PUBLIC HEARING MINUTES
CITY COUNCIL
CITY OF ARCADIA
TUESDAY, JULY 20, 2010
6:00 PM

CALL TO ORDER, INVOCATION, PLEDGE OF ALLEGIANCE & ROLL CALL

The Deputy Mayor called the meeting to order at approximately 5:13 PM, with the following members and staff were present:

Arcadia City Council

Mayor Roosevelt Johnson (entered late)
Councilmember Sharon Goodman (entered late)
Councilmember Lorenzo Dixon
Deputy Mayor Robert Heine
Councilmember Keith Keene

Arcadia City Staff

City Administrator Lawrence Miller
Consulting Engineer Julie Karleskint
City Recorder Dana Williams
City Attorney Jason Henbest

Ms. Julie Karleskint, consulting engineer for Hazen & Sawyer, introduced of Mr. Thierry Boveri of Public Resource Management Group, Inc. (PRMG) a sub-consultant to Hazen & Sawyer, for studying the rate impacts for the new Water Treatment Plant.

Ms. Karleskint stated the purpose of this meeting was to provide an overview of the Facility Use Plan (FUP) which was submitted to DEP; and also to discuss the rate impacts, including issues and assumptions made, revenue sufficiency, a rate comparison and recommendations for new rates. In order to finalize and approve the Facility Use Plan, the DEP requires a public hearing for final approval on the plan in order to qualify for SRF funding. Ms. Karleskint added that grant funding as well as SRF loan funds will be applied for with regard to funding the new water plant.

She continued the firm also did a revenue sufficiency study to determine sufficiency of existing rates to fund the expenditures, to provide recommendations concerning rate adjustments, and also to determine customer impact.

Ms. Karleskint then provided an overview and timeline of the Facilities Use Plan, which was submitted the FDEP in April 2010, then moved to a review of the existing conditions, the identified planning period design needs, environmental impacts, and alternatives evaluated for replacement of the plant. She also briefly discussed the DEP consent order on the existing plant, the proposed construction schedule and financing. Ms. Karleskint stated consideration is also being given to add an additional well which will add redundancy to allow servicing of the existing wells, and that the existing plant, now 40 years old, has reached the end of its serviceable life.

(The Mayor entered at this point)

Following the slide presentation, Ms. Karleskint discussed the planning period design needs which showed the incorporated city limits in addition to the Turner Center, high school, Arcadia Village, and prison. She presented a slide depicting the location for the proposed new well which is adjacent to the existing plant and includes a 100' buffer, but will require relocation of the existing impound vehicle lot. Alternatives having been looked at were to connect to DeSoto County, although it was shown they could not provided the city with the required 900,000 gpd requirement; to replace and rehab the existing plant which would include extensive repair and an anticipated higher operating cost particularly to accommodate options for the backwash and lime sludge; or to construct a new ion exchange plant, which proved to bear the lowest overall cost.

Discussing the proposed schedule to bring the new plant on-line, Ms. Karleskint outlined the following:

- July 2010 - Adopt Facility Use Plan and submit project site certification
- Jan 2011 – finalize plans and specifications and submit FDEP construction permit
- April 2011 – advertise for bids
- June 2011 – award contract
- Sept 2012 – complete construction

Mr. Thierry Boveri then took over the presentation to discuss issues and assumptions. He began with the enterprise fund saying the utility should operate as a business-like entity with user fees recovering the full cost of operations. In accounting for utility operations, he explained the revenue fund account receives all monies, the operating fund provides for the day-to-day operations, a renewal and replacement fund, and capital funds address repairs and future needs. Mr. Boveri then discussed the City's technical default of the bond covenant reported in FY-08 and FY-09 whereby the net revenues were not sufficient to fund 125% of the debt service and required transfers as required. He added that at the December 2009 presentation, he did not have sufficient data to include capital expenditures and therefore when a 30% rate increase was recommended at that time, it was only to address declining revenues and increasing expenses.

Mr. Boveri explained a slide showing the historical operating margin whereas since 2007 the gross revenues have not covered the debt service and only marginally exceeded the operating expenses. He talked briefly about the utility deficiencies funded from the pooled fund and transfers of $200,000 in recent years from the general fund before moving to the capital needs and construction of a new plant. Mr. Boveri estimated the total cost of $6 million, with possible grant funding of $3 million which would lower the debt payment and allow for increased renewal and replacement savings. During this discussion, the City Administrator talked about building a LEED certified plant, which could prove favorable in securing grant funding but also as a part of the government's initiative to lead the way with "green" building.

Mr. Boveri next moved to revenue sufficiency including revenues compared to projected expenditures, being 96% of the utility rate, and identifying sufficiency and rate adjustments. Next, Mr. Boveri covered revenue forecasts based on billing data from FY-09, a lack of customer growth, and decline in use per customer which he attributed to the current economy and conservation efforts.

Mr. Boveri, on behalf of PRMG, recommended a 20% rate adjustment saying that any action taken would not go into effect until the new fiscal year; but that the justification is it is needed to provide for the capital needs of the system (including the distribution lines) and to eliminate deficiencies. He displayed a rate comparison of several cities and counties in the area which showed Arcadia's current rate structure below the average and even when incorporating a 20% increase, Arcadia's rates would only come up to the average.

The summary recommendations of PRMG were to:

- Approve the Facility Use Plan
- Adopt the recommended FY-11 rate adjustment of a 20% rate increase effective October 1, in order to eliminate cash flow deficiencies and provide for transfers to the R&R fund with repayment due to the pooled fund
- Consider implementation of automatic inflation based indexing of utility rates, and
- To annually re-evaluate the need for future rate adjustments

The floor was opened to the public. Mr. Gary Frierson asked if the R&R fund would be used to replace water/sewer lines. Mr. Boveri responded it could be used for any or recurring capital projects to include as lift stations and transmissions lines. The City Administrator added that being proactive actually costs less. Mr. Frierson then asked about the Historical Operating Margin slide. Mr. Boveri answered for the past three years the city has only been making the debt payment and covering operating expenses, putting away no money for R&R or capital improvements.

Mr. Ken Pepper asked what percentage of accounts aren't paying or are in arrears and whether or not the cost for bad debt was factored in. Mr. Boveri explained he did not have a precise percentage but over recent year's bad debt has been on the decline as a result of stricter policies, and that as part of the total picture, those are less than 1% of the total operating expenses.

Ms. Adrian Daly stated the increase seems like a lot to ask of users, having had two 20% increases within a year. She questioned fault in not having done more over a longer period of time. Mr. Boveri answered that the City is in default with the bond covenants and that those management comments have been included in the audit for the last two years. He suggested this was only to get the costs in line with the expenses.

(Dr. Goodman entered at this point)

Councilman Keene stated his appreciation for the presentation; and added that although utilities operate as a business like entity, that is not the way the City has been running its (water and wastewater) plants. The Mayor agreed and likened it to the rising cost of gasoline.

A brief discussion followed but having run over the allotted time to begin the next meeting, the Mayor adjourned the workshop at 6:20 PM.

ADOPTED THIS 3RD DAY OF AUGUST 2010.

By: Roosevelt Johnson, Ed.D.

Roosevelt Johnson, Ed.D., Mayor

ATTEST:

Dana L.S. Williams

Dana L.S. Williams, CMC
City Recorder