

JOINT UTILITIES COMMISSION / FINANCE COMMISSION MINUTES

Tuesday, March 29, 2011 – 10:30 a.m.

City Hall, Council Chambers, Vero Beach, Florida

PRESENT: Utilities Commission: Members: Herbert Whittall, Robert Blumstein, and Alternate Member, Jane Burton (arrived at 11:10 a.m.) **Finance Commission:** Chairman, William Teston, Vice Chairman, Richard Winger and Member, Bill Fish **Also Present:** Water and Sewer Director, Rob Bolton and Deputy City Clerk, Sherri Philo

Utilities Commission Excused Absence: Edward Wiegner

Utilities Commission Unexcused Absence: Jason Fykes

Finance Commission Excused Absence: Warren Winchester

Finance Commission Unexcused Absence: Laura Torres

1. CALL TO ORDER

Today's meeting was called to order at 10:31 a.m.

2. ITEM FOR DISCUSSION

A) Regionalization of Water, Sewer, Irrigation

B) Financial Information Provided by Mayor Jay Kramer

Please note that items 2A) and 2B) were discussed together.

Mr. Teston asked the Commission members if they have anything that they would like to present.

Mr. Winger reported that he attended a meeting at South Beach a few weeks ago. He then gave a Power Point presentation on items that were discussed during this meeting, as well as his point of view (please see attached). He said that Mr. Bob Solari, Indian River County Commission Chairman, has been pushing that the City was not treating the South Beach residents fairly. Mr. Winger felt that this City Council had a good chance to get a renaissance in good management in many areas. He felt that unfunded pensions were much bigger than utility issues. He said that when he listened to Dr. Steve Faherty and Mr. Solari, to him it seemed that they were clerical to improve the County's position at the expense of the City of Vero Beach and the City of Vero Beach taxpayers. He said that he could be wrong about that and hoped that he was. During the meeting, Mr. Solari only gave two options for South Beach. The first was stay with the City and the implication was that if the South Beach residents and Indian River Shores' residents do that they were crazy. The second option was to join the County, which was going to solve all their

problems. Mr. Winger said those were options, but there are a lot of other options, such as forming a Countywide authority, incorporate a town of South Beach, amalgamate with the City and go with a private entity, be annexed by the City to avoid costs, make a deal with the City to drop costs for a new agreement, etc. He suggested forming a County wide authority, which was pretty much struck down by Mr. Solari. Mr. Winger felt that the City should consider doing a new rate study because the old one is not relevant and is being used by Mr. Heran and Dr. Faherty in their presentations that the City cannot maintain good rates. He said that he spoke with Mr. Bolton and was told that there is no question that the rates could be stable for the next five years. He felt that Dr. Faherty and Mr. Heran provided a service in getting the City to rethink this, but rethinking this should not be pushing them into the wings of the County.

Mr. Whittall said as he understands it, the County built a bigger sewer plant based on money they received from the 16,000 lots that are platted in the County, but are not built on. When those lots are built on the County would not have the sewer capacity to take on the City's system (customers).

Mr. Rob Bolton, Water and Sewer Director, said that he has not had a chance to look at the County's projections. He said that 16,000 lots would probably be at four million gallons of capacity. He thought that the County's south Plant was running at capacity, the West Plant has four-million gallons of capacity, and at the Central Plant they built an additional two-million gallons.

Mr. Whittall asked what is the City's capacity.

Mr. Bolton said at an average, the City is normally at about three point two million gallons. He said the County does not have one given Plant that could receive all of the City's flow without doing a construction project to increase the capacity at a Plant.

Mr. Blumstein said some years ago the City went over the idea of an Authority and it was decided by the Utilities Commission and by the City Council that this was not the appropriate way to go. He said the City has a long history of cooperation with the County. He said there is no current or future data that shows that the City is projecting non-competitive rates verses the County or anyone else. For years the City was lower than the County. He said that the County is currently under several restraining orders to stop dumping reuse water. He said that fines have been assessed and they are going to have to do something about it. The City put in a Deep Injection Well and the County is going to have to either do the equivalent or pay the City to use the capacity of the City's Deep Injection Well. The City does not have a restraining order. The City does not pollute. He said the City did at one time dump water into the Lagoon, but does not any longer. The City's Plant was also hardened for a category four hurricane and meets all current regulations. The Plant is doing the job and is doing the job right. He said that taking

care of the restraining orders in the County is bound to run up County rates. The City does not have anything currently that projects a raise in their rates. One statement that has been made is that the County would guarantee the rate for 10 years. He said that anyone would be crazy to state a rate for the next 10 years. There is no need for City customers to be assessed the extra five-percent because maintenance has not been deferred. The data that Dr. Faherty and Mr. Heran used from the rate study was heavily outdated by changes in the economy and the cost saving work by staff. Other statements were false or the assumptions used had no basis in fact and were meant to be misleading. He felt that these false and misleading statements were made for one purpose, which was to mislead the City Council and the citizens of Vero Beach. Mr. Blumstein said that the County was very clear that any connection the City does to hand this over to the County would have to be done first (new piping). The City studied that a few years ago and the numbers he is using is as he remembers them, but one way was to connect to the County and get rid of the Plant on the lagoon, which was estimated to cost around \$100,000,000. Mr. Solari told the City Council that he could do it for half of that, but did not have any answers on how.

