

MINUTES OF A SPECIAL MEETING OF THE CITY COMMISSION OF THE CITY OF FORT PIERCE, FLORIDA, HELD IN THE CITY HALL COMMISSION CHAMBERS, 100 NORTH U.S. #1, FORT PIERCE, FLORIDA, AT 3:00 P.M. ON MONDAY, JANUARY 3, 1994.

Mayor Dannahower called the meeting to order.

The Pledge of Allegiance was recited.

Upon Roll Call, those present were: Mayor William R. Dannahower; Commissioners Robert Bluestone, Robert Burdge, Darrell Drummond, and Gloria Grimyser; City Manager James Powell; City Attorney John Brennan; and City Clerk Cassandra Steele. Those absent: None.

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The purpose of the Special Meeting was Mr. Harry Schindehette, Director of Fort Pierce Utilities Authority, present to: (a) Request approval of Resolution No. U.A. 93-19, Amending the Budget of the Fort Pierce Utilities Authority for Fiscal Year 1992-93 and (b) Report on Utility Rate Studies for Electric, Water, Wastewater, and Gas.

**Mr. Harry Schindehette**, Director of Fort Pierce Utilities Authority, said he has requested that Resolution No. U.A. 93-19, which was adopted by the U.A. Board and deals with the final Budget Amendment for Fiscal Year 1992-93, be addressed first because that would have a bearing on - depending on what action the Commission takes - the second report concerning the proposed water, wastewater, electric, and gas rates of the Utilities Authority. Getting into the first issue, which is Budget Amendment #2 for F.Y. 92-93, he submitted in the Commissioner's packets a cover letter which he hopes summarized the action that the U.A. Board took. He thinks the bottom line is apparent to everybody. The U.A. Board addressed the additional funds that came in the revenue stream the last quarter of 1992-93. For a bit of history, in August 1992, when the U.A. prepared its budget and presented it to the City Commission, at that time the original budget had projected revenues that would have transferred to the City at the end of that budget year \$2.622 million. As the year went on, the summer of 1993, the U.A. realized that the revenues were trailing far behind the original projections. At that point the U.A. Board passed the first Budget Amendment for the year where it reduced its projected revenues and subsequently reduced the projected transfer to the City from \$2.6 million down to \$2.305 million; and that was the figure that was presented to the City Commission. He believes that was the figure that the City Staff incorporated into the City's 1993-94 budget, because whatever monies are transferred as a result of the U.A.'s 1992-93 operations are actually turned over in January or February of 1994. So he believes the \$2.305 million is the figure that the City included in its budget that they expected to get from the U.A. Following the summer, the last quarter was extremely good because of the weather. Looking at the U.A.'s August and September revenues, they far exceeded the same time a year ago revenues. They were good enough that they pulled the original bleak looking revenue stream up and they actually brought in about \$2.1 million more in net income than they had anticipated in the first Budget Amendment that they presented last summer. As a result of the excess net income, the U.A. Board voted 4 to 1 that part of those net revenues be put into the what is called the Rate Stabilization Fund and the other portion would be passed on to the City through the transfer formula. The reason that the Rate Stabilization Fund was recommended to be increased by this transfer of \$750,000 in the electric, \$100,000 in the water, and \$15,000 in the wastewater, basically was because at the same time this was going on, the U.A. was in the throes of a rate study in all four utilities - water, wastewater, gas, and electric. As a result of the Board passing the water and wastewater rate study results, they are recommending a substantial increase in the water and wastewater

rates. At tomorrow's meeting the Board will take up the request to increase the gas rates by about 5%; and they felt since the largest portion of the customer's bill was the electric bill, that if there was anyway to forestall or put off an electric rate increase, then they should do that this year because or they would have all four rates being increased at one time. They have the ability to transfer some monies into the electric Rate Stabilization Fund, which is the bulk of the money, to prevent that. He thinks that is the bottom line. The Board felt that would be a fair thing, a direct benefit for the utility rate payers by putting off an electric rate increase, and yet increasing from the \$2.305 million projected figure being transferred to the City by \$450,000. That was the Board's action that they took. He is here today because the City Commission has the final vote on the approval of that action.

Mayor Dannahower said he had a number of questions that he needs to ask that would relate to both issues in front of them. He thinks it is appropriate first to make it clear for the record that the approval of the Utilities Authority budget amendment for last year is really in his opinion an item of old business and it is appropriate for this Commission to consider that prior to the new Commission taking office tonight. Also there are some very complex issues involved here and he is going to hopefully try to bring out some of the answers that will help with the complexity of some of the issues. First he would like to refer to an article in the local paper from yesterday; it referred to himself "...seeking instead to have the money earmarked for the Rate Stabilization Fund also added to the City coffers." That certainly was not true. He sought to have a 40% portion of that money added to the City transfer and not the entire \$865,000. Also the paper actually quoted from some of Mr. Schindehette's memorandums: "If the Commission agrees with the U.A. Board's decision to transfer the funds into the Rate Stabilization Fund, the U.A. will not increase electric rates. However, if the Commission should choose to further increase the City's transfer for F.Y. 1992-93, the U.A. Board will need to readdress the electric rate issue." Mr. Schindehette has indicated that the U.A. would not need a rate increase for some two years if the \$865,000 was put into the Rate Stabilization Fund. Is that correct?

Mr. Schindehette said they made the projection that if the \$750,00 in the electric alone was left there, that they felt very confident that they could draw back out over the next two years and avoid an electric rate increase. That was the statement that was made.

Mayor Dannahower asked how does this avoid the rate increase?

Mr. Schindehette said because as the U.A. transfers money out of the revenue stream into the reserve funds, all that does is postpone the 40% going to the City. It does not eliminate it. So if the U.A. takes out \$750,000 now and then later need to draw it out to make up revenue deficiencies that were projected in the preliminary electric rate study, as the U.A. draws out \$100,000 of the reserve fund it goes back into the revenue stream, 40% of that still comes to the City when it goes back into the revenue stream. It is just a delaying movement. They take the \$750,000 and put it in the reserve fund, as they draw it out... If they have the draw the whole \$750,000 back out to make up for revenue deficiency in next year's budget, the City would still get 40% of that. So they only have what is left to work on using that as deferring their revenue deficiency.

Mayor Dannahower asked when would the 40% be transferred to the City?

Mr. Schindehette said at the end of the budget year that is brought back into the revenue stream.

Mayor Dannahower said in other words, the whole \$865,000 would be transferred back into the general revenue stream of the Utilities Authority to start with.

Mr. Schindehette said he did not follow. If they are just talking about the electric...

Mayor Dannahower said all right, talk about the electric, \$750,000.

Mr. Schindehette said take a hypothetical scenario. During the Fiscal Year 1993-94 they are in right now and say by the end of next year they were deficient \$200,000 in revenues, at the end of the year the final budget amendment for that year they would take out and then that would transfer through the transfer formula; so whatever monies were taken out, the City's 40% would be transferred next January or February of 1995.

Mayor Dannahower said so the effect is that it would delay when the City theoretically would get its 40% share.

Mr. Schindehette said correct.

Mayor Dannahower said the City would still get it. Even if there were a loss of some kind in the Utilities Authority's operating fund, there would still apparently be sufficient funds that the City would get the 40% of the \$865,000.

Mr. Schindehette said he wants to confirm that. Is that a correct statement?

**Mr. Frank Varella**, Utilities Authority Director of Finance, said say if there was a \$100,000 loss in electric - which is highly unlikely - and the U.A. replenished the fund by \$750,000, the net balance would \$650,000, and that would be calculated as the base for the 40% transfer.

Mayor Dannahower said so there would be a loss of transfer to the City under that circumstance.

Mr. Varella said in the event the U.A. had a loss, yes.

Mr. Schindehette said he does not think they are talking the same thing. How much would the U.A. have to take out of the Rate Stabilization Fund to actually derive the \$100,000 shortage that they would need.

Mr. Varella said if they need a \$100,000 to cover the deficit...

Mr. Schindehette said they would have to take more than that out...

Mr. Varella said more than that out of the Rate Stabilization Fund.

Mr. Schindehette said because the other portion would be back in the transfer revenue stream.

Mayor Dannahower said what they just asked basically, if at the end of the year there was a loss in that fund, then the transfer to the City of \$750,000 would actually be decreased. Is that correct?

Mr. Varella said that is correct. In other words, if they had a \$100,000 loss in the electric fund and they transferred \$750,000 from the Rate Stabilization Fund, the balance that they would use or the basis that they would use to calculate the 40% would be based on \$650,00, which would be the \$750,000 less the \$100,000.

Mayor Dannahower asked what fund would the money in the Rate Stabilization Fund be transferred to? Would it be transferred to the General Fund operating fund of the Utilities Authority.

