# Minutes of the
# Crystal River City Council
# Utility Rate Study Workshop
# Monday, June 10, 2013 @ 6:00 p.m.
# Council Chamber, City Hall

## 1. CALL TO ORDER

Mayor Farley called the meeting to order at 6:00 p.m.

**Council Present:** Mayor Jim Farley, Councilmember Paula Wheeler, Councilmember Ken Brown, Councilmember Robert Holmes

**Council Absent:** Vice Mayor Mike Gudis

**Staff Present:** Andy Houston, City Manager; George Angeliadis, City Attorney; Elizabeth McBride, Deputy Clerk; Michelle K. Russell, Finance Director; Jackie Gorman, Planning Director; Dave Burnell, Public Works Director

## 2. PRESENTATION

Mr. Houston stated that this study is more complex due to the high level of capital expenses we have, particularly the last stages of the DSCG and the extension of the reclaimed water line to Duke Energy. A significant portion of both of these projects will be reimbursed by a grant, but we have to front the funding and then wait for reimbursement.

The consultants have come up with some recommendations on the rate structure. They have looked at the concern we raised earlier of some of our high consumption users that may have been charged disproportionately. They have addressed this situation over a 4-year period and will have all cash flow issues resolved by then. Mr. Houston had anticipated a cash-flow concern that we could address. After the consultants looked through all the various requirements, he came up with a cash-flow issue of a much higher magnitude than he had envisioned. He has asked the consultants to walk through the recommendations they have and the basis of their recommendations. They will also talk about the cash flow, rate structure and other aspects they looked at. There will be a public recap of this presentation during the Regular Council Meeting. There is also an item on the regular agenda requesting a supplemental appropriation so they can do a little more modeling for us. He then introduced Mr. Murray Hamilton with the firm of Public Resources Management Group, Inc.

Mr. Hamilton provided some background on his education and experience. He has been a Florida CPA for 20 yrs in accounting, 10 years with PRMG. He explained that their firm was engaged to specifically update the 2009 Water and Wastewater Rate Study. The recommendation at the last review was to increase water and wastewater rates at about 3% increase per year. With our recommendations, we try to keep pace with inflation and provide adequate cash flow to meet the needs for the system. Overall recommendation is for increases over the next few years and we don't expect that to change.

Mr. Hamilton provided some background information from their study. They have seen very little growth over the last few years. The City of Crystal River does have a few projects that are in the works:

- A super expansion program that is coming now,
- Area 114 that will be coming on-line shortly and they anticipate some new connections in regards to this, and
- A hotel has been planned and will be coming on-line in the short-term.

We need to allow for some growth and the revenues are expected to increase to $2.8M over a 5-year study plan. With that, there is a need to fund capital improvements, such as, the reclaimed water line project. With that project, a 50% grant funded project, a portion is unfunded up to $2M. We are not suggesting a rate increase for this year. Our recommendation is to increase revenues in 2014, 2015 & 2016. He explained that with the five-year Capital Plan, you will find that 25% will be funded from grant revenues. The solution is to keep pace with rising inflation with 3% increases each year. Some customer's rates will raise more than others. What we tried to do was to use cash reserves and an internal bridge loan to phase in rate increases. If we don't make an internal bridge loan, there could be a cash flow deficiency anywhere from $700 K to $2M. Our study objectives found a need in the system. We need to make sure that we meet the debt/service coverage requirements. He reported, on a positive note, the City has just refinanced debt and saved about $90K.

He shared a quick formula on cost recovery. He noted that about 70% of the operating expense is the management contract. Then you have about 18% annual debt service and an additional 18% for maintenance of water lift stations, etc. He added that this is a good funding level. The capital remaining is 10-13%.

**Existing Financial Conditions**

This is based on the current fiscal year:

- ✓ Audited cash balance is $4.1M.

They evaluated the cash values in detail.

- ✓ Revenues are projected at $3M for FY 2013.
- ✓ Annual Revenue Needs - $4.8M
    - o Operating Expenses - $1.7M
    - o Debt Service Payments - $250K
    - o Capital Needs - $2.7M
    - o Transfer to R & R fund - $140K
- ✓ Projected $1.8M cash flow deficiency for FY 2013

Mr. Hamilton noted that some part of the $1.8M was planned to be covered by Reserves. The question is, at what level of deficiency the City is comfortable with.

Councilmember Wheeler asked what fund the money would be borrowed from. Mr. Hamilton stated that they had assumed it was from the General Fund. Mr. Houston confirmed that was the expectation and that is why he wants to narrow it down. If the amount is $2.7M, he would not be comfortable doing it internally. If the amount is $700K, he would feel more comfortable. This is why he would like to do some additional work on this study.

