

**UTILITY ADVISORY BOARD
MEETING
Monday, June 13, 2011**

MEMBERS PRESENT: John Dauster, Chairman
James Hoffman, Terry Miller,
Joe Sabatino

MEMBERS ABSENT: Steve Fabian, Frank Mazur

OTHERS PRESENT: Tom Jackson, Utilities Director
Steve Leonard, Senior Project Manager
Sharon Knippenberg, Controller
Kristin Simeone, Finance Department

CALL TO ORDER/ANNOUNCEMENTS

- A. Roll Call
- B. Next Scheduled Meeting
- 1. June 27, 2011
 - Mr. Tom Jackson announced Mr. Hoffman had suggested the July meeting be held earlier in the month as he would not be available on the 25th.
 - Mr. Dauster stated his schedule was already full.
 - Mr. Sabatino stated he would not be available for the entire month of July.
 - Mr. Jackson suggested rather than meeting in July, the August meeting be moved to the middle of the month so less time elapsed between meetings.
 - Mr. Dauster inquired if there were any pending, time sensitive issues.
 - Mr. Jackson replied in the negative.
 - Mr. Dauster stated he did not believe Mr. Mazur would be returning until the fall.
 - Mr. Sabatino stated he would be returning after August 8th, suggesting staff select two possible dates in August to see if members could attend.
 - Mr. Jackson agreed.

APPROVAL OF MINUTES

- A. Regular Meeting - April 25, 2011
 - Mr. Sabatino MOVED, Ms. Miller SECONDED approval of the minutes. MOTION CARRIED UNANIMOUSLY.

REPORTS

- A. Utility Operational Data
 - Mr. Jackson displayed the United States Geological Survey (USGS) graph of the reservoir, as delineated in the agenda materials, reporting the spillway had reached a no flow condition as of this morning, which was not unusual for this time of year. He

stated historically, the rainy season began on June 15th, advising once a no flow condition occurred, there were 89 days of water stored behind the spillway. He stated the National Weather Service was forecasting a late start to the rainy season; however, scattered storms were predicted for this date as well as later in the week. He recalled last year there was 10.3 inches of rain during May, but very little rain during June, adding the rains finally began in July. He stated the current stage height was 5.0 mean sea level (msl), noting staff had informed the USGS of the need to recalibrate their equipment as their numbers were off slightly. He reported raw chlorides remained fairly low for the dry season at 162 milligrams per liter (mpl). He displayed the Shell Creek Reservoir Levels, briefly reviewing same.

- Mr. Sabatino inquired if there would be any changes in watering restrictions.
 - Mr. Jackson replied in the negative. He then reported the Southwest Florida Water Management District (SWFWMD) Board was in disarray and would not likely conduct much business at their next meeting, adding Ms. Terri Beling of SWFWMD indicated a district-wide reorganization meeting would be held on Friday, June 17, 2011. He said she had offered to attend the next Utility Advisory Board (UAB) meeting to explain any changes in the District and to discuss her thoughts on future funding. He then displayed the Utility Operational Data for May 2011, as delineated in the agenda materials, briefly reviewing same, reporting 15 million gallons (mg) of water had been withdrawn from the Aquifer Storage and Recovery (ASR) wells to address three algae blooms in the reservoir. He drew members' attention to the rolling 12 month average for historic rainfall versus current year rainfall, noting the current level was 79.8% of historic rainfall, which reflected how dry it had been for the past several weeks.
 - Mr. Dauster stated the April report indicated waste water monthly flows for 2010 and 2011 were approximately the same, but there was a 2 inch difference in rainfall, questioning if that was due to inflow and infiltration.
 - Mr. Jackson replied that was difficult to answer due to several variables, including two major line breaks, adding more research was necessary as the information would likely be skewed. He then explained higher levels of chlorides in the system during rainy periods indicated very little rainwater was infiltrating the system.
 - Mr. Sabatino questioned the raw water figures for May.
 - Mr. Jackson responded when more water was used for irrigation, those numbers would be higher.
- B. City Council Action on Utilities Agenda Status
- Mr. Dauster requested an explanation of City Council's action regarding the submerged lands lease.

