

CITY COUNCIL PRESENT: Bruner, Dunagan, Wangemann, Hamrick, Figueras,
HALL COUNTY COMMISSIONERS: Powell, Lutz
STAFF PRESENT: Padgett, Sheppard, Marlowe, Jordan, Alicia Serra,
PUD STAFF PRESENT: Kelly Randall, Tim Collins, Jeremy Riley, Mak Yari,
Horace Gee, Tina Wetherford, Myron Bennett, Joey
Leverette, Danny Ingram, Stephen Douglas, Jarrett Nash
OTHERS: Ben Williams, Brendon Thompson, Bobby Sills, Ken
Rearden

Public Utilities Director Kelly Randall called the meeting to order and expressed appreciation for everyone's attendance. He commented on the mission statement of the department as well as the goals and objectives for the upcoming fiscal year.

State of the Utility

Public Utilities Director Kelly Randall stated the purpose of the workshop was to review the finances of the utility department. It was noted that the utility grew 735% from 1955 to 1996. The growth rate leveled after 2007 but it is important to have the facility available when growth rates begin to rise again. Statistical information was reviewed in terms of water/sewer customers; water meters sold; wastewater taps sold; and water distribution and wastewater collection systems.

Upon inquiry from Commissioner Powell, Mr. Randall stated it takes approximately 15 years to recover the cost to run water lines noting there are many variables.

Statistical information was shared regarding water and wastewater billing volumes; and water and wastewater comparison profiles. It was noted that the majority of the water customers were residential customers (single family dwellings most of which are outside the city of Gainesville) which accounted for 50.9% of the water revenue. The majority of the wastewater customers were also residential customers yet the general industry customers generated 60.7% of the revenue.

There was discussion about the amount of water pumped to the system. There was also discussion about the projected annual average day water demands and withdrawals including the scenarios that could occur.

Mr. Randall stated 2024 would be a critical time in that one of two things needed to happen (1) be on line with Metropolitan North Georgia Water Planning District or (2) have Glade Farms on line. He felt it was important to figure out how to get Glade Farms on line or get Lake Lanier reauthorized to be prepared for the future.

Mayor Bruner asked about raising the lake level by 2 feet to help the capacity if the Corp was agreeable.

Council Member Wangemann questioned the expectation for a new reservoir to be built in three years.

Other information that was briefly discussed included a summary of wastewater commitments as of July 2010 was reviewed, the large industrial customers wastewater capacity used and the projected maximum month average day wastewater flows and treatment capacities.

Current Financial Situation

Finance and Administrative Division Manager Tina Wetherford discussed the financial situation of the utility. The top revenue producing customer comparison revealed reliance on the top three customers had increased. The top three customers were in the poultry industry and represent \$14.4 million.

RANKING	WATER	WASTEWATER
1	Fieldale Farms Corporation	Fieldale Farms Corporation
2	Pilgrims Pride	Pilgrims Pride
3	Mar-Jac Poultry	Mar-Jac Poultry
4	Cargill, Inc.	Northeast Georgia Medical Center
5	Islands Management Company	Cargill
6	Northeast Georgia Medical Center	Hall County Commissioners
7	Kings Delight	Kings Delight
8	Hall County Commissioners	Gainesville Housing Authority
9	Sun Communities	Koch Foods of Gainesville
10	Hall County Board of Education	Sonstegard Foods

Mrs. Wetherford reviewed FY2010, FY2011 (both budgeted and projected) and FY2012 projected revenue information. She noted the utility will lose \$500,000 in FY2012 due to the new ordinance addressing the account servicing fees. A 20% increase in electricity had been included in the budget. Staff also expected increases for chemical cost, fuel and capital project items.

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RECONVENE 1:18 PM

As an introduction to discussion about the Capital Improvement Plan, Public Utilities Director Kelly Randall stated anything that increases expenses by \$250,000 means revenue should be increased by 1%.

Recommended Capital Improvement Plan (CIP)

Engineering and Planning Section Chief Mak Yari commented on the purpose of the CIP noting it (1) shows the necessary projects to operate and maintain the water/wastewater systems, (2) represents a planning level cost estimate, and (3) provides a timeline for the projects. It does not intend to look at financing the projects. The financing is addressed in the comprehensive financial model.

