



Memorandum

To: *Phyllis Shaw, Deputy Director
City of Hollywood Department of Public Utilities (DPU)*

From: *CDM Smith Inc.*

Date: *October 10, 2024*

Subject: *Stormwater Utility Sufficiency Analysis – Revised Rate Estimates*

Introduction

This Technical Memorandum (TM) is a continuation of the Stormwater Utility (SWU) rate-sufficiency study to assist the City with the financial planning for the pending implementation of a long-term citywide stormwater capital improvements program (CIP). The study, completed in March 2024, provided an initial assessment of the stormwater needs and potential revenue generation from a fee increase. This memorandum builds on the previous work to provide an updated fee estimate based on revised annual operating cost assumptions and capital spending plan. CDM Smith is finalizing an update of the parcel impervious area calculations and associated billing file, the results of which can be used to further enhance the revenue in the rate model included in this memorandum.

The City intends to adjust the SWU rates in a two-step process:

1. Initial rate increase to match revenue to current needs for utility management, operations, regulatory compliance, system maintenance, backlogged City R&R projects, immediate action Interim Stormwater CIP “partial flood relief” projects, and to build equity in the SWU for upcoming stormwater CIP bonds/loans.
2. Second rate increase to fund the debt service and bond covenants for the approximately \$300M identified first group of large capital projects from the SWMP over approximately a 15-20 year time frame.

The interim CIP, City R&R, and Large SWMP projects lists identified with City Staff and associated budget planning costs are provided in **Attachment A**.

Annual Stormwater Program Funding Requirements

The initial study included an assessment of current spending for stormwater operations and capital costs based on provided SWU financial data. Following the initial study, CDM Smith met with City staff on multiple occasions to identify the future needs of the stormwater capital improvements program to support the recently completed, long-range Stormwater Master Plan. This assessment was also enhanced by CDM Smith’s experience with similar stormwater utility programs throughout Florida.

Step 1 - Initial Rate Adjustment

The primary assumptions that were used to develop the revised stormwater program costs are as follows:

- The personnel/staffing expenses to operate and maintain the growing stormwater system as capital projects are constructed which includes a requested initial increase of 4 maintenance/operations staff.
- Annual escalation factors to account for wage growth and inflation have been added to each line item as documented in the assumptions column of the table.
- Annual transfers out of the stormwater utility are increased by the requested \$100K to account for payment obligations for stormwater-related services that are provided by other departments.
- Routine annual repair and replacement (R&R) of the existing stormwater infrastructure has been increased to \$8M per year requested by DPU to cover the backlog of known system deficiencies and the interim partial flood relief CIP projects identified in the flooding “Hot Spot Areas”.
- Continued inclusion of the existing debt service payment obligations which expire in 2029.
- The estimated rate is sufficient for 5 years and includes the development of a reserve account (minimum 6 months of revenue).
- Fixed asset depreciation is not explicitly included in the rate model as it is assumed the repair and replacement line item covers this cost.

The following table summarizes the revised annual operating costs for the near-term Step 1 rate adjustment stormwater program over the next five years:

Expenditure Category		Year					Assumptions
Public Utilities Operations		2025	2026	2027	2028	2029	
	Personnel Expenses	\$ 1,800,000	\$ 1,890,000	\$ 1,984,500	\$ 2,083,725	\$ 2,187,911	Increasing 5% per year
	Operating Expenses	\$ 900,000	\$ 927,000	\$ 954,810	\$ 983,454	\$ 1,012,958	Increasing 3% per year
	Capital Outlay	\$ 600,000	\$ 615,000	\$ 630,375	\$ 646,134	\$ 662,288	Increasing 2.5% per year
	Capital Improvements Plan (Repair/Replacement)	\$ 8,000,000	\$ 8,240,000	\$ 8,487,200	\$ 8,741,816	\$ 9,004,070	Increasing 3% per year
	Existing Debt Service	\$ 150,000	\$ 150,000	\$ 150,000	\$ 150,000	\$ 150,000	Existing obligations
	Non-Operating Expenses	\$ 300,000	\$ 307,500	\$ 315,188	\$ 323,067	\$ 331,144	Increasing 2.5% per year
	Transfers Out	\$ 700,000	\$ 714,000	\$ 728,280	\$ 742,846	\$ 757,703	Increasing 2.5% per year
	Total Annual Operating	\$ 12,450,000	\$ 12,843,500	\$ 13,250,353	\$ 13,671,042	\$ 14,106,074	

