Central Wastewater Region Large User Advisory Board Meeting
Wednesday, August 6, 2008 – 1:30 p.m.
Fiveash Water Treatment Facility

Voting Members Present:
Julie Leonard, City of Fort Lauderdale/Assistant Utilities Services Director, Operations
Marguerite Rosenberg, City of Fort Lauderdale/Controller
Miguel Arroyo, City of Fort Lauderdale/Water and Wastewater Treatment Manager
Dave Womacks, City of Oakland Park/Public Works Director
David Archacki, City of Wilton Manors/Public Services Director

In Attendance:
Mark Darmanin, City of Fort Lauderdale/Distribution and Collection Systems Manager
Robert Nielsen, City of Fort Lauderdale/Administrative and Technical Services Manager
Pat Long, City of Fort Lauderdale/GTL Wastewater Treatment Facility Manager
Susan Smith, City of Oakland Park/Assistant Public Works Director
Bob Mays, City of Wilton Manors/Finance Director
Brian London, City of Tamarac/Wastewater Supervisor
Chet Jablonka, City of Tamarac/Utilities Maintenance Supervisor
Tim O'Neil/Camp Dresser & McKee, City of Fort Lauderdale Wastewater Consultant
Shani Bryce/Camp Dresser & McKee, City of Fort Lauderdale Wastewater Consultant

Welcome – Julie Leonard

Julie welcomed everyone and called the meeting to order at 1:35 p.m. by thanking everyone for attending this annual meeting.

Introduction of Advisory Board Members and Guests

All attendees introduced themselves.

Approval of May 14, 2008 Minutes

Dave Womacks made a motion to approve the minutes and Miguel Arroyo seconded it. A vote to pass the minutes was unanimous.

Update on the G.T. Lohmeyer Wastewater Treatment Plant – Pat Long

Construction Project Updates

- All pumping system projects have been finished by Poole & Kent. Only punch list items are ongoing through August 16, 2008.

- Influent Screening Equipment
  We still have issues with the new system; equipment has failed on a fairly consistent and premature basis. Revisions and retrofitting of augers and controls were completed on July 9, 2008. On July 10 a grinder unit failed that had only been in place for three weeks. Options are being reviewed as to future course of action concerning these units. The manufacturer has extended the warranty to October 2008.

- Influent channel concrete repair and an additional new 54" force main tie-in are to commence in late 2008.

- Completed biennial two-week maintenance turnaround at cryogenic plant in July.

Additional Ongoing Projects:

- Cryogenic Facility Instrumentation System Upgrades – Have received quote of $1.55M for work estimated for FY 2008-2009.

- Currently at 90% design stage for:
  PA system upgrade
  Liquid oxygen storage tank replacements
  Concrete repair in dewatering building
  Grit classifier replacement
  Seal water system replacements
  New hoisting equipment in pretreatment building to service influent screening area
  New spare parts storage area in effluent building
  Lime silo removal and roof repair

Capacity Issues

The general wastewater consultant has completed an initial Reuse Study ranking various reuse alternatives as far as cost, benefits, and public acceptance. CDM is now in the process of developing the most favored option with a final report scheduled for the end of October 2008.

Operational Issues

CDM has been approved to work on the application renewal of the Injection Well permit that expires January 9, 2009. When this permit is issued, there will be a stipulation to conduct mechanical integrity testing of the wells that would cost an estimated $500,000. This testing would most likely be performed in late 2009 and early 2010. One of the two AC units that cool the effluent pump VFD rooms is not in service. Temporary corrective measures have been implemented and we are in the process of investigating proper replacement units.

Budgetary Issues

It was reported at the last meeting that the Department of Energy's Energy Information Administration (EIA) was forecasting a 3% increase in electricity prices for commercial customers in the South Atlantic Region in 2009. Shortly thereafter, FPL announced they would be seeking a 19% rate increase. Actual rate increases will be 9% on August 1, 2008 and 12% on January 1, 2009.

