



MINUTES

City Commission Workshop: Utilities

5:30 PM – Monday, July 15, 2024 – City Hall

CALL TO ORDER: 5:30 P.M.

ACKNOWLEDGEMENT OF QUORUM AND PROPER NOTICE

PRESENT: Commissioner Gary Ashcraft, Commissioner Willie Hawkins, Vice Mayor Emily Lee and Mayor Michael Holland

1. WORKSHOP ITEM WITH DISCUSSION AND DIRECTION

1.1 Utilities System Analysis and Utility Rates

Rick Gierok, Public Works Director, explained the history of the project and the question raised as to how much the City supplements the eastern services. Due to that, they hired Raftelis to help answer that question. He provided an overview of the current situation and stated the purpose of the meeting is to provide the options available and obtain direction from the Commission on how to proceed. He introduced Joe Williams and Tristen Townsend with Raftelis and noted they have also done the City's rate study. He also introduced Bartt Booz with Wright Pierce Engineering and stated he has worked on the City's water and wastewater master plans and designed the Bates Avenue Wastewater Treatment Plant. He explained he wanted to have all of their experts present in order to answer any questions the Commission may have.

Mr. Gierok explained their intent to review the current situation and costs and cited the options moving forward as follows: 1) Sell the eastern utilities; 2) Split the Utility System into two separate utilities; and 3) Keep the operations as one utility while exploring various opportunities.

Mr. Gierok reviewed the CUP, Plant Capacity and Reserved Capacity for both the Eastern Plant and the Heathrow Plant. He then reviewed the plant capacity and reserve capacity for the wastewater Eastern Plant and the Bates Avenue plant. He cited the Gross Revenue and Total Revenue for the combined systems, main plants and eastern plants. He emphasized that the main plants are over \$1,000,000 to the good while the eastern plant is \$837,778 in the negative. He commented on how the in-city customers are offsetting the cost for the eastern customers. He then provided the net revenue surplus/deficiency for the main service area versus the eastern service area over the next five years.

The Commission asked why the eastern plants were constructed with Mr. Gierok explaining they were built as part of a community development district. He stated that the eastern water plant was built to primarily serve the Sorrento Hills development and the Heathrow plant was built primarily for the Redtail project. The developers built the Heathrow plant through the CDD and gave it to the City. The eastern wastewater plant was jointly constructed between the two projects and was sized just for those users. The eastern wastewater plant that was there never ran at the 300,000 gallons it was rated at due to a lot of problems. The most they could get out of it was 150,000 and it was very difficult to run.

Tom Carrino, City Manager, further explained that there was discussion at that time about growth in that area so the City had approached St. John's due to the inefficient plant. They essentially mothballed the old plant and built a new 1,000,000 gallon a day plant in order to keep septic tanks out of the Wekiva Basin which is why they assisted the City with the plant.

Mr. Gierok noted that the out-of-City users are charged a 25% surcharge. He confirmed that the deficit includes that surcharge.

The Commission asked about anyone in that area annexing into the City with Mr. Carrino indicating that the City has annexation agreements with Sorrento and Redtail; however, outside of a County ISBA it would require contiguity and they are too far to the east to establish contiguity. He added that it is unrealistic without an ISBA. He noted that the City received an email earlier in the year from the County Manager stating there are properties in the Sorrento area that are interested in getting utilities. He said the question at that time was who would serve that area. He had asked the Commission during a retreat whether or not the City wanted to serve that area. He noted that Apopka is in another County and Mount Dora is at capacity so the City was looking at possibly serving the area. He added that one of the questions from the County was whether or not the City would waive the annexation requirement. He stated that the City would have to consider waiving that requirement due to the unrealistic expectation of any of those properties being able to annex. He indicated that would be a Commission decision as to whether or not to waive the annexation requirement. He confirmed that those properties do not pay City taxes.

Mr. Gierok cited the revenue requirements included in the information and the options moving forward as follows: 1) Sell the eastern utilities; 2) Split the current system into two separate utilities; and 3) Continue as one utility. He then provided details for each option.

Option 1 - Sell the Eastern Utilities

Mr. Gierok explained that to sell the eastern utilities the City would initially have to hire a consultant to perform an appraisal of the plant. He stated that Raftelis has staff on board who could do that. He explained what would be required to prepare such an appraisal including the reserve capacity. He stated he would not want to spend the money required unless there was definite interest in selling the plant.

The Commission confirmed that anyone buying the plant could set their own rates.

