



City of Miami Beach, 1700 Convention Center Drive, Miami Beach, Florida 33139, www.miamibeachfl.gov

## COMMISSION MEMORANDUM

TO: Honorable Mayor Steven Meiner and Members of the City Commission

FROM: Rickelle Williams, Interim City Manager

DATE: May 15, 2024

SUBJECT: **A RESOLUTION OF THE MAYOR AND CITY COMMISSION ACCEPTING THE RECOMMENDATION OF THE FINANCE AND ECONOMIC RESILIENCY COMMITTEE AT ITS APRIL 19, 2024 MEETING TO AUTHORIZE THE ADMINISTRATION TO EXECUTE A DECLARATION OF OFFICIAL INTENT TO ISSUE NEW WATER AND SEWER BONDS IN THE AMOUNT OF \$85.0 MILLION, INCLUDING ISSUANCE COSTS.**

### BACKGROUND

In November 2007, the Mayor and City Commission approved Ordinance No. 2007-3582 which amended the procedures that the City followed in connection with the approval of a bond issue and added the following Section to Chapter 2 of the Miami Beach City Code, entitled "Administration"; Article V entitled "Finance"; Sec. 2-278, entitled "Procedures governing the issuance of bonds". See attached Exhibit A.

On December 9, 2020, the City Commission enacted Ordinance No. 2020-4384 to amend the rates and charges for services of the Water and Sewer Utility established in the Rate Ordinance (the "Amending Rate Ordinance"). See attached as Exhibit B. Pursuant to the Amending Rate Ordinance, the monthly water and sewer user rates for services of the Water and Sewer Utility will be increased by the following amounts at the beginning of the following Fiscal Years:

### City of Miami Beach, Florida Water and Sewer Utility Adopted Rate Increase

Effective Date (October 1)	Fiscal Year Ending September 30	Water System Rate Adjustment <sup>(1)</sup>	Sewer System Rate Adjustment <sup>(1)</sup>	Combined Rate Adjustment <sup>(2)</sup>
2021	2022	2.8% <sup>(3)</sup>	3.8% <sup>(4)</sup>	3.4%
2022	2023	5.5% + PTA	2.4% + PTA	3.6% + PTA
2023	2024	5.5%+PTA	2.4%+ PTA	3.6% + PTA
2024	2025	5.5% + PTA	2.4%+ PTA	3.6%+PTA
2025 <sup>(5)</sup>	2026 <sup>(5)</sup>	PTA + Rate Indexing	PTA + Rate Indexing	PTA + Rate Indexing

- (1) PTA= Pass Through Adjustment. See "Automatic Adjustments to Monthly User Rates - Pass-Through of Wholesale Rate Adjustments" below.
- (2) The combined adjustment is estimated, based on the average increase expected for the Water and Sewer Utility from across-the-board implementation of the water and sewer rate adjustments.
- (3) The rate adjustment for the Water System for Fiscal Year 2022 reflects a 1.0% adopted rate adjustment plus an estimated 1.8% pass-through adjustment.
- (4) The rate adjustment for the Sewer System for Fiscal Year 2022 reflects a 1.0% adopted rate adjustment plus an estimated 2.8% pass-through adjustment.
- (5) Pursuant to the terms of the Amending Rate Resolution, beginning in Fiscal Year 2026, annual increases in monthly water and sewer user rates will be governed by the automatic rate indexing provisions contained in the Original Rate Ordinance. See "Automatic Adjustments to Monthly User Rates - Automatic Rate Indexing" below.

On September 30, 2023, the City had approximately \$136.3 million in outstanding Water and Sewer Enterprise fund debt that was issued in 2017 and 2021. The outstanding debt for each Series in the Water and Sewer system are as follows: Series 2017 New Issue and Refunding Revenue Bonds of \$107.2 million and Series 2021A Refunding Bonds of \$29.1 million. The city currently has \$54.5 million in the 2017 Water & Sewer Bond Fund which are appropriated to current projects.

The City's FY 2024 Capital Improvement Program assumed \$21.5 million in proceeds from a to-be-issued future revenue bond to complete needed appropriations for unfunded FY 2024 water and sewer projects.

On April 19, 2024, staff presented to the Finance & Economic Resiliency Committee (FERC) the need for new money to support the rest of FY 2024 and the FY 2025 capital improvement program for the Water & Sewer fund. FERC approved a recommendation to the full Commission to authorize the Administration to execute a Declaration of Official Intent in the amount of \$85.0 million in new money proceeds, including issuance costs.

