

**SPECIAL CALL VERO BEACH UTILITIES COMMISSION MINUTES
MONDAY, SEPTEMBER 12, 2022 - 9:30 A.M.
CITY HALL, COUNCIL CHAMBERS, VERO BEACH, FLORIDA**

PRESENT: Chairman, Jane Burton; Vice Chairman and Indian River Shores Representative, Bob Auwaerter; Members: Judy Orcutt, Mark Mucher and Member at Large, JT Mooney **Also Present:** Water and Sewer Director, Rob Bolton; Finance Director, Cindy Lawson; City Attorney, John Turner and Records Retention Specialist, Heather McCarty

Excused Absence: Bill Eggers,
Unexcused Absence: John Sanders

1. CALL TO ORDER

The Chairman called today's meeting to order at 9:30 a.m. and the Records Retention Specialist performed the roll call.

2. ITEM FOR DISCUSSION

A) Review and Discussion of 2022 Utility Rate Study

Ms. Cindy Lawson, Finance Director, said for the first time since 2009, the City has done a rate study and in part it was to bring their rates current, as well as to provide for the Water Reclamation Facility that is under way in design right now. Mr. Tony Hairston is present today to walk them through the results of that and go over the recommendations.

Mr. Tony Hairston, Vice President of Raftelis Financial Consultants, Inc., gave a Power Point presentation on the 2022 Utility Rate Study Status (attached to the original minutes). He said he would be addressing the forecast into the future and the rate structure in January 2023. He pointed out that there has not been any adjustments to the City rates since 2010 and since that time, the Consumer Price Index (CPI) has gone up 35% and if they figure in a couple of more years at 5%, CPI is going to be up 50% by the time they are looking to have these rates phased in. As costs have been going up, they have been operating at the same rates and they have to anticipate how those rates are going to be sustainable into the future. He said their future capital project is the new Water Reclamation Facility and this is the time they are looking into the funding for that Plant. He said the first objective is the long term sustainability and the second is to simplify the rate design since right now they have different rates in different areas of the City.

Mr. Hairston went over slide 4, New Water Reclamation Facility Costs. He pointed out that the total project costs, including design and construction, are around \$82 million and when they looked at that last year, it was \$60 million. He said that the design of that project began six (6) months ago and there has been very high inflation rates, particularly on construction. He explained there's time to help get rates implemented to help the City's bond rating so they are in a strong position moving forward. He said the City has strong reserves and they are using those reserves to phase in rates in to this project. He talked about the chart on slide 5, Financial Analysis Summary – Utility Fund with New WRF & Clean Waterways Act, which has been updated.

Mr. Auwaerter referred to slide 5 and asked how they came up with the 4.8% true interest cost for projected October 2023 issuance. Mr. Hairston explained that is based off the current market conditions.

Mr. Auwaerter asked what is their assumption as to the credit rating. Ms. Lawson answered as a preliminary look, they were in the AA range, but as this unfolds, they will have a better idea, and a lot of it depends on the rate sufficiency as well, which is one of the things they are working on here.

Mr. Auwaerter asked what structure did they use to calculate the interest cost and debt service to be borne by ratepayers. Ms. Lawson wanted to emphasize that this is all pretty preliminary from the finance standpoint and as they get closer, they will have a lot more information about the financing. She explained at this point, they gave them three (3) debt service scenarios. She said she could provide a copy of the schedules that the models were based on.

Mr. Hairston continued through the remainder of the Power Point presentation.

Mr. Auwaerter handed out a copy of an email from Robin Chacko with Raftelis to Cindy Lawson dated July 19, 2022 and read from that email (attached to original email). He talked about the second page and the calculations he came up with shown there.

Mr. Hairston clarified that the decision on rate structure is not being made now. He explained that when it comes time to making those decisions, City Council will need to weigh long term costs vs. short term costs.

Ms. Lawson talked about the three (3) schedules. She reiterated that decisions have not been made, but also there are a lot of details that could be changed to mitigate things and they are so far ahead of a detailed discussion about the financing part of this that the answers aren't there yet.

Mr. Auwaerter asked with regards to the water revenue bonds they have, what is the current debt rating. Ms. Lawson answered that they do not have any outstanding bonds. They did just retire a bank loan and they have state revolving fund loans.

Mr. Auwaerter referred to slide 5 and pointed out the projected cost of the Plant has risen 37% from the figure estimated 16 months ago. He asked what sensitivity analysis on the customers' rates have they performed, for example, if the cost of the Plant went up \$10 million, what would be the impact on rates.

Mr. Hairston said they could give that information to them. He said they have looked at plenty of sensitivity, but they can look at Plant costs, bond costs, operating costs, etc... One of the recommendations is that they review this next summer. He said they would be happy to run the numbers for a \$10 million increase. He added the numbers are going to keep on moving, and by next summer, they will have a lot more answers.

Ms. Lawson pointed out this first rate increase set for January 1, 2023 is also because they haven't done a cost of service study or had a rate increase since 2010 and the City needs a rate increase to support its current cost of operations and the cost of operations into the future.

Mr. Auwaerter asked if the budget they proposed to City Council included the rate increases. Mrs. Lawson answered no, because at that time, she did not have the results of the study.

Mr. Mucher questioned that they have gone 12 years with no rate increase, but yet they still have reserves and are still making money and contributing to the General Fund. He referred to page 8.

Ms. Lawson pointed out that the adopted budget for FY 21/22 showed them at a \$5 million deficit and the adopted budget for the coming year is about a \$3.6 million deficit.