Mr. Gierok added that the City would also have to determine what would be required to transfer the operating permits and required infrastructure modifications. He explained those modifications include the reclaimed water system and how that would be handled as much of it is piped out to the eastern properties. He indicated that disposal of the reclaimed water is one of the biggest hurdles. He explained that if no one is using reclaimed due to rain, the City is required to have storage for it. He commented that they would have to include in the sales contract a bulk reuse agreement so the City would have a means of disposing of the reclaimed water.

The Commission re-confirmed that, if the City sold the plant, whoever purchased the plant could set their own rate with Joe Williams from Raftelis stating that they would be somewhat limited by the Public Service Commission but, in general, could charge whatever they could justify.

Mr. Gierok explained that, if they want to sell the eastern utilities, the City would require extensive legal expertise to assist in the sale and in the transfer of the operating permits.

Sasha Garcia, City Attorney, explained that the sale of a public utility is very complicated and would require specialized legal expertise and public hearings.

Commissioner Hawkins confirmed that, if the City were to sell the plants, it would require the City to spend approximately \$4 to \$5 million for the modifications and would include the possibility of the eastern customers' utility rates being raised significantly.

Commissioner Ashcraft asked if they have an idea of what the cost would be to sell the plant with Mr. Gierok indicating the first step would be to get the appraisal to determine the viability of selling the plant and what the hurdles would be.

The Commission asked if Raftelis had experience in selling a utility with Mr. Williams indicating the firm has been through it but not him personally. He indicated they would bring in experienced staff members to assist. The Commission asked if they could estimate the costs with Mr. Williams indicating he could not estimate the legal costs. Their costs would be the \$30 to \$35,000 for the certified appraisal.

The Commission asked if there is an example locally that would give an idea of what the costs or process would be with Mr. Gierok indicating there have been sales done within the state but they didn't want to get further costs unless it was more definite about the sale.

Mr. Carrino commented that there are other options and, if after seeing those options the Commission still wants to consider selling the system, then staff can do that; however, after hearing the other options they may not have an interest in selling the system.

Mr. Williams explained that Raftelis would figure out what it would cost to build an all new facility and piping in order to determine the value of the existing facility. He indicated that would require a lot of time.

The Commission explained that they want to know what it would cost to actually sell the system as it might not be worth selling it.

Mr. Carrino noted that the City has consumptive use permits for both the main plant and eastern plant. As part of the permit, St. John's knows the City sends a lot of reclaimed water to the eastern plant. If the City were to do something different, it would have to be approved by St. John's as part of the Consumptive Use Permit.

Mr. Gierok indicated that the reclaimed water is part of the City's alternative water requirements. Due to how much the eastern area has used the City's reclaimed water, the City has not had to extend the reclaimed water lines. As the permit was modified to eliminate the sprayfield, the City would have to modify it based on the reclaimed water usage. He added they will have to start getting the transmission mains back into the CIP. He indicated the City would have to evaluate all of those costs and determine what is needed for the infrastructure before making a decision.

Mr. Carrino stated that any sale of the plant would have to go through St. John's and the City would have to show how it plans to deal with the reclaimed water.

Commissioner Hawkins noted that other cities have asked the City to provide water to them. He asked if staff foresees Mount Dora building something that would help with the eastern area.

Mr. Gierok responded that he doesn't actually know but his understanding is that they are having a hard time meeting their obligations for those projects and they will have to do something significant.

Vice Mayor Lee reiterated that the City is losing \$850,000 per year.

Mr. Gierok reminded the Commission that, under a sale, the eastern residents would most likely experience a large rate increase, but the residents in town would no longer be offsetting that cost.

Option 2 - Split into two separate utilities

Mr. Gierok explained the advantage to splitting up the two utilities which would be the main City system and the eastern utility system. He stated it would allow the City to have different rates for each system. He reviewed the net revenue surplus/deficiency between each system if that were implemented. He indicated that the combined system would require an increasing amount of rate increases over the next five years. Under a divided system, the main system could maintain the 2.5% rate increase each year for the next five years. The eastern system would require a 2.5% increase in 2024, 125% in 2025, 5% in 2026, 5% in 2027 and 5% in 2028 which would provide a surplus of \$674,945 in 2028. He noted that those surpluses do not include any of the required capital costs.

Commissioner Ashcraft asked what would be the cost to separate the two systems with Mr. Gierok indicating that would have its own challenges.

Commissioner Hawkins asked how long the system has been operating at a deficit with Mr. Gierok explaining they have never divided up the costs previously.

Commissioner Ashcraft questioned whether or not the City had conducted a study back when it was asked to take over the plant with Mr. Gierok indicating that the plant was constructed as part of the development and it was always planned for the City to assume responsibility of the plant.

Mr. Gierok indicated he was unsure about what occurred then due to not being with the City at that time. He then reviewed the challenges to separating the utilities as follows: 1) Will have to determine what is needed through the state and what is involved in transferring the permits; 2) Additional engineering; 3) Specialized legal expertise; and 4) An agreement would still be needed for the reuse water.

