

City of Davenport Commission Workshop Minutes of May 6, 2024

Minutes of the Commission Workshop of the City of Davenport, Florida, held Monday, May 6, 2024 at 5:30 p.m. in the Commission Room after having been properly advertised with the following members present: Mayor Brynn Summerlin (in at 6:04 pm) and Vice-Mayor Jeremy Clark. Commission Members: Bobby Lynch, and Donna Fellows-Coffey. Also present: City Manager Kelly Callihan and City Attorney Tom Cloud. Absent and excused was Linda Robinson.

Vice-Mayor Clark declared a quorum present and opened the meeting.

BUSINESS

1. PRESENTATION BY POLK REGIONAL WATER COOPERATIVE (PRWC)

Before starting his presentation, Eric DeHaven, Polk Regional Water Cooperative Executive Director wanted to thank Tom Fellows for his many years of dedicated services to the PRWC.

Mr. DeHaven provided a PowerPoint presentation stating that he would be providing an overview of the PRWC and a status of where they were at and focus on the Southeast and West Polk Lower Floridan Aquifer Wellfield projects. He would follow up with the funding and financing and their business plan.

He proceeded to outline the Southeast Wellfield – Phase 1 costing \$464 million, consisting of cost for design and construction of treatment facility plus transmission pipelines, land acquisition, and injection wells. He outlined the construction schedule and Capital costs.

He proceeded to outline their Business Plan. He explained that what the Business Plan did was give them the ability to plan for costs and allow them to update rate studies and allow them to determine how to collect the monies to be able to support the PRWC for supplying them with this water.

The City Manager informed Mr. DeHaven that before he came onboard, he had gone to the Board, and they had voted to allow the city to do their own lower aquifer well. Within the next few months, the city would know whether they were going to get water and the quality of that well. He asked how this would play into their projection. Was there any possibility that if their lower aquifer well came in, could they reduce their number or just try to sell water to another municipality. Mr. DeHaven answered that this was one option. They could treat it outside of the Implementation Agreement where Davenport worked with another member that might need more water. So essentially the city would be selling their portion to them. This was something he was working on to set up a framework on how it would occur on cost and things like that. There was already a mechanism within the Southeast Implementation Agreement where there was a “true-up” where if someone wanted more water and someone didn’t need as much they could “true it up” in the Agreement.

Mr. McCarthy proceeded to outline the funding summary and projected annual payments for each of the members participating in both the Southeast and the West Polk Projects, providing a more detailed cost for Davenport.

The Attorney asked if they had made any statewide comparison to the relative increase to the water and sewer bills. Of local governments in Polk County compared to everyone else

in the State of Florida. Mr. DeHaven responded that they hadn't done anything recently that was holistic but that was something that they should do or bring up to the Board. The Attorney added that this would be some good information to give to the people that were deciding the grants and loans.

Addressing Mr. DeHaven, Utilities Director Mike Stripling stated that it had been less than 2 years ago that the Commission had seen this very same cost chart with a much lower figure, and it was difficult for the Commission to make decisions on rates. Appreciating his comments, Mr. DeHaven responded that it has been difficult to project costs, especially in this age of inflation. It was a difficult period to predict. This one just stood out because it was a high dollar cost project to begin with.

The Attorney informed him that it stood out because in this County every water user was fixing to be hit with a 120% rate increase on their water and sewer bills over a 5-year period. He was pretty sure that this was unprecedented in the State of Florida, and he felt that he was going to get a whole lot more questions to answer before all this was over. Mr. DeHaven responded that Polk County had enjoyed lower rates for a number of years, but with the growth that was occurring they had to expect some increases just because they were limited in their water supply.

The Commission voiced their shock at the numbers and having to explain the increase to the resident's water bills.

In the audience, former Commissioner Tom Fellows voiced his concern that between 2025 and 2028 they were going to ask their residents to pay up, yet they still wouldn't have the water.