Councilmember Brown noted that this is his first term on Council and does not have the expertise that his fellow Councilmembers have. He asked Mr. Hamilton to help him understand how we obtained a cash balance of $4.1M, which is $1.1M more than what the annual revenues were. How did we build that up and how do we go from $4.1M to an annual need of $4.8?

Mr. Hamilton explained that the previous debt issue had some covenant requirements. This was prior to refinancing the City's debt. In the covenant:

1. It required the City to maintain a Debt Service Reserve Fund. This was roughly a one-year's debt service payment, about $500,000 plus $1,000.
2. It also required the City to maintain a Renewal and Replacement Fund.

He stated that is only part of the story. A years' worth of cash is a good position to be in. He does not recommend less than six months. In their study, they found that we will not be able to achieve six months in cash. He noted that we would be looking at a minimum of about 90 days of unrestricted operating reserves. That is actually about the bare minimum.

Mr. Hamilton then showed the trends of the cash over the years. In their model, they see a decline in cash in the first couple of years. We are not trying to recover this cash in year one. We are only raising rates by 3%. Over this study period, we will build this cash back up. In the 5th year, we plan to pay off the loan entirely. In summary, we are dropping the reserves and building it back up slowly. At the end of this study period, you will have 90 days in Operating and Expense Level Reserves and one-year Debt Service Reserve. You will have the customer deposits and you will have some impact money. Additionally, the bridge loan will be paid off and you have already reduced your existing debt. That saved you $90,000. We are not projecting any new debt.

Councilmember Wheeler asked if he was talking about the Enterprise Fund. Mr. Hamilton replied in the affirmative. This will be used to pay back the Bridge loan. We looked at the difference between a conventional short-term loan with a local bank, vs. doing it on the General Fund level. Internally, it would not affect user rates.

Councilmember Wheeler asked what terminology we use for Impact Fee Fund. Mr. Houston explained that we call it Expansion Fee Fund. This is the fee that a customer pays to connect to our service. Mr. Houston added that we are a small utility taking on two large projects. When this is over, we will have done that without taking on additional long-term debt or putting the fund in an unacceptable financial position. There will be a couple of years of a struggle.

Mr. Hamilton stated that it is not the cash flow that is driving our needs to raise revenues 3% a year. We stripped out this cash flow issue so that it does not impact on rates. They modeled the loan, assuming the City would borrow a $2.2M loan in 2014. It was proposed as been amortized over seven (7) years. The first two years, the payment would be made by Expansion Fee Revenue that will be collected from the new customers. By the 3rd year, and last year of our forecast period, you would do a balloon payment of $900K from the remaining Expansion Fee. By now, the Reserve Fund is being built back up and would have approximately $700,000. Collectively, this will allow you to pay off the General Fund Loan in 3 years.

Preliminary 2014 Budget update for proposed rates will not change. Some customers paying up front, rather than on time, will affect the cash flow in a positive manner. We are counting on 370 new customers.

Mr. Hamilton noted that the Sewer Expansion Project is not counted into this study. Councilmember Wheeler asked if the sewer expansion is not reflected, where are the $200K connection fees coming from. Mr. Hamilton explained that the only thing he is aware of that is pledged through the debt on the Expansion Project is the assessment revenues. As he understands this project, there is a portion of the grant funded, the portion that is not, will be converted to a loan. The Assessment Revenue associated with this would be used to pay off that loan. Infrastructures put in today are small and will have their own revenue stream.

Councilmember Brown expressed concern about what will happen during the two years that we will have negative funds, especially if a large water user disappears. Mr. Hamilton stated that they had an operating contingency figured in. Something on a large scale; however, would probably not be covered. One of their recommendations is that periodically the City reviews and updates this formula. Typically, it should be reviewed in 3 to 4 year increments. He would hope that a large-scale change would be captured during the review and update process.

Councilmember Wheeler stated that she is still hung up on the $200K per year on an average from connection fees paid over 10 years. Are you saying that we will get $2M in connection fee revenues? Mr. Hamilton replied that was correct. This will be beyond the Assessment Revenue. It was explained that the Assessment Revenue is the 15% not covered by the grant. Assessment from homeowners will go to pay the loan. Wastewater and main sewer expansion fees will be used to pay off the bridge loan. Mr. Hamilton continued to explain the revenues that the City would receive.

Operating expenses will increase about $200K per year. There are also some incremental operating expenses associated with serving the new areas. This will be about $35K per year.

**Assumed cost increases beyond 2013:**
- ✓ Veolia Contract – 2% annually (CPI)
- ✓ Insurance – 5% annually
- ✓ Repairs and Maintenance – 3% annually
- ✓ General Fund Transfers – 3% annually
- ✓ Electric – 5% annually plus growth
- ✓ General Inflation – 2% annually

**Total Capital Plan - $10.6 Million FY 13-17**
- ✓ Alternative Effluent Disposal Project expected in FY 13-14 will cost $4.5M
- ✓ 50% granted funded, or $2.2M
- ✓ Utility needs $2.2 M loan to fund City portion

**Projected CIP Funding**
- ✓ $2.8M Grants
- ✓ $1.5 M Designated Funds (Impact Fees)
- ✓ $4.1 M User Rates (including Reserves)
- ✓ $2.2 M General Fund Loan

Projected funding includes annual transfers of $150,000 to the R & R Fund and $350,000 to Construction und to meet minimum funding requirements identified in CIP.

