

**BOARD OF COUNTY COMMISSIONERS
SPECIAL PUBLIC HEARING
TUESDAY, SEPTEMBER 29, 2009 – 9:28 A.M.
ASSEMBLY ROOM, FIFTH FLOOR
315 COURT STREET, CLEARWATER, FLORIDA**

Members Present: Calvin D. Harris, Chairman; Karen Williams Seel, Vice-Chairman; Susan Latvala; John Morroni; Kenneth T. Welch; Nancy Bostock; and Neil Brickfield.

Others Present: James L. Bennett, County Attorney; Robert S. LaSala, County Administrator; Cynthia N. Haumann, Board Records Manager; and Tammy L. Burgess, Deputy Clerk.

1 Utilities Rates and Fees PowerPoint presentation.

Director of Utilities Tom Crandall indicated that he had received a request for additional information regarding potable water from Commissioner Brickfield; whereupon, he distributed a document titled *Potable Water FY 09/10 Base Fee*, a copy of which has been filed and made a part of the record.

Mr. Crandall stated that the purpose of his presentation is to discuss water, sewer, and reclaimed water rates and the impact of the Tampa Bay Water increase; and that representatives from Burton & Associates will discuss their revenue sufficiency analysis study and recommendations; that a conservation rate structure will be presented at the end of the presentation, which is not being considered today, but will be brought back to the Board at a workshop by the end of the year; and that a request to approve a public hearing will be presented to the Board in spring of 2010.

Mr. Crandall pointed out that the 1.5 sewer debt service coverage level in the budget was recommended by the County's rating agencies; summarized the rating agencies' reports; and indicated that the Ernst & Young audit report dated April 23, 2009, suggests that the Board review and consider the need for increasing the water and sewer rates; whereupon, he conducted a PowerPoint presentation, a copy of which has been filed and made a part of the record, and referring to various charts and graphs, presented historical information and Fiscal Year 2010 projections for the following items:

- Residential Per Capita Water Usage
- Number of Reclaimed Water Accounts
- Water Sales
- Retail and Wholesale Water Volumetric Rates
- Tampa Bay Water Percentage of Increase in Unitary Rate
- Water System Percentage of Increase of Chemicals and Electricity
- Water System Fiscal Year 09/10 Operating Expenses
- Sewage Billed
- Retail and Wholesale Sewer Volumetric Rates
- Sewer System Percentage of Increase of Chemicals and Electricity
- Sewer System Fiscal Year 09/10 Operating Expenses
- Water and Sewer – Full-Time Permanent Positions
- Water and Sewer – Budget Reductions – Fiscal Year 09/10

Mr. Crandall indicated that water usage has been going down for a number of years; that since the reclaimed water system was expanded, less potable water has been used, which has a significant impact on water and sewer rates; that the Cities of Tarpon Springs, Oldsmar, and Clearwater are pursuing their own water supply source and plan to reduce or eliminate their demand for wholesale water, which will significantly impact future water sales; and that the number of water customers continues to decline. He reviewed charts depicting the Fiscal Year 2009-2010 operating expense budgets for the water and sewer systems; and indicated that cost containment measures for Fiscal Year 2010 resulted in the reduction of 44 permanent positions, eight temporary positions, and reductions to both the water and sewer operating and maintenance budgets.

President Mike Burton and Vice-President Andy Burnham, Burton & Associates, reported on the firm's revenue sufficiency analysis of the County's water and sewer systems, and Mr. Burnham provided the following information as a basis for proposed water and sewer rate increases:

- The Cities of Tarpon Springs, Oldsmar, and Clearwater plan to reduce or eliminate their demand for wholesale water.
- Additional funding will be required for capital improvement requirements. The County could use financing to spread the cost of capital projects over time, minimizing the impact on consumers.
- Retail and wholesale demand reductions have also affected the sewer system revenue.

- The County must meet debt service requirements/covenants and maintain adequate reserves.

As detailed in the PowerPoint presentation, Mr. Burnham presented a five-year projection of water and sewer rate revenue increases necessary to meet the financial needs of the water and sewer systems, including Fiscal Year 2010 water rate increases of eight percent and sewer rate increases of five percent for retail and wholesale customers, as well as an 11.11 percent increase in reclaimed water rates; and indicated that the average monthly increase for a typical user with water, sewer, and reclaimed water services is \$4.89.