- Mr. Jackson explained when the spillway was replaced, the boat lift area was reconfigured and reduced to one boat lift bay, noting some additional work was completed at the intake. He stated since that area extended outside of the existing submerged land lease, it was necessary to file a corrected survey and lease information.
- C. Capital Projects Data Sheets – Priority Efforts
- Mr. Steve Leonard reported project bids were still coming in well below the engineer’s opinion of cost, including the Bal Harbor force main, announcing the booster pumping facility (BPF) relief force main would likely be online by the next UAB meeting.
 - Mr. Sabatino suggested removing the ground water project from the report now that the City had received the variance for Total Dissolved Solids (TDS).
 - Mr. Jackson stated he was pleased with the understanding, cooperation and speed with which the Department of Environmental Protection (DEP) addressed this issue. He stated the City’s current variance expired in September of this year, adding City Council directed staff to apply for an exemption from the rule; thereby allowing the City to cite economic reasons. He stated the duration of the exemption was five years and allowed TDS to reach 1,000 mpl, adding the City still had all the same reporting requirements except it was now necessary to mail out a total of four (rather than two) customer notifications. He explained the City was now exempt from solving the TDS problem until such time as the maximum day demand equaled the permitted plant capacity of 10 mg, adding the City could renew the exemption for an additional five years if usage remained below the 10 mg peak day capacity. He estimated the City would not exceed that limit until 2024.
 - Mr. Hoffman asked about the water treatment plant phase 1 groundwater expansion, questioning if the reverse osmosis portion of the project had been eliminated. He stated the report indicated the project was 60% complete.
 - Mr. Jackson clarified the preliminary design report (PDR) was 60% complete, adding that project would be removed from the CIP until it became necessary to expand the plant. He agreed to provide new board members with a copy of the report.
- D. Utility Fund Balance
- Ms. Sharon Knippenberg distributed a packet of revenue documents, noting same would be discussed by City Council at their next meeting. She recalled Council had requested input from UAB on this matter; however, it taken staff some time to create a document for them to review, adding members could either provide feedback at this time or wait until their next meeting. She stated any rate changes considered by City

Council would be effective October 1st, adding she would discuss this in further detail after the monthly report was presented, noting staff would focus on May data.

- Ms. Kristin Simeone reported water revenues for April were higher than anticipated. She then displayed the utility fund balance information for May, as delineated in the agenda packet, briefly reviewing same, noting the annual revenue projections had been increased based on the continuing trend of increasing revenues. She stated water revenues were increased by \$322,000 and sewer revenues were increased by \$50,000, adding other revenues were slightly adjusted based on the time of year for a net increase of \$139,000. She stated financing for capital projects would be delayed until Fiscal Year (FY) 2012; thus, debt service had decreased by \$381,000, noting \$2 million would be transferred to capital projects to decrease financing costs.
- Mr. Dauster inquired if total expenses had increased by 12.4%.
- Ms. Simeone replied part of that percentage represented project carryovers from the previous year.
- Mr. Dauster inquired if that included the 3% rate increase, questioning if expenses would have been 15.4% without the rate increase.
- Ms. Simeone replied in the negative, clarifying expenses were separate from revenue. She then displayed the monthly comparison graphs, reiterating May revenues were higher than anticipated.
- Mr. Dauster inquired as to the difference between the references to waste water and sewer.
- Ms. Simeone replied they both meant waste water, explaining “inside” and “outside” were differentiated because there was a surcharge on “outside” users as they were not within the City limits.
- Mr. Sabatino commented the reason for higher usage was primarily irrigation and the unusually hot weather early in the season.
- Mr. Jackson opined that was a simplistic explanation for something that involved other factors, pointing out this was the first hot, dry season where watering was permitted two days per week. He commented many residents were installing new landscaping as they were tired of looking at the dead vegetation, adding that new landscaping needed to be watered.
- Ms. Knippenberg displayed a chart titled, “Actual Water Revenue Percent Change from Previous Year”, noting same had been created for City Council to review at their next meeting, at which time they would be discussing each of the City’s enterprise funds while focusing on fund balance. She stated the chart included data from the year 2000 to make the volatility of utility revenues more apparent, explaining the data

represented percentage changes from the previous year rather than cumulative numbers and did not include any rate changes. She pointed out the last five years of data represented staff's pro forma and projections.