The item was retained in FERC for staff to return at a later date to proceed with the issuance of tax-exempt revenue bonds via a bond resolution.

## **ANALYSIS**

In accordance with the provisions of Section 2-278 Procedures governing the issuance of Bonds, the Administration prepared the required fiscal analysis Executive Summary (see attached Exhibit C) which include the following breakdown of the proposed Water and Sewer Bond issue.

### **Sec. 2-278 (a) 1 (a) - Estimated cost of the projects:**

The water and sewer program will fund priority repair or replacement projects as well as the water and sewer portion of existing and future neighborhood projects, as identified by the Public Works Department. The upgrades include portions of Critical Needs projects to upgrade or replace the aging water and sewer infrastructure. The Critical Needs Program was approved by Commission on March 18., 2020 via Resolution No. 2020-31211 (see attached Exhibit D). In addition, it includes agreements with the Florida Department of Transportation (FDOT) to replace water mains under state roads, while they are already undergoing construction. See attached Exhibit E for a complete list of projects with

associated costs.

The estimated portion of the projects for which the bonds are to be issued is \$84.0 million. The City to date has not committed any proceeds for future projects that are to be funded from future bond proceeds.

**Sec. 2-278 (a) 1 (b) - Estimated revenues to be generated by the projects:**

These projects will either replace or enhance portions of the existing water and sewer system; the operation of such system is funded by water and sewer rates and charges. No additional fees are anticipated to be earned as a result of these projects. The City has adopted water and sewer rate increases as specified above.

**Sec. 2-278 (a) 1 (c) - Estimated annual cost of maintaining, repairing, and operating the projects:**

The City's utility rates for water and sewer services are structured to collect the necessary revenues to meet annual operating and maintenance costs of the infrastructure, to cover debt service for water and sewer bonds, to maintain adequate operating fund reserves, and, to pay Miami-Dade County for wholesale water purchased, the treatment of the City's sewage and other fees.

**Declaration of Official Intent**

Currently, the Administration is not recommending the immediate issuance of new money revenue bonds but to instead request the Commission to authorize for the Administration to execute a Declaration of Official Intent defined as:

*“Declaration of Official Intent” means a declaration of intent, in the form, manner and time contemplated in the Reimbursement Regulations, that the advances for expenditures referred to therein are reasonably expected to be reimbursed from the proceeds of Bonds to be issued after those expenditures are paid.”*

Issuing revenue bonds with a prior Declaration of Official Intent can be a cost-effective strategy. A prior Declaration of Official Intent is a legal mechanism that allows an issuer to use its own funds initially for project expenses and later reimburse itself with the proceeds from the sale of tax-exempt revenue bonds. In this case, water and sewer fund's reserves would be utilized to provide the interim funding of the projects.

The Declaration of Official Intent will not be effective unless the bonds providing moneys for the reimbursement are issued and the reimbursement for the projects described in the attached is made within the applicable period prescribed in the Treasury Regulations – generally, 18 months after the later of the date of the expenditure or the date the Project is placed in service, but in no event later than three years after the date of the expenditure. See attached Exhibit F for Resolution 2016-29612 which authorizes Declarations of Official Intent.

Some advantages to this approach include:

- Timing and Flexibility: Delaying the issuance of revenue bonds provides the City with flexibility in terms of timing. It allows the City to initiate and fund a project using the water and sewer fund's reserves while waiting for the most opportune moment to

issue long-term bonds. This can be advantageous in instances where market conditions are not favorable or when the project timeline is uncertain.

- Reduced Interest Costs: By using internal funds initially, the City can avoid incurring interest costs associated with long-term debt during the early stages of projects.
- Market Conditions: Delaying the issuance allows the City to monitor and take advantage of favorable market conditions. If interest rates are expected to decrease or if there is increased demand for bonds, the City may be able to secure more favorable terms, ultimately lowering the overall cost of financing.
- Project Initiation Assessment: The delay provides the City with additional time to assess when certain project milestones are reached. This may involve confirming that the project is progressing as planned. A more solid project foundation can enhance investor confidence and contribute to lower borrowing costs.

### **CONCLUSION**

The Administration recommends the City Commission approve an authorization for the Administration to execute a Declaration of Official Intent in the amount of \$85.0 million in new water and sewer money proceeds, including issuance costs.

**Was agenda item initially requested by a lobbyist which, as defined in Code Sec. 2-481, includes a principal engaged in lobbying? No**

**If so, specify name of lobbyist(s) and principal(s): N/A**