Mr. Varella said it would be transferred into the revenue stream of the fund that it was taken from. Meaning that if it came out of electric initially, and they put in the electric Rate Stabilization Fund per se, it would go back into the electric revenue stream.

Mayor Dannahower asked how much actually would be transferred to that fund if in fact the \$865,000 was left in profit? Would it be the full 40% to the City?

Mr. Schindehette said at this particular time? If they did not put \$865,000 into the Rate Stabilization Fund as proposed, all \$865,00 would stay in the revenue stream and approximately 40% would then go to the City.

Mayor Dannahower said so the money that is presently in Rate Stabilization Fund has come from the net income.

Mr. Schindehette said any monies that are in the reserve funds have come from net income over the year, correct.

Mayor Dannahower said Mr. Schindehette calls it reserve funds. They have a number of funds that they are going to be talking about. But it is in the budget as a Rate Stabilization Fund, not as a reserve fund. Is that correct?

Mr. Schindehette said it is called a Rate Stabilization Fund, but it is a reserve fund to be used.

Mayor Dannahower said he does not want anybody to be confused because they are going to be talking about some other funds in just a minute. He thinks it would be appropriate to point out that at the Utilities Authority Board meeting, there was considerable discussion about what would happen with the \$865,000 if in fact it were not budgeted in the Rate Stabilization Fund. The discussion seemed to center around the fact that the Utilities Authority's feeling was that if in fact it was left in profit and the City took its 40%, that the rest of those funds would then have to go to capital improvements. Is that correct?

Mr. Varella said yes. Basically if they applied the 40% formula to the basis, that money goes into the U.A.'s working capital fund which is used for capital and all of their other working capital needs.

Mayor Dannahower asked it goes in there because of the U.A.'s choice or because of some requirement?

Mr. Varella said it goes in there because that is where it is designated to go in by the bond covenants.

Mayor Dannahower said he would like to quote from the Charter of the City of Fort Pierce, Section 140, "Disposition of net revenues of utilities". He has discussed this with the City Director of Finance, the Auditor, and the City Attorney. It says: "The City Commission is hereby authorized, required and directed to set up a reserve account for each of the utilities in said city, severally, which said several sums shall be kept separate and apart from all other municipal funds and shall be deposited only in regularly approved city depositories and shall be used exclusively for enlargements, extensions, improvements and replacements and to provide the operating funds necessary to finance the current assets and expenses in the several utilities of said city from which the said several sums shall have been derived, except that up to forty (40) per cent of the net revenues of the preceding year of the utility plants and systems

as set up in the preceding fiscal year audit of the city may be made available annually by ordinance to the general fund." What the Charter says is "...enlargements, extensions, improvements and replacements and to provide operating funds necessary to finance the current assets..." So it appears to him and the auditor and the City Staff that it does not have to go into capital. If the funds were left in the profit line and the City took its 40%, then the 60% would stay in the revenue stream of the Utilities Authority and certainly could simply be held as a reserve or surplus and not used in capital funds. So the effect is not the effect of taking \$865,000 from Rate Stabilization Fund; as he sees it, it would be taking 40% of the \$750,000 of the electric and 40% of the \$115,000 in the other two. So the effect would be that the loss in terms to the Utilities Authority for availability of keeping the rates down would be \$346,000 rather than \$865,000. The Utilities Authority would still have \$500,000 plus to be kept in its revenue stream.

Mr. Varella said the Utilities Authority would have that amount of money available in its working capital account. Yes, that is correct.

Mayor Dannahower said it does not say "working capital" in the Charter.

Mr. Varella said for replacements, renewals, extensions, and other operating expenses and assets; yes.

Mayor Dannahower said the effect then would not be to take all of the \$865,000 from being used to keep the rates down. The only effect would be to take \$346,000. There would still be \$500,000 plus left that could be used in operating expenses.

Mr. Varella said to clarify it, technically speaking that is correct; but he thinks by the proposal here to put the \$800,000 plus in the Rate Stabilization Fund, when they use those funds it enters back into the calculation to the City. Therefore, it would help increase a transfer in a future year because of a lower net income or a lower net as defined.

Mayor Dannahower basically by putting it in the Rate Stabilization Fund, what is happening is that the City is not getting its share at this time, and the Utilities Authority still has the same amount of money available for rate stabilization to decrease operating expenses.

Mr. Varella said that is correct he believes.

Mayor Dannahower said would Mr. Schindehette explain what was done last year to increase the transfer to the City.

Mr. Schindehette said last year to increase the transfer they took money out of another fund.

Mr. Varella said last year they had another lower than projected operating income year. The City was experiencing financial difficulty. In an effort to meet the budget as they projected it to the City, so that the City would not have any further financial hardship, they transferred money from the Renewal & Replacement fund and used capital improvement charges to pay for some of their principal and interest associated with debt service so that those two items would have a positive effect on the City's transfer so that they could get the amount up from the original computed figure of approximately \$2.3 million up to the \$2.760 million that the U.A. had informed the City earlier that they would transfer to them.

Mayor Dannahower asked how much came out of the capital fund?

Mr. Varella said they took \$865,000 from the Renewal & Replacement fund.

Mayor Dannahower asked from Renewal & Replacement Fund, not from the Capital Improvement Charge Fund.

Mr. Varella said no. The impact fees, capital improvement charges, are a different pot of money.

Mayor Dannahower said because the transfer was referred to as having come from the Capital Improvement Charge Fund.

Mr. Schindehette said it did. The U.A. Board authorized taking money from the Capital Improvement Charge Fund.

Mr. Varella said last year they transferred in from the Renewal & Replacement Fund \$865,000 which basically had a positive effect upon the transfer to the City and they also reduced their debt service amounts by paying some of their debt service associated with new growth from their capital improvement charges. The amount of principal paid for by their capital improvement charges was \$18,000. The amount of interest he does not have in front of him. But that is what they did last year.

Mayor Dannahower asked the Capital Improvement Charge Fund, does that come basically from impact fees?

Mr. Varella said that is what capital improvement charges are, impact fees.

Mayor Dannahower said but the U.A. also transferred out...

Mr. Varella said \$865,000 from Renewal & Replacement Reserve Funds.

Mayor Dannahower asked where did those funds come from?

Mr. Varella said those funds came from amounts that they previously transferred in there in years in which they had larger than anticipated income as defined, profits.

Mayor Dannahower said so the money that is in the reserve and renewal came from profits.

Mr. Varella said that is correct.

Mayor Dannahower said the U.A. took out of that very same fund the money that was used to transfer to the City.

Mr. Schindehette said they have what they consider three reserve funds. The R & R (Renewal & Replacement) Fund, the Emergency Fund, and the Rate Stabilization Fund. The U.A. refers to those as reserve funds, whatever they are called. Since 1986 or so, they had tried every year to put some monies into these reserve funds to build them, especially the R & R and the Emergency reserves. The Emergency Reserves are strictly for hurricanes. When they say they took out last year \$865,000, it is the same thing as what they are talking about with rate stabilization. It has been put in there from previous years' revenues. Now it has been taken out and put back into the revenue stream. So the R & R Fund is basically handled just like the Rate Stabilization Fund. They put monies in; and then as they need them, they draw them out.

Mayor Dannahower asked when they were drawn out, the City got 40%, is that correct? And the Utilities Authority put 60% into its operating stream? Basically that was money that really was already there and the City was entitled to 40% of at some point?

Mr. Schindehette said whenever it is taken out, correct.

Mayor Dannahower said the City was told very strongly that this was a one time event it could never be done again. Is he correct in that?

Mr. Schindehette said that is what the U.A. Attorney advised the Board if he remembers correctly.

Mayor Dannahower asked but there is no question in Mr. Schindehette's mind that this can happen again? That whenever reserve funds come out, they come out 40% to the City and 60% to the U.A.?

Mr. Varella said whenever reserve funds come out and they have not been included in the calculation previously, they are subject to the 40% calculation.

Mayor Dannahower asked are impact fees kept separate from the R & R?

Mr. Varella said the impact fees are kept separate, yes.

Mayor Dannahower asked what is the requirement for the funding of the R & R?

Mr. Varella asked at which level? He believes \$1.75 million. That is the bond resolution minimum.

Mayor Dannahower said they will come back to that because that is somewhat higher than what he has been told. Whose requirement is that?

Mr. Varella said a bond requirement.

Mayor Dannahower said in the Budget Amendment they have in front of them today, there is nothing scheduled to go into R & R; is that correct?

Mr. Schindehette said that's correct.

Mayor Dannahower asked how much has been put into the Reserve & Renewal Fund in previous years in terms of the percentage of net income?

Mr. Schindehette said they would figure those up, he does not have it today. Over the past five or six years, they have been trying to build all three of the funds each year depending on what net incomes are available; and except for last year and this year, there have been funds going in. But he does not have the breakdown of what percentage of net revenues that is.