Notes:

- The rate model developed for this study is based upon the existing count of Equivalent Residential Units (ERUs) of approximately 81,600 ERUs, prior to the pending billing file update. Any increase in this ERU count resulting from the on-going effort to update the parcel impervious areas will increase the revenue generating capacity of the program.
- The existing rate of \$10.62 per ERU generates approximately \$10M per year for the SWU.

- The revenue needs over the next 5 years is calculated as \$14.1M per year, which would require an initial interim stormwater fee increase to \$15/ERU per month assuming a fee collection rate of 98%.

Step 2 – Stormwater CIP Program Rate Adjustment

The next step in the rate evaluation is the associated stormwater fee level to fund the long-range capital plan. The initial \$15/ERU rate addresses the immediate needs of the program and is intended to cover annual near-term operating expenses and identified interim projects.

Two time-frames were evaluated for comparison:

1. A 15-year planning horizon that initiates capital spending in FY2026 to fund priority capital projects in the SWMP at a rate of one new large Capital Project start per year, and
2. A 20-year planning horizon that initiates capital spending in FY2026 to fund priority capital projects in the SWMP at a rate of one new project every two years.

The total planned spending for each scenario is \$300M over the planning period as identified in Appendix A. The City will need to determine if the aggressive 15-year time frame program is palatable in terms of capital funding needs, project execution, and general constructability (as most of the large projects are concentrated in the highest need areas located in the eastern portion of the City).

Bond financing will be required to execute each plan. The following subsections summarize the results of each analysis:

15-Year Capital Spending Plan

For this scenario, the Step 1 rate increase of \$15/ERU is initiated in Year 1 (FY2025) to fund immediate operating needs and the interim partial relief projects. The \$8M/year initial allocation for interim projects and City R&R is reduced to \$4M/year in year 6, as the City's goal is to have most of the identified interim projects completed in the initial 5-year timeframe.

In Year 2 (FY2026), the fee is increased to \$24/ERU, which generates a total annual revenue of approximately \$23M. This second step rate supports funding for the annual operating expenses and development of a reserve fund required for financing. The additional revenue is used in the early years of the program for pay-as-you-go spending as project design/permitting is initiated, which can take multiple years. The planned capital funding need for the 15-year plan is presented in the table below.

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Year	Capital Funding Need
2025	\$ -
2026	\$ 2,900,000
2027	\$ 5,600,000
2028	\$ 6,300,000
2029	\$ 16,700,000
2030	\$ 31,700,000
2031	\$ 40,400,000
2032	\$ 41,100,000
2033	\$ 44,100,000
2034	\$ 40,800,000
2035	\$ 30,600,000
2036	\$ 19,700,000
2037	\$ 10,500,000
2038	\$ 3,200,000
2039	\$ -
Total	\$ 293,700,000

By year 2030, bond financing is necessary to continue funding the capital needs in order to maintain the \$24/ERU rate. For year 2030 and subsequent years, the capital funding need is financed for 20-years at an assumed rate of 4.5% in the model. Debt service is funding through the annual fee revenue. Using these assumptions, the \$24/ERU rate can sustainably fund the program needs through the 15-year planning horizon while maintaining adequate reserves.

