



# AGENDA ITEM MEMORADUM

**Town Manager**

**Connie Hoffmann**

Department

Department Director

<b>COMMISSION MEETING DATE (*) - 7:00 PM</b>	<b>Deadline to Town Clerk</b>
<input checked="" type="checkbox"/> Dec 13, 2011	Dec 2 <sup>nd</sup>

**\*Subject to Change**

- |                                       |   |   |                                       |
|---------------------------------------|---|---|---------------------------------------|
| <input type="checkbox"/> Presentation | <input type="checkbox"/> Reports        | <input type="checkbox"/> Consent                        | <input type="checkbox"/> Ordinance    |
| <input type="checkbox"/> Resolution   | <input type="checkbox"/> Quasi-Judicial | <input checked="" type="checkbox"/> <b>Old Business</b> | <input type="checkbox"/> New Business |

## SUBJECT TITLE: IMPACT OF SEWER RATES ON HOTELS

**EXPLANATION:** A local hotelier, Arthur Franczak, has voiced concerns with the impact of the change of the sewer service rate structure adopted last winter on the hotel industry in Lauderdale-by-the-Sea. He expressed concern about the cost impact, competitiveness with Pompano and Fort Lauderdale hotels, and the difference of the impact of the rate change on his hotel compared to a commercial restaurant in Town. I advised the Commission I would do some analysis on this matter and bring the results back to the Commission.

Sewer rates are always connected to water consumption. As you know, we switched last winter to the rate structure used by Pompano Beach which is comprised of 1) a fixed monthly rate based on the number of residential or business units served by a single meter, and 2) a charge based on consumption of water. That was a significant change from our prior practice of basing the fixed component of the sewer rates on the size of the meter serving the account. (The latter is the approach used by Fort Lauderdale.)

Because of the change in the structure of the rate system, almost every sewer account in Town larger than a single-family home or duplex was impacted differently by the new sewer rates. As we explained when the Commission adopted the new rate structure, the accounts with the most number of units would be most dramatically affected. And consumption varies quite dramatically from one account to another, so that affects the outcome.

These factors made the analysis difficult. We had Fort Lauderdale send us account data for all accounts classified as commercial or multi-family. (In doing this analysis I found that some hotels are misclassified in the Fort Lauderdale billing database system as multi-family and some condominiums are misclassified as commercial accounts. We will need to wade through correcting those accounts and see if we can determine how far back they were misclassified.) I felt it was not appropriate to look at the hotels only, when we know that multi-family customers were also deeply impacted by the new rate structure.

Finally I decided the best way to present you with an analysis that was comprehensible was to show you the impact the rate structure had 6 hotels of and four multi-family accounts of similar size in terms of number of units. To show you how the impact can vary considerably even among hotels with a similar number of units, I included examples of a hotel with 24 units, one with 26 units, and one with 28 units.

Non-hotel commercial accounts were all over the place, so I picked the three largest consumers of water for comparison purposes.



Results of Analysis

**Table 1 - Hotel Properties**

Sample Property	Meter Size	No. of Units	Consump (1,000)	Current Rates		If Old Rates		% Inc. + (-)
				Total Last 8 Months	Avg Per Unit / Month	Total Last 8 Months	Avg Per Unit / Month	
1. Ocean Dr.	1 ½"	28	395	\$5,025	\$15	\$1,671	\$7	201%
2. Ocean Dr.	1 ½"	26	434	\$4,898	\$16	\$1,788	\$6	174%
3. Ocean Dr.	1 ½"	25	495	\$4,979	\$17	\$1,971	\$7	153%
4. Bougainvilla	5/8"	7	187	\$1,562	\$19	\$622	\$7	151%
5. Ocean Dr.	4"	149	4,461	\$34,900	\$29	\$14,903	\$13	134%
6 El Mar Dr.	2"	48	1,369	\$11,007	\$19	\$5,080	\$9	117%

**Table 2 - Multi-family Properties**

Sample Property	Meter Size	No. of Units	Consump (1,000 gal)	Current Rates		If Old Rates		% Inc. + (-)
				Total Last 8 Months	Avg Per Unit / Month	Total Last 8 Months	Avg Per Unit / Month	
1 Ocean Dr.	4"	150	1,336	\$19,596 (1)	\$19	\$5,338	\$5	267%
2. El Mar Dr.	2"	44	1,530	\$10,285	\$29	\$5,563	\$16	85%
3. Ocean Dr.	2"	24	589	\$4,776	\$25	\$2,740	\$14	74%
4. Seagrape	1-1/2"	7	362	\$2,108	\$38	\$1,572	\$28	34%

(1) only 7 months of data for this property

The tables above clearly show several things:

That high consumption can offset the impact of the base rate component. Low consumption makes the base rate component more impactful on the overall bill. That is illustrated by comparing the 149 room



hotel with high consumption to the 150 unit condo with much lower consumption. The hotel’s bills went up 134% as a result of the new rates, while the condo’s bills went up 267%.