Mayor Dannahower said they will skip that temporarily. The Reserve & Renewal in September 1991 was \$3.6 million and as of September 30, 1993, it is \$5.14 million, an increase of about a million and a half in a two year period of time. In the meantime, taken out of that was \$800,000 or so for the "one time only" transfer last year. Where did that big sum of money come from to go into Reserve & Renewal in those two years?

Mr. Schindehette said it would have come out of the net income revenue stream.

Commissioner Burdge asked can the Mayor get verification on his figures?

Mayor Dannahower said Mr. Bergalis and Mr. Elam are present. If he puts a figure out that is wrong, would they please stand up and say so?

Commissioner Burdge asked so there is \$5 million plus in the R & R Fund right now?

Mayor Dannahower said that is correct - \$5.14 million. That was an increase in two years of \$1.5 million. Do the bonds have a certain requirement as to a minimum? When he asked earlier, Mr. Varella told them \$1.75 million.

Mr. Schindehette said he knows the Emergency Reserve is \$900,000. The R & R has a minimum; he does not remember what the figure is.

**Mr. James H. Elam** of Berger, Harris, McAlpin & Company, said the resolution has half a million. \$500,000 is the dollar amount as recommended by a consultant.

Mayor Dannahower said so the actual requirement for that is \$1.4 million.

Mr. Schindehette said between the two funds, the minimum level requirement.

Mayor Dannahower said he would like to skip to some discussion on the rate study. In calculating the funds anticipated or needed for the water and sewer systems, what sources of funds were used? They are looking a substantial increases. What sources of funds were anticipated to be used in meeting the revenues needed? Does it all come from rates?

Mr. Schindehette said R. W. Beck & Associates performed the rate study.

**Mr. Doug Handley**, R. W. Beck & Associates, said the revenues from the water and sewer rates.

Mayor Dannahower asked what about the funds in the current existing Rate Stabilization Fund?

Mr. Handley said there was no assumption as to transfers from rate stabilization or to rate stabilization.

Mayor Dannahower said there is some \$700,000 in that fund; and with the U.A. raising rates, they did not anticipate using those funds?

Mr. Handley said no.

Mayor Dannahower said most of that is electric - \$526,000 electric, \$71,000 water, and \$61,000 sewer. What is the purpose of Rate Stabilization Funds if it is not for keeping rates down when they have to be raised?

Mr. Schindehette said from a business standpoint, they have always viewed that the Rate Stabilization Fund, they have tried to keep those funds at the levels they are at right now. The electric at \$500,000, and the water and sewer at just a little bit under \$100,000. Although there is no minimum requirement of Rate Stabilization Funds, they have tried to keep that amount in those funds to cover the unusual circumstances, emergencies similar to last year's March storm. It is not a hurricane, so they do not go into the Emergency Reserve; but there is a possibility that they will lose a lot of their revenue sources for a prolonged period of time, i.e. the lines are down, whatever. They have tried to keep that to use as a cushion to use under those circumstances.

Mayor Dannahower said it seems kind of ironic that they are talking about the necessity of putting funds into Rate Stabilization Fund to keep rates down in the future for electric, they are having a large increase in water and sewer rates, and they have got funds in the Rate Stabilization Fund for those two but they are not going to use them. He does not understand that.

Mr. Schindehette said they are trying to keep that minimum level in that fund. They could use that fund right now, avoid some of the rate increases, and then they would have no funds.

Mayor Dannahower said also the \$100,000 plus that they are putting into the amended budget, if it is approved, for water and sewer would also stay there, and that fund would simply become a bigger fund rather than using those funds to decrease the water and sewer rates.

Mr. Schindehette said they could be used. If they stay in there then the fund would be larger for what they call the catastrophic emergencies.

Mayor Dannahower said they have an Emergency Fund; it has \$1.8 million in it. And they have funds they call Rate Stabilization Funds, but they are not using them for rate stabilization. What is the unrestricted cash balance of the Utilities Authority at the end of 1993?

Mr. Varella said he did not have that with him.

Mayor Dannahower asked approximately, a good guess?

Mr. Varella said more than \$10 million.

Commissioner Burdge asked is that like a contingency?

Mayor Dannahower said that is like retained earnings perhaps. Somebody else define it.

Mr. Varella said accumulated cash from earnings over the years.

Commissioner Burdge asked the U.A. has \$10 million in a savings account somewhere over there?

Mr. Varella said approximately, yes. It is not just sitting there. They use it to meet their capital program, to pay their payrolls, to pay their increases associated with increases in inventory, and things of that nature.

Commissioner Burdge said so that is another fund that they have got set aside. That would be their fifth one then.

Mr. Varella said it is their operating account, yes.

Mayor Dannahower asked how much will the net revenues increase from the rate increases?

Mr. Handley said approximately \$740,000 for water and \$890,00 for wastewater on an annualized basis.

Mayor Dannahower asked that is to make up what is the anticipated debts, all coming from rates?

Mr. Handley said that is right. Basically to catch the rates up to some changes in the revenue stream. To get back to their other question about the use of Rate Stabilization Funds, they could use them to phase into this level of rate; but this level of rates would still be required to fund this level of operations. So the Rate Stabilization Fund could defer some of this rate increase, but it would not eliminate it.

Mayor Dannahower said he is sure it would not because the two together are about \$1.7 million and there would be at best a couple of hundred thousand dollars that would be available to offset that. But it would offset it some; and that is certainly what its purpose seems to be, rate stabilization.

Mr. Handley said but if they have a 15% increase of \$1.5 million, if they use \$200,000, then that would go to a 13% increase. But they would still need another 2% increase within a year or so.

Mayor Dannahower said he understands that.

Mr. Varella said he thinks that is what Staff was proposing in this Budget Amendment, that if the U.A.'s revenues did fall short in those funds to be significantly less than the transfer that they were proposing, that the U.A. would tap that fund to put in the revenue stream the revenues needed to give the City the transfer they basically told the City the U.A. would give them.

Mayor Dannahower said at this point he would like to hear from Mr. Bergalis. In particular, he will ask him to report or summarize the various fund balances of the Utilities Authority.

Mr. George Bergalis, City Director of Finance, said he wants to preface his remarks by stating that he is reporting on information that is made available either through the audited financial statements of the Utilities Authority or information that they themselves prepared, subject to his opinion and interpretation based upon that. He will start off by saying he is envious. He thinks if he were in the Utilities Authority's position, he might not do anything different. But he does have some concern over on the City's side of the fence where the City is scraping to realize every dollar of revenue they can and facing the taxpayers with the most unpleasant circumstance this last year of an ad valorem tax increase which somehow does not in any way compare to a rate increase. People accept a rate increase as a cost of doing business; but a tax increase is something that is against motherhood, God, and country. He looked at reports here where R & R funds have a requirement of \$500,000 which supposedly was arrived at by he is assuming some reasonable people using some reasonable means of determining what is a reasonable amount to keep in that fund; yet at this point in time there is an excess of \$5 million in that fund. He understands that about a year and a half or two years ago, before the \$865,000 was transferred out of that to give the City some additional money and the 40% share of that, that fund had excess of \$6 million in it. He thinks that is great. He wishes the City could do that. The Emergency Reserve Fund he thinks has a predetermined level of \$900,000; and he believes right now that is excess of \$1.8 million. And now they have a Rate Stabilization Fund that has \$677,000 in it; and if they add another \$865,000, they are up close to a million and a half. Then he looks at a U.A. balance sheet that shows the figure is closer to \$15 million as of 10/1/93 of unrestricted cash and investments as classified. He feels that perhaps the City's proposal that they made in the past relative to ascertaining whether or not it was possible for the City perhaps to be the beneficiary of some additional contribution from the Utilities Authority bears merit in his opinion based upon the fact that he does not think that any additional amount that they may look for the U.A. to contribute toward the general government and back to the owners of the system would place the U.A. in a financial bind. But that is his opinion, based upon what he has looked at currently. He does not really have any more to say than that; but again, he believes that the goal of the Utilities Authority is not only to produce and provide economic utility services to the ratepayers who are also the taxpayers of the City, but also to provide a reasonable return to the City on an on-going basis, not a deferral basis. They all realize that these monies the U.A. puts in these reserve funds, essentially when they are taken out he believes the City will then get 40% of; but until such time, the City does not reap the benefits of that. It certainly would have been beneficial perhaps in these last two years for maybe a better cooperative effort, where maybe they would not have had to have a 50% millage increase last year if they could have gotten some more money from some other sources.

Mayor Dannahower said he would like at this point to turn to the Auditor and to the City Attorney to ask them if he is correct in his interpretation of the Charter. In terms of the money from the profits of the U.A. after the City's 40% comes out, those funds can be used for general operating funds and do not have to go into capital only.

City Attorney Brennan said yes.

Mr. Elam said yes.