Mr. Yari stated all of the projects appearing in the CIP will directly impact the financial model. The CIP is approximately \$3.3 million higher than last year of which \$1.5 million related to water projects and \$1.8 million related to wastewater projects.

WATER SYSTEM FIVE YEAR CIP					
<i>Project Type</i>	<i>2012</i>	<i>2013</i>	<i>2014</i>	<i>2015</i>	<i>2016</i>
Water Main Replacement (1 project)	350,000	0	0	0	0
Water Treatment Plants (2 projects)	250,000	250,000	250,000	250,000	250,000
Cedar Creek Reservoir Additional Treatment Capacity (1 project)	4,500,000	15,000,000	1,900,000	0	0
Water Main Extensions, Improvements, Replacements (6 projects)	1,950,000	5,500,000	2,600,000	2,500,000	2,600,000
Utility Relocation Related to Transportation System Improvements (22 projects)	1,250,000	2,700,000	6,675,000	7,550,000	6,925,000
Distribution System Improvements (7 projects)	3,840,000	4,250,000	4,250,000	800,000	1,850,000
Tank Maintenance Program (1 project)	350,000	350,000	350,000	350,000	350,000
Facilities Improvements, Expansion (4 projects)	0	0	125,000	0	0
TOTAL	12,490,000	28,050,000	16,150,000	11,450,000	11,975,000

It was noted that the majority of the dollars for water main extensions related to the Cedar Creek Project.

Upon inquiry from Council Member Hamrick, Assistant Public Utilities Director Tim Collins stated 7,500 customers had received radio read equipment.

WASTEWATER SYSTEM FIVE YEAR CIP					
<i>Project Type</i>	<i>2012</i>	<i>2013</i>	<i>2014</i>	<i>2015</i>	<i>2016</i>
Sanitary Sewer Replacements Rehabilitations (5 projects)	600,000	1,000,000	1,125,000	1,000,000	1,025,000
Water Reclamation Facilities (4 projects)	824,000	800,000	250,000	1,750,000	250,000
Sewerage System Improvements (8 projects)	3,600,000	1,350,000	600,000	600,000	600,000
Utility Relocations Related to Transportation System Improvements (11 projects)	850,000	400,000	575,000	725,000	1,150,000
Wastewater Collection System Studies (1 project)	0	0	0	0	0
Facilities Improvements/Expansions (4 projects)	0	0	125,000	0	0
Wastewater System Capital Equipment (4 projects)	300,000	150,000	130,000	125,000	0
Watershed Protection (2 projects)	2,000,000	250,000	0	0	0
TOTAL	8,174,000	3,950,000	2,805,000	4,200,000	3,025,000

Recommended Funding Plan, Rates & Adjustments

Ben Williams, Jacobs Engineering, presented the financial model indicating the City had acted with perseverance over the last year. He shared a list of difficulties that validated the City's steady yet persistent course of action.

Mr. Williams stated the financial plan includes four basic assumptions in regards to expenses.

1. Building a two month total budget reserve by FY2016.
2. Accruing debt redemption reserves relative to bonds by FY2016 (recommending 6% per year).
3. Operating expense assumed growth, include Other Post Employment Benefits.
4. No raw water purchase cost.

He stated the financial plan also includes four basic assumptions as it pertains to income.

1. The top ten customers will continue service.
2. Implementation of the Account Servicing Fee Equalization Plan.
3. The Metropolitan North Georgia Water Planning District Tier 3 Water Rate Increase.
4. Assumed system growth rates at .5% for water and sewer in FY2013; 1% for water and sewer in FY2014; 1.5% for water and 1% for sewer in FY2015 and 2.5% for water and 1% for sewer in FY2016.

The financial plan also considers debt service coverage rates by reviewing income/expense projections. The revenue bond coverage ratio must be at least 1.25 and the combined revenue bond and GEFA/SRF coverage rate must be at 1.05. The calculations indicated FY2014 will be the most difficult year. If the assumptions are correct, \$50,000,000 in cash would be generated for capital projects. Mr. Williams stated the forecast for the five year period is better than what was seen at the last presentation of the financial plan.

Upon inquiry from Council Member Figueras, there was discussion about the impact to the financial plan if the City was ready to purchase water.

Mr. Williams stated the outstanding principal as of June 30, 2010 was \$222,000,000. The City is continuing to service this debt and has a 38 to 39 percent rolling average of capital construction financed by debt.