It is also true for much smaller buildings – if you compare the 7 unit hotel (up 154%) to the 7 unit apartment building with double the consumption rate (up only 34%). The impact of meter size also factored into this example. The hotel has a smaller meter than the apartment building, so felt a greater impact from the per unit charges.

With the exception of the very large hotel, this limited analysis data suggest that hotels were hit harder on cost increases than were the multi-family accounts. However, I think it would be prudent to analyze more accounts before making that a definitive conclusion.

Table 3 Largest Consumption Non-Hotel Commercial Accounts

<i>Restaurant</i>	<i>Units</i>	<i>Meter</i>	<i>\$ Impact of Rate Change</i>	<i>% Increase/decrease in costs</i>	<i>Comsump In 8 months</i>
# 1	3	1 ½”	<b>\$3,743</b>	81%	1,377
# 2	1	2”	<b>-\$208</b>	-4%	1,379
# 3	1	2”	<b>\$663</b>	6%	3,271

The largest consumers of water of the non-hotel commercial accounts are all restaurants. The first one is odd in that it is listed as having three units and that is what caused it to have the larger increase in terms of both costs and percentage increase.

It is a concern to me that some of the highest consumers of water in Town pay such a small fixed component on their bill and experienced little financial impact when we changed the rate structure while other users experienced very significant increases in their bills.

Issue of Competitiveness of LBTS Hotels with Hotels in Pompano & Fort Lauderdale

Obviously, there are a lot more factors than the sewer bill cost factor to competitiveness. Mr. Franczak expressed several concerns, though, with regard to the sewer bills and competitiveness. One was that a sewer bill from a Pompano hotel that he looked at had lower rates than his hotel, although he thought we had “adopted Pompano’s rates”. I explained to him that we used Pompano’s rate structure, but increased it by the 25% surcharge they impose on accounts outside their municipality, so our rates would be higher than what he saw on a Pompano hotel’s bill. The 25% surcharge would also be a factor in comparing to a Fort Lauderdale hotel’s bill but, middle-size and large LBTS hotels would also have a higher fixed charge than a Lauderdale hotel because Lauderdale’s fixed component is based on meter size and not on number of hotel units. So it is accurate to say that LBTS hotels will have higher sewer bills than comparable sized hotels in our neighboring communities.

I illustrated in Table 4 for several LBTS hotels the increase in the daily cost per hotel room that resulted from the rate structure and rates we adopted last winter. Since hotels do not operate at capacity, I also



gave the impact if you assumed a 60% year-round occupancy rate. The Chamber of Commerce was unable to give me occupancy rates for LBTS hotels, so I just picked 60%.

**Table 4 - Hotel Properties**

Sample Property	No. of Units	Use (1,000)	Impact of Rate Change On	
			All Units	60% occupied
1. Ocean Dr.	28	395	\$0.50	\$0.83
2. Ocean Dr.	26	434	\$0.50	\$0.83
3. Ocean Dr.	25	495	\$0.50	\$0.84
4. Bougainvilla	7	187	\$0.56	\$0.93
5. Ocean Dr.	149	4,461	\$0.56	\$0.93
6 El Mar Dr.	48	1,369	\$0.51	\$0.86

Some Options

- 1.If the Commission wishes to look at the issue of large commercial consumption users (described in Table 3), we can engage the services of a utility rate consultant to suggest how we might deal with that issue.
- 2.We could also consider putting hotels in a separate classification and charge them the same fixed monthly component as we do multi-family accounts. That would reduce their monthly per unit fixed fee from \$16.33 to \$14.26. A hotel with 25 units would see a decrease of \$621 per year, which isn't very significant.
- 3.We could create a completely different rate structure for hotels, but other classes of customers would likely oppose that.
- 4.We might consider going back to the prior structure of having the fixed rate component be based on meter size, but we would need to have a utility rate consultant evaluate how to do that and still generate the revenue we need to cover costs. Next month we will receive the engineering firm's analysis of the repairs needed to our sewer infrastructure. From staff's recent discussions with them, it appears that the Sewer Fund reserve is more than ample to cover the cost of the needed capital repairs. Having that report will be important in any rate restructuring considerations.

**EXPECTED OUTCOME: Town Commission direction.**

Reviewed by Town Attorney  
 Yes     No

Town Manager Initials \_\_\_\_\_