City Manager Powell said he and the Finance Director both have recommended to this Commission at an earlier meeting that they seriously consider a change in the transfer formula that would help insure management efficiency in dealing with these funds, which certainly are the City's funds since the City owns the Utilities Authority and it is being operated and managed by a director and a board. He would like to simply just qualify that by saying that members of the U.A. Board are appointed by the Commission by Resolution. The City Manager is an ex officio member of the Board simply to be there as a check and balance, he does not have a vote. He is not being critical of the Board; but he is somewhat concerned about the fact that at two previous U.A. Board meetings that he has attended comments have been made that the Utilities Authority would like to be able to solve the City's financial problems. He is simply stating to the U.A. Board as well as to this Commission that he believes the U.A. is really part of the City's financial problem, and that a change in the transfer formula or other methods of control would be in the best interest of the City. In using the City's financial problems as a point of discussion, he would say that if the City today had \$6 million or \$10 million in reserves, that they should still be addressing the problem that they addressing right now. He hates to see it reported in the press continually that the City is trying to get additional funds from the Utilities Authority for that reason. Simply that is not the case. The City by Charter is entitled to that money. He just would like to clarify that point. The City has had some financial problems, but so have other cities; it's due to the economic conditions and the reductions in funding from other sources. But since the Utilities Authority is a major funding source for the City, it is responsible and incumbent on them all to look at the way they are doing business. It is something that needs to be done and something that needs to be addressed.

Commissioner Bluestone asked what is Mr. Elam's experience in auditing other utilities authorities of similar size and nature? How do the Fort Pierce U.A.'s level of reserves compare? Are they above or below the norm?

Mr. Elam said he has no data to compare as far the reserves of this authority to any other authority, so he really cannot answer Commissioner Bluestone's question.

Commissioner Bluestone asked in his professional opinion, does he feel that the reserves held by the Utilities Authority are adequate, more than adequate, or less than adequate?

Mr. Elam said there is a argument on either side as far as building the reserves. He thinks having the comfort or the security in the case of a catastrophe is something that any entity would like to have. He thinks in the situation here, the other side of the argument is that there is a deferral of monies that could go into the General Operating Fund of the City. So in his opinion, there is an argument on either side. It is a question of which side they think is best for the overall scheme.

Commissioner Bluestone said he guesses what they need to come up with is, how much is enough? That is the difficult question.

Mr. Schindehette said he hopes the Commission understands he is certainly not here fighting the Commission and neither is the U.A. Board. To put things in perspective a little bit, he knows they hear \$15 million in an unrestricted working capital fund. That sounds like a lot. That is as much as the City's budget. But remember the U.A.'s operating budget alone is \$60 million; and their capital budget, if they were to do the projects that they felt were necessary, would be another \$40 million. They have already pared those down to \$30 million, and then again they have pared them down another \$3 million or \$4 million the second time around. They are cutting capital budget. If the U.A. was putting in what they needed, then the intent of the R & R Fund specifically is to start tapping that so that do not have to go to the bond market again. The bond monies, which they have been running on for awhile and that is one reason why that fund is where it is, is running out. In fact, he thinks the bond money that they borrowed in 1991 is gone. So at this point to keep from going to the bond market, they are going to have start tapping into the R & R fund more than they have in the past; or if it is not there, go to the bond market. If they were to have a hurricane or a storm of considerable magnitude, then that could take all of the R & R Funds and all of the Emergency Reserve Funds, and they would still be short. Yes, it is a security blanket, and they feel very strongly that they need to have a fairly decent one. Whether it is too high or not, obviously that is the Commission's decision. The U.A. does not think it is.

Commissioner Bluestone said he shares the comment that they are certainly not here to do battle. The members of the Utilities Authority Board serve because they have been invited to serve. The Commission certainly appreciates their efforts and also that of the Utilities Authority Director and Staff. What they are doing here today and what they have done at some past meetings is try to get at the heart of how much is enough. Perhaps they should have been more vigilant in pursuing these efforts in the past. He thinks there is no question that the fiscal problems the City has been having in the last few years certainly brings this to a head more than ever. That is one of the reasons why they are having this discussion. If there is some money out there that would be helpful to the City to keep the taxes lower, he thinks they need to go take a look and see if that is a good idea. He really feels the fiscal policy of the U.A. and the City really is the responsibility to be set by this Commission. He is not so sure that they have done a good job of enunciating just exactly what the City expects from the Utilities Authority in that regard. He hopes this is a first step. There will be some new Commissioners seated this evening. He thinks they have to let the Utilities Authority know what they expect in the way of financial contribution rather than come in through the back door once they find there is a little extra money out there. Again, he thinks this is a very worthwhile discussion. Some very good information came out today; but he also does not want to sit here and point fingers at anyone either. He thinks they just want to get to the heart of how they can do what is best for the citizens of Fort Pierce and also be fiscally responsible. One thing he would be concerned with, and it does appear to him that there may be bit more money available to the City, but he would not want to be taking that money unless they had some assurances or knowledge of what they are going to be doing with that money. He is all for brining in a little bit more money into the City because it does appear to him that the reserves are a bit rich. But he does not want to see them take that money and then just fritter it away next year. If they are going to earmark it for something that would lower the taxes in the City of Fort Pierce, he would be in favor of that. If they do get to the point where they modify the financial contribution that they are taking about with the budget here today, the real question is what is going to happen to that money? He shares the Mayor's comment earlier that this is not really new business, it is old business. This has been an on-going discussion. No matter what they decide this

afternoon, certainly the two new Commissioners could participate in changing whatever they decide down the road. They are still fulfilling their obligation to continue this budget year. His concern is, he would like to get some insight from Staff as to how they would earmark any additional funds that they would receive from the U.A.

Mayor Dannahower said one thing that the Commission is allowed to do is by line item disapprove any item in this Amended Budget which is in front of them. He is not sure how they would do it if the Commission said they are going to direct the Utilities Authority to take "x" number of dollars out of the R & R Fund or Emergency Fund or whatever. He is not sure that they can do that with the veto process. But they certainly can take a line item and disapprove it or reduce it. But he is not sure they can take another line item and say they are going to increase it.

City Attorney Brennan said first of all let him point out that they are dealing with two different sections of the City Charter. Section 176, Subsection 12, states: "The Authority shall also annually prepare and adopt a budget for the ensuing year and furnish a copy to the City Commission at least forty-five (45) days prior to the beginning of the next fiscal year. If a four-fifths (4/5ths) vote of the City Commission does not disapprove of any line item expenditure in said budget, or any amendments thereto, within thirty days of the date of submission to said City Commission, said budget or any amendments thereto shall be deemed approved as submitted." So the authority that the Commission has is to disapprove a line item expenditure in the budget or an amendment by a 4/5ths vote. The Commission can decrease a line item expenditure. As he reads this provision, the Commission has no right to increase or require an increase in an expenditure in reference to the budget. The other thing is, they do not have to decide immediately; but the clock starts running when the budget is submitted to the Commission. They have thirty days to disapprove any line item budget increase by 4/5ths vote within that thirty days. If they do not act, after the end of the thirty days it is deemed to be approved. That includes any amendments. So the time is running now that this proposed amendment is submitted to the Commission. Right now they can approve it, they can waive the thirty day period and approve it immediately, or if they have a 4/5ths vote they can disapprove it or they can reduce it.

City Attorney Brennan said Section 140 of the Charter, concerning the transfer, he went back as far as 1960 - many years before the Utilities Authority as a separate entity was ever thought of - and that is where the 40% turnover to the City is. There are other provisions dealing with the responsibility. One thing he will point out, and he is talking about 20 years earlier, the percentage or amount that would be transferred over would be approved by ordinance, which they really have not ever done. So he is recommending that they need to look at that provision in reference to every time there is a transfer basically it should actually be approved by an ordinance by the City Commission.

Commissioner Bluestone asked if for example they were to determine as a Commission that they wanted to lower the amount of funding to be transferred into the Rate Stabilization Fund, they could do that by line item?

City Attorney Brennan said yes, if they have a 4/5ths vote.

Commissioner Bluestone asked what would then be the effect on the remaining funds that were proposed to go into the Rate Stabilization Fund? Would they then go back into general revenues?

City Attorney Brennan said as they are coming out of the general revenues, they would just stay there.

Commissioner Bluestone asked would that then impact the transfer to the City of Fort Pierce?

City Attorney Brennan said it could.

Mr. Schindehette said he thinks generally it would be approximately 40% more of an increase of the \$865,000.

Mr. Varella said he did not follow the question.

Commissioner Bluestone asked if in fact the Commission did wish to apply a line item veto on the item regarding the transfer into the Rate Stabilization Fund to lower it by some dollar amount, would then those remaining funds go back into the general fund of the Utilities Authority? And then would that somewhat create a situation where that 40% of those funds that were the remainder would go into the transfer to the City? In other words, would the City get 40% of whatever they cut the transfer into the Rate Stabilization Fund by?

