

**SEACOAST UTILITY AUTHORITY
PUBLIC WORKSHOP
AND
REGULAR MEETING**

December 17, 2008
Seacoast Utility Authority Board Room
MINUTES

CALL TO ORDER: 3:00 PM

PLEDGE OF ALLEGIANCE

ROLL CALL:

PRESENT: Don Noel, Chair
Robert Weisman, President Pro-Tem
Maria V. Davis, Vice Chair
Joseph Lo Bello, Member
Ron Ferris, Member

ALSO PRESENT: Nat Nason, General Counsel
Rim Bishop, Executive Director
Mary Ann Stiles, Authority Clerk

WATER, SEWER AND RECLAIMED WATER RATES

OPEN PUBLIC WORKSHOP

Chair Don Noel opened the public hearing. Rate consultants Howard Osterman and Scott Harder distributed a letter report and offered a presentation on rate indexing. Mr. Osterman stated that after reviewing Seacoast's capital needs and prevailing economic conditions with Clark Bennett, he has concluded that there is presently insufficient information available upon which to base a firm structural rate recommendation. From a rate perspective, the amount of the bond issue is not known because the cost of the project is unknown. Similarly the terms of the bond issue are unknown. Therefore, there is insufficient information upon which to base a consultant's opinion. Consequently, he and Mr. Harder will recommend a course of action that should work for a period of time while all these factors are playing out. If the Authority can index rates now and carry that indexing forward, even if the Authority abandons the surcharge and even if the surcharge is not replaced with a compensating rate structure, the Authority would be able to continue operations without severe economic problems for as much as two years. Thus, Mr. Osterman's firm recommends that indexing begin as soon as practicable and that the surcharge be removed at the same time. Both Mr. Osterman and Mr. Harder believe that this is in the best economic interest of the Authority.

Mr. Osterman presented the three tables in the report previously distributed in more detail. First and foremost, these tables present the recommended index formula for Board review. The

proposed index is developed and updated by the United States government, and it is keyed to the operating expenses of water and sewer utilities. Recognizing that no index is perfect, this is the most accurate that they have seen. Mr. Scott Harder explained that he was presenting was the July to July index for the years 1999 to 2008 and described these figures in greater detail. Mr. Osterman emphasized the need for the Authority's finances to be in order to prepare for the bond rating agencies. Mr. Harder explained the proposed process by which indexing would apply effective February 1, 2009. While the current index reflects a 7% increase in the unit cost in the rate components, the actual revenue would increase about 4.25 to 4.5% because it would be collected over the remaining 8 months of this fiscal year. It would not be retro active to the beginning of 2009. Mr. Osterman stated that he and Mr. Harder heartily recommend rate indexing to the Board. After their presentation, Mr. Osterman asked for Board member questions.

President Pro-Tem Bob Weisman stated that his understanding is that even if indexing is established as proposed, another rate adjustment would be necessary when and if the Board decides to move forward with the building of the membrane water plant,. Mr. Osterman stated that is correct, but not another rate adjustment, it would be the rate adjustment. Mr. Harder interjected that when the surcharge is removed; indexing would be put in place to give the Authority stability that it does not presently have. More discussion took place.

President Pro-Tem Bob Weisman then asked why not leave the surcharge in place instead of rate indexing for stability. Mr. Osterman responded that the surcharge is a short term fix and bond agencies know this; whereas, indexing is a more permanent solution. Mr. Harder responded that from a customer service perspective, customers are complaining that the surcharge has served its purpose; it is time to remove it. Unfortunately, in its place, the Authority needs to create some stability in its rates. Mr. Weisman stated his opposition to removing the surcharge, adding rate indexing, and then down the road when the plant is ready to be built, increasing rates again. Mr. Weisman stated that he would rather do nothing at this time and deal with the rates when the Authority is ready to build the water plant.

Board Member Joe Lo Bello asked Mr. Harder if he had looked at the November CPI and Mr. Harder responded that he had. Mr. Lo Bello pointed out that the CPI has dropped tremendously and there was much discussion as to the impact of this in conjunction with rates. Mr. Osterman stated that theoretically, operating expenses would decrease in a deflationary economy and the Authority would not be adversely affected, but that could change. More discussion took place. Mr. Harder pointed out that commodities such as fuel and chemical expenses might decrease, but the cost of labor or salaries will not. More discussion took place.