The Commission questioned whether or not an appraisal would still be needed for the eastern plant with Mr. Gierok indicating that probably would not be needed. He explained that most of the expenditures are already separated; however, there are some combined costs that would have to be separated out.

Mr. Carrino confirmed an appraisal would not be required since they would not be selling anything. However, they have to go to St. Johns and the State with the proposal to separate the systems into two separate entities. They would then be able to charge the eastern customers accordingly. He stated that the State would view them as two separate entities and all employees would need to be separate. He commented on the

amount of legal work and engineering that would be required to accomplish the separation.

The Commission questioned if the cost to the City would be cheaper with Option 2 than Option 1 with Mr. Gierok responding that the legal fees would probably be higher for Option 2; however, they wouldn't need the appraisal and they would be able to phase the capital costs. He commented on how the City would have the influx of money from the sale if they went with Option 1.

Attorney Garcia stated her concern with Option 2, if the City tried to separate the two systems, it may be viewed as trying to circumvent the statutory restrictions regarding legislation about what they charge out-of-city residents.

Mr. Gierok presented a copy of an ordinance from St. Johns County under which they did something similar but, in that case, they purchased another system and maintained it as a separate system with two different rate structures. He added that they would need a legal opinion regarding whether or not they could legally separate the systems.

Option 3 - Continue Operating as One Utility for Both Areas

Mr. Gierok reviewed the options for the City if they continue to operate as one utility as follows: 1) Continue to operate as is; 2) Increase the "out-of-town" rates; 3) Allow expansion of users at developer's cost to meet plant capacity; and 4) Allow expansion with consideration for more plant capacity in the future. He reviewed the current revenue for both service areas combined and the recommended rate increases that would be required through 2028.

Commissioner Hawkins asked if the City knows how much the "in town" customers' average is for supplementing out east and do they know what the average bill increase would be to get to break even. He clarified he wants to know how much of the in town bills are being used to supplement the eastern plant and what is the average increase out east that would be required to break even.

Mr. Williams asked to allow them to try and calculate something and get back to them regarding how much of an average water bill is used to offset the eastern plant. Regarding the break even point, he stated that the eastern customers' bills would roughly double. He said overall for the entire system they already are doing better than breaking even.

Vice Mayor Lee questioned how many customers the City has with Mr. Gierok responding 876 users on the eastern plant.

Commissioner Hawkins asked how much the average bill is for the eastern customers.

Nicole Jenkins explained that the eastern plant bills fluctuate with the reclaimed water use.

Mr. Gierok explained that each user is billed for actual reclaimed usage.

Mr. Carrino stated that the residents at Red Tail are using most of the reclaimed water.

Discussion was held regarding how much the in-city residents subsidize the eastern plant with Mr. Williams indicating that on average the in-city residents probably subsidize the eastern plant by about \$75 per year. Commissioner Hawkins expressed concern about "killing" the eastern customers if the rates are increased too much.

Vice Mayor Lee confirmed that any subdivision developed out east would not be able to be annexed until they became contiguous

Mr. Carrino noted the Commission would have to decide if they wanted to waive the annexation agreement for that area.

Mr. Gierok stated that Option 3B is to adjust the out-of-town rates. He indicated that currently they are charged 25% more than City residents; however, it is possible to increase that to as much as 50%. The City would have to petition the state and provide the detail necessitating that increase. He provided the revenue figures if that 50% rate increase were implemented. He noted that would still leave the system with a loss.

Mr. Gierok stated Option 3C would allow the White Rose and Sunterra flows in. He explained they have been in discussions with them but do not have developer agreements for either parcel. He indicated they did include the White Rose flows in the master plan but not the Sunterra. He added that they have determined what would be required to do that. He estimated that the subdivisions could increase by 300 units per year and showed the figures for up to seven years. He indicated that the breakeven point is between 1000 and 1100 units. He explained that the City would have to provide a point of connection and whatever else would be required to move forward.

Commissioner Hawkins asked if it is possible to do a hybrid between B and C.

Mr. Carrino asked if the figures for Option 3C assume that the City is staying at the 25% surcharge or the 50% with Mr. Williams responding that assumed the 125% increase.

Mr. Carrino stated that the City is not involved with any approvals for White Rose or Sunterra but only as the utility provider. He commented that the land use side is Lake County and they would have to decide the appropriate density. He indicated that Mr. Gierok is stating that the City should not have any problem selling its capacity. He added that the next question is whether or not they should be planning for expansion of capacity and growth.

