

**SPECIAL CALL CITY COUNCIL MINUTES
MONDAY, JUNE 22, 2009 9:30 A.M.
CITY HALL, COUNCIL CHAMBERS, VERO BEACH, FLORIDA**

PRESENT: Sabin Abell, Mayor; Tom White, Vice Mayor; Debra Fromang, Councilmember; Bill Fish, Councilmember (via telephone); and Kevin Sawnick, Councilmember, excused absence.
Also Present: James Gabbard, City Manager; Charles Vitunac, City Attorney and Tammy Vock, City Clerk

Mayor Abell asked Council if they would have any objections to moving item 6) up on the agenda and heard as their first item. There were no objections from Council.

Presentation on Electric and Water & Sewer Revenue Requirements

Mr. R.B. Sloan, Director of Electric Utilities, stated that Council will be presented with a similar presentation that was given to the joint Finance/Utilities Commission meeting that was held last week. He first went over the time lines that they will be following. In July they will be in a position to start presenting the cost of service rate. When they have the results they will schedule another joint Finance/Utilities Commission meeting and then meet with Council again. They also plan to have a couple Town Hall meetings. He started with the background of the electric system and presented a slide that was the same slide that he presented to them in April 2008. He pointed out the two changes on the graph and stated that everything else remains the same. He said that the two changes on the graph have to do with what they thought the rates of FMPA would be and what it actually is. He said that they are running at almost 110 per mega watt kWh which is above what FMPA projected last April. Mr. Sloan went over the value of having the OUC contract. As he told them in April 2008, the OUC contract had a strong coal component and there are a lot of "unknowns" about coal. The other part of the power supply has to do with the Power Plant. He talked about the assets of having the Power Plant. The Power Plant provides 10% of our kWh requirement, provides generation capacity for the region, provides support for regional transmission and provides emergency supply. He said that on June 10, 2009 they were asked to bring up their units. There would have been outages on June 10th if the Power Plant had not been there. The financial aspect of the Power Plant contract talks about operating Units 2 and 5 and having Units 1,3,4 as a market resource. He pointed out two things with the internal cost. He said that they have a high percentage of their electric lines underground and they have a highly reliable system. He pointed out because so much of the system is on beach front that they have a lot of problems with corrosion. The last thing having to do with internal costs is the budget. He participated in budget reviews with the City Manager last week and Council will see that their upcoming budget will reflect a 13.8% decrease in operation cost. Also, the capital budget is down by 33%. What this forces them to do is make sound engineering judgments on projects. The budget also reflects a 5% decrease in personnel through attrition.

Mr. Henry Thomas and Mr. Murray Hamilton, from Public Resources Management Group, Inc., were at today's meeting. Mr. Thomas gave a Power Point presentation (on file in the Clerk's

office). In the Power Point presentation he went over the Existing Conditions – FY 2009, Changes in Historical Operating Results and Benchmarks, Changes in Historical Operating Results and Benchmarks, Study Objectives, Study Tasks, Customer Growth and Revenue Assumptions, Projected Customer Growth and Sales, Revenue at Existing Rates, Operating Expense Assumptions, Projected Total Operating Expenses, Projected City Operating Expenses, Major Capital Projects, Capital Improvement Program Funding, Debt Service Assumptions Other Revenue Requirements, Adequacy of Existing Rates, Study Considerations, Summary of Estimated Rate Increases, Sample Residential Bill 1,000 kWh, Adequacy of Proposed Revenues, Projected Cash Balances, and Conclusion and Recommendations.

Mrs. Fromang noted that she attended the joint Finance/Utility Commission meeting where most of her questions were answered.

Mr. White observed that in Mr. Sloan's presentation that he was talking about reducing costs and then in the presentation given by Mr. Thomas he mentioned an increase. He asked if they needed to get their figures together. Mr. Thomas explained that what Mr. Sloan brought up reflects that in 2010 there will be lower costs and that is because of capital reductions.