20-Year Capital Spending Plan

For this scenario, the Step 1 rate increase of \$15/ERU is also initiated in Year 1 (FY2025) to fund immediate operating needs. The \$8M/year initial allocation for interim projects and City R&R is reduced to \$4M/year in year 6, as the City's goal is to have most of the identified interim projects completed in the initial 5- year timeframe.

Similarly, in Year 2 (FY2026), the fee is increased to \$24/ERU to fund the initiation of project design/permitting and reserve account requirements. The planned capital funding need for the 20-year plan is presented in the table below.

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Year	Capital Funding Need
2025	\$ -
2026	\$ 2,900,000
2027	\$ 2,900,000
2028	\$ 2,900,000
2029	\$ 12,500,000
2030	\$ 18,100,000
2031	\$ 20,800,000
2032	\$ 17,600,000
2033	\$ 22,600,000
2034	\$ 21,400,000
2035	\$ 25,400,000
2036	\$ 20,500,000
2037	\$ 26,400,000
2038	\$ 22,900,000
2039	\$ 22,100,000
2040	\$ 14,400,000
2041	\$ 14,200,000
2042	\$ 8,700,000
2043	\$ 8,600,000
2044	\$ 5,800,000
2045	\$ 3,200,000
Total	\$ 293,900,000

Under this scenario, bond financing is not necessary until 2032. For year 2032 and subsequent years, the annual capital funding need is financed for 20-years at an assumed rate of 4.5% in the model. Debt service is funding through the annual fee revenue. Using these assumptions, the \$24/ERU rate can sustainably fund the program needs for approximately 18 years of the 20-year planning horizon while maintaining adequate reserves. At that point, future fee increase would need to be considered for funding the capital needs and debt service.

Notes:

- The rate model developed for the alternative scenarios are based upon the existing count of Equivalent Residential Units (ERUs) of approximately 81,600 ERUs. Any increase in this ERU count resulting from the on-going effort to update the parcel impervious areas will increase the revenue generating capacity of the program.
- The \$8M per year in Repair and Replacement spending is maintained through the first 5 years of the program to fund immediate needs. In both long-range planning scenarios, this annual Repair and Replacement line item is reduced to \$4M per year in Year 6 of the program.
- The Step 1 rate adjustment to \$15.00 per ERU generates approximately \$14.4M annually
- The Step 2 rate adjustment to \$24.00 per ERU generates approximately \$23.0M annually.

Summary

The scenarios assume full funding by the City of Hollywood without any cost-sharing or grants from other agencies. Any grant funding secured by the City will extend the capacity of the program to fund more projects.

An initial annual stormwater utility fee of approximately \$15 per ERU per month is required to fund anticipated stormwater operating expenses over the next 5 years with increased capital spending to \$8M annually for repair and replacement.

An annual stormwater utility fee of approximately \$24 per ERU per month is required to fund anticipated stormwater operating expenses over the next 15-20 years to provide the revenue for the \$300M large SWMP CIP and continue the basic SWU management and operation.

ATTACHMENT A

STORMWATER PROJECT LISTS

SWMP CIP LARGE CAPITAL PROJECTS

COUNT	PROJECT	TYPE	PLANNING BUDGET
1	D1-3 Hollywood Lakes South (Moffett)	LARGE SWMP CIP	\$38.5M
2	D1-7 Hollywood Lakes North (Eco)	LARGE SWMP CIP	\$36.8M
3	D1-5 Hollywood Lakes Central	LARGE SWMP CIP	\$44.8M
4	D1-4 Hollywood Lakes (South Lake)	LARGE SWMP CIP	\$46.3M
5	D1-6 Hollywood Lakes (North Lake)	LARGE SWMP CIP	\$55.4M
6	D2-1 Oakwood Hills (Liberia)	LARGE SWMP CIP	\$34.5M
7	D3-2 North Central South (Sunset)	LARGE SWMP CIP	\$22.6M
8	D3-1 North Central North (PH I West)	LARGE SWMP CIP	\$15.1M
	TOTAL		\$294M