**Annual debt service payment for Series 2012 Bank Term Loan of $475,000**
- ✓ Matures in FY 2026
- ✓ FY 13 reflects a partial payment of $250K

**Proposed General Fund Loan of $2.2M**
- ✓ Assumed 7-years amortization at 1.5% interest per year
- ✓ Annual payments of $350,000 from wastewater impact fees until paid off
- ✓ Total payoff assumed by FY 17 using a combination of impact fees and utility cash flow from operations
  - Assumes proposed rates are adopted

Mr. Hamilton continued stating that in FY 15:
- ✓ Maintain a minimum unrestricted cash balance of not less than $485,000 or 90 days of operating expenses
- ✓ Begin funding $150,000 per year into a Debt Service Reserve Fund until it equals 1-year's payment of $450,000
- ✓ Fund $500,000 per year in recurring capital rehabilitation and replacements needs through user rates
  - Includes a minimum transfer of $150,000 to the R & R Fund
  - Includes a $350,000 transfer to the Construction Fund.

Councilmember Brown asked for clarification on how we would have a surplus with a 3% increase in operating expenses and fees increase by 3%. Mr. Hamilton explained that revenues will grow $200K per year. We also have proposed increases of 3% rates in fund balances. Schedule of proposed rates with 3% rate increases shows source of revenue. Revenues exceed expenses and you will use the money to pay off the bridge loan.

Mayor Farley asked Mr. Hamilton to sum up his presentation, as there was only a short amount of time left. Mr. Hamilton then referred everyone to look at consumption. He noted that in early 2000, the City implemented a conservation rate that was applied to commercial customers. He noted that the rates are from $2.00 per thousand gallon and usage at the upper limit of $7.00 per thousand gallons. He noted that 65% of commercial water sales are in that upper range.

Councilmember Wheeler stated that we based our rates on ERUs and we have a vast majority of our largest users with 40 ERUs associated with them. She asked if there are any other cities that cap off or stop a conservation rate at the level of 1 ERU, or are they not afforded the lower rates multiplied by the number of ERUs. For an example, a hotel assessed 40 ERUs, yet they start the conservation rates as if they were a single family home. Is this normal in municipalities or do they give the multiple ERU users the consumptive, times the ERUs.

Mr. Hamilton stated that there are basically three different ways to figure this.

- ✓ The current way it is now being done is on a pure account basis. All the water flows through the meter.
- ✓ For those businesses that have conservation rates, you take the number of gallons in the block, multiply it by the number of ERUs.
- ✓ Their recommendation is a uniform rate over 4 yrs. The single charge on the last year would be $4.76 per thousand. All the small rates would rise over time. The larger rates would decrease over time. During the last year on uniform rates, you would see an increase in minimum monthly rates overall rate impact would be a 5% increase. Small commercial customers will increase 7% on average. Largest users will see a decrease in 2%. There are variations in between. Don't have bridge loan would see a 30% increase in 1 to 2 yrs.

The alternative would be, if you don't have the bridge loan, you would see a 30% increase in 1 to 2 years. We would like to see that avoided.

## 3. COUNCIL QUESTIONS/DISCUSSION

Mr. Farley stated that we only had about five minutes left. He asked if there were any other questions. Councilmember Brown asked if there would be a formula built in that does promote conservation of water. Mr. Hamilton replied that the residential rate and the irrigation rate will have the tier rates. Those rates will be increasing 2% over this study period. We are actually strengthening the level of those rates. These customers do have discretionary water use. When you have a hospital, at what point do you say they are being wasteful? It is hard to determine when a business of any kind is being wasteful.

Mr. Houston stated that he thought Mr. Hamilton's question was, whether we are continuing to encourage conservation. The fees that are being proposed for irrigation are very strong conservation rates. The residents will not have high consumption. All commercial customers will pay the same, which is average.

Mr. Houston suggested a second meeting be scheduled after we have come to an agreement on the cash flow issue. That decision will clear up many questions. He believes there will be a need to have a second meeting within a month or two.

(*Note:* A complete paper copy of the Power Point presentation is filed in the Clerk's Office with the original packet.)

## 4. ADJOURNMENT

Mayor Farley adjourned the meeting at 6:52 p.m.

**JIM FARLEY, MAYOR**

**ATTEST:**

Carol Harrington

***Minutes Transcribed by:***
**CAROL HARRINGTON, CMC**
**CITY CLERK**