


# THE CITY OF MARCO ISLAND

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DATE: February 28, 2007  
TO: A. William Moss, City Manager  
FROM: Bill Harrison, Finance Director   
RE: Sewer Assessment Neighborhood Construction Charge

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**SUMMARY:** We have been asked to review the Sewer Assessment charges under the assumption that new customers to the system connected through the STRP should not have to pay any of the costs of upgrading the existing 3.5 million gallon per day (MGD) wastewater treatment plant, other improvements to the current wastewater system, or pay for the roadway resurfacing at the end of the neighborhood construction. City Council has previously taken action to remove the cost of roadway resurfacing from the Construction Assessment and moved those costs to the rate base with an 8% increase in water and sewer rates.

City staff and Public Resources Management Group have completed the financial analysis of the impact of removing the responsibility for \$32 million in capital construction costs from new customers to the wastewater system. The credit to each new customer, in the form of a one-time reduction of the STRP Neighborhood Construction Charge, would be \$2,758. This would reduce the STRP Construction Assessment fee by \$2,758 in each assessment area. To offset this reduction in revenues into the system, the entire Marco Island water and sewer rate base would need to be increased by 7.75% or the sewer rate base only by 33.7%. This increase may be phased in over several years to coincide with funds expended for capital construction.

**COSTS TO BE INCURRED:** We have identified \$32 million in capital costs to be paid by other than the STRP for the upgrading of the existing wastewater system. Of that amount, \$4.65 million is scheduled to be paid as impact fees by new customers connecting to the currently existing central sewer system and \$3 million is scheduled to be paid by re-use customers to extend the re-use system and built re-use storage. Net costs for upgrades for the wastewater system are \$24,350,000.

**ANNUAL DEBT SERVICE:** On a 30-year bond issue to pay for these plant and system improvements of \$24,350,000 with an annual interest rate of 5%, annual debt service would be approximately \$1,575,600.

**RATE BASE:** The current rate base for operating revenues from Marco Island sewer customers is \$4,671,600. The annual debt service of \$1,575,600 would represent 33.7% of the sewer rate base. 33.7% of the monthly sewer bill for a single-family residence of \$43.94 (assuming 6,000 gallons of water use monthly) would be \$14.81. The net present value of \$14.81 monthly over 30 years at 5% interest is \$2,758.

**REVISION TO SEWER ASSESSMENT CONSTRUCTION CHARGE:** We have consistently worked on the premise that all wastewater customers on Marco Island should pay equal monthly sewer bills. The net present value of \$14.81 monthly over 30 years at 5% interest is \$2,758. A reduction of \$2,758 from the Neighborhood Construction Charge in each assessment area, including those neighborhoods recently completed and for participants of the "Lock-In" program would result in the elimination of the costs of system upgrades from STRP assessments.

**IMPACT ON WATER AND SEWER RATE BASE:** If the change in the Sewer Assessment Construction Charge were to be made, approximately \$18 million in rate base bonds would need to be sold to finance projects currently scheduled to be financed by the Sewer Assessment Capacity Charge. On the combined water and sewer rate base for Marco Island customers of \$19.028 million, the rate increase to service the annual debt service of \$1,475,400, including the 1.20 coverage requirement, would need to be 7.75%. In addition to this 7.75%, water and sewer monthly fees need to increase by 8% to cover the removing of roadway resurfacing from the assessment program. Only the first 2% of these increases have been built into the rate base. Over and above these increases, annual rate increases will be required to offset the effects of inflation on utility operations.

The above calculations assume acceptance of the premise that new STRP customers should NOT pay for upgrades to the existing 3.5 MGD plant through their monthly utility bills. The expanded 1.5 MGD is not a stand-alone facility. To function, the expanded plant requires integration with the existing plant facility, while current customers do not benefit by expanded capacity.

**NOTE:** There is a degree of uncertainty anytime we are dealing with budgeted numbers for future construction costs, rather than costs based on approved construction contracts. A similar problem deals with forecasting interest rates on future bond issues. This analysis uses the best information available today; however, changes in construction costs or interest rates may affect the exact level of rate increases required.