



City of Eustis

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TO: EUSTIS CITY COMMISSION

FROM: TOM CARRINO, CITY MANAGER

DATE: JANUARY 19, 2023

RE: RESOLUTION 23-04 AUTHORIZATION TO PROCEED WITH
WATER, WASTEWATER AND RECLAIMED WATER UTILITY
RATE STUDY AS WELL AS AN IMPACT FEE RATE STUDY

Introduction:

The purpose of Resolution Number 23-04 is to approve the authorization of a rate study to be performed by Raftelis; a local government & utility management consulting company. This company purchased the former company utilized by the City (Public Resource Management Group PRMG) along with hiring principals of the company. They not only have knowledge of the City but also a long list of cities and counties represented by this company.

This is recommended based on a piggyback bid which was issued by the City of Daytona Beach RFP 19632

Recommended Action:

Staff recommends approval of all or part of Resolution Number 23-04.

Background:

Utility Rate Study:

The City last contracted with PRMG to perform a Utility rate study. PRMG presented the results and recommendations of the 2016 Water, Wastewater, and Reclaimed Water Study to the Commission on February 18, 2016. The study covered the current status and projections of the water, wastewater, and reclaimed water systems through the year ending September 30, 2020. Consideration was given to the current financial condition, projected operation costs, proposed system upgrades, required system upgrades, customer growth, economic assumptions and the revenue stream necessary to deliver reliable and quality service to the customers.

The study recommended a one-time rate adjustment of 6%, followed by four consecutive increases of 1.7% for Water, Sewer and Reclaimed Water Rates.

In April of 2021 the Finance Department completed an in-house rate study. Based on the information at hand the final outcome of the study was a recommended rate adjustment of 2.5% beginning in June of 2021 and each year through June 2025.

The previous 5 years of Consumer Price Index (CPI) levels were as follows:

2016	2.1%
2017	2.1%
2018	1.9%
2019	2.3%
2020	1.4%
Average	2.0%

Based on the above combined with the estimates along with the previous recommendation the 2.5% increase did not appear unreasonable. At the time the Main Sewer Plant Project was estimated at \$6,400,000 to be financed with a low interest State Revolving Loan from the State of Florida.

Since that date, the final CPI for 2021 was 7.0%. The 11-month average for 2022 is 8.2%. The December CPI is expected to be release on or close to January 12, 2023.

The current estimated cost of the plant expansion is now close to \$9,000,000 due to supply chain issues combined with inflation. The good news is the City will be able to use ARPA Funding (\$10,669,684 less \$1,358,316 for a Fire Truck) and \$9,311,368 to fund the wastewater plant expansion. This will alleviate the cost borrowing and the associated interest cost.

Due to the above and the residual fall out of the pandemic, we made a conscious effort to hold the increase to 2.5%. However, based on the economy and uncertainties going forward it is believed that it is time for a professional outside agency to perform a rate study.

In addition, The City's agreement with the City of Umatilla for wastewater treatment outlines the process for rate increases. That process includes a rate study that separates out cost increases for treatment, collection, and administration. This reinforces the need for a consultant led rate study.

Part of the study will review all miscellaneous cost of service associated with meter sets, late fees, charges for infractions, non-sufficient funds and other fees passed to the customers.

The study will cost \$52,000 and is based on a piggyback of the Daytona Beach Consulting Services RFP 19632.

Funding is available as follows: \$45,000 from 040-3100-536-30-34 and the remaining \$7,000 is available through a transfer from contingency account 040-8400-536-90-06 to cover the entire cost associated with this study.

Impact Fee Study:

The City's last study was performed by PRMG. The rates were enacted July 20, 2006; 16 years ago, by Ordinance Number 06-25. No changes have been

made since this date.

The rate for the main plant service area for water is \$854 and sewer is \$2,668. Rates for the Eastern Plants are water \$2,491 and sewer \$2,668. Money generated from these charges will be used to offset the additional cost needed for new expansion of the various plants, owned producing water and sewer services.

The new study would be able to affirm or correct the differences of using different rates for the water on the inside and outside plants as well as the same rates being utilized by both the inside and outside plants.

Due to the extent of time since the last study, it is truly time for a new report. The cost to add this to the rate study is \$14,600. This is because the information used for the Water & Sewer rates will be used as the basis of the Impact Fee study.

Funding is available in 040-3100-536-30-34 through a transfer of \$14,600 from the contingency account 040-8400-536-90-06 to cover the entire cost associated with this study.

Total Transfer from contingency will be \$21,600.

Florida Statutes 163.31801 states that "The Legislature finds that impact fees are an important source of revenue for a local government to use in funding the infrastructure necessitated by new growth."