The City Manager asked what happens in 2025, was the PRWC going to work with them and the District to give them the water and make sure that happened. Mr. DeHaven responded that they would.

In addition, they were supposed to get water in 2023 and now it was 2028. The original amount they asked for in 2023 was one million gallons. Now in 2025 they were going to be at 3 million or over 3 million. So instead of 3 million gallons would it be 4 million gallons? Mr. DeHaven responded that he couldn't say that this would happen. The Attorney pointed out that they were told from time-to-time various things.

Mr. DeHaven stated that he understood their point and the frustration too. He didn't know what the answer was right now. He felt that they were all trying to grapple with what the Water Management District was going to do. The City Manager explained that they were told that if they joined that they would work with them between 2025 to 2028 to make sure that they would have enough water until PRWC water was available and this was the reason why they had signed on. The Attorney further emphasized that this was the only reason why they had signed on.

The City Manager concluded that the city has always tried to partner with PRWC. They were trying to do their own lower Floridan aquifer well and had created a Conservation Program before anybody else did in Polk County. They have one day a week watering. They have always tried to be a good partner to Swiftmud, the PRWC, and the Water Management District. He was just hoping that he was there now to help them get to 2028. Mr. DeHaven answered that this was his intent and wanted to do the best that the PRWC could do for its members.

The Commission thanked him for his presentation.

2. RATE STUDY PRESENTATION BY RAFTELIS CONSULTANTS

Murray Hamilton CPA and Vice-President for Raftelis introduced himself and Senior Consultant Trevor McCarthy. Mr. Hamilton explained that Raftelis was a financial rate and management consulting firm. He provided a brief history of the city's adoption of their last rate study in 2019 and stated that they were there tonight to present another Utility Rate and Connection Fee study.

Trevor McCarthy took the floor and outlined the study objectives and tasks, which would:

- Ensure equity of fees and charges for new customers
 - Review water and wastewater connection fees.
- Evaluate the adequacy of monthly service rates.
 - Develop a funding strategy to pay for water and wastewater system operations, maintenance, and capital repairs & upgrades.
 - Develop a cost recovery strategy considering the costs of the City's.
- Review of selected miscellaneous fees and/or policies.

He noted that a lot of the city's major capital improvements were driven by customer growth, displaying that;

- The city serves approximately 5,700 water and 3,700 wastewater accounts.
- Since 2018, the number of accounts served has nearly doubled; an average of 460 new accounts per year.
- Growth has prompted the need to expand capacity in both the water and wastewater systems, including:
 - Improvements in City-owned treatment and transmission assets.
 - Participation in Polk Regional Water Cooperative (PRWC).

Mr. McCarthy outlined the city's major capital improvement by funding source. He noted that this excluded PRWC. It included staff identified capital projects of just over \$92 million of which 48% was being funded by SRF debt.

PRWC Project Costs detail:

- City entered into agreements with members of the PRWC to develop alternative water resources to meet the utility's anticipated FY2045 demands:
 - Southeast Project: 2.72 MGD (Phase 1 entitlement 1.28 MGD)
- Fixed costs of each project are allocated to members based on the FY2045 capacity allocations.
 - Fixed costs include, but not limited to, operating expenses, capital contributions, deposits for renewal and replacement of assets, debt service payments, and working capital requirements.
- Variable costs are allocated to members based on actual use during any year (a charge per 1,000 gallons [kgal]).
- A "true-up" is required annually after the audit period to reconcile member payments against actual costs.
 - Certain operating credits (or deficiencies) will be applied against future member rates.

- PRWC closed on two (2) WIFIA Loans effective May 31, 2023 to fund up to (approximately) 49% of the Phase 1 project costs while three (3) SRF Loans are in progress.
- To meet its ongoing disclosure requirements, the PRWC will need to update the financial forecast and Business Plan annually.
 - The Business Plan and estimated member payments were recently updated and presented to the PRWC Board of Directors on January 24, 2024.