Mr. White wanted to make sure that the costs that are being charged by FMPA because of the FP&L charges were being split 15 ways by all the 15 cities involved. Mr. Sloan assured him that was what was being done. He said that the City of Vero Beach was looking at being charged approximately one million dollars. He understands that FP&L is considering lowering the amount that they first asked for.

Mayor Abell also attended the joint Finance/Utility Commission meeting. He asked Mr. Thomas if there was any way in an upcoming presentation that he could show how they can smooth out this most recent increase from FMPA.

Mr. Thomas will look at that and bring it back to Council on what they can do to smooth it out. He said that the real factor is the cash on hand.

Mr. White noted that he has received some phone calls from residences in reference to the new increase with the fuel adjustment. He said that a lot of people don't realize that it is a temporary charge and will end on January 1st.

Mrs. Fromang made a motion to authorize PRMG to come up with some alternatives for rate designs (examine the proposed rate deficiencies as applied using cost of service principals). Mayor Abell seconded the motion.

Mr. White wanted to make sure that this was just a study. He was assured that was all they were asking for.

The motion passed with Mr. Fish voting yes (via telephone), Mrs. Fromang yes, Mr. White yes and Mayor Abell yes.

Mr. Rob Bolton, Water & Sewer Director, gave a Power Point presentation (on file in the City Clerk's office). He went over the Five Year Capital Projects for the Wastewater Treatment Plant, for Gravity Sewer, for the Water Treatment Plant, for Water Distribution, for Reuse Projects, for Administration, for the Facility Maintenance and Asset Management, for Lift Stations, and for Meter Maintenance.

Mr. Thomas gave a Power Point presentation for the 2009 Water and Wastewater Rate Study (on file in the City Clerk's office). He went through the Existing Conditions – FY 2009, the Changes in Historical Operating Results and Benchmarks, Study Objectives, Study Tasks, Customer Growth and Revenue Assumptions, Projected Customer Growth and Sales, Revenue at Existing Rates, Operating Expense Assumptions, Projected Operating Expenses, Major Capital Projects, Capital Improvement Program Funding, Debt Service Assumptions, Other Revenue Requirements, Adequacy of Existing Rates, Adequacy of Existing Wastewater Rates, Study Considerations, Summary of Estimated Rate Increases, Residential Water Comparison of Neighboring Utilities, Residential Wastewater Comparison of Neighboring Utilities, Residential Combined Comparison of Neighboring Utilities, Residential Water Comparison of Neighboring Utilities, Residential Wastewater Comparison of Neighboring Utilities, Residential Combined Comparison of Neighboring Utilities, Adequacy of Proposed Revenues, Adequacy of Proposed Water Revenues, Adequacy of Proposed Wastewater Revenues, Projected Cash Balances, and Conclusion and Recommendation.

Mr. White referred to one of the graphs that points out that the City of Vero Beach rates are still lower than Indian River County. He said that if they are looking at going to average then their rates will be more than Indian River County.

Mr. Thomas commented that Indian River County may have to raise their rates over time. He said that if they didn't raise rates at the water department then anything that they were proposing in their capital projects would come to a halt. He also mentioned that there are a lot of things brought on by regulatory agencies that are out of their control.

Mr. White expressed that they still need to be competitive with their neighboring utilities.

Mrs. Fromang wondered if down the road having more efficient plants would help to lower these costs (smaller plant can still do the same thing).

Mr. Thomas said that the City does not need to think about building a new plant for growth. He said that they have sufficient capacity.

Mr. Thomas recommended that a formal rate review be conducted every three to four years and adjustments be made according to cost of living increases.

Mr. Fish commented that with the public knowing about these possible rate increases, he was sure they would start looking at water saving devices.

Mrs. Fromang made a motion to proceed with the rate design. Mr. Abell seconded the motion and it passed unanimously.

At this time, Council took a ten-minute break and reconvened at 11:22 a.m.

Mayor Abell hoped to adjourn the meeting by 12:30 p.m. He said that if they don't finish the meeting then they can schedule another meeting at a later date.

1) Budget Overview – Fiscal Year 2008-2009

Mr. Steve Maillet, Finance Director passed out budget information dated May 31, 2009 (on file in the City Clerk's office).