Mr. Bolton wanted to point out an example of increasing operating costs with chlorine, which is the largest chemical that they use in both the water and the wastewater. He said 16 months ago, a one-ton cylinder could be purchased for \$554 and they just signed a new quarterly pricing agreement and that is now over \$2000. He added that FP&L, Tampa, and Duke are all looking at a \$10 to \$14 a month increase because of the cost of natural gas, which will increase the power costs and the primary cost to them is power. He explained each of those adjustments has a cost to them which has exponentially taken off in the last year and they have been dipping down into revenues for the last couple years. They had been able to absorb a lot of the costs over the years, but on the operating costs on the water system they are just breaking even and on the wastewater side, they are losing funds because of the increasing costs. He explained there is definitely a need for an adjustment to get them back to at least break-even and providing for capital. He further explained that they are not in a position right now to nail down any of this.

Ms. Lawson said for the future, they have a rate study for the next five (5) years and increases phased in. They will undertake their revenue review next summer and she would like to see them undertake a review annually.

Mr. Bolton referred to what Fort Pierce is doing and their two (2) 10% increases to get themselves back into a position to cover the inflationary factors.

Mr. Mucher commented that 12 years without an increase and now a number of large increases every year is a little hard to take and understand.

Ms. Lawson agreed that this probably should have taken place three (3) to four (4) years ago and they should not have gone 13 years without looking at the rates.

Mr. Mucher asked if the increases in the next couple years are to build up a buffer.

Mr. Hairston explained they are not projecting increases forever and ever and they are catching up right now and it will level out with some fine tuning that is going to need to take place.

Mr. Mucher asked if they have taken new customers into consideration in their analysis.

Mr. Bolton answered yes, and added there are about 100 customers a year.

Mr. Mucher referred to low pressure reuse mentioned on one of the slides and said that he didn't think they provided that.

Mr. Bolton explained how they provide that for two (2) golf courses and Johns Islands and that it is a lot lower cost because they don't have to provide storage.

Mr. Mooney summarized the chart on page 19. Ms. Lawson explained that is the path they would be on until October 2025.

Mrs. Orcutt wanted to make some clarifications. She said this is a policy decision they should be making regarding the rate structure, but it could also be a policy decision to say mandatory connection to sewer. She asked if everyone in the City was connected to sewer, how would that affect their rates.

Mr. Bolton talked about the rate projections and having 1,000 customers that haven't connected in the City limits. He added it doesn't address the areas outside the City limits, which would be another 1,500, but they don't have the lines available to them. He said they could realize some savings, but he does not know what that number is and that would require some research.

Mrs. Orcutt said she has concerns that increasing the rate is going to deter people from connecting. She felt it might be worth that exercise to figure out if everyone within the City was connected, what would that do for their rates. She said she likes the idea of consolidating the structure. She added that one thing that was not mentioned was the grants they received and how that affects the cost of the Plant.

Ms. Lawson said the one (1) grant that they do have is included in the projections of the cost of the Plant shown on slide 4. But future grants are not folded in because they do not have them yet.

Mr. Bolton said that they have been applying for them, but they won't know for a while.

Ms. Lawson said right now they do have the \$1.263 million grant from Florida Department of Environmental Protection (FDEP), but other than that, there are no grants right now against what they need to borrow.

Mr. Bolton added that they applied for \$20 million from FDEP in the last cycle, and it was not awarded but they will reapply. Ms. Lawson said that grants are a big uncertainty, and it is highly possible that they could get a fairly sizeable grant, but at this point, they didn't want to count on something they don't have. By next summer, they will have a better idea if there are any grants forthcoming before they start construction.

Mrs. Burton wanted to clarify that there are benchmarks built in to revisit rate charges rather than wait another 12 years. She emphasized that a lot of these grants are matching funds. Also, in regards to rising costs, she wanted to point out that the private sector is seeing all these same issues.

Mr. Bolton talked about rising construction costs and the housing market and some of the other things that have been effecting them.

The Chairman opened and closed public comment at 10:42 a.m. with no one wishing to be heard.

Mr. Auwaerter made a motion that the Utilities Commission recommends that City Council require the City Manager and the utility consultant Raftelis to submit a customer rate impact analysis to City Council by October 1, 2022 that will forecast the increase in customer rates above those proposed in the Raftelis Utility Rate Study Status presentation based on the assumption that the cost of the proposed water Reclamation Plant comes in \$10 million higher than the current estimate of \$82,036,611. Mr. Mooney seconded the motion.

Mr. Mucher asked if that was doable in that time frame. Mr. Hairston explained that it is doable.

Mr. Keith Drewitt stated that he thinks this is good idea.

Mr. Mucher asked if this is the only motion required. Ms. Lawson said they are giving this presentation to City Council tomorrow and it is their recommendation that they give them the authority to move forward to prepare the Ordinances and begin the process of implementing these amended rates which will take place in about three (3) months and any motion that they feel would be appropriate would be great.

The motion passed 4-1, with Mrs. Burton voting no, Mr. Auwaerter yes, Mr. Mucher yes, Mrs. Orcutt yes, and Mr. Mooney yes.

Mr. Mike Johannsen asked if the motion was to amend the costs both negatively and positively. Mrs. Burton answered that the motion was for the positive.

Mrs. Burton made a motion that they support the presentation that was given here today and move forward. Mr. Mooney seconded the motion and the motion passed 4-1, with Mrs. Burton voting yes, Mr. Auwaerter no, Mr. Mucher yes, Mrs. Orcutt yes, and Mr. Mooney yes.

3. PUBLIC COMMENT

4. ADJOURNMENT

Today's meeting adjourned at 10:56 a.m.

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