Mr. Burnham referred to the Fiscal Year 2009 residential rate surveys conducted as part of the analysis and indicated that the key aspect of the rate structure is an *inclining block* rate structure, also known as a *conservation* rate structure; whereupon, he displayed a graph titled *Sample of Conservation Rate Structure* and explained the concept, indicating that a base rate applies for essential domestic usage, with multiple increasing rates applied for incremental water usage amounts, thereby sheltering low volume users from increases in price while discouraging unnecessary water consumption. He indicated that the rate structure includes a customer service charge to cover fixed overhead expenses and a readiness-to-serve charge, which applies to all customers; that implementation of an inclining block rate structure will require one-time changes to the billing system; and that implementation of the conservation rate structure is targeted for mid-year of Fiscal Year 2010.

Discussion was held following the presentation, with Messrs. Crandall and LaSala providing input. Items addressed included the following:

- The water system is experiencing negative cash flows.
- The reclaimed water system is not self sufficient. Fiscal Year 2010 annual costs are approximately \$15.5 million and revenues are \$2.6 million.
- The market precludes full cost recovery reclaimed water rates. A full cost recovery rate would be \$45 per month per customer. The shortfall must be allocated between the water and sewer systems.
- Both the water and sewer systems benefit from reclaimed water. It provides a disposal alternative for the sewer system and acts as an additional water supply for the water system. All consumers benefit by cost avoidance.

- The north county Department of Environmental Protection permit does not allow the discharge of wastewater into surrounding water bodies.
- Conservation/reduced usage results in lower revenue. If costs cannot be reduced, the unit price has to go up.

During discussion and in response to comments and queries by the members, Messrs. LaSala and Burnham discussed various factors affecting the rates charged by other Tampa Bay Water member governments and provided input regarding current and future available reserves, reserve targets, the percentage of water used for drinking versus irrigation, continued increases in total expense due to Tampa Bay Water increases and decreased demand, and limitations preventing the leveling of annual rate adjustments over the five-year period.

During further discussion and in response to comments and queries by Commissioners Seel and Bostock regarding the impact on sewer rates if the minimum net income to debt service ratios of 1.15 and 1.25 are maintained, Mr. Crandall indicated that a rate adjustment would not be needed in Fiscal Year 2010; and Public Resources Advisory Group Senior Managing Director Marianne Edmonds discussed the consequences of not meeting the 1.5 target, noting that the issue is market access and the cost of borrowing money; whereupon, Mr. Crandall indicated that the need for future bonding has not been identified in the five-year forecast.

Mr. LaSala responded to concerns expressed by Chairman Harris pertaining to the basis for continued rate increases, noting that the Utilities Department was evaluated by a private, for-profit utility company; and that all of the recommendations have either been implemented or are in the process of completion, providing cost containment, efficiencies, and economies; and suggested that staff provide a brief to the Board, which would also benefit the citizens; whereupon, Mr. Crandall responded to queries by Commissioner Seel regarding discharge and the need for additional reclaimed water, noting that construction of additional reclaimed systems would not provide a good return on investment.

CITIZENS' COMMENTS

In response to the Chairman's call for persons wishing to be heard, the following individuals appeared, stated their concerns, provided comment, and responded to queries by the members:

Philip P. Schultz, Clearwater, re water and sewer rate increase, complex classification
(Utilities staff to work with Mr. Schultz re complex classification)
Frank D. Hopson, Largo, re utility rate increase (Commissioner Latvala agreed to meet with
Mr. Hopson, a representative from Tampa Bay Water, and the County Utilities Department)
Chris Steiner, Dunedin, re proposed water rate increase
Helen Giakoumis, Palm Harbor, re water rate

In response to the citizens' comments and concerns and at the request of Commissioner Welch, Mr. Crandall indicated that the majority of Pinellas County's wells, including the largest product wells, were located in Pasco County; and provided input regarding the County's long-term agreement with Tampa Bay Water to provide surface and membrane plant water and to reduce the amount of groundwater withdrawal, which is a permit condition of the Southwest Florida Water Management District. In response to query by Commissioner Welch, Mr. Crandall related that Tampa Bay Water is closely watching the City of Tarpon Springs and will pursue possibly using the brackish water treatment facility should Tarpon Springs be unable to move forward; and Commissioner Latvala provided input regarding the Floridan Aquifer.

Responding to comments and queries by Commissioners Brickfield and Morroni, Mr. Crandall provided input regarding the settlement the County received when it entered into the agreement with Tampa Bay Water, noting that the agreement was established by a Legislative Act, is a State law, and does not expire; whereupon, following discussion, Commissioner Seel requested that Mr. Crandall provide the members with a spreadsheet outlining the credit from Tampa Bay Water.