2) General Fund

A) Revenue

B) Expenditure

Mr. Maillet started with the General Fund and said that the City was right on track with where they needed to be. However, with the Electric Fund they are way in the hole. He said that there were two main reasons for that. He said that the first one would be capital expenditure and the second is because of the situation that they have with FMPA. He had hoped to be able to get through the fiscal year without borrowing any money. He went on to the Water & Sewer May update. He said that since the decline in the economy, the State has offered some revolving money to fund some of the capital projects. The rate increase that they recently passed was just put on irrigation and now irrigation sales are starting to decline. He said they are a million dollars in the whole at this point in the fiscal year. He said maybe as the year goes by some of these situations will improve. As far as the Airport, Marina and Solid Waste goes they are where they expected those funds to be at.

Mr. Maillet commented that Council always wants to delay (referring to rate increases, etc.). He said that they have delayed and here we are. He said they might have to borrow money to fund some of the capital in the electric system.

Mr. James Gabbard, City Manager, agreed that they didn't get to this position over night. It has been going on since the early 90's. There have not been appropriate increases made when they needed to be done. There was plenty of cash in the 90's and the decision was made to live off the reserves and not increase rates as justified. That is how they got to where they are today. He expressed that they have a very solid Water and Sewer system throughout the City. However, there are things that need to be replaced and they have to keep up with capital improvements. This is the same with the Electric System. The Electric System is good. It was a tough decision to get out of FMPA and now they are in home stretch. They knew that the last six months were going to be the most difficult. He said that they have to continue to maintain

both systems and not cut back on capital expenses. He said that with the way it looks things will be even worse next year. He said that they will get through this but it will be tough. Mr. Gabbard mentioned that he had budget reviews last week and met with all of the departments and they were able to take out a million dollars out of the budget. This still leaves them \$650,000 from their goal, but they will get there. He reiterated that there will be some tough decisions that have to be made but we will get through this.

Mr. Maillet brought up capital maintenance and not building anything new. He said that if they don't do any capital maintenance then the system will become run down. He doesn't think that the County should be the group they hold up to especially in water and sewer operations. The City has higher standards for things and the public realizes that. Now it has become a little cloudy and people are suggesting that we lower their standards and that sounds good until they don't have water, electricity, etc.

Mrs. Fromang mentioned that since she has been on Council they haven't had a rate increase proposed that has been turned down by Council. If there is a problem then it needs to be addressed and we will take care of it. If there is a problem and we need to borrow money then take it to the Finance Commission and the Utility Commission for them to review so that Council knows about it at budget time. She reiterated that if there is a problem then let's start dealing with it before their budget hearings.

Mr. Maillet said that they have done what Councils' in the past have wanted and that was to live on reserves and delay projects.

Mr. White expressed that when there was money being taken out of the reserves that Council was not aware of and once they found out the City Manager at that time no longer works for the City of Vero Beach.

Mrs. Fromang was alarmed by what she was hearing today. She again asked that the Finance Commission and the Utilities Commission look at this before they start their budget hearings.

Mr. Gabbard knew that everyone recognizes that they can't keep putting things off. He said that this is a difficult time and we are going to be involving Council a lot more. He felt that they were moving in the right direction.

Mrs. Fromang told Mr. Maillet that if he was thinking of borrowing money then recommendations needed to come from their Finance Commission before they did anything.

Mayor Abell explained that the Consultants will be bringing their findings before the Finance Commission and the Utilities Commission and then it will come before Council. He agreed with the idea of having a rate study done every three years and an inflation adjustment if needed. He said that if they allow the Utility Commission to set the rates, then you take the politics out of it.

Mr. Gabbard wanted to schedule individual meetings with all of the Council members to go over the budget.

Mrs. Fromang requested recommendations from both the Finance Commission and the Utilities Commission once they have had their meeting with the consultants. She appreciates the time that these Commissions devote to the City and wanted to have their recommendations.