Review of Utility Connection Fees:

- Water and wastewater connection fees were last updated in FY2019.
- When considering the implementation of connection fees for water and wastewater service.
 - Fees paid by new development that creates demands for system capacity.
 - Fees are used to pay for growth-related facilities and major equipment.
 - Avoids growth-related costs from burdening existing customer.

Connection Fee Criteria Includes:

- Fees must be reasonably equitable to all parties - dual rational nexus.
- Fees must be based upon reasonable level of service (LOS) standards that meet the needs of the City.
- Fees must be accounted for in separate funds and cannot be used to fund deficiencies in capital needs of the utility or pay for any operating expenses.
- Proposed fees are based on current assets that have available capacity to serve new growth plus approved expansion-related improvements, including purchased water capacity costs associated with PRWC.

Proposed Connection Fees included:

- Water Fees increasing from \$2,580 to \$6,300.
- Wastewater Fees increasing from \$3,500 to \$5,360.
- Recommending discontinuing the AGRF's fee. This is a separate charge applied to new development to cover financing and interest costs. They have included the financing and interest costs for PRWC in these fees. This is a \$983 fee that would not be charged going forward.

Mayor Summerlin asked if the \$983 was water or wastewater or both. In the audience, Mike answered that it was a 70/30 split with 70 being wastewater.

The Attorney asked if they were just looking at the water connection fee and they used the comparison of connections and took out Lake Hamilton, would there be anybody else that was going to have a \$6,300 water connection fee. Mr. McCarthy responded that some of these other utilities were currently looking at their impact fees and had studies in progress. To his guesstimate they would but some of their results have not been determined yet or presented to management much less their Councils.

Mr. Hamilton further explained that only a couple of the members had completed studies and the other members have just initiated their studies, so they didn't have that information. The Attorney again asked his question to which Mr. Hamilton responded that working from Mr. DeHaven's schedule that requested the 2045 demands, those that are in the majority, which included Davenport were going to be closer to the \$6,300 cost per connection. There were other utilities that were not in that majority that were going to see something much less than that. He didn't disagree with him, but the majority would be closer to \$6,300 and there would

be some that would be less than that. The Attorney further added that the comparison chart was skewed when Lake Hamilton was placed on the list.

Taking the floor again, Mr. McCarthy proceeded with Summary of Financial Forecast and Review of Monthly Service Rates

Major Study Assumptions

- Projected revenues derived from monthly water and wastewater rates estimated to increase approximately 6.7% per year on average.
 - Results based on connecting approximately 360 ERCs per year from FY2024 through 2028.
 - Amounts consistent with the City's 5-year historical growth rate and the adopted budget.
- Operating expenses are projected to increase approximately 6.7% per year on average excluding PRWC costs.
 - With estimated PRWC member payments, O&M projected to increase 27% per year on average or from \$3.8m to \$9.9m from FY2024 through FY2028.
 - Projections based on the adopted FY2024 budget.
 - City has identified 5 new employee positions above budgeted amounts; 3 in FY2025 and 2 in FY2026.
 - Also beginning in FY2025, City staff have reallocated 50% of a building inspector's costs to the water and wastewater utility.

Other Study Considerations Included:

- The proposed rates should meet the following criteria:
 - Fully fund the operating and capital requirements of the system.
 - Results are contingent on the implementation of proposed connection fees.
 - Maintain adequate cash reserves.
 - Existing City policy to maintain a minimum of 17% fund balance or approximately 60 days of revenue / 90 days of operating expenses.
 - Provide net revenues sufficient to meet the requirements of the Rate Covenant.
 - Achieve at least a minimum debt service coverage of 115%.

He outlined decision matrix when developing the system wide revenue adjustments, which included:

- Implementation and use of connection fees.
- Phased Increases to AWS surcharge.
- Use of low interest rate SRF loan program and opportunities for principal forgiveness.