Mr. Schindehette said yes. Say they decided to veto the whole \$865,000 out of the Rate Stabilization Fund line, that would go back in the revenue stream and the City would get basically 40% of that added to the transfer. If they decided to cut it in half and leave \$400,000 in and take \$400,000 out, then they would get approximately 40% of whatever they took out and put back into the revenue stream.

Commissioner Grimyser said she does not have a problem with the U.A. maintaining some reserve accounts, etc. But when they are talking about net revenues, after all the expenses are paid and after the interest and the indebtedness and the salaries and all of that stuff is paid, what is left over becomes the net income.

Mr. Schindehette said yes, that is basically it.

Commissioner Grimyser said the way she understands it, 40% of the net income is due the City. It does not say after they decide to set up a \$10 million fund over here and an \$8 million fund over there, etc.

Mr. Schindehette said it does say that.

Commissioner Grimyser said it does not say that. No place does it say it. It says they have to reserve for bonding and for depreciation expense. She is referring to Section 140 of the Charter.

Mr. Schindehette said he understands what the Mayor read today. He can say that since he has been here, they have followed the bond covenants. It specifically spells it out in there. Now what he is finding out is, if that is not the ruling factor and the Charter is the ruling factor, then their bond covenants are going to have to be changed.

Commissioner Grimyser said her point is this, she does not like what she is hearing now. Because the City has been hurting for quite a few months and they have been discussing it. All of a sudden there is all these extra millions of dollars. That gives her a not very fuzzy nice feeling. It gives her the feeling that someone is trying to pull a job on her. And they obviously have because she was not aware of this.

Mr. Schindehette said he apologizes to Commissioner Grimyser if she feels that somebody has been trying to pull something over her eyes. But these budgets have been like this for as long as he has been here and the reserve funds are in there.

Commissioner Grimyser said she feels that she probably is at fault too for not looking further into it. But also, she does

not want to see herself in her last couple of hours as a Commissioner deciding what amount of money should be transferred to the City. She would like to see the Commission deny the request and then get the U.A. working on it and come back with something else that might be acceptable to the new Commission. She just does not feel comfortable with trying to set a figure. She thinks they need to get a different way or methodology of coming to an answer to this. Is there enough time?

Mr. Schindehette said they have thirty days according to the Charter to take action or it automatically is approved.

Mr. Schindehette said he thinks they have two things that they are all talking about. The first thing is the overall big picture that City Staff has recommended they change and look at reviewing the whole transfer formula. That is one issue, and he thinks that is going to be addressed. They also have a situation of this particular Budget Amendment. Can something else be done, is what he thinks the Commission is asking. He would assume it is possible for the U.A. Board to take this Budget Amendment they have just passed and go back to it tomorrow. The Board will have one more meeting before the thirty days is up; and he would assume the U.A. Board would take in consideration what the Commission has been asking and discussing. They had the right to adjust this amendment already before it even comes to the Commission, is that correct?

City Attorney Brennan said right now it is before the Commission. They have the options - they can approve, disapprove, or they can vary it downward. If they put it off, they have got to meet and make a decision within thirty days from today's date, which is when it is being presented to the Commission, or it will be deemed to be approved the way it has been submitted.

Commissioner Grimyser asked what if the Commission denies it?

City Attorney Brennan said if the Commission denies it, then it is ruled on. Then the U.A. can go and work on it and come back again.

Mr. Schindehette said that is correct.

Mayor Dannahower said going back to one comment that was just made in the discussion between Mr. Schindehette and Mrs. Grimyser. The discussion related to what governs the dollars that go into various reserve funds. There are obviously the requirements of the Charter and there are the requirements of the bonds. The bonds do contain covenants that are important covenants and that he thinks everybody has every intent to always meet. But those bond requirements is a \$1.4 million. They need to keep that in mind when they are talking about what the requirements are. That is all that is required. That very well may not be sufficient, he is not saying that it is. But he wants to be sure that they clearly understand what the bond requirements are and what the Charter requirements are.

Commissioner Drummond said he concurs basically with what everyone is saying in the sense that they are essentially looking at two issues. One is going to be long term matter; he certainly does not think it is going to be resolved today as to what balances should be in these reserve funds, and whether or not there should be a change in the transfer policy, and those sorts of things. But the other one which is short term and which he is very much concerned about is as it relates to this one Budget Amendment request that the U.A. Board has already acted upon. He wants to be sure, because there seems to be a discrepancy as to opinions, as to whether or not these monies can be adjusted. It is a good policy to try to stabilize the rates, if indeed they have had some kind of good fortune as a result of some months where they got increased revenues. So before they just throw it

all out, he wants to be sure that if they do reduce or change the amount that is placed into the rate stabilization account, that they know that they can still meet the intent of the U.A. Board that they stabilize the electric utility rates over some period of time. So he wants to be sure that they can get that part resolved, as well as looking in terms of how they are going to handle the formula problem so that those dollars are coming to the general fund. If they do not do it this way, the \$865,000 would have to go to capital expenditures? He has heard it two different ways, and he wants to be clear as to whether or not a lesser amount of those dollars still can be placed in the Rate Stabilization Fund so that they can certainly stabilize those electric rates. That is his concern as well.

Commissioner Grimyser said when they are talking about the 40%, right now the U.A. is putting money in the reserve funds and they are there for a specified time. When the U.A. takes it back out into their revenue stream, then if it is still profit - because they might take it out because they have got a problem so they might lose it - why can't the City get the 40% before that extra money goes into the reserves. That way, there would be no problem at all. The City too can use a contingency fund for hurricanes that come along that are not covered by the Utilities Authority's insurance and all the other stuff. She does not want the money to go throwing it away instead of it sitting over there in the U.A. reserve fund. When it comes out of the U.A. reserve fund to get into the revenue stream, it still has to remain profit; or the City does not see a piece of it.

Mr. Schindehette said he thinks the reason is because the U.A. follows the bond covenants. They take gross revenues and the first thing they do is subtract out depreciation, then they subtract out O & M, and then they subtract out debt service; and their bond resolutions say then subtract out the R & R if they have it, the Emergency Reserve if they have it, and the Rate Stabilization if they have it. Now after that is done, then they compute the 40%. It does not say to compute the 40% and then go back and put it in the reserves.

Commissioner Grimyser asked is that so?

Mr. Elam said in answer to her question, monies going in to the Renewal & Replacement Fund are restricted on what they can be used for coming out. They are restricted to enlargements, additions, or replacements of capital assets of the system. So once it goes in there, it cannot come back in for the operating. It has got to be used for the capital type items.

Commissioner Grimyser said that is fine. But what about the Rate Stabilization Fund? They have more money than the other.

Mr. Elam said to his knowledge there is no restriction at all on the Rate Stabilization Fund.

Mr. Schindehette said the Rate Stabilization Fund is the smallest of the three.

Mr. Elam said it currently has \$677,000.

Commissioner Grimyser said before they transfer the \$865,00 into it.

Mr. Elam said the Renewal & Replacement Fund has \$5.1 million.

Commissioner Grimyser said she just has a problem with, in case they are still making a profit after they put it in and take it out and all this other stuff, then the City will get 40% of what is left. That is the part that bothers her. She can see with the bond covenants, certain things need to be reserved ahead of time; but she would like to see the 40% before instead of after.

Mr. Schindehette said there again, that is the transfer formula. If the big picture changes everything, that would be the time to change that. All that would be eliminated if they went to a straight gross revenue type formula, then they do not have to calculate all that stuff.

Commissioner Drummond said as he is understanding, the Commission can decrease but cannot increase any line item. If they decrease that by any amount, that amount that they decrease it by will go back into the U.A.'s general revenue stream and come to the City essentially 40%.

Mr. Schindehette said correct.

Commissioner Drummond said the U.A. can still take the balance of that and reduce or postpone the need for increases in rates for electric.

Mr. Schindehette said that is what he interprets what the Mayor read out of the Charter. The U.A. must have been wrong; they have always felt it was for capital as the R & R Fund is restricted for that.

Mayor Dannahower said he will point out that the Auditor and the City Attorney both have the same interpretation; and he is basing his interpretation on theirs. If in fact the Commission chose to take the whole \$865,000 from Rate Stabilization Fund and basically put it back into profit, then it would be recalculated. The effect on that would be about \$346,000 to the City and \$500,000 plus would go to the Utilities Authority into their general fund. That \$346,000 would represent less than 1% of the electric revenues for this past year, to give them some idea of what taking that \$346,000 away would mean. So the effect of taking that is very minimal in the electric fund. It is about 9/10ths of 1%.

Commissioner Drummond said but if they went back and they took out all the \$865,000, then what he is hearing is at that point it could not then be replaced back into the...