- Mr. Dauster inquired why there were such great fluctuations from 2000 to 2009.
- Ms. Knippenberg replied revenues went up and down, explaining staff averaged those numbers in order to create their projections for 2012 through 2016. She stated it was uncertain when revenues would go up or down due to the large number of variables.
- Mr. Sabatino inquired if 2001 was unusually wet or if there was some other anomaly that could not be easily identified.
- Mr. Jackson explained 2001 was not abnormally wet; however, 2000 was considered a 100 year drought. He recalled watering restrictions were extreme that year; however, those restrictions were relaxed in 2001 when the rains returned, and residents began using more water again.
- Ms. Knippenberg opined it took time for residents to change their watering habits, suggesting they might not immediately begin using large amounts of water after a year of restrictions. She continued reviewing the revenue data, noting the downturns in 2005 and 2008 were due to Hurricane Charley and regulatory watering restrictions, respectively, explaining the graph indicated very gradual upticks from 2012 through 2016; however, staff was aware that mandatory watering restrictions could occur but that it was necessary to have adequate funds available to protect the system and be able to do business as usual. She emphasized that did not help with projecting revenues, but it made staff sensitive to the fact that there was volatility in the system. She then displayed the proforma for FY 2011 through FY 2016, briefly reviewing the rationale for the budgeted figures of each line item.
- Mr. Sabatino inquired as to the percentages for growth change.
- Ms. Knippenberg replied same were based on staff's internal assumptions. She explained the proforma assumed no change to the current economic situation and no regulatory impact on the amount of water customers would like to consume, opining that was optimistic. She then displayed the Summary of Scenarios Relating to Rate Reduction and/or Financial Capital Improvements, noting same reflected alternative uses of the \$3 million fund balance in 2016, including reducing rates or reducing financing for capital projects, explaining the effect of each scenario on the fund balance and debt service.
- Mr. Sabatino inquired as to the basis for the assumption of a \$1 million reserve versus a percentage of the overall budget.

- Ms. Knippenberg replied if staff used the same 5% figure that was used for the general fund, the utility reserve would be less than \$1 million, adding staff was not comfortable going below \$1 million. She stated the minimum utility reserve was typically 7.5%.
- Mr. Sabatino inquired as to the practical impact of having a reserve.
- Ms. Knippenberg replied having an operating reserve minimized the effect of revenue volatility while still providing the level of service that was expected, adding it also helped eliminate the need to raise rates and put an undue burden on customers. She stated the operating reserve also helped offset the impact of a catastrophic change in infrastructure, such as a force main break, concluding the appropriate amount of the reserve was the question.
- Mr. Dauster pointed out a reserve of only \$1 million could be depleted rather quickly given the consistent trend of expenses exceeding revenues, opining a higher reserve was more prudent.
- Ms. Knippenberg clarified the deficits in years 2012 to 2014 were being driven by the existing high debt and the need for new debt, adding in 2014 when the high debt was eliminated and the new debt was in place, there was no deficit spending; however, that was no longer true the following year due to financing new CIP projects. She stated it would be preferable for CIP projects to be handled on a cash basis, adding the impact was softened by funding the first \$1.1 million of capital projects with cash. She advised if that amount was debt financed, it was possible to reach a positive number; however, that was not the direction staff wanted to go due to the cost of debt financing, noting \$300,000 in interest could be saved over 20 years if \$500,000 of debt was eliminated. She stated if new debt was minimized and the old debt was paid, the City could almost reach a position where current revenues would cover operating expenditures, including the first \$1.1 million of recurring projects, opining that would be a very prudent position to be in, and staff would be a little more comfortable with a \$1 million fund balance. She stated when the City went shopping for a loan, the bank would be more comfortable knowing the City currently had \$5 million in the bank. She explained during good years, the City could collect \$2 million in impact fees, 65% of which was used to pay for debt, adding currently the City was only collecting between \$200,000 to \$400,000; however, when the economy turned around, capital projects would return, as would the funding source to help pay for them. She then displayed the Summary of Revenue and Financing Assumptions on Reserves, briefly reviewing same.