Mr. Fish said in 2007 Mr. Solari was on the City Council and the Council was very concerned that the land needed to be protected. The City started a process to have this covered by a referendum of the City voters and Mr. Solari voted no. At that time there was a rumor that the Wastewater Treatment Plant was going to get wiped out. He said the study that was done in 2007 talked about the fact that they cannot remove the entire facility. As soon as that came out the emphasis went to the Power Plant overnight. Sometime between 2007 and 2009 the City Council, Indian River County, and the Town of Indian River Shores held a joint meeting at the Richardson Center to discuss agreements that were made between them. There was a team set up to look at all the contracts. In the middle of that meeting, Mr. Solari said that he had a solution to the land problem and everyone came to a dead halt. What Mr. Solari said was that they would get the utility to purchase the land, which meant that if the City sold the utility the land would go with it. The City Attorney said that was not correct, that the land would be covered by referendum. He said there is a group that wants the land and that is really what this is about. He said that he pays more taxes to the County than he does to the City. He can't talk about the County as if he was not a part of it because he is. He explained that they all are part of the County.

Mr. Teston read from a memorandum that was sent by Mr. Winchester (please see attached). He felt that the issues Mr. Winchester brought up needed to be answered. He then referred to an email from Mr. James Moran that addressed several things, but the point made that was relative to today's discussion was that the only acceptable way for the City to transfer City property is through a bid process and that all sales should be undertaken after proper due diligence (please see attached). Mr. Teston said there has not been a due diligence of any type attempted. He asked is there any documentation available that shows what the regional system would look like.

He asked what would be the rough capacity of that system in order to meet the needs of the County and the City. He asked who would pay for the cost of the project. Would the City be obligated to pay. He said that City residents are also residents of the County so they really would be taking the left hand and transferring it over to the right hand. They need to know if the City systems are going to be burdened on costs that are not going to be imposed upon the County residents. He asked if they do come up with a cost, how would it be paid for. The only way he knew of was by taxes. He asked has a bid process been established. Is the County the only entity to be considered. What is the current net value of the system. He said that from the numbers the Mayor provided he took it to be about \$47 million dollars.

Mr. Bolton said that would be what is on the books, but the appraised value would be different.

Mr. Teston said that is a crucial number they would have to come up with prior to moving forward.

Mr. Bolton said that is correct.

Mr. Teston said that they need to establish where they are legally with these systems before they spend a lot of money. He felt with that being done the City would be in the position to make a concise decision on what is best for the citizens of Vero Beach.

Mr. Whittall said that he recently attended the Indian River Land Trust meeting and a County Commissioner explained to him how it was working on them getting rid of their reverse osmosis byproducts. Mr. Whittall said if there is a hurricane it is going to be under water and is all going to go out into the Lagoon and the County is going to have a big fine. He noted that it is at about Lagoon level. There is a berm around it, but it will be a problem if there is a hurricane.

Mrs. Burton did not think it has been permitted, that it is still experimental. She did not think they would get a use permit under the current conditions it is being operated under. She felt that the County was going to find that the EPA is not going to permit those kinds of discharges. She said that the EPA would recommend something like what the City did, which is the Deep Injection Well. She felt this was a point that the City needs to keep in mind.

Mr. Fish would like the Commission members to receive a copy of the study that was done in 2007. They need to know what it is really worth.

Mrs. Burton said the EPA's position has historically been that when an impact fee is paid, that is reserved.

Mr. Teston felt that they should find out legally, if the City is up for selling it, if it has to go to the County or if it could go to a private enterprise.

Mr. Blumstein asked is there enough extra capacity in the Deep Injection Well to handle the County.

Mr. Bolton answered yes. He said that the City offered to allow the County to utilize it and they chose to look at other options.

Mr. Blumstein asked would the Deep Injection Well handle everyone in the County and in the City.

Mr. Bolton answered yes.

Mr. Teston opened public comment at 11:33 a.m.

Mr. J. Rock Tonkel said as they look forward they need to consider the thought of regionalization. He felt that it makes sense to at least evaluate and study the options and the potential for communities to get together for basic services. He said the County expressed themselves in terms of wanting to discuss the concept of consolidating the water treatment facilities throughout the County. The City Council has to have the willingness to sit down with the County and discuss this. He heard comments this morning about flaws in the study conducted by Dr. Faherty and Mr. Heran. He also heard criticism of the County Commissioner who seems to be advocating a position. Mr. Tonkel did not think that was useful in terms of the ability to go forward. He asked can they find an avenue, a way to sit down in an amicable fashion and discuss the many issues that face both entities. He felt that the study was a legitimate study, was a legitimate exercise, and should be paid attention to. He liked one of the suggestions made by Mr. Winger that if the intent is to proceed in that fashion, he felt the ratepayers would be delighted in the interim until resolved, that the City adopt a similar rate structure.

Mr. Whittall said there was a Committee formed (CCNAC) to do just what Mr. Tonkel was talking about and the County backed out. He said that the County has to be cooperative too.