Mayor Dannahower said they would not call it Rate Stabilization Funds, it would be surplus.

Mr. Schindehette said it would be working capital and it would stay in the working capital fund.

Commissioner Drummond said but they could not place it back into the Rate Stabilization Fund.

Commissioner Grimyser asked why not?

Mr. Schindehette said no, because it is after the 40%.

Commissioner Grimyser said that needs to be changed.

Mr. Varella said it can only be taxed once.

Commissioner Grimyser said it can only be "taxed"?

Mr. Varella said it is his understanding that it can only enter into the formula computation once. Meaning they have calculated the net as defined and calculated the City's share of that net as defined and it can only be entered into the computation one time.

Commissioner Grimyser said those millions of dollars that they have in reserve accounts that the City has not gotten their 40% on yet...? When it is in a reserve account, the City has not gotten their 40%; but when the City gets their 40% it cannot stay in the reserve account, they have to take it out and spend it. Is that what he said?

Mayor Dannahower said they have to take it out and carry it in some other fashion.

Commissioner Grimyser said right. She does not see what the problem is.

Mayor Dannahower said there is no problem. It is surplus, it stays as retained earnings, whatever they want to call it.

Mr. Schindehette said right, it is in the working capital and retained earnings. It would not be sitting over in the Rate Stabilization Fund; it would be in the Working Capital Fund.

Mayor Dannahower said not in terms of working capital for capital improvements. He thinks that is a misnomer that is confusing.

Commissioner Drummond asked could the U.A. then put it in their unrestricted cash balance fund?

Mr. Varella said it would be in the unrestricted working cash. Those monies are used for capital projects.

Commissioner Drummond asked they cannot pull monies out of that?

Mayor Dannahower said Mr. Varella is back to saying that the 60% has to be used for capital projects.

Mr. Schindehette said no, he did mean it has to be, it could be.

Commissioner Bluestone said he is a little confused. If in fact they do as has been suggested, send the money back to general fund and then the City gets their 40% out of that money, why is it not possible to then take the remaining some \$400,000 or whatever and put it into the Rate Stabilization Fund? What is the problem with doing that? That is what he is a little confused on. Is there a prohibition against that? Or is that something they can in fact do if it were in fact the will of the Utilities Authority Board to do so?

Mr. Elam said he does not know why they could not do that. Because there are no restrictions that he is aware of on bringing it out of the Rate Stabilization Fund. However - this is what Mr. Varella was trying to get across - once the 40% has been transferred, when it goes into the Rate Stabilization Fund and comes back, it will not be hit again.

Commissioner Drummond said but as it stands right now, it is not in the Rate Stabilization Fund yet, the \$865,000.

Mr. Elam said that is not in there yet until this is approved.

Commissioner Drummond said it is not in there yet. So in actuality they do not have to worry about saying that they pulled it out and tried to place it back in. If the City does not approve it, it is not even in there yet. So the U.A. Board can on its own direct where they want those funds to go.

Mayor Dannahower said if in fact they are going to commingle here something that maybe should not be commingled... They have got \$667,000 in a Rate Stabilization Fund that the City has not received its 40% on. Now if they are going to put money in there that the City has received their 40% on, it is going to get even more confusing it. If it is done in some fashion as the Rate Stabilization Fund, there has got to be some way to get what is already in there out; or not do it the way it is being suggested.

Commissioner Bluestone said number one, he thinks it is incumbent upon the Commission to perhaps provide some philosophical or policy guidance as to just what the City's expectations are. He thinks it is kind of unfair from one standpoint to keep going

along the way they have been for so many years. It is correct, that is exactly how these funds have been set up and they have been structured the same way for years, it's nothing new. The last few months they have been talking about it because of the fiscal crisis they have been facing in the City. They are starting to look underneath every rock to see what is out there. He thinks what the Commission needs to do is hopefully come up with some kind of policy to give some kind of guidance to the Utilities Authority Board as to what the expectations of the City Commission are with regard to funding, because it is kind of unfair for the U.A. Board to make decisions and then the City Commission countermands the decisions. They are operating in a vacuum with that kind of situation. Number two, if the City does in fact gain some additional revenue from however this is finally transacted, he would hope there is some way of earmarking the funds to lower the taxes for next year rather than just simply put it in a pot and come next year they have raise taxes again even though they have received some additional revenue. He is just going to throw those two issue out on the table. As one Commissioner, he thinks those issues are important.

Commissioner Burdge said he can understand the aspect of old money/new money as far as the Rate Stabilization Fund is concerned. What if the Commission decided they could go ahead and make that just Utilities Authority money by withdrawing 40% of the current balance that is in there, which could be an additional \$270,000 that could come to the City? Including with the \$346,000 that they are talking about this afternoon, it would be in excess of the \$616,000. He would really like to be able to look in this document that the U.A. has presented to them and see where these funds are and see the balances.

Mr. Schindehette said the balances are on Page 1 of Budget Amendment No. II. It lists Debt Service, Renewal & Replacement Fund, Emergency Reserve Fund, Rate Stabilization Fund. As they can see, there is no monies proposed to go into the Renewal & Replacement Fund or the Emergency Reserve Fund. At the last U.A. Board meeting, the Mayor asked were there monies in the budget for those to begin with. He answered the Mayor, no; but he was answering under recollection of Budget Amendment No. I. The original budget that they presented to the U.A. Board did include projected transfers into all of those funds.

Commissioner Burdge asked with balances shown?

Mr. Schindehette said no.

Commissioner Burdge said that is the thing. He also found it difficult when he initially started discussing City finances. Contingency funds are reflected in budgets. But these reserve funds, unless somebody asks the question just right... There is the Renewal & Replacement Fund, the Emergency Reserve Fund, the Rate Stabilization Fund, the unrestricted operating accounts, the impact fees. There are almost half a dozen funds out there. The common folk come in and ask "How much money do you have in the bank". They are told "Oh, there is no money in the bank". But they have all these reserve funds. And unless somebody asks the correct question "What are the reserve funds", then they finally get somewhat of an answer. The City has a reserve fund also; and every month they receive a report on it across the line on how much is in it. That to some degree is not reflected in the budget that is presented. A transfer from reserve funds are sometimes noted. It may not show up on a budget, but there are monies available. And that is what he is seeing here. It is like the smoke and mirrors - they do not have any money but they are millionaires because they have got it tucked away somewhere. If someone does not ask the name of the bank, they are told there is no money because they asked about the wrong bank.

Mr. Schindehette said he can only answer that the audit has all the balances that Commissioner Burdge is talking about. And the audit is a part of the City audit. If he is saying that when the U.A. sends over Budget Amendments to the Commission that they would like to see balances, that can be done. It has not been done as it has always been contained in the audit, which becomes part of the City's audit.

Commissioner Burdge said they get that once a year.

Mr. Bergalis said just to clarify something. Yes, the report does have the restricted assets and the reservations of retained earnings. But he does not believe, unless it is somewhere within the financial statements that he is unaware of, does it particularly delineate what is in an R & R Fund, what is in a Rate Stabilization Fund, what is in an Emergency Reserve Fund. It just shows up under categories as restricted assets and reservations of retained earning or designations of retained earnings.

Mr. Varella said the detailed analysis is included in the notes of the financials, so that each one of the balances of the specific funds plus the minimum balance requirement is in there.

Mr. Bergalis said just one last comment. Not to become argumentative, but in the notes of the Financial Statements that go into the City's Comprehensive Annual Financial Report that contains both the City's statements and the Utilities Authority statements, that information is not in there. It is in the report that the Utilities Authority prepares; but it is not in the notes that is in the report that they put together with both the City's statements and notes and the Utilities Authority statements and notes that is given to the Commission.

Commissioner Burdge said it is in somebody's book obviously. But the books that are sent to the Commission are two or three inches thick, and maybe it is a one or two lines somewhere in the notes. And reading Financial Statements from Utilities Authority, they go on and on. Unless someone is a Finance Director, at times they do not understand what is going on. That is why they rely on Staff, to help the Commission with those particular things. The bottom line is, what does the Commission want to do at this particular point? He thinks they need to get to the point. They understand that there is a lot of money in a lot of different funds. Whether the amount of monies is the correct one could be debated on whether they feel comfortable with whatever amount. But he feels that this afternoon that they have been called to this meeting to discuss this \$865,000 to some degree and for the Rate Study and also the Amendment to the Budget; but they have been centering upon how much money is in the reserves of the Utilities Authority and how and what portion of that monies could be transferred to the City. He has questions on the Rate Study but he will talk about that later. He would rather get to the point of, are they going to request 40% of the \$865,000 come to the City? Could it be the Commission's decision to make the Rate Stabilization Fund not a commingled fund and also request 40% of the current balance, so that it would be in a sense the Utilities Authority Rate Stabilization Fund that has the City's amount of monies withdrawn? He totally agrees with Commissioner Bluestone on the aspect he does not want to see this money just thrown to items that the Commission could spend frivolously over the next year. The City has not had any road improvements and resurfacing in a number of years, and possibly some of these monies could be spent this year on that. He has had discussion upon that on the current contingency, that some of that money hopefully might have been able to be spent on resurfacing. Reduction in taxes is always something that he is interested in. Reduction in operations cost is something that he is very seriously more interested in. He has always been interested in trying to reduce the cost of government.