- Mr. Dauster inquired if there was political pressure to reduce rates, stressing 3% was minimal.
- Ms. Knippenberg advised the resulting impact of 3% was approximately \$2 per month for a 9,000 gallon per month user.
- Mr. Sabatino interjected the City should not ask for money unless it was needed, adding the customers could then be hit hard.
- Mr. Dauster opined they would then complain about a rate increase.
- Mr. Sabatino asserted everyone had different philosophies on whether debt was prudent, opining the time value of money was being ignored. He stated the Board had to rely on staff to provide their best set of assumptions, suggesting using a percentage for the reserve made more sense. He added staff knew what expenses were anticipated for the system for the next five years, assuming there were no natural catastrophes.
- Mr. Jackson stressed a large portion of the CIP involved Charlotte County's roadway projects, pointing out there were no revenues associated with those projects. He stated staff did not foresee any additional County projects at this time; however, he was concerned that there had been 4 major force main breaks recently, adding he hoped the current project could be finished before the old force main failed again. He stated staff would be conducting a complete assessment of all the large force mains using the best technology available and the help of some of the City's consultants, adding staff would be presenting recommendations for CIP projects to the Board in the future if problems were found in the system. He stated there were no other major utility projects on the horizon, concluding staff would likely need until the end of the year to complete their analysis.
- Mr. Sabatino stated other than some political interest, there was nothing forcing the Board to move quickly, opining the rate rollback could wait until January. He stated the City was not hoarding large amounts of cash for a rainy day scenario; however, in some of the scenarios, the reserve was \$3 million.
- Mr. Jackson pointed out it did not take a large break for costs to reach \$1 million.
- Mr. Sabatino stated there might be some validity to moving on a more accelerated basis to take advantage of the current favorable bidding climate.
- Mr. Jackson stated the last remaining capital project being bid was the filter project, advising the final design would not be ready until the end of the fiscal year; however, it might be possible to speed up the project by a few months.
- Mr. Hoffman stated rates had increased 21% since 2008, adding reserves still did not amount to much as of 2016 and funds continued to be drawn down. He opined scenario 3 was the best option.

- Mr. Jackson explained the City's philosophy was not to increase rates, adding there had been no rate increase for 14 years prior to the 15% rate increase, which was necessary to catch up.
- Mr. Hoffman pointed out the City had some of the lowest water rates in the State.
- Mr. Jackson agreed, noting the City was 9th lowest out of the 10 utilities in the region.
- Mr. Hoffman opined a lot of time and energy was being spent on discussing a 3% rate rollback, opining the City should be improving the system rather than cutting back. He stressed a \$1 million reserve was not sufficient, suggesting the Board recommend to City Council that there be no rollback. He asserted the water quality needed improvement, stressing without good water and waste removal, people would not want to live here. He stated City Council should not coddle one Councilmember that wanted to reduce rates to make himself popular in order to be re-elected.
- Ms. Knippenberg explained the City Manager had requested that staff draft a proforma for FY 2011 through FY 2016 which included a 9% downturn in revenues in 2012 with watering restrictions that continued for the next five years. She displayed the proforma, briefly reviewing same, concluding that resulted in a deficit rather than a \$3 million reserve.
- Mr. Sabatino voiced concern not all of the members had reviewed the data presented this date, maintaining staff needed time to complete their review of the system. He stated it would be advantageous to see another six months of revenues, reiterating the rate change could wait.
- Mr. Dauster questioned the purpose of this meeting, inquiring what City Council wanted from the UAB.
- Ms. Knippenberg reiterated City Council would be discussing enterprise funds at their next meeting, adding staff had already reviewed the CIP with Council; however, they preferred to meet with the Boards prior to Council presentations in order to obtain their input. She stated Council would be presented with the same information presented this date; however, it was uncertain what action they would take.
- Mr. Dauster inquired whether City Council was looking for UAB input.
- Ms. Knippenberg replied she understood the Board had not had the information long enough to formulate an opinion or recommendation, adding City Council would formulate their own opinion; however, that did not mean they did not want UAB input. She said it was uncertain whether Council would make any decisions at their meeting, advising budget decisions were typically made in July. She stated the Board could take it under advisement and/or voice any concerns they had.
- Mr. Hoffman reiterated he recommended scenario 3.

