

CITY COMMISSION CONFERENCE MEETING 2:01 P.M. MAY 19, 2009

Present: Mayor Seiler
Vice Mayor Bruce Roberts, Commissioners Bobby DuBose, and Romney Rogers, and Charlotte Rodstrom

Absent: None.

Also Present: City Manager – George Gretsas
City Auditor - John Herbst
City Clerk - Jonda K. Joseph
City Attorney - Harry A. Stewart
Sergeant At Arms – Sgt. Dana Swisher

I-A – Water and Wastewater Rate Study

Albert Carbon, Public Works Director, presented slides on the study. A copy of the slides is attached to these minutes.

Albert del Castillo, Bond Counsel, provided an overview of the bonds issued by the City and covenants that exist in favor of the bondholders. One is a rate covenant that obligates the City to set rates and charges each fiscal year so that net revenue generated will equal at least 125% of debt service requirements, plus 100% of various required deposits into reserve accounts, renewal and replacement accounts, and rate stabilization accounts. In addition, when the City considers issuing new bonds, there is a requirement that the revenues in any twelve of the last twenty-four months would equal at least 125% of the maximum principal and interest requirements on the City's bonded indebtedness. The credit rating directly affects borrowing costs.

In response to Mayor Seiler, Mr. Castillo provided more detail on the bonds issued by year and the amounts outstanding. Mr. Carbon noted the maturity years and the City's debt in the state revolving fund. The City could secure additional money from the revolving fund in July, 2009. Mr. Castillo commented there is a substantial difference between an AA rated bond versus an A rated bond in terms of interest expense.

In response to Commissioner Rogers' question regarding the market, Mr. Castillo said it is a tough market at this time. He went on to elaborate upon this topic.

In response to Mayor Seiler's question, Mr. Castillo indicated that Build America bonds are available for utilities but only for capital improvements. They could be used if the City could not issue traditional tax exempt bonds, although some investment bankers will say that Build America bonds might be better today. Discussion turned to options available to the City. Historically, the City's bond issues have been on a competitive basis, however, the City may be better served in this market by a negotiated sale. He explained the benefits.

Mr. Carbon continued with the slide presentation. Mr. Carbon responded to Mayor Seiler's question about the remaining 86% if base charges recovered are 14%, and that the optimum recovery percentage of 30% is a national American Water Works Association figure.

The following responses were provided to the Commission's questions:

Mr. Castillo indicated the bond rating agencies look at these percentages and even deeper to make sure fixed charges are set to cover fixed costs and the same for variable costs or at least there is a reasonable relationship. Mike Burton of Burton & Associates, City consultant, was not aware of any utility that recovers all of their fixed costs in the fixed charges. There is a balancing of the fixed charge in being fair to the low volume user and having a price signal when people use too much water in the interest of conservation. In Florida a range of 25%-30% has been a target. Mr. Castillo explained that the rating agencies would like to see more of the fixed costs covered by fixed charges, but it is not realistic. Mr. Burton added at some point it become politically impossible. As to whether the City would be adversely affected by a recovery of 14%, Mr. Carbon referred to the slide that indicated that Standard and Poor requested the City to look at its fixed charges. Mr. Castillo felt an increase of that percentage would be very helpful in the eyes of the rating agencies. Mr. Burton listed factors considered by the rating agencies as well as how types of users are defined and mitigation for low volume users.

Mr. Carbon continued with the slide presentation. He responded to Mayor Seiler's questions concerning debt service, indicating when WaterWorks was initiated in 2001, the utility was debt free. Mr. Burton explained that most utilities that are growing and dealing with environmental regulations have debt between 30% to 50% of their revenue requirement. In further response, Mr. Carbon indicated there are replacements, like a pump, that are budgeted as capital in the operating budget. Julie Leonard, Assistant Utilities Services Director, added such capital items are over \$1,000 and could be equipment or a truck. Mr. Burton explained the differentiation of when to finance capital items by debt funding.

Mr. Carbon continued with the slide presentation.

Andy Burnham of Burton & Associates, City consultant, reviewed slides concerning comparative water and sewer rates, and indicated, after the recommended adjustment, the City would be at the middle of the survey even before the other rate increases (by other utilities) have taken place. There may be additional rate increases not identified in the slide. He went on to review the slides on water and sewer rates. The slides include removal of the drought rate surcharge for Phases I and II. He responded to Vice Mayor Roberts and Commissioner DuBose's question about the 9,000 to 12,000 user and the user tiers. In response to Commissioner Rogers, Mr. Burnham discussed the impact of water usage restriction periods of time being lasting conservation changes and as such the rate structure is re-calibrated.

In response to questions about the drought surcharge, Mr. Carbon indicated removal of the surcharge would have to be addressed separately after the rate structure is changed.

Mr. Burnham responded to Mayor Seiler's question as to why there is no charge for use over 20,000 gallons on the sewer side.