Mayor Dannahower said if in fact they end up with monies that they did not anticipate, he would urge the Commission to be very reluctant at this point in time to start spending any of it. They will have very likely a difficult budget time ahead of them again. There are some internal things. They probably have to look very seriously at the pay for their policemen. He thinks it would be much more appropriate, if in fact there are more funds, to sit rather tight and wait until they get more into the budget year. They will have two new Commissioners that will have a better opportunity to understand what is happening. He concurs and has urged the street resurfacing; but he thinks that can be done six months from now as well. So he would hope that whatever happens, if there are some funds there that they did not anticipate, that may be held for the time being until they see what the status of the City really is.

Mr. Schindehette said Mr. Burdge stated some figure of what the increase in the transfer would be; he came up with \$616,000. He does not know how Mr. Burdge got that figure; but he thinks it is a bit more than that. As it stands now, with the Budget Amendment as presented to the Commission, the increase is from \$2.305 million to \$2.755. That is \$450,000.

Commissioner Burdge said currently in the Rate Stabilization Fund it has been reported that there is \$677,000. His idea is 40% of the \$677,000 which is currently there, plus 40% of the \$865,000. It would clean that account so that it is understood that the City has received its 40% out of it. And from that point on, as far as he is concerned, that before any monies were to be placed in there the City would receive its money first, and that account would be strictly an unencumbered Rate Stabilization Fund that the City has already taken their part out.

Mr. Schindehette said he believes that would be a policy direction the Commission would give to the U.A. Board. Because right now the U.A. Board will have to go back and take that \$677,000 back out and present 40% to the City.

Mayor Dannahower asked on these reserve accounts that the City still has its 40% to come out, is the interest also split 60%/40%?

Mr. Varella said if they transferred it prior to calculating the 40% City's share, when they take it out of those funds and use it, they would include it in the revenue stream again.

Mayor Dannahower said the question is, does the interest that those accounts earn stay in that account, so that when it comes out the interest is also split 60%/40%?

Mr. Varella said the interest is included in the annual U.A. Financial Statements yearly. In other words, the only interest that the Utilities Authority does not include in the 40% calculation is the interest on construction bond proceeds. Meaning that if they have got a fund for R & R and it is earning interest, that interest income is included in their annual interest income that they calculate the City's 40% on.

Mr. Schindehette said so it is in the revenue stream and doesn't stay within the fund.

Mr. Varella said that is correct.

Commissioner Grimyser said it is part of the general profit rather than the particular fund.

Mayor Dannahower said he was sure it was that or else it was split out. He wanted that in the record. One thing that still concerns him is, why was there such a large increase into the R & R between 1991 and 1993?

Mr. Schindehette said because they knew the bond money was running out, the bond money they had borrowed in 1991, and they were preparing to go into that fund so they would not have to go back to the bond market again for as long as they could. In other words, they had been building that fund knowing that when the bond money runs out now they can go into R & R Funds as if it were a bond fund instead of going to the bond market and incurring the expenses of a bond issue. So when this bond money runs out, which is basically right now, now their intentions were to draw from the R & R to keep from going to the bond market.

Commissioner Burdge said concerning the proposed rate increase, the question that he has is within the Rate Study. The study was directed to look at a 20% surcharge for living outside the community as compared to the current 25%. Why? Why did the U.A. Board decide that would be a good thing to do?

Mr. Schindehette said basically to keep rates below the County on the sewer side. (Mr. Schindehette distributed pages from the Rate Study.) This is an excerpt out of the Rate Study and he will sum it up for them. The 20% and the 25% difference is one penny in the usage rate. Take for instance, water. At 25%, for 3,001 to 10,000 gallon usage, the volumetric charge is \$1.51. If they go to 20%, it is \$1.52. That one penny difference makes a difference of keeping the U.A. under the County on the sewer side when they go outside the City limits and add the surcharge for the typical 10,000 gallon usage level. The U.A. is trying to stay below the County.

Commissioner Burdge said if his calculations are correct, this deals with water, the 3,001 to 10,000 gallon usage current rate is \$1.46 and the proposed rate is \$1.52. And 25% of \$1.46 is \$.365. That is what the surcharge would be at 25%. And 20% of \$1.52 is \$.304. That is almost \$.065 per thousand gallon difference in revenue that the City and Utilities Authority could be receiving. For every 1,000 gallons, they are going to lose \$.065 in surcharge revenues. It gets worse as they go up. If he is fielding this correctly, for 10,000 to 15,000 gallons, the current rate is \$1.83 and the proposed rate is \$1.90. Instead of receiving \$.457 at 25%. They would only receive \$.38 at 20%. That is a difference of \$.077. Anyone using over 15,000, they are currently paying \$2.19 plus the 25%, which is \$.547. They would drop to \$.456, which is a \$.91 differential. The more water that would be used, the less revenue the Utilities Authority would be receiving from people outside the City of Fort Pierce. His opinion would be is that he would prefer to at least keep the revenue source the same; meaning that at the 3,001 to 10,000 gallon rate, at the proposed \$1.52, the \$.365, whatever percentage that would compute out to, that would be it. If his thought train is correct, they are losing money. How can they possibly go into the business side of losing money? For what? Just to stay under the County's rate? In a typical month he believes the proposed rate is still within some ranges.

Mr. Schindehette said the bottom line answer to his question is, yes. Obviously if they lower the surcharge from 25% to 20%, they are going to lose some revenues. Why is that a good business decision? Because they have to think in terms of they are in fact, whether they like it or not, in competition with the County. Let him take for instance an area like Indian River Estates. There are a lot of potential customers down there. If the Indian River Estates group ever decided they wanted to have water, they are going to look at both entities to see what is the best deal. If they see the U.A. charging more than the County, then why would they want U.A. water if they are going to pay more. So the U.A. may lose money on the short term day to day revenues; but if it can get them more customers, they are going to win in the long run because now they have the annexation agreements plus they have more customers. So it is a business decision. It is a marketing thing is what it is.

Commissioner Burdge said let him talk about marketing. Would it not be in the interest of the Utilities Authority - and he knows that a study has been done as far as water is concerned - to use those monies, if his understanding of the Reserve & Replacement Fund is correct, to use those monies to run water lines to entrap or enclose Indian River Estates. Run lines down Easy Street, up Sunset or one of the other ones, back towards the City. Don't they think those folks, after they realize that water is there, that they would start asking for those lines to be drawn to their house?

Mr. Schindehette said without knowing the figures he is going to make a quick statement. He does not believe the revenues Commissioner Burdge is talking about, the difference in revenues from the outside City surcharges in water, would even begin to pay for the cost of a project to run a water line to Easy Street. They are talking about millions of dollars for that project. He thinks they are going to find that revenues from surcharges, the difference in that 5%, is a drop in the bucket.

Commissioner Burdge said he understands that; but on Page 53 (of the 1993 Water & Wastewater Rate Study), the St. Lucie County 10,000 gallon rate is \$28.37. The proposed U.A. rate at 20% surcharge is \$21.14. That is about \$7.00 difference.

Mr. Schindehette said then they add 20%.

Commissioner Burdge said no, it is already there. It says "Reflected Rates Using Outside City Surcharge of 20%".

Mr. Schindehette said no, that is not correct. The figure for the Fort Pierce Utilities Authority, that is the inside City water rate. They calculated it using the 20% concept. Because if they had used the 25% concept, that \$21.14 for the U.A. would have been slightly lower.

Commissioner Burdge said let them figure the 20%, which on \$21.00 is \$4.00 and some change. Now they are up to \$25.00, which is still below the \$28.37 St. Lucie County rate.

Mr. Schindehette said in water, they would still be all right. Go to the wastewater and they would be slightly above that, if he is not mistaken. There is one other thing that he needs to address and it is quite important. Again, they have to look forward to things that are going to happen. Every year since he has been the Director, in the State Legislature there have been bills that have been introduced that have advocated allowing non-chartered counties the ability to assess a utility tax on utility bills because they do not have that ability now, he thinks unless they are chartered. And the reason and the concept is because a lot of the State Legislators feel that outside city limit customers of municipals do not have representation; and their feeling is let the counties derive some revenues from this. It has not passed; but every year it gets closer. The point is, if the counties are allowed through State Legislation to add the 10% utility tax like the City has now, then every utility has got to start looking at what are they going to do when that happens. Because when it happens, it is going to happen right now. That would mean that outside city customers have an immediate 10% added on to their bill just like inside city customers, and then the utilities would have the extra 25% on top of that. Nobody feels like that is going to fly with any customer. So a second part of why they are recommending dropping this is to start slowing adapting to the fact that eventually the County is going to have a utility tax. The U.A. would be in for a revenue rate reduction if they got hit with having to eliminate that all at once. So it is a two-fold thing - trying to stay competitive on the wastewater rates and also starting the slow process of weaning off a full 25% surcharge. They feel they are going to lose it anyway.