<u>Rate Calculations – Robert Nielsen</u>

Bob distributed four documents for the Advisory Board's review and drew the attention of the Board to our Organization Summary Report and explained what the various characters mean. He advised that we are looking good against the current budget; revenues tend to fall a little behind in actually getting them entered into the system so there is probably a month or two lag in getting some of those numbers. The next spreadsheet addressed the Computation of Rates to be Charged for next year. The Computation of Rates to be Charged spreadsheet that Susan LeSage distributed at our meeting in May was actually the rate calculations for the end of last year (2007) which should be showing in the Actual 06/07 column. The estimate on the operating and maintenance costs is from our budget process updated in June – that number could end up being lower. The Total Debt and Bond Costs are fixed numbers. The numbers that are shown below that are actually the R&R Progam looking out 20 years and doing the division by 20 until you get to the funding requirement for this year which is the $2 Million number that gives you the total regional costs estimated at this time to be $14,393,201. When you take that and factor into it interest and miscellaneous earnings and the total flow that we expect, using $1.08 per 1,000 gallons this year, at present it looks like it's going to come out at $1.10, a little above the $1.08.

For next year, the Operating and Maintenance costs are anticipated to go up due to skyrocketing transportation, fuel, gas, electric and chemical costs. As an example, in our new water plant, caustic soda that cost $240 a ton three months ago is now over $1,000 a ton.

The debt service for next year has gone up. We had a pay-back in the last budget year on bond money that was from our 2003 Series Bond that was earmarked to go to Regional expenditures. We were not spending the money fast enough; we needed to spend the 2003 bond money in a two-year period which we failed to do, so we moved the expenditures over to our Water and Sewer side and what the large users saw last year was making the region "whole", paying back any of the debt they had paid on that money. But, the work still needed to be done, so we took the money out of State Revolving Funds (SRF). Bob has been told that none of the 2008 bond is going to the Region. Taking the funds out of SRF was a good thing for the Region since SRF money is a lot less expensive than bonds. The good news is, we are paying less interest but the bad news is that the debt service is now increasing. Marguerite concurred with this explanation.

Also, the numbers for the Replacement Reserve Funding look to have grown quite a bit. One of the reasons for this is that we noticed in the past year that dollars put aside for future replacement tended to be the dollar amount of the last time we replaced that item. Thus, we needed to start adjusting the dollars for inflation as they go out into future years, so this year when the R&R Report was done, we included a 3% Consumer Price Index (CPI) increase. Because these dollars are spread out over 20 years, it doesn't go up a whole lot but enough because it jumped from a $2M to a $2.8M requirement to go into the R&R account. That, with the debt service and the operating and maintenance costs based on flows expected to be somewhat the same, the new cost per 1,000 gallons is coming out to be $1.29 for next year. Two of those numbers are fixed – the debt service and the R&R contribution. The number that will vary will be the operating and maintenance costs and, historically, those numbers have been under-budget. Bob asked the group if they had any questions.

Bob Mays referred to the spreadsheet and asked Bob to explain the Expected Replacements Costs Remaining figures that go from approximately $43M in the 2007/2008 estimated column to the $61M proposed for 2008/2009 column. Bob Nielsen said it has to do with starting to account for a 3% CPI to appropriately account for the money we're going to need in the future to replace items. On a 20-year spreadsheet, every number is increased by 3% each year. Bob Mays asked if it's the same list of items and Bob advised there were some small modifications and add-ons.

Bob Mays said that since other costs are increasing so greatly this year, he wonders if it's a good idea to take all of this adjustment in one year. Bob Nielsen said it's not really all of an adjustment in one year because it's looking at the whole total cost and dividing by 20 years. Bob Mays replied that it's adding $800,000 to the R&R contribution. Dave Womacks asked if this was based on recommendations from our consulting engineers and if they outlined projected/estimated costs for replacements. Tim O'Neil responded that CDM prepared the Central Regional Wastewater System 2008 Renewal and Replacement Requirement Analysis dated May 2008 but, unfortunately, a copy was not available to refer to. Using a 2007 copy of the report as an example, Miguel stated that we look forward 20 years and allocate money for equipment we think is going to fail based on historical or projected data as shown in the year-by-year analysis on Exhibit 4. Julie asked Tim O'Neil to provide us with a PDF copy of the report and we will forward to the large users.

Bob Mays mentioned that we are looking at a 25% increase in rates on top of lower revenues, higher overall costs and the recession in general and it will come as a big hit to their customers. He feels it may be prudent to consider taking some of the hit now and some later. He would like the group to consider taking $50M instead of $61M as our assumed 20-year replacement costs. This would still be generously increasing it by $7M but it would reduce the strong hit a little bit of making that adjustment in one year. Bob Nielsen said he understands Bob's concerns but feels this would just be making it worse next year.