Mr. White explained that the City Council does not get involved in the day to day operations of this City. Every year during the budget hearings they are told what is going on. Last year they agreed to allow staff to take some money out of reserves if they had to. He said that Council has never denied any departments to be allowed to do their capital improvements. He said that what they are hearing today is that things are a lot worse than they thought. They knew things were coming up such as the rate study, etc. But now they are being told that millions of dollars are needed for capital improvements. He agreed that they needed to keep maintenance up for capital improvements. He expressed a need for better communication.

Mr. Gabbard reiterated that the economy has changed a lot of things. The reason they have learned so much about their system is because of the rate study. They have an obligation to look at their systems routinely. He knows they will not get in this situation again and they have a plan to get out of this situation. He knows that they are moving in the right direction. The real test will be what things look like in March and April of 2010.

Mr. White hated to keep having rate increases. He mentioned all the people on fixed incomes that live in this community. He explained that he wanted to make sure that everything that is done is done correctly and fairly.

3) Enterprise Funds Overview

- A) Airport**
- B) Electric Utility**
- C) Solid Waste**
- D) Recreation**
- E) Water & Sewer**
- F) Marina**

Mr. Maillet briefly discussed some of the Enterprise Funds earlier in the meeting.

4) Projections for Fiscal Year 2009-2010

This item was discussed earlier in the meeting.

5) Discussion of Budget Process for Fiscal Year 2009-2010

This item was briefly discussed earlier in the meeting.

6) Presentation on Electric and Water & Sewer Revenue Requirements

This item was heard first at today's meeting.

7) RESOLUTIONS FOR ADOPTION WITHOUT PUBLIC HEARING

A) A Resolution declaring the Official Intent of the City of Vero Beach, Florida to reimburse itself from the proceeds of Debt for Expenses to be incurred with respect to certain projects; authorizing certain incidental actions; and providing an effective date. (Improvements to the Electric System)

Mr. Maillet told Council that if they felt that today was not the day to pass these two Resolutions (item 7-A) and 7-B) then they can put them off. He said that the electric system is out of money so if they borrowed this money it would help restore some of the working capital. However, if Council feels more comfortable in waiting then they can do that.

Mrs. Fromang felt that at the joint Finance/Utilities Commission meeting that this information be presented to them so that they can give some feedback to the Council.

Mr. White agreed with Mrs. Fromang's suggestion.

Mayor Abell was concerned that since there were only three Councilmembers present for the meeting that they would need to have three positive votes in order for the Resolutions to pass. Both Resolutions were pulled off of the agenda.

Mayor Abell then brought up the proposed health clinic. He said that there is an opportunity if everything projected is correct, that they will save a minimum of \$750.00 a day by providing the clinic. He said if there are any Councilmembers who have questions or concerns about the health clinic then they need to talk to the City Manager. He wanted to know why this shouldn't be done. He said that maybe he doesn't have all the facts.

Mrs. Fromang passed out a report prepared by Wakely Consulting Group (on file in the Clerk's office). She said that in the report that the consultants are saying that this is a new concept so there is not a lot of data to support or to report the savings. She reported that she recently met with the City Attorney and a Finance Commission member to review the proposed contract on the clinic. There are about 80 other similar clinics that different corporations are involved in and the City Attorney will be comparing their contract with the one that they received.

Mr. White said another problem that they might run into is with workman's comp. He said that they have to have a workman's comp doctor in order to handle those cases.

Mr. Gabbard commented that he has had a number of conversations with Mrs. Fromang concerning the clinic. He thought that it might be helpful to have another meeting with the

Council to go over their questions and try to answer them in a timely fashion. He suggested setting the meeting after Mr. Vitunac has had time to review the contract. In the meantime they will work out the numbers on what it is going to cost for health insurance if they don't go with the clinic.

B) A Resolution declaring the official intent of the City of Vero Beach, Florida to reimburse itself from the proceeds of Debt for Expenses to be incurred with Respect to Certain Projects; authorizing certain incidental actions; and providing an effective date. (Improvements to the Water and Sewer System)

The Resolution was pulled from the Council agenda.

8) Adjournment

Today's meeting adjourned at 12:13 p.m.

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