Board Member Ron Ferris stated that he would be more comfortable if the Board knew what the membrane conversion project will cost before adjusting rates. Mr. Ferris clarified that if the Board does nothing, the bond rating process will look unfavorably upon the Authority from the standpoint of stability. If the Board adopts indexing and drops the surcharge, then the rates will still have to be changed again when the cost of the project is known. Mr. Ferris does not feel this is an attractive alternative. Mr. Osterman stated that once indexing is established, it would be automatic from thereon. Mr. Ferris stated that the rate will change, the customers will notice and he currently receives a lot of phone calls from customers. There was discussion as to whether a

rate increase could wait until the construction of the membrane treatment plant is imminent. Mr. Osterman stated that if the Board opts not to do anything at this point in time, it will have enough time to establish indexing before the Authority issues bonds; although the consultants would rather have this done a few months earlier than that. Mr. Ferris stated that he understands, he is just looking at it from a customer's standpoint; the Authority has had a rate increase, had a surcharge and now the possibility that the customer will see this happen maybe two more times.

Executive Director Rim Bishop stated that customer would see an increase one more time. He explained that what is being proposed is to implement the indexing as recommended, which would result in an automatic yearly rate adjustment. Once the membrane plant bids are received and staff thus has an idea of how much capital is needed and perhaps a better idea of the interest rate that must be paid on that capital; then staff will be in a better position to propose a rate amendment. Mr. Bishop explained that the indexing will generate less revenue than the surcharge generates. The fact is that indexing is a long term solution to offset increasing operating costs over time. Staff would return to the Board in March or April with a rate schedule recommendation based on actual bid prices for the project. Board Member Ron Ferris stated that is what he would like to see, actual costs for the Board to work with. More discussion took place as to the increase of operating expenses and how it will affect the Authority.

There was a great deal of discussion regarding negative customer feedback relating to the surcharge. Mr. Bishop has taken numerous customer calls on the subject and spent a great deal of time explaining why the surcharge is necessary. Most customers respond favorably to his explanation. Mr. Bishop further noted that while, from a cash flow perspective, it would be nice to have the extra \$5.40 per month per unit coming in, the purpose for which the surcharge was implemented has been served. Mr. Bishop stated that he would have a lot harder time justifying the surcharge once the lost revenue has been recaptured.

President Pro-Tem Bob Weisman stated that would be great if the Authority was getting rid of the surcharge and not putting anything in its place, but the fact that the Authority would make 80% of the surcharge in another rate increase makes that argument lose substance. It may make it easier to explain verbally, but the financial result to the customer is not good. The customers will then complain that the rate did not decrease as much as they were told it would. Mr. Bishop stated that this is a serious concern to staff.

Mr. Weisman asked for a history of the building of the Hood Road Membrane plant. Mr. Weisman wants to find out what would happen if this plant project is delayed. Mr. Bishop explained that the membrane conversion initiative is a long term project; the planning began in 2005 per Board approval. The project was conceived primarily to improve drinking water quality and to eliminate the necessity of disposing of the sludge by-product from the lime softening operation. If the Authority does not proceed with this plant project, if the bids come in too high, staff might recommend to the Board not moving forward with this project. In that case, the Authority can continue operating its lime softening facilities for the foreseeable future. The Authority is not under any regulatory pressure, and the plant is not falling apart. That option is always open to the Board.

Chair Don Noel stated that looking at this as a customer, sludge removal, even increasing as it is, will cost a lot less than the debt service associated with the proposed membrane plant project. He also stated that if the SFWMD water restrictions are lessened, then the Authority should see a little more revenue from water use. Chair Noel feels that postponing the building of this membrane plant may be a good idea at this time. Chair Noel also feels that the indexing should have been implemented a long time ago. He would still be in favor of indexing, but he does not want to have to explain a rate decrease with removal of the surcharge, then rate indexing, then a rate increase at this time.

Chair Noel stated that the Board is in agreement to wait until spring 2009 to determine this issue when more costs and facts are known with the proposed membrane plant project.

Executive Director Rim Bishop reiterated staff's recommendation to retain the current rate structure and implement indexing in February or March and clarified that the Board's would prefer not to move forward with that at this time. Some discussion took place.

Mr. Bishop stated that staff proposes to complete the design of the plant, as it is currently 90% complete, bid the plant membrane conversion project and bring it back to the Board with actual costs. More discussion took place.

Board Member Joe Lo Bello stated that as a financial professional, he wanted to be sure everyone is aware that Mr. Osterman and Mr. Harder are 100% correct on the merits of removing the surcharge and putting a rate increase or indexing in its place. There is not question in his mind that it would be looked upon favorably when the Authority issues bonds. A surcharge means temporary. Much more discussion took place.