Marguerite stated that she agrees with Bob Mays and feels a conservative approach is better for customers if it is feasible. Julie questioned what happens next year when the bottom line is much higher and the large users have to write a check for the difference. Marguerite noted that the number is not based upon next year alone but on a 20-year scale. Bob Nielsen said he questions what makes us believe that it's going to get any better over the next 20 years. Marguerite said that she is not saying that it will get better but, on an accounting basis, she would like to see what the analysis is from the consulting engineers since it's a big hit for consumers and the City.

Bob Mays noted that since it's spread over 20 years, if we cut it in half, our net increase for the current year would only be $400,000 and that would be about the only dent we could make in these numbers and it's in an area that's technically a fixed cost, this is a projection and if we adjust the amortization of these projected numbers of this amount that we are going to need in the future, we can buy a little bit of time this year. It's true that eventually over 20 years, we are going to pay the actual cost. Miguel mentioned that with $400,000, we only save about three cents.

Miguel continued to explain that these numbers are best guess estimates based on what we know the costs are and what we believe they will be years down the line. They are also based on projected life of the equipment.

Bob Mays asked Bob Nielsen if he knows what the actual reserves are right now. Bob replied that the reserve balance for the prior year is $4M. Bob Mays asked what we reasonably expect to be spending in the next year or two. Bob Nielsen advised that the concept was to try to take off the peaks and valleys in the spending. Certain years there was additional spending and some years there was less spending. The idea was to try to straighten out the peaks and the valleys so that we're not changing the rates up and down constantly. Dave Womacks commented that he thinks that is what Bob Mays is suggesting; that we try to soften the blow and try to spread this out a little – it seems like we are heavy-loading this upcoming fiscal year. Bob Nielsen is concerned that costs are going to continue to go up and if we don't increase it this year, we are looking at bigger increases in future years.

Dave Archacki asked how close we are with the $1.29 figure. He said we usually suggest a number and we come in at 4 or 5 cents off of that number. He thinks we set a number of $1.11 last year and it looks like we are going to be at $1.10 but, if he recalls correctly, that started at $1.15 or $1.18 last year. Bob Nielsen said he believes it was at $1.11 and we went to $1.08. The last couple of years, we have been going at about 3 cents less than the calculations determined. Julie stated this is true except for the year before when the large users received refunds but that year was an exception.

Dave Womacks said before he makes an educated vote, he would like to see the consulting engineers projections for expenditures. Miguel left the meeting to get the CDM Central Regional Wastewater System 2008 Renewal and Replacement Requirement Analysis from his office. Upon his return, he distributed a copy of the spreadsheets from the report and the Year-by-Year Summary sheet on Exhibit 4 was reviewed. Bob Mays remarked that for fiscal year 2009 the 20-year R&R expenditure is shown as $61,761,900. Bob is interested in how we got from $43.9M to $61.7M. He understands we changed the calculation method to include CPI. Last year if we looked at this list our total R&R would have been $43.9M. Miguel replied that 3% was added to the numbers to keep up with inflation. Tim O'Neil stated that on some pieces of equipment the cost was adjusted based on replacement costs down the road.

Dave Womack said he understands we are making 20-year projections and it's prudent to do so to anticipate future costs but it looks like some additional costs must have been added in and maybe some of these projections can be tightened up. This is a time when everyone is trimming budgets. Bob Mays mentioned that he is not questioning the need for these expenditures but we mentioned that we wanted to level off the blips (ups and downs) in future years, but the cost of doing that is a huge blip this year at a time when the cities and citizens are not well prepared to handle it. This is why Bob suggests we lower the rate and is suggesting the number of $1.24. Miguel suggests we spread the hit out and Bob Mays agreed with this idea rather than taking the total hit right now. Bob Nielsen said that, based on history, and disregarding last year because the large users got rebates, he doesn't mind dropping it 3 cents for the consideration that the operations will come in less than budget; 4 cents maybe. His concern is if we don't do any other changes and just account for the fact that we're not going to spend all of the budget, the risk is too high that we will have to ask the large users for more money at the end of next year, although it's only a penny more than what we've been asking for.