2 Resolution No. 09-131 adopted approving revised retail water rates for Pinellas County Water System.

Motion - Commissioner Welch
Second - Commissioner Latvala

Following discussion, Commissioner Bostock offered a substitute motion to approve a five percent increase, as opposed to the proposed eight percent increase, seconded by Commissioner Brickfield.

Motion - Commissioner Bostock
Second - Commissioner Brickfield

In response to queries by the members regarding the impact of a five percent increase, Mr. Burnham indicated that the typical user would realize a monthly savings of eighty-six cents with a five percent increase, as compared to an eight percent increase; that the Fiscal Year 2010 reserve requirements would be met with a five percent increase; and

that the subsequent increase would have to be 19 percent, as opposed to the 13 percent identified in the presentation, noting that the target reserve levels still would not be met with a 19 percent increase; whereupon, discussion ensued and upon call for the vote on the substitute motion, the motion failed by a vote of 2 to 5.

Vote - 2 – 5 (Harris, Seel, Latvala, Morroni, and Welch dissenting)

Thereupon, upon call for the vote on the original motion approving an eight percent increase, the motion carried by a vote of 5 to 2.

Vote - 5 – 2 (Bostock and Brickfield dissenting)

- # 3 Resolution No. 09-132 adopted approving revised wholesale water rates for Pinellas County Water System.

Motion - Commissioner Latvala
Second - Commissioner Welch
Vote - 5 – 2 (Bostock and Brickfield dissenting)

- # 4 Resolution No. 09-133 adopted approving revised retail sewer rates for Pinellas County Sewer System.

In response to comments by Commissioner Seel, Mr. Crandall indicated that a three-and-a-half percent increase would not have a significant impact as there are adequate reserves; whereupon, Commissioner Seel moved, seconded by Commissioner Brickfield, to reduce the proposed rate increase from five percent to three-and-a-half percent.

Motion - Commissioner Seel
Second - Commissioner Brickfield

Discussion ensued and in response to comments and queries by the members, Mr. Crandall, with input by Mr. Burnham, indicated that a three-and-a-half percent increase would not have an impact on capital plans; that the proposed five percent increase was based on a ten-year projection; that a lower increase for Fiscal Year 2010 would result in increases higher than projected for the remainder of the projection period; and that a three-and-a-half percent increase followed by the projected two-and-a-half percent annual increases will adequately meet the target coverage level for the next five years, but will drop below the target coverage level in the subsequent five-year period if costs are not reduced.

Vote - 7 – 0

- # 5 Resolution No. 09-134 adopted approving revised wholesale sewer rates for Pinellas County Sewer System.

Motion - Commissioner Latvala
Second - Commissioner Seel

In response to query by Commissioner Brickfield, Mr. Crandall indicated that a three-and-a-half percent rate increase would allow the target coverage level to be met; whereupon, Commissioner Seel offered an amended motion to reduce the rate increase to three-and-a-half percent, seconded by Commissioner Morrone and carried.

Motion - Commissioner Seel
Second - Commissioner Morrone
Vote - 7 – 0

- # 6 Resolution No. 09-135 adopted approving revised reclaimed water schedule of rates for Pinellas County Reclaimed Water System.

Motion - Commissioner Latvala
Second - Commissioner Welch

Commissioner Bostock expressed concerns with the reclaimed water system not being self-sufficient and suggested that a longer term look be taken regarding where the rate should be to cover the true costs of the system; and Commissioner Seel provided input regarding the possibility of metering the reclaimed water system and requested that Mr. Crandall provide information regarding the prior discussions on metering; whereupon, Chairman Harris suggested that a meeting with Tampa Bay Water would be appropriate.

Vote - 7 – 0

- # 7 Resolution No. 09-136 adopted supporting the Florida high-speed rail application request for federal stimulus funding.

Commissioner Seel indicated that the only change from the previous resolution is the inclusion of the County's interest in a Tampa Bay crossing, if high-speed rail is brought into Tampa, to provide connectivity from Tampa to Pinellas County, noting that the resolution does not specify the type of connectivity; and Commissioner Welch provided input.

Motion - Commissioner Seel
Second - Commissioner Morrone
Vote - 7 – 0

September 29, 2009

8 Meeting adjourned at 11:39 A.M.

Chairman

ATTEST: KEN BURKE, CLERK

By _____
Deputy Clerk