(4) At a minimum, each local government that adopts and collects an impact fee by ordinance and each special district that adopts, collects, and administers an impact fee by resolution must:

(a) Ensure that the calculation of the impact fee is based on the most recent and localized data. **(Raftelis)**

(b) Provide for accounting and reporting of impact fee collections and expenditures and account for the revenues and expenditures of such impact fee in a separate accounting fund. **(Eustis provides in fund 65 and 66)**

(c) Limit administrative charges for the collection of impact fees to actual costs. **(only cost of audit fee is expensed)**

(d) Provide notice at least 90 days before the effective date of an ordinance or resolution imposing a new or increased impact fee. A local government is not required to wait 90 days to decrease, suspend, or eliminate an impact fee. Unless the result is to reduce the total mitigation, costs or impact fees imposed on an applicant, new or increased impact fees may not apply to current or pending permit applications submitted before the effective date of a new or increased impact fee. **(will provide proper notice)**

(e) Ensure that collection of the impact fee may not be required to occur earlier than the date of issuance of the building permit for the property that is subject to the fee.

(current policy)

(f) Ensure that the impact fee is proportional and reasonably connected to, or has a rational nexus with, the need for additional capital facilities and the increased impact generated by the new residential or commercial construction. **(Raftelis will provide)**

(g) Ensure that the impact fee is proportional and reasonably connected to, or has a rational nexus with, the expenditures of the funds collected and the benefits accruing to the new residential or nonresidential construction. **(Raftelis will provide)**

(h) Specifically, earmark funds collected under the impact fee for use in acquiring, constructing, or improving capital facilities to benefit new users. **(current policy)**

(i) Ensure that revenues generated by the impact fee are not used, in whole or in part, to pay existing debt or for previously approved projects unless the expenditure is reasonably connected to, or has a rational nexus with, the increased impact generated by the new residential or nonresidential construction. **(current policy)**

Stormwater Fee Study

The Stormwater Fund was established in 1992-93. The original rates were \$3.00 for residential and \$6.00 for commercial. The last increase was initiated in 2006-07 and doubled the fees to \$6.00 and \$12.00, respectively.

Currently, the 5-year capital improvement plan provides an estimated \$514,117 ending fund balance with estimated reserves in excess of the 90-day operational reserve (\$134,127) of \$379,990. The Projects listed for 2022-23 through 2026-27 are as follows:

FY 2022-23	Diedrich St. Improvement	\$ 60,000
FY 2023-24	Stormwater/Culvert Replacement	\$220,000
FY 2024-25	Stormwater/Culvert Replacement and Concrete Crushing	\$220,000 \$ 45,000
FY 2025-26	Stormwater/Flooding Control	\$100,000
	Bush Hog	\$ 45,000
FY2026-27	Concrete Crushing	<u>\$ 50,000</u>
Total Project Costs		<u><u>\$740,000</u></u>

While the cost is covered with the current projections the revenue increase is projected to be 2% per year, beginning in 2024-25. The projections for expenditures was estimated at 5% for 2022-23 and 3% for the next four (4) years.

At this time, it may be prudent to pass on the cost of \$22,550 for the cost of a Stormwater Rate study. The suggested approach for at least the next few years is to make annual adjustments on June first of each year based on the CPI increase for April of each year the rates will go into effect. This will hopefully get us in a position to

keep up with inflation and allow for some possible additional programs going forward.

Alternatives:

- Approve Resolution Number 23-04.
- Deny Resolution Number 23-04 and provide direction to staff on how to proceed with future rate increases.

Discussion of Alternatives:

Approval of Resolution Number 23-04:

Advantages: Approval of the Resolution will provide the City with an unbiased professional opinion of the adequacy of future rate increases for the next five years. Allows the City to continue to move forward as the economy expands the rate increase and will allow the City to operate and offer ongoing maintenance to ensure the facilities are operating at peak performance.

Disadvantages: The customer must endure rate increases over time at a specified schedule which may limit discretionary spending.

Denial of Resolution Number 23-04:

Advantages: System customer rates would only increase by a maximum set during the last in-house study or increase by the amount of the CPI each year going forward.

Disadvantages: The system may no longer be able to afford its basic operating needs and will not be able to support its debt service payments. Capital repairs and improvements will have to cease, or the system will become financially untenable. Failure to fund the operations and the repairs and maintenance items could lead to major fines from state and federal government, environmental impairment, and a real potential for public health concerns. The system may also become limited in its ability to serve water and conduct sewer collection for the residents and businesses of the City of Eustis.

Community Input:

The study results and recommendations will be presented to the Commission once the study is complete. Subsequently, per State Statute, notices will be included on customer bills which state that the City would be considering rate increases for user fees for water, wastewater, and reclaimed water services in May, 2023. The meeting will be held in the Commission Chambers at 6:00 pm on a future designated date.

Budget/Staff Impact:

The study is budgeted in the amount of \$45,000 and a transfer from contingency in the amount of \$21,600 for a total cost of \$66,600.

Prepared By:

Nelly Harnish, Deputy Finance Director

Reviewed By:

Mike Sheppard, Finance Director

Attachments:

Resolution Number 23-04

Daytona Beach Contract Renewal #19632

Raftelis Proposed Cost to Provide a Water, Wastewater, Reclaimed Water as well as Water and Wastewater Impact Fee Study