Mr. Tonkel agreed. He felt that both parties needed to be statesmen and not politicians. He said that he would make it a point to tell the County this.

Mr. Glenn Heran said that Mr. Fish made a great comment that they are all County residents. That addresses specifically that they would each have equal representation in a regionalization system. He said the facts are that the County rates are currently cheaper. They would have to

get to very high usage for water and sewer before the City could compete. He said that they would not need a Utility Authority because the Board of County Commissioners is that authority, and they all have representation. The idea that they are going to create bigger County government is not correct. By regionalization they would reduce the size of both utilities so as a whole they would actually be smaller. He said there are a lot of risks. He said that it is clear from the South Beach Property Owner's Association that they want to go to the County and the County is expressing willingness for that. He asked what is the impact of the City losing 20% of the South Beach customers and 20% of the Indian River Shores customers. The City would have to spread the fixed cost to the 60% of the remaining customer base. Regarding the rate study that was done by PRMG, it was suggested that it is no longer valid. This study cost \$80,000 and was approved and recommended to the City Council. That rate study is not that old.

Mr. Ken Daige said that he has a vested interest in today's discussion as he pays for water, sewer, and electric. Regarding the PRMG study that was done on the rates relative to the water and sewer system, when he was a Councilmember he met with staff because he was against rate increases. Staff did an analysis to look at how they could reduce costs and was able to come back to the table with no rate increases. The people who are on the system do not want any rate increases. When they talk about regionalization, most of the time the people who are on the sewer side would pay dearly. He was in agreement with everything that was said today. They have to have an open dialogue with the County. He hoped that all the City Councilmembers would watch today's meeting and take heed to what has been said. They need to look at the numbers and the details. The model that Dr. Faherty and Mr. Heran have a lot of assumptions. Right now the City's rates are competitive with surrounding neighbors. He wanted it made clear that the customers on sewer would pay dearly if this is not done right. They need to sit down with the County, put the facts on the table, and take the politics out of it. He said that he has a face-book page and would take some of the comments made today and get the proper information out to as many people as he can. He thanked the Commission members for their service to the City.

Mr. Teston said that he would like to hear from the County on why using the City's Deep Injection Well was not a solution for them. He said why not instead of having to build a new infrastructure use the Deep Injection Well and maybe the City's rates would not be so high.

Mr. Bolton said there have been comments that the City's rates were higher than the County's unless they are up in numbers. He noted that the City's water rates are lower than the County's and the City's sewer rates are higher than the County when they are combined. The City has a different customer base than the County and that is why the City's rate structure is different. He said a consultant is currently working on a report and once they receive the raw data they could have GAI Consulting or PRMG analyze the information. He noted that the majority of the customers of the County are on the mainland with a small amount of customer base on the

barrier island. The City's customers are 50% in the mainland and 50% on the barrier island. He said there is more water usage on the barrier island than on the mainland. Therefore, that is the reason for the difference in the rate structure. He recently received a proposal from GAI Consulting for optimization, which would look at the water and sewer system, how they operate, staffing levels, financials, etc. He said that the City does not charge for vacant lots, the County does. The County has been working on a readiness to serve charge. The City's system is one of the oldest utilities that was built by an engineering firm that implemented the rate structures. The rate structure was done on meter basis and not on the Equivalent Residential Unit (ERU), which is what the County uses. He said that the City could look at transitioning to that type of billing scenario. In either case, they would be looking at a similar model on how the County charges rates. He spoke with the Mayor and Vice Mayor about looking at what optimizations they could do and then bring in PRMG to look at what the optimizations would bring forward in savings. In the mean time, they would be going through the pension and sick leave benefits with the Council. The optimization study would take about four months. He would like to have the Finance/Utilities Commission meet again in early April after they review the electric information they would be receiving. Then he would hope to have Council put something in place in May, which would put them in the time frame of September (for the study to be completed). If they are going to be discussing regionalization, he would request a proposal on what the additional appraisals are for the outside City areas and the City's system itself so that they know what the value is in moving forward.

Mr. Whittall asked how many customers does the City have compared to the County.

Mr. Bolton said the County was probably about three times the size of the City's customers in both the water and sewer.

Mr. Teston asked Mr. Bolton if he was suggesting that the Council continue the due diligence. He did not see doing a rate study and that putting off the Council continuing to put together the information that would be necessary if they are to move forward.

Mr. Bolton thought that they would need to be run together. In other words, if they are doing an appraisal to see what the value is with discussions on regionalization, but also to look at what optimizing the City's system would be.

Mr. Fish referred to the letter they received from Mayor Kramer (please see attached). He asked the Mayor what he is asking for.

Mayor Kramer said that he wanted to know what the Commission members were thinking about. He said that a lot of the time, the Council is sometimes isolated and don't get a chance to see what their opinions are. The Commission members see things differently and have good

professional backgrounds. He wanted to make sure that Council was not going out into left field by themselves. He wanted to hear from the Commission members and that is what happened today. He thanked the Commission members for digging into this and coming up with some good comments.

3. ADJOURNMENT

Today's meeting adjourned at 12:02 p.m.

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