Mr. Bishop clarified the Board direction that the Board has a rate threshold that they are not willing to exceed even for the construction of the new water treatment plant. It was agreed that the Board may be willing to go through whatever rate changes, but only once. Mr. Bishop stated that the best way to accomplish that is to keep the surcharge in place and when costs are known, staff can bring a final recommendation to the Board, which may be around April 2009. More discussion took place.

Chair Don Noel closed the Public Workshop at 3:40 PM.

CLOSE PUBLIC WORKSHOP

*****THE FOLLOWING ITEMS WERE PLACED ON THE CONSENT AGENDA*****

APPROVAL OF MINUTES FOR MEETING OF NOVEMBER 19, 2008

Move to approve the minutes for meeting of November 19, 2008.

APPROVAL OF INVOICES

Move to approve invoices as follows: Howard C. Osterman, Inc. in the amount of \$450.00; Nason, Yeager, Gerson, White & Lioce in the amounts of \$5,875.78; \$580.50; and \$7,836.91; and Boyle Engineering Corporation in the amounts of \$3,531.01; \$100.00; \$1,222.00; \$100.00; \$9,577.60; \$3,106.50; and \$609.00; for a total of \$32,989.30.

AMENDMENT TO THE DEVELOPER AGREEMENT FOR MERCEDES BENZ

Move to approve execution of an Amendment to the Developer Agreement for the project known as Mercedes Benz of North Palm Beach, as recommended by staff.

PGA WWTP MECHANICAL SCREEN AT HEADWORKS, ENGINEERING SERVICES AGREEMENT

Move to approve Engineering Services Agreement with Boyle Engineering Corporation for the PGA WWTP Mechanical Screen at Headworks project in the amount of \$57,600.00, as recommended by staff.

HAULING OF LIME SLUDGE

Move to award contract for Hauling of Lime Sludge to Allied Trucking of Palm Beach, the lowest responsive bidder and whose bid will best serve the public interest at a price \$9.65 per Ton, as recommended by staff.

MOTION

Board Members Weisman/Davis moved to adopt the Consent Agenda.

The motion carried unanimously.

*******END OF CONSENT AGENDA*******

OTHER BUSINESS
COMMENTS FROM BOARD MEMBERS

Vice Chair Maria Davis wished everyone Happy Holidays.

Board Member Joe Lo Bello also wished everyone Happy Holidays. Mr. Lo Bello also complimented staff, Howard Osterman and Scott Harder because he received a much clearer picture today than he has had in the past about the plant project and related financial considerations, and he appreciates this.

President Pro-Tem Bob Weisman also wished everyone Happy Holidays.

Chair Don Noel also wished everyone Happy Holidays. Chair Noel congratulated the Authority and Board on its 20th anniversary and the party coming up. Chair Noel especially recognized the one Board Member that has served since the Authority's beginning - Bob Weisman has been a Seacoast Utility Authority Board Member for 20 years. Chair Noel stated that Mr. Weisman has been the bedrock of the Board for 20 years and his leadership is shown on the Board. He offered congratulations to Mr. Weisman.

ENGINEERING REPORT

Engineer's Report included in Board package. Bruce Mowry was present for questions. None were asked at this time.

STAFF REPORT

SFWMD CHALLENGE TO YEAR ROUND IRRIGATION RULE

Executive Director Rim Bishop stated that the latest developments are that the rule will be amended to completely abandon any attempt to regulate the use of reclaimed water at any time of the day and any day of the week. The second amendment to the existing draft rule would allow what SFWMD identifies as "alternative water supply utilities" customers to continue with three day a week watering, then phase back to two days a week over some as-yet unspecified period of time and under some as-yet unspecified circumstances. Mr. Bishop is not sure at this point if this will affect the Authority.

SFWMD WATER USE PERMIT RENEWAL

Executive Director Rim Bishop stated that he met with Chip Merriam and SFWMD staff on Monday. SFWMD staff has substantially amended its allegations of the "harm" that it alleges Seacoast operations have caused to the Briger wetlands. The Authority's wetland biologist is evaluating SFWMD's analysis and the Authority will respond to SFWMD on that when it is complete.

COMMENTS FROM THE PUBLIC

None

ADJOURNMENT

There being no further business to come before the Authority, Board Members Davis/Lo Bello moved to adjourn at approximately 3:45 PM.

APPROVAL:

DON NOEL, CHAIR

MARIA V. DAVIS, VICE CHAIR

ROBERT WEISMAN, PRESIDENT PRO-TEM

RON FERRIS, MEMBER

JOSEPH LO BELLO, MEMBER

ATTEST:

MARY ANN STILES, AUTHORITY CLERK