SWMP INTERIM CIP (NEXT 5 YEARS)

COUNT	PROJECT	TYPE	PLANNING BUDGET
1	D3 Johnson St Culvert (FDOT JPA)	INTERIM SWMP CIP	\$1.3M
2	D1 SW08 and Discharge Pipe Improvements	INTERIM SWMP CIP	\$3.9M
3	D3 Rainbow Dr Swale	INTERIM SWMP CIP	\$0.7M
4	D1 HBCG Stormwater Pipe and Swale	INTERIM SWMP CIP	\$3.4M
5	D1 Eco GC Ditch Improvements	INTERIM SWMP CIP	\$3.6M
6	D3 Harding Pond Stormwater Pipe to Rotary Park	INTERIM SWMP CIP	\$2.4M
7	D4 CS-22 Structure Backflow Prevention	INTERIM SWMP CIP	\$2.5M
8	D1 Arthur St and W Lake Park Entry Dr BFPs	INTERIM SWMP CIP	\$2.2M
9	D4 Driftwood Exfiltration	INTERIM SWMP CIP	\$4.2M
10	D5 Boulevard Heights Exfiltration	INTERIM SWMP CIP	\$3.3M
11	D3 Pierce St Pond and Stormwater Pipe	INTERIM SWMP CIP	\$2.0M
12	D2 Highland Gardens Washington St Exfiltration	INTERIM SWMP CIP	\$1.5M
	TOTAL		\$31M

NON-SWMP CITY R&R NEEDS

COUNT	PROJECT	TYPE	PLANNING BUDGET
1	Pipeline Preliminary Design and Route Analyses (SW08, Diplomat GC)	NON-SWMP CITY R&R	\$0.5M
2	Recapture Swale Improvements	NON-SWMP CITY R&R	\$0.5M
3	Citywide Initial Land Acquisition Budget	NON-SWMP CITY R&R	\$3.0M
4	DCM Shoreline Protection Seawall Overrun Costs	NON-SWMP CITY R&R	\$7.2M
5	Stormwater I/I Repairs Along A1A	NON-SWMP CITY R&R	\$2.0M
6	A1A BFP Installations (5)	NON-SWMP CITY R&R	\$0.5M
7	Lakes Area Exfiltration Grant Match	NON-SWMP CITY R&R	\$3.25M
8	Hollywood Hills - Polk St (N 56 Ave - N 48 Ave)	NON-SWMP CITY R&R	\$0.7M
9	Sheridan Street Drainage Improvements (70 Ave - 66 Ave)	NON-SWMP CITY R&R	\$0.8M
10	Emerald Lakes Outfall N. 34th Street	NON-SWMP CITY R&R	\$1.1M
11	Sunset Park - Johnson Street	NON-SWMP CITY R&R	\$0.7M
12	Drainage Improvements – Cleveland Street west of N 74 Way	NON-SWMP CITY R&R	\$0.8M
13	Monroe & Southlake Wapro clean, Structure repair	NON-SWMP CITY R&R	\$0.4M
14	N 31st Place (The Club at Emerald Hills Golf Course) Outfall repair	NON-SWMP CITY R&R	\$0.2M
15	Wapro Installation Taft and 14th Ave	NON-SWMP CITY R&R	\$0.1M
16	Drainage Improvements – Cleveland Street west of N 74 Way	NON-SWMP CITY R&R	\$0.3M
17	Pershing Street west of N 65th Ave Improvements	NON-SWMP CITY R&R	\$0.2M
18	Lincoln Street west of N 56th Avenue Improvements	NON-SWMP CITY R&R	\$0.2M
19	Dewey Street and S 20th Avenue Improvements	NON-SWMP CITY R&R	\$0.2M
20	W. Park Road and N 57th Ave Improvements	NON-SWMP CITY R&R	\$0.2M
	TOTAL		\$22.85M

SWMP STORMWATER CIP ANTICIPATED PROGRAM CASH FLOW

