
INTER-DEPARTMENTAL COMMUNICATION

TO: HONORABLE MAYOR AND CITY COUNCIL MEMBERS

FROM: JONATHAN E. EVANS, CITY MANAGER

DATE: APRIL 13, 2017

SUBJECT: RESPONSE TO DIRECTIVE FROM COUNCIL TO MEET WITH ECR REPRESENTATIVES

As a follow-up to the directive from the Utility District Board at the meeting on Monday, March 27, 2017, directing staff to meet with representatives from the East Central Water Reclamation Facility (ECR) Board, staff followed the directive and are providing the Board with the following summary:

Records reflect that The City of Riviera Beach became a partner in the East Central Regional Wastewater Treatment Plant (ECR) on September 9, 1992. At that time, the City signed a 30-year agreement that included an approximate 12% ownership based on wastewater flows. That agreement was renewed by the Utility District Board on April 20, 2010, for an additional 30 years. The purpose of the Agreement was to consolidate prior separate agreements into a single unified agreement to establish rules and procedures for the operation and management of the existing facility. The additional participants in the ECR include the Cities of Lake Worth, West Palm Beach, Town of Palm Beach and Palm Beach County. Each participating entity holds a financial interest in the ECR, whose purpose is to receive, treat, and dispose of sewage generated within each municipality and the County.

The Agreement provides for the establishment of a Governing Board (the Board), comprised of one representative from each entity participating in the Agreement. Under the Agreement, the Board has the power to enter into contracts, employ personnel and enter into debt in accordance with Florida Statutes. The City of West Palm Beach operates and manages the ECR on behalf of the Board and is paid an administrative fee by ECR members for those services. The Agreement may be terminated only with the unanimous consent of the Entities. An Entity may withdraw from participation in the Agreement; however, the Entity will forfeit its interest and allocation in the ECR and would still be required to meet its obligations under the Agreement. In the event the ECR is sold or disposed of, proceeds of the sale or disposition shall be prorated among the Entities, based on their reserve capacity as of the date of disposition.

The terms of the Agreement provide that each entity is required to pay a proportional part of the annual operating costs, fund a separate renewal and replacement account based on a percentage of the capital cost of the facility and make other contributions. Costs of operating the ECR are shared by each of the Entities based on actual flows of wastewater. Costs associated with capital projects, renewal and replacement, and debt service are shared among the participating Entities based on their share of reserve capacity.

The reserve capacity percentages by Entity are as follows:

Participant	Reserve Capacity
City of West Palm Beach	29.2857 %
Palm Beach County	34.2857
City of Lake Worth	16.4286
City of Riviera Beach	11.4286
Town of Palm Beach	8.5714
	100.0000 %

As you recall during the March 27, 2017, Utility Board Meeting, a representative from the ECR updated the Board and public with a brief overview of the services provided by the ECR and submitted a brief outline of the proposed budget increase for operational and capital project costs for the ECR for the coming fiscal year. On Tuesday, April 11, 2017, staff and I met with Mr. Sanders and Mr. Shultz from the ECR to discuss the proposed budgetary increase. During the meeting, they provided staff with a copy of the ECR's proposed ten-year Capital Plan and Operating Budget Detail for 2018.

The proposed increase in the capital plan is attributed to the ECR's request to address the immediate needs in the wastewater treatment process and to renovate the aeration basins that in some cases have not been rehabilitated since 2007. Based on the review of the documents and the need to perform on-going repairs and maintenance that are crucial to the functions of the ECR, staff expressed concerns that the information they provided indicates approximately 2.8 million dollars originally allocated to perform capital repairs in previous years, was not used and was reallocated to their capital reserve funds. I questioned the need for the City to absorb such a drastic increase in capital costs for the next fiscal year, especially if the projects will not be completed or will not be shovel ready in that fiscal year. In addition, staff expressed concern for the proposed contribution requirements over the next ten years. We suggested a smoothing or consistent contribution pattern versus the fluctuation in rates over the next ten years that would allow for a systematic approach in funding future costs.

The increase in operating costs is largely a result of phased efforts to accommodate the bio-solids facility expected to come online in the coming months. In an effort to minimize the proposed increase in costs this year, the ECR is recommending the use of approximately \$1,360,000 from the bio-solids contingency fund to help offset a portion of the increase in operating cost. The remaining funds would be charged to the additional partners.

Below is the payment history for the past five fiscal years.

Fiscal Year	Status	Operating	Capital	Total
2013	Actual	\$ 1,310,068.00	\$ 445,250.00	\$ 1,755,318.00
2014	Actual	1,498,419.00	524,122.00	2,022,541.00
2015	Actual	2,163,021.93	404,884.00	2,567,905.93
2016	Actual	2,145,664.00	556,041.00	2,701,705.00
2017	Actual	3,303,918.43	460,624.00	3,764,542.43

Prepared by Finance

The increase in operational costs from Fiscal 2014 to Fiscal 2015 is primarily due to the issuance of bonds for the bio-solids processing plant. In 2014, the ECR issued \$86,590,000 of revenue bonds. The increases from Fiscal 2016 to Fiscal 2017 are due primarily to an increase in sludge hauling costs.

The ECR Board has presented to the City the following budgets for Fiscal 2018:

<u>Fiscal Year</u>	<u>Status</u>	<u>Operating</u>	<u>Capital</u>	<u>Total</u>
2018	Proposed	\$ 3,342,183.00	\$ 790,738.00	\$ 4,132,921.00

Prepared by Finance

The ECR operating budget for Fiscal 2018 reflects only a minimal increase of \$334,814. By applying the City's capacity reserve of 11.4286%, the City will experience an increase of \$38,265.

The requested contribution for the Renewal & Replacement Fund - funds used to cash finance capital projects - for Fiscal 2018 will have a far greater impact on the Utility District's budget. The Renewal & Replacement Fund annual contributions are determined based on a percentage of the treatment plant's value. Historically the ECR has assessed between 1 and 1.5% of the plant's value annually. For Fiscal 2017, the assessment was at 1.5% allocated to the entities based on the capacity reserve. For Fiscal 2018, the ECR is proposing calculating the assessment at 2.5% thereby causing a \$330,276 increase for the Utility District. The ECR projects various fluctuations in the assessment rate over the next ten years including 3.0% for fiscal years 2019-2027.

It should be noted that the rate study projected the Fiscal 2018 ECR payment to be \$3,472,836. The request from the ECR exceeds this amount by \$660,085.

The next ECR Board meeting is April 27, 2017, and the board is scheduled to vote on the 2018 fiscal budget at a meeting scheduled for May 10, 2017. Staff recommends the Board consider two requests from the City to the ECR Board.

1. Utilize the current reserves held by the ECR (\$11 million) to soften the increase in Fiscal 2018 possibly reducing the increase by 35-50%, and
2. Eliminate the fluctuation of rates over the next ten years. The staff understands that the ECR has placed itself in a position that is unfavorable for borrowing in the short-term, and therefore, would recommend 2% for five years to be revisited for Fiscal 2023.

Should you have any questions, please contact my office.

JEE/TFP

C: Danny D. Jones, Deputy City Manager
 Troy F. Perry, Acting Executive Director of Utilities
 Randy Sherman, Director of Finance and Administrative Services
 Department file

Attachments