He outlined the priority use of connection fees.

- Priority 5: Pay portion of future wastewater loan payments.
- Priority 4: Pay a portion of PRWC loan payments.
- Priority 3: Pay existing loan payments to reduce burden on current customers.
- Priority 2: Provide a contingency reserve for unknown expansion related needs.
- Priority 1: Fully fund appropriated Capital projects.

Recommendation Increases to AWS Charges Included:

- AWS Surcharge implemented in FY2020.
 - \$0.15 per 1,000 gallons (kgal) of water use.
 - Currently applied to residential usage above 10 kgal.

- Applied to all irrigation and commercial usage.
- Proposed adjustments to AWS Surcharge:
 - Recommending going from: \$0.15 to \$0.35 in 2025; to \$0.75 in 2026 and to \$1.25 in 2027.
 - Recommending a 3-year plan.
 - Recommend applying surcharge to all usage beginning in FY2024.

Proposed SRF Loans

- The City plans to issue several SRF Loans after considering \$13.85 million in principal forgiveness and the use of \$18.80 million in impact fees:
 - Water Plant 1 Lower Floridan Well, 2024 - \$4.4m
 - Wastewater Plant Phase 2, 2024 - \$15.8m
 - Wastewater Plant Phase 3, 2025 - \$9.0m
 - Water Plant 2 Redundant Well, 2026 - \$750,000
 - Water Plant 3 and Transmission Upgrades, 2027 - \$14.0m

Projected Monthly Service Rate Adjustments and percentages displayed on the overhead monitor.

Description	Existing	FY25	FY26	FY27	FY28
Projected Rate Adjustments					
Percent Applied to Monthly Service Rates		20.0%	20.0%	20.0%	18.0%
Increase in Residential Water and Wastewater Bill (6,000 Gallons)		\$13.95	\$16.62	\$20.04	\$19.91
Existing/Projected Residential Bill	\$59.14	\$73.09	\$89.71	\$109.75	\$129.66
Effective Increase (Including AWS Surcharge)		23.6%	22.7%	22.3%	18.1%
<i>Amounts reflect system-wide increases to the monthly base charges and usage rates for water and wastewater service.</i>					
<i>When also considering the proposed increase in the AWS Surcharge (from \$0.15 to \$1.50 per kgal) over the study period and the application of the surcharge to all water uses including residential water needs up to 10,000 gallons, the total percent increase in customer bills is shown.</i>					

Policy Recommendation included the following:

- For customers with a separate irrigation meter, eliminate the cap placed on the wastewater bill.
- Add commercial rates for 10 and 12-inch meters.
- Add 1.5-inch service connection to the impact fee schedule.
- Increase the minimum late fee from \$5 to \$10 per occurrence.
- Increase tampering fees [*]
 - Currently \$100 first offense and \$150 each subsequent offense
 - Proposed:
 - First Occurrence: \$250
 - Second Occurrence: \$500
 - Third and Subsequent Occurrences: \$1,000

Recommendation Included - City Commission should consider:

1. Implementing a 3-year rate plan for FY2025 through 2027
2. Increasing the AWS Surcharge from 15¢ per to \$1.25 by FY2027
3. Applying the AWS Surcharge to all Water and Irrigation Sales
4. Updating the Water and Wastewater Connection Fees

5. Implementing the Proposed Water and Wastewater Rates through FY2027
6. Adopting Fee and Policy Changes for Miscellaneous Utility Charge

He drew their attention to the overhead monitor detailing the proposed bills by meter size for water only, water and wastewater and irrigation only.

The City Manager asked when they would get a final document. Mr. Hamilton responded that he would coordinate with staff and come back with an appropriate timeline.

There being no other business, a motion to adjourn was made by Commissioner Lynch and carried unanimously.

Meeting adjourned at 7:02 p.m.

I HEREBY CERTIFY that the foregoing Minutes are true and correct.



Raquel Castillo, City Clerk