Commissioner DuBose questioned if the percentage increase is large enough to maintain the City's AA bond rating. Mr. Burnham believed that given the other factors the recommendation is very good. The City Manager added there is no single factor

that increases or decreases a bond rating. The goal is to find a balance. In the changing economic environment, it is unknown whether the old rules apply. Commissioner DuBose clarified his concern has to do with the rating agency specifically making that request of the City. Mr. Burton expanded on how the rating agencies perceive rate adjustments, that the City's status has to do with extraneous things to their decision process. The goal is to not over-burden any one class at any one time. The fixed charge can be moved up in subsequent years.

Mr. Burnham addressed the slide on the service availability fee.

Mr. Carbon reviewed the slide on recommendations and conclusions. It is proposed there be two public hearings at the July meetings with rating being effective in August, 2009.

Mr. Carbon responded to Commissioner Rogers' questions about the WaterWorks 2011 project, indicating a timeframe of September, late October for a bond issue, meeting debt service, required reserves and operating capital. With approval to move forward with the recommended rate adjustment, WaterWorks 2011 will proceed as planned. Commissioner Rogers indicated that considering this project helps him come to terms with the percentage increase. Mr. Carbon pointed out that the City has already made an investment in its infrastructure through this project. The rate structure is lower because of planning.

In response to Commissioner Rodstrom's question, Mr. Carbon advised that the plan is for two \$80 million issuances this year and late 2010, although a reimbursement resolution up to \$90 million would lower the subsequent one.

Commissioner Rodstrom asked about the small user's monthly fee with the increase. Mr. Carbon noted the rate would be \$23.60 or an increase of \$2.15, 10%. He went on to note that 66% of the City's customers are at 7,000 gallons or below. Mr. Burnham further explained for the overall utility the revenue need is 20%. Because of the rate design changes, the impact differs for each type of customer. Over half of the residential customers consumer 5,000 gallons or below and those customers will have an increase of \$5.50 or less. Mr. Carbon indicated that 90% of the use is residential. Mayor Seiler wanted an environmental angle presented to the Commission.

In response to Commissioner Rodstrom, Mr. Carbon indicated that the rate is projected out to 2018 and takes into account expansion and reuse at the wastewater treatment plant. Also, there is a water conservation ordinance being brought before the Commission at tonight's meeting.

In response to Commissioner Rogers, Mr. Carbon explained that a 20% increase would be done in August 2009 with no increases in 2010 and 5% in October, 2011. Commissioner Rogers asked about spreading the 19% instead of all at once. Mr. Burton explained one reason not to do so would be to preserve the debt service coverage at 1.25 level. In such case, Mr. Carbon indicated such an alternative would be 15% and 10%.

Commissioner Rodstrom requested information on inactive accounts and future projects after 2011.

Commissioner Rogers and Mayor Seiler wanted data on the minimum required to meet debt service. Mr. Carbon indicated the minimum 1.25% will not achieve the AA rating.

EXECUTIVE CLOSED DOOR SESSION WAS HELD AT 3:14 P.M.

The City Commission shall meet privately pursuant to Florida Statute 286.011(8) regarding evaluation of the following:

AG Realty Fort Lauderdale, LLC v. City of Fort Lauderdale, Broward County Circuit Court Case 09-02937(19).

Albert Moustakis v. City of Fort Lauderdale, United States Court of Appeals for Eleventh Circuit Court Case 08-13809.

MEETING RECONVENED AT 3:51 P.M.

Continuation of Item I-A

In response to the request to spread the 20% over a longer period of time discussed before the closed door session, Mr. Carbon provided a water and sewer system financial management program summary that shows the 20% further spread out. Mr. Burton explained that there is only two months between the August increase and the first day of the 2010 fiscal year, therefore the increase covers 2010. Mr. Burnham added the August increase is essentially a fourteen month increase.

Mayor Seiler summarized there is acceptance that something has to be done to meet bond covenants and so forth. He suggested that the commissioners meet with Mr. Carbon with the City Manager's assistance and an update be provided at a June meeting on the rate increase percentages. There was no objection to public hearings being advertised for July.

Mr. Burnham responded to Commissioner Rodstrom's question as to why the 25% increase at this point when increases have ranged 3%-5% and will return to that in future years, indicated it probably the biggest reasons are drought conditions and use restrictions. Water sales have decreased some 23% since 2005. Commissioner DuBose pointed out if the bond rating is not maintained, costs will increase. Mr. Carbon outlined the purpose of the funding. Mayor Seiler pointed out that the small adjustments have not captured significant increases in fuel and insurance for example. Mr. Carbon noted the system was fully covered but a gap occurred in 2006, There is a three-year trend. This one-time adjustment is necessary and then go back on the track of small, incremental adjustments.

Mr. Carbon noted this presentation is on the City's website. Information will be provided on utility bills.

I-B -- Fiscal Year 2008-2009 Police Department Overtime Budget

Frank Adderley, Police Chief, said overtime was budgeted for \$3.3 million for this fiscal year. Last year, \$5.3 million was spent, and the projected amount for this year is \$6.1 million. There is \$1.5 million in salary savings which generally covers added overtime expenses. There was an additional \$800,000 COLA expense and \$463,000 for the