Mr. Gierok explained they have excess wastewater capacity of 681,000 gpd which would serve 2270 units. He stated that the water plant has the operating capacity; however, it would need some plant modifications and the consumptive use permit would need to be modified.

Mr. Carrino noted that all out-of-town customers pays 25% more than someone who is in the City.

Mr. Williams noted that with two separate service areas the City would be able to keep those out-of-town customers that are on the main plant at the 25% surcharge and only increase the surcharge for those on the eastern plant.

Mr. Gierok then detailed what would be needed for SunTerra and White Rose for piping and points of connection. He noted that the SunTerra development was not included in the master plan. He explained that if both developments came in, the break even point would be 1100 units. He confirmed that would be about 3.5 years in the future. He concluded stating that if that is done, then the City is done. Capacity would be full and anyone else asking would be told no, they are at capacity. He asked, if that option is approved, does the Commission want staff to plan for future growth. He indicated that White Rose has to run a 12" main and questioned if the Commission would want to upsize the line to allow for expansion.

Mr. Gierok stated that no answers were required that night. He stated he would like direction so they know what direction to proceed with for further analysis. He noted both Raftelis and Wright Pierce are present for discussion.

Commissioner Hawkins stated that selling the plant would be off the table for him and he cited his concerns with that option.

Commissioner Ashcraft stated it is too complex a decision to make that night. He stated he would like better numbers regarding each option and expressed concern regarding the possibility of septic tanks being in the Wekiva Protection Area. He stated that the City should make the eastern plant profitable or unload it.

Mr. Williams noted that some of the capital projects have changed so the prospect may not be quite as bad as projected.

Discussion was held regarding the anticipated surplus/deficiency for the current year and future years with Mr. Williams commenting on the increases in expenditure costs. He cited the City's Fund Balance and commented on how that has been utilized.

Vice Mayor Lee expressed concern regarding increasing the eastern plant users too much but did not like in-city residents paying for the eastern plant. She stated they need to balance the cost and asked to get more figures regarding the various options. She agreed they can't keep losing \$850,000 per year on the eastern plant.

Commissioner Hawkins expressed support for a hybrid of Options 3B and 3C with Mr. Gierok indicating they could get those figures.

Commissioner Ashcraft asked if there is a percentage of the rate increase to fund the deficit with Mr. Williams stating that the rate increase doesn't really address the deficit. He said to do that, while keeping everything else the same, would require raising all of the users rates significantly.

Mayor Holland commented it is one of the hardest decisions they've had to make. He added that they cannot continue to operate at a deficit. He noted they previously discussed reducing the growth rate; however, if they choose not to serve the area they would be looking at wells and septic tanks in an environmentally sensitive area. He indicated this may need to be discussed as part of the joint meeting with Lake County. He suggested that staff allow the Commission to take more time to look at the information and then they can discuss it further at the next meeting. He encouraged the Commissioners to contact Mr. Gierok with any questions.

Mr. Gierok indicated that he and the consultants would work together to try and further define the figures to truly evaluate the options and determine more of the legal fees that would be required. He stated he thought it could be done as part of a regular Commission meeting, not another workshop.

Mayor Holland commented on the amount of the loss, plus the losses the City is experiencing at the cemetery, and emphasized the City needs to at least break even. He noted the presence of developers in the audience that may be concerned about projects that are on hold. He asked what staff needs from the Commission.

Mr. Carrino asked Attorney Garcia what exposure the City would have if it continues with negotiating utility agreements and the Commission decides to not move forward with those agreements.

Attorney Garcia stated it would depend on how the agreement is worded. She indicated they could craft an agreement that would encompass that. She noted that additional developments could help reduce the cost to maintaining the eastern plant.

Mr. Carrino acknowledged the City has an existing plant that is operating at well below capacity. Bringing on more customers would bring the City closer to break even. He asked if the Commission wants to continue to consider utility agreements with developers while staff is working to compile the additional data regarding the various options.

It was suggested they wait until after the joint meeting to make that determination with Mr. Carrino noting that the purpose of the joint meeting is for discussion on the Thrill Hill development, not the White Rose and SunTerra developments. However, the County's intent for growth in that area could be included.

Attorney Garcia asked if the Commission wants developers to attend the joint meeting with Mayor Holland noting that it is a public meeting.

2. ADJOURNMENT: 7:05 P.M.

**These minutes reflect the actions taken and portions of the discussion during the meeting. To review the entire discussion concerning any agenda item, go to www.eustis.org and click on the video for the meeting in question. A DVD of the entire meeting or CD of the entire audio recording of the meeting can be obtained from the office of the City Clerk for a fee.*

CHRISTINE HALLORAN
City Clerk

MICHAEL L. HOLLAND
Mayor/Commissioner