- Ms. Miller opined rolling back the latest 3% rate increase, given the advancing age of the infrastructure, was shortsighted, suggesting the system had to be maintained and improved. She stated she also recommended scenario 3.
 - Mr. Sabatino voiced concern regarding the amount of the reserve at the end of five years in scenario 3, opining the Board should defer making a recommendation until staff had completed their review of the system.
 - Mr. Dauster suggested recommending that City Council not make any decisions until that time, inquiring whether that would be appropriate.
 - Mr. Jackson reiterated staff had contacted a consultant to help them complete their evaluation, noting the majority of the study could be completed using information, data and records already available from the intense system monitoring that was done. He stated the study would begin after staff made comments on the scope provided by the consultant, noting same involved physically locating and conducting soil sampling in and around all of the major pipelines, compiling historical flow data as to age and material type as well as evaluating high spots and potential points for corrosion to take place. He stated the result of this intensive study would be a laundry list of needed projects, adding staff could then begin discussing timing and funding. He estimated the study would take at least six months. He stated staff knew there would be no new major County roadway projects; however, the big variable was whether it would be necessary to replace some portion of the existing main force main, concluding staff had discussed the idea of reducing the size and replacing certain portions to feed specific areas if problems were identified; however, that could still cost several million dollars.
 - Mr. Sabatino MOVED, Ms. Miller SECONDED recommending that City Council defer any rate change for six months until staff completed their system review. MOTION CARRIED UNANIMOUSLY.
 - Mr. Dauster inquired if Mr. Jackson or Finance staff would deliver the message.
 - Mr. Jackson replied he would inform the City Manager of same.
 - Mr. Dauster thanked staff for their presentation.
- E. Responsible Party Discussion (Billing/Finance)
- Mr. Jackson inquired if the Board wanted to discuss this matter, which had been carried forward from the May meeting agenda, noting this was related to a female caller who had complained about this topic numerous times. He confirmed he had not received anything in writing even though he had requested it several times. He stated she had spoken with several staff in multiple departments.
 - Mr. Sabatino opined it was not worth discussing if it was not in writing.

- Mr. Jackson stated according to City ordinance, the property owner was responsible for any unpaid water bill, adding most utilities in Florida had similar rules. He stated the caller was unhappy because she was responsible for paying her tenants' unpaid bills.
- Mr. Hoffman stated if a tenant left an unpaid water bill, it was up to the property owner to use the security deposit for reimbursement, pointing out the property owner received a copy of the water bill and should know when it was not being paid; therefore, they should address the problem immediately rather than letting it go on for several months. He stated the meter should be read immediately after the tenant vacated the space so the landlord could determine the fair share of the bill.
- Mr. Jackson stated the current procedure was to read the meter the same day that the request was received. He then apologized that members had received her phone calls, adding he had not given out their phone numbers. He stated she should only be calling the Finance Director, the Controller, the City Manager and/or himself.

COMMITTEE/BOARD COMMENTS

- Mr. Sabatino opined it was important for the UAB to stay abreast of the SWFWMD situation.
- Mr. Jackson stated he heard that the Director of the South Florida Water Management District had resigned last week, adding he was attempting to confirm same.
- Mr. Hoffman stated he noticed work was being done on the driveway in front of Sacred Heart, inquiring if there was a sinkhole as he previously reported.
- Mr. Jackson replied the manhole was being replaced, confirming it was undermined.
- Mr. Dauster thanked Mr. Brian Fuller for the tour of the water treatment plant. He confirmed Mr. Jackson would provide alternate dates for the August meeting.
- Mr. Hoffman reiterated he would be absent for the July meeting, adding he would also be absent for the August meeting.
- Recording Secretary Smith advised absences at meetings that did not take place on the regularly scheduled meeting date did not count against total absences.

ADJOURNMENT

- Meeting Adjourned: 10:47 a.m.

John Dauster, Chairman

Karen Smith, Recording Secretary