Dave Archacki asked what would stop up from setting the rate at $1.24 and reviewing it at our next quarterly meeting when we have more answers. Julie said we would need to check with our City Attorney's Office to be sure this could be done.

Dave Womacks asked if there is any room for tweaking or adjustments on the replacement costs. Julie advised we spent many hours preparing the list. Mark Darmanin said months were spent evaluating each individual piece of equipment. Marguerite said there needs to be a more reasonable methodology than calculating an $18M increase from one year to another. Julie replied that we are trying to make an adjustment in the R&R table and this is the first year we are trying to do that. Marguerite feels that the methodology projecting out to 20 years may not be realistic in the financial environment our customers find themselves in. Also, reevaluation of our equipment in a timelier manner would be helpful.

Bob Mays used an analogy – when you have a pension plan, the city needs to make a contribution to the plan every year based on the number of retirements and how well investments do. If the actuaries do a study and they determine the plan needs an injection of $10M over the course of time to fund these benefits, you do not add the $10M all at once, you divide it up into 20 or 30 years and space it out. Julie said that is what the R&R Program is doing – spacing it out over 20 years.

Dave Archacki said it's never a good time to raise rates but now is probably the worst time. Wilton Manors has an upcoming election for Mayor and three new Commissioners so they are up against the wall when they go back and advise of this increase with people up for election in the next couple of months. A rate increase next year would be better for them since there is no election next year.

Julie announced that we have a motion from Bob Mays to set the rate at $1.24. Dave Womacks seconded the motion. The motion was approved.

Bob Mays said there is nothing to prevent the large users from going to their Commission and adjusting the rates mid-year in anticipation of having to pay money at the end of the year. Julie and Bob Nielsen will discuss with Vicki Minard going back to the Commission at a later point in the year if it appears rates need to be adjusted.

Old/New Business

None.

Utility Rate Study

Julie stated that the rate study we did applies to water and sewer rates for other customers, not the large user rate. Our consultant completed a draft of the report and she and Dave Womacks discussed a conservation or tiered rate for the wholesale customers. Julie has the report and the consultant reviewed the rates, volumes, customers, consumption and surveyed other wholesale-type accounts and found none that provided a tiered or conservation rate for their wholesale customers so that is not recommended in the report. Bob Nielsen stated he is reading a report from the AWWA Research Foundation specifically on a topic called budget rates that has to do with assigning an allotment to any given user and as long as they stay within their allotment, they get inexpensive rates. As they go over their allotment, the charges go up quite fast. The report says there are about 25 water utilities across the country using this method. Some municipalities have determined how many people live in each house, they give a per capita day of water usage per person, how much square footage is available for landscaping, how much water is needed for landscaping and setting that allotment per month but the report says that when it comes to larger users and the selling of wholesale water, it gets very difficult and none of these people have found a way that works for wholesale water sales on a conservation basis.

Dave Womacks stated that we're all promoting water conservation and it's something that Oakland Park is aggressively going to do. They are going to set a tiered rate structure and it is, unfortunately, going to penalize the higher water users and they are going to provide some water-saving incentives and provide some water conservation kits – shower heads, etc. They applied for a SIP Grant from SFWMD. Dave asked Julie if the consultant made any determinations on the drought surcharge. Julie stated that their recommendation is to raise the fixed fees and Phases 1 and 2 drought rates would be eliminated. We would only impose a drought rate surcharge on Phases 3 and 4. Bob Nielsen advised that we have some of the lowest fixed rates in the area according to the study. We were actually hoping that in October we could do a larger fixed rate and a lower consumption rate increase to get the total that we wanted but we cannot do it in time for October so we will try to have something put in place for January – fixed rates and consumption rates would go up 5% and our residential customers would go from a 3-tier to a 5-tier rate structure.

Next Meeting

The next meeting will be held on Wednesday, January 28, 2009 at 1:30 p.m at the Collins Community Center, 3900 NE 3rd Avenue, City of Oakland Park.

Julie Leonard made a motion to adjourn the meeting and Miguel Arroyo seconded it. The meeting adjourned at 3:05 p.m.

MG
8/22/08
S/Shared Cabinet/Departmental/Administration/WW Large Users