 2012		0.92		1.69		(0.29)		(0.15)		15.90		1.27		0.71

FCAA Revised Proposal by Fund

Total Water Bill FY 2016	\$	191,981.73	\$	89,242.52	\$	1,916.60	\$	60,969.19	\$	458.24	\$	34,702.55	\$	379,270.82
Net Increase FY 2012 vs FY 2016	\$	131,723.22	\$	64,182.52	\$	(799.52)	\$	15,171.03	\$	431.13	\$	25,411.06	\$	236,119.44
% Increase of FY 2012 vs FY 2016		2.19		2.56		(0.29)		0.33		15.90		2.73		1.65
Average Rack Rate per 1,000 gallons	\$	10.69	\$	8.31	\$	5.85	\$	10.02	\$	5.85	\$	10.16	\$	9.89

Recommendations:

Staff recommends that the City Commission select option # 1 directing the City Manager and City Attorney to take steps necessary to work with FCAA to implement the City's Counter Proposal.

Water Rate Increase Financial Summary

	General Fund 001	Sewer 401	Solid Waste 403	KWB 405	KWDOT 411	GB 413	City Combined Water Bill
Current Bill							
FY 12 Flow	15,790,100.00	8,875,290.00	60,300.00	5,262,200.00	11,500.00	3,159,200.00	33,158,590.00
FY 12 Bill (Incl \$2.17 rack rate billing)	\$ 60,258.51	\$ 25,060.00	\$ 2,716.11	\$ 45,798.16	\$ 27.11	\$ 9,291.49	\$ 143,151.38
FY 13 Budget	\$ 67,964.00	\$ 18,270.00	\$ 3,200.00	\$ 51,500.00	\$ 250.00	\$ 9,900.00	\$ 151,084.00
FCAA Revised Proposal by Fund							
New Bill Flow @ \$2.15 (excludes \$2.17 rack rate billing)	\$ 33,948.72	\$ 19,081.87	\$ 129.65	\$ 11,313.73	\$ 24.73	\$ 6,792.28	71,290.97
New Base Charge	23,204	15,453	\$1,564	\$8,223	\$391	2,607.28	51,442.90
Total Water Bill FY 2013	\$ 57,152.98	\$ 34,535.23	\$ 1,693.49	\$ 19,536.93	\$ 415.69	\$ 9,399.56	\$ 122,733.87
New Bill Flow @ \$4.00	\$ 63,160.40	\$ 35,501.16	\$ 241.20	\$ 21,048.80	\$ 46.00	\$ 12,636.80	\$ 132,634.36
New Base Charge	\$ 23,204.26	\$ 15,453.36	\$ 1,563.84	\$ 8,223.20	\$ 390.96	\$ 2,607.28	\$ 51,442.90
Total Water Bill FY 2014	\$ 86,364.66	\$ 50,954.52	\$ 1,805.04	\$ 29,272.00	\$ 436.96	\$ 15,244.08	\$ 184,077.26
New Bill Flow @ \$5.85	\$ 92,372.09	\$ 51,920.45	\$ 352.76	\$ 30,783.87	\$ 67.28	\$ 18,481.32	\$ 193,977.75
New Base Charge	\$ 23,204.26	\$ 15,453.36	\$ 1,563.84	\$ 8,223.20	\$ 390.96	\$ 2,607.28	\$ 51,442.90
Total Water Bill FY 2015	\$ 115,576.35	\$ 67,373.81	\$ 1,916.60	\$ 39,007.07	\$ 458.24	\$ 21,088.60	\$ 245,420.65
New Bill Flow @ Full Rack Rate	\$ 168,777.47	\$ 73,789.16	\$ 352.76	\$ 52,745.99	\$ 67.28	\$ 32,095.27	\$ 327,827.92
New Base Charge	\$ 23,204.26	\$ 15,453.36	\$ 1,563.84	\$ 8,223.20	\$ 390.96	\$ 2,607.28	\$ 51,442.90
Total Water Bill FY 2016	\$ 191,981.73	\$ 89,242.52	\$ 1,916.60	\$ 60,969.19	\$ 458.24	\$ 34,702.55	\$ 379,270.82
Net Increase FY 2012 vs FY 2016	\$ 131,723.22	\$ 64,182.52	\$ (799.52)	\$ 15,171.03	\$ 431.13	\$ 25,411.06	\$ 236,119.44
% Increase of FY 2012 vs FY 2016	\$ 2.19	\$ 2.56	\$ (0.29)	\$ 0.33	\$ 15.90	\$ 2.73	\$ 1.65
Average Rack Rate per 1,000 gallons	\$ 10.69	\$ 8.31	\$ 5.85	\$ 10.02	\$ 5.85	\$ 10.16	\$ 9.89
City Counter Proposal by Fund (Wholesale Rate tier 1 only)							
New Bill Flow @ \$3.15	\$ 49,738.82	\$ 27,957.16	\$ 189.95	\$ 16,575.93	\$ 36.23	\$ 9,951.48	\$ 104,449.56
New Base Charge	\$ 23,204.26	\$ 15,453.36	\$ 1,563.84	\$ 8,223.20	\$ 390.96	\$ 2,607.28	\$ 51,442.90
Total Water Bill FY 2013	\$ 72,943.08	\$ 43,410.52	\$ 1,753.79	\$ 24,799.13	\$ 427.19	\$ 12,558.76	\$ 155,892.46
New Bill Flow @ \$4.30	\$ 67,897.43	\$ 38,163.75	\$ 259.29	\$ 22,627.46	\$ 49.45	\$ 13,584.56	\$ 142,581.94
New Base Charge	\$ 23,204.26	\$ 15,453.36	\$ 1,563.84	\$ 8,223.20	\$ 390.96	\$ 2,607.28	\$ 51,442.90
Total Water Bill FY 2014	\$ 91,101.69	\$ 53,617.11	\$ 1,823.13	\$ 30,850.66	\$ 440.41	\$ 16,191.84	\$ 194,024.84
New Bill Flow @ \$5.85	\$ 92,372.09	\$ 51,920.45	\$ 352.76	\$ 30,783.87	\$ 67.28	\$ 18,481.32	\$ 193,977.75
New Base Charge	\$ 23,204.26	\$ 15,453.36	\$ 1,563.84	\$ 8,223.20	\$ 390.96	\$ 2,607.28	\$ 51,442.90
Total Water Bill FY 2015	\$ 115,576.35	\$ 67,373.81	\$ 1,916.60	\$ 39,007.07	\$ 458.24	\$ 21,088.60	\$ 245,420.65
Proposed Rate per 1,000 gallons	\$ 5.85	\$ 5.85	\$ 5.85	\$ 5.85	\$ 5.85	\$ 5.85	\$ 5.85
Net Increase Wholesale Rate FY 12 vs FY 2015	\$ 55,317.84	\$ 42,313.81	\$ (799.52)	\$ (6,791.09)	\$ 431.13	\$ 11,797.11	\$ 102,269.27
% Increase of Wholesale Rate over FY 2012	\$ 0.92	\$ 1.69	\$ (0.29)	\$ (0.15)	\$ 15.90	\$ 1.27	\$ 0.71