Commissioner Burdge said all right. On Page 54 (of the 1993 Water & Wastewater Rate Study), if they look at the U.A.'s proposed rate for 10,000 gallons, it is \$33.80. The 20% surcharge would bring that up to just \$40.00. St. Lucie County's rate is at \$40.20. What differential would the 5% make on that particular point. They are so close. They do not know what St. Lucie County is going to have to do in the next little short time.

Mr. Schindehette said the 20% takes the U.A.'s outside rate for 10,000 wastewater from \$33.80 to \$40.56, slightly ahead of the County. Obviously, 25% would make it worse.

Commissioner Burdge said \$.15 more.

Mr. Schindehette said okay; but he is telling Mr. Burdge in this business the customers look at the bottom line. If they see rates are higher, why should they want to hook on to Fort Pierce Utilities Authority and have to sign an annexation agreement, when they can hook into the County system and do not have to sign an annexation agreement.

Commissioner Burdge said because the County does not have a sewer system. And when is the County going to have that?

Mr. Schindehette said he understands; but there are areas like across Midway Road over by the Sheriff's project. Right now they are going to hook up the Sheriff's Administration complex because the U.A. is not down there. They have the ability to hook it up. So there are areas that the two systems join. When customers start looking for service, they are going to start weighing them against each other to see what is the best deal. It is a competitive thing. And the U.A. is trying to stay competitive. Obviously if they reduce the surcharge the revenues will go down a bit; but they feel it is going to increase their competitive nature to add more customers and also add the annexation agreements faster.

Mayor Dannahower said he has no problem with the 20%. But in fairness they do have to point out two factors. One is the fact that the County is going to have to raise their rates. They would have already raised them 8% plus if it were not for the potential sale. And the second factor that may enter into the competitive bid is if in fact with this proposed Rate Study they removed the construction charges, the impact fee, then that will certainly make this more competitive in terms of St. Lucie County which already has a very large impact fee. A lot of developers are going to look at those impact fee dollars a lot more than they are \$.15 a thousand gallons or whatever. So there are those factors that will still keep the U.A. very competitive. Again, he has no problem with the 20%, he is not arguing to go back to the 25%. But there are other factors there that will keep them more competitive than what it appears on the surface.

Commissioner Burdge said another question. He noticed as far as the irrigation customers that the increase has been such a large increase, 125% and 150% as far as the levels are concerned over the minimum to 15,000 gallons then over the 15,000 gallons. He does not know what the stream of revenue is on that. He just needs to understand why, when he sees those percentages. He could not find it by reading.

Mr. Schindehette said the reason for that is, when the irrigation only rate was established, it was established because they had many customers saying that they were watering their yards at a residential establishment with City water and they did not like paying the sewer charges. So they asked to install a separate meter, and the U.A. created this irrigation only meter. At the time, they worked the South Florida Water Management District and they were very quick to point out - and the U.A. agrees - that

they should be doing things to discourage using treated water for sprinkling and irrigation whenever they can. When it was first initiated and presently, if someone had a house and they wanted to convert to an irrigation only meter in addition to the regular house meter, they would have to have paid an impact fee plus a little higher rate. Now if the impact fee is gone, if the U.A. does not compensate by a much higher rate, then the homeowner's basic economic decision is it is a deal to go to the irrigation only meter because he would not have to pay that \$1,400 impact fee anymore. That's the reason they upped the usage charge. A homeowner will still have to make an economic decision, is he going to have a good payback going to an irrigation meter when he knows he will end up paying twice the rate by doing it? Again, the U.A. is still trying to discourage the use of irrigation only meters. A lot of people will keep sprinkling through their house meter. That does not discourage the usage, they still use treated water; whereas some people if they had the irrigation meter they might watch it closer. He cannot say how their usage patterns are.

Commissioner Grimyser said she does not agree with that. Impact fees were supposed to be for people moving in and putting in extra lines and all this other stuff. When the U.A. decided to charge them the sewer rates for what they were using to water the lawns, all the folks that live on the beach paid to have the extra meters put in; and the U.A. graciously did not charge them impact fees again, which they had already paid when they hooked up in the first place. So now Mr. Schindehette is telling her nobody is going to pay impact fees, but they are going to charge everybody twice as much for the water.

Mr. Schindehette said just for irrigation.

Commissioner Grimyser said it's going to cost her twice as much.

Mr. Schindehette said if she has an irrigation meter.

Commissioner Grimyser said she does.

Mr. Schindehette said but the majority of customers do not have irrigation only meters.

Commissioner Grimyser said everybody at Ocean Village does, everybody at the Colonnades does, everybody at Entrada Del Mar does. If the U.A. is going to double the charge on that just because they want to be nice to the developers and not have an impact fee...

Mr. Schindehette said it also forces those condominiums to make that decision; the U.A. is discouraging the use of treated water.

Commissioner Grimyser said they would love to be using the half treated water. But that is too expensive and they do not have enough people wanting to use it.

Mr. Schindehette said correct. The condominium's decision might be that maybe it is cost effective to sink an irrigation well and not use treated water; and then the South Florida Water Management District would be very happy and the U.A. would be pleased because their valuable resource would not be used for sprinkling lawns.

Commissioner Grimyser said she wants that valuable resource used in the City of Fort Pierce or someplace where for sure they are going to be able to annex. She is not too interested in sending it down to Easy Street.

Commissioner Burdge said he noticed on Page 5 (of the 1993 Water & Wastewater Rate Study), the water service rate is anticipated going up 8.9% and the wastewater 17.8% based on monthly water use

of 10,000 gallons. Does the Utilities Authority have any way of being able to pull out those people who just use what are called "minimum bills"? Because when they get down to the minimum bill person, the rates are actually an increase of 14% for water and 32% for wastewater. He is looking at the retiree who calls him frequently and says he cannot fill his garbage can up, so why is he being charged so much. He knows the answer is going to be, because they have to pull the truck up and dump it regardless if it is full or empty. But in this particular case, the minimum is at 3,000 gallons, and there are people who use less than 3,000 gallons. He does not know how many that there are, he does not have the data for that. And he does not know whether it can be pulled or not. But for the retiree, the one or two person household, the rates are actually much higher than for those who use the 10,000 gallons that they have made their assessment on.

Mr. Schindehette said the percentage increase is higher. It is a smaller dollar probably for them, but it is a higher percentage. The dollar figure might be greater with the 10,000 or 15,000 gallon usage. He thinks they could get those figures.

Commissioner Burdge said for how many people are at those levels? He would personally just for information like to have that if it could be provided to him.

Mayor Dannahower said he would like to make a suggestion. First he thinks it might be appropriate if the Commission agrees to go ahead and disapprove that one line item relating to the \$865,000 going to the Rate Stabilization Fund, and send that Amended Budget back to the Utilities Authority for them to deal with again. He would also suggest that they send back the Rate Study. He feels that it should go back if for no other reason than to consider those Rate Stabilization Funds be used. That in itself would not amount to much; but there might be some other areas that could be looked at - R & R Funds or other funds - in terms of potentially reducing those rates. That is his suggestion. That would have given the old Commission an opportunity for them to have had input into and also give the new Commission the final say on it. That is his suggestion at this time.

**Mrs. Mary Ann Bryan** (Commissioner-elect) said does she understand that the City Commission is not taking action today?

Mayor Dannahower said that is what he is suggesting, except on that one line item. But the two Agenda items would basically go back to the U.A.; and then come back to the City Commission.

Mrs. Bryan said perhaps she would save her remarks until after a motion is made, because what she needs to say is probably not necessary if this is not going to be.

Motion was made by Commissioner Grimyser, seconded by Commissioner Bluestone, to deny the approval of Resolution No. U.A. 93-19, Amending the Budget of the Fort Pierce Utilities Authority for Fiscal Year 1992-93.

Mayor Dannahower asked does she mean deny the whole budget amendment?

Commissioner Grimyser said yes.

Commissioner Drummond said he can vote in support of that. Members of the U.A. Board are present in the audience. It would certainly be his intent when voting on it when it comes back that there is a line item presented to the Commission that does show rate stabilization.

Mayor Dannahower asked so that they are clear, is Commissioner Drummond saying that those funds stay in there as they are as rate stabilization?