



**PUBLIC RESOURCES MANAGEMENT GROUP, INC.**

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## **Memorandum**

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To: Margaret Blank, P.E.  
Key Largo Wastewater Treatment District

From: Robert Ori and Thierry Boveri  
Public Resources Management Group, Inc.

Date: October 28, 2013

Subject: Effects of Additional Grants to District Wastewater Rates

At the request of the Key Largo Wastewater Treatment District (the "District"), we have reviewed the potential effects assuming the receipt of \$17 million in additional grant funds on the District's monthly rates for wastewater service and annual capital assessments (the "Charges"). A significant portion of the Key Largo wastewater treatment and collection system was financed through the issuance of debt. The repayment of this debt, the principal amount of which is nearly \$89 million, is secured for repayment by the District's customers from the Charges. A component of the outstanding debt includes a commercial loan with a \$21 million balloon payment due in January 2017; this structure was used to limit the upfront costs to the District customers through lower debt service payments. It is recommended that the receipt of the \$17 million grant be used to pay down this loan, which in turn will: i) allow the District to provide immediate economic relief to its customers through a reduction in the Charges; as well as ii) significantly reducing the future financial risk associated with the possible terms and conditions (e.g., interest rate risk) of refinancing the District's outstanding commercial loan. The receipt of the grant will also increase the District's ability to fund the remaining \$8.5M in capital projects from operations and available funds which promote the long-term sustainability of the utility system.

Assuming the use of the \$17 million grant to pay down the commercial loan, would allow the District to lower annual debt service payments in Fiscal Year 2015 by approximately \$1,600,000<sup>[1]</sup>. The benefit of the reduced annual debt service payments would be passed on to the customers of the District through: i) a 14% reduction in monthly wastewater user fees (rates); and ii) a 10.5% reduction in annual capital assessments. As can be seen below, this would reduce the Charges

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<sup>[1]</sup> Annual savings in debt service were estimated recognizing: i) use of \$17 million in grant funding to lower the principal balance outstanding of the commercial loan; and ii) refinancing the remaining balance over a 15 year repayment term at a 3.5% interest rate. Actual reduction in debt service is subject to available grant funding and actual market conditions at time of refinance.

to a typical residential customer (assuming a monthly billed sewer flow of 6,000 gallons) by over \$150 annually which is substantive.

<b>Annual Reduction for Typical Residential Customer (6,000 Gallons per Month)</b>	
	Amount
Annual Wastewater Service	
Existing Rates	\$783
Reduced Rates	\$673
Annual Wastewater Assessment	
Existing Amount	\$400
Reduced Amount	\$358
Savings per Year	(\$152)
Savings per Month	(\$13)
Percent Savings to Customer	(12.8%)

Although the predominant class of customers served by the District are single-family residential, it should be noted that for the larger commercial (e.g., restaurants and hotels) and multi-family residential (e.g., apartments) customers that demand a greater amount of monthly wastewater service, the amount of savings would be greater than what is shown in the prior example. For instance, the monthly sewer bill for the District's largest customer representing approximately 260 Equivalent Residential Units is approximately \$16,500 a month or \$198,000 annually. Applying the \$17 million grant to provide rate relief would have the effect of lowering their monthly bill by approximately \$2,300 per month or nearly \$28,000 annually.

The immediate recognition of the grant would greatly increase the affordability of providing sewer service to the District customers and would improve the District's ability to finance the sewer capital projects for the long-term benefit of the Florida Keys.