Mr. Williams discussed the estimated unit rates. In July 2011, the sewer differential will be set to 1.0 and the outside rate will be set at the inside rate (\$6.73). Six months later, the fiscal year 2012 rate will be applied in January 2012. The end result provides outside customers with a rate decrease in July and an increase in January at which time both inside and outside customers will have the same sewer rate.

The fees that to be generated from the financial plan were presented as follows:

	January 2011		January 2012		January 2013	
	Inside	Outside	Inside	Outside	Inside	Outside
WATER						
Account Servicing Fee	\$3.83	\$7.66	\$3.83	\$6.44	\$4.00	4.00
Unit Charge per CCF	\$2.28	\$4.56	\$2.38	\$4.76	\$2.50	\$5.00
Tier 2* (>10 CCF ≤18 CCF)	\$2.85	\$5.70	\$2.98	\$5.96	\$3.13	\$6.26
Tier 3** (>18 CCF)	\$3.99	\$7.98	\$4.76	\$9.52	\$5.00	\$10.00
SEWER Tier 3 at 175% of Tier 1 in FY11 and 200% in FY2012						
Unit Charge per CCF	\$6.73	\$7.03	\$7.02	\$7.02	\$7.38	\$7.38
Oakwood per CCF	N/A	\$8.49	N/A	\$8.31	N/A	TBD

*Commercial customers have their tiers calculated from their winter average use (WAU). Tier 2 starts at 125% WAU.

**Tier 3 starts at 200% WAU

It was noted that the Oakwood figures were calculated based upon the existing contract. The cost per unit of volume decreased due to the forecast that their sewer billing volume would increase.

There was discussion about the proposed water rate increases totaling 26.7% by 2016. The factors contributing to the increase were presented as follows:

Other Water Projects	4.6%
Cedar Creek	7.2%
Department of Transportation Relocations	5.4%
Restricted / Reserved Funds	3.9%
Operating / Non-Operating Costs	5.6%
TOTAL	26.6%

Council Member Wangemann expressed concern about the increase and suggested waiting until the court ruling was available to make a decision about Cedar Creek.

Public Utilities Director Kelly Randall stated when debt exists, you have to pay it. He also stated there had been discussion about the different scenarios regarding Cedar Creek in regards to when the project could/should be stopped. There was discussion about the rates if the Cedar Creek Project was not included in the five-year plan.

Council Member Dunagan expressed a desire for the increase to be around 4%. He felt the islands need to commit to connecting before building anymore sewer extensions. He also thought the Cedar Creek Project could be delayed another year.

There was discussion indicating the budget could be adopted without adopting the rate schedule. Ultimately, the question was should we adopt a rate in June with the understanding that it may change in October or should we wait until after the judge's ruling on the water issue.

Council Member Figueras stated today was not the time to make decisions. In the years she'd been on the Council, information was presented and Council provided specific comments/direction. At a later date staff provided the best option for consideration.

Hall County Commissioner Powell confirmed the proposed rate included both new and existing rates. He indicated there would not be a need for an increase if the General Fund did not receive a transfer of \$2.5 million from Public Utilities Department.

Mr. Williams stated the funding plan made assumptions about operating expenditures and capital expenditures over a five year period to identify the rate increases necessary to fund the plan. Applying the percentages to the existing rate structure provided the typical monthly billing information.

Mr. Williams closed by reminding the group that perseverance was a persistent steady course of action. He felt persistence was needed to: manage the operating, maintenance and capital expenses; communicate with top ten revenue generating customers; continue funding reserves; monitor funding plan assumptions monthly; continue to strengthen sewer service to be self supportive; market excess wastewater treatment capacity; and to address the water supply beyond 2012 by reauthorizing Lake Lanier or pursuing reservoirs. He felt it would take a long time to reauthorize Lake Lanier. He also stated experience shows it will take 15 years to get a reservoir up and running. Mr. Williams closed by stating a reservoir was achievable by 2025 if we persevere.

Other Comments

Commissioner Powell felt equalizing the rates had been left out of the presentation.

Commissioner Lutz inquired about capacity at the Lakeside and Riverside plants.

Council Direction & Closing Thoughts

Mayor Bruner stated the Council would not make any decisions today and extended appreciation to the staff.

City Manager Kip Padgett stated a decision would be necessary in the fall.

ADJOURNMENT: 3:25 PM

/dj