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# HISTORICAL PERSPECTIVE OF THE SOUTH SANTA ROSA UTILITY SYSTEM

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PREPARED DECEMBER 2009

**DRAFT**

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## I. EXECUTIVE SUMMARY

The City Council directed staff to develop a white paper about the South Santa Rosa Utility System in response to concerns raised regarding a recent rate increase which resulted in water and sewer rates being different inside the City than in the unincorporated area of Gulf Breeze served by South Santa Rosa Utility System.

This white paper is currently in draft form. We plan to amend and improve its content over the next several months with input from citizens, the SSRUS Board, the City Council and staff.

In the preparation of the paper to this point, we have learned a great deal about the utility by sharing our thoughts among staff. It appeared to us that a different rate for SSRUS and the City was logical. We are now convinced the rates must be different. Any similarities in the rate were coincidental and somewhat contrived.

For example, the City had to buy SSRUS from private owners who had a right to a profit. The City has no long term debt from any system purchase.

The impact of Ivan and then Dennis was more significant in the SSRU system. Further, the economic downturn has resulted in a more significant impact in SSRUS. The decision by Midway Water System, which supplies no water to City customers, to balance its budget with a major rate increase may have caused customer usage in SSRUS to change drastically.

There is a basis and authority in Florida Statutes to charge one utility rate inside an incorporated City and a surcharge or higher rate outside the incorporated area. The reality in our systems is that the cost and revenue structures are different. We hope this paper, in its current form, begins to explain the situation.

One of the issues raised during consideration of the recent rate increase was that SSRUS customers do not vote for the individuals on the City Council who set the utility rates for SSRUS. This is true throughout the State of Florida wherever a municipally owned utility system provides water and sewer service to consumers inside and outside its boundaries. Consumers in the SSRUS vote for representatives and senators to represent their interests in the Florida Legislature. The Legislature may amend F.S. 180.191 from time to time as necessary.

In addition, the City Council has consistently kept in place, a Board to advise the Council on SSRUS operations, rates and policy matters. This Board was instrumental in recent expansions of the SSRUS and in recommending rates to cover costs of the utility.

### III. INTRODUCTION

With the approval of the rate increase for South Santa Rosa Utility System (SSRUS) customers this past October and the controversy that followed, the City Council directed staff to prepare a white paper discussing the history of the utility might be in order to demonstrate the reasoning behind the rate increase.

In an effort to meet this need, we have provided a historical perspective of the purchase of the utility, the historical rate structure and impact fee assessments, a comparative employment analysis, the policy on City owned vehicles, and a legislative summary of what the City is allowed to do versus what it has done in the past.

### IV. ORIGINAL PURCHASE OF SSRUS

The City purchased a privately owned, for profit utility known as South Santa Rosa Utility (SSRU) in 1989. The purchase price was \$9,788,000 plus subordinate debt to be paid from future impact fees purchased for connection to the system over time.

The financing of the purchase was classified as a 6320 transaction. A not-for-profit entity with an autonomous Board appointed by the City was established to oversee utility operation and set rates that would cover debt associated with the purchase as well as operations, maintenance and capital improvements. The Board hired a management company to provide staff and oversee utility operations.

At the time of the purchase, there was no connection between the City utility operations and SSRU. The City purchased potable water from Midway Water and operated a wastewater treatment plant located in the City. Purchase of SSRU provided the City with the option of closing its wastewater plant and diverting waste to the Tiger Point wastewater treatment plant which was underutilized.

From 1989 until 1992, utility operations and financing for SSRU had no connection to City operations. Rates for SSRU were based on debt service for acquisition of the system, operations and the costs of management through the private firm.

Once the decision was made to close the City plant and treat all wastewater in one facility, the City constructed upgrades to its system to pump wastewater to the Tiger Point Treatment Plant via a pipeline paid for by the City. A share of the pipeline was paid for by SSRU as future customer connections to SSRU would be made along the new pipeline.

The City formally became a wastewater customer of SSRU in 1992. Plant flow at Tiger Point increased from a monthly average of 0.514 to 0.851 MGD. Economy of scale previously unrealized in the operation of the WWTP was now achieved. The cost of operating the WWTP was now borne in part (one third) by the City.

Operational efficiency was achieved by consolidating flow from two facilities into one (Tiger Point) and a discharge of effluent to Santa Rosa Sound was eliminated.

In 1994 the City refinanced the 1989 (6320) financing with \$14,310,000 in bonds backed in full by the City. The previous owner's right to a portion of impact fees was retired and new money was made available to SSRU for a wastewater force main to the eastern end of the franchise area. The interest rate on the 1994 financing was much less due to the financial commitment of the City. The City became the permit holder for the WWTP regarding future dealing with the Florida Department of Environmental Protection.

The City continued to pay a proportionate share of the original debt. (The part associated with the WWTP and the pipeline connection since the remainder of the SSRU system, its water plant, water pipes and wastewater lift stations for example were not utilized by the City) As the cost of financing changed, the City's share was changed. The City took no consideration for the cost for using its full faith and credit to achieve a lower interest rate for the bonds.

As the 6320 financing was phased out, the role of the SSRUS Board also changed. Technically, the Board was no longer autonomous. The employees of the utility transitioned from employees of a utility management company to City employees. A separate fund known as 403-South Santa Rosa Utility System was established on the City's chart of accounts. The business plan was for costs associated with City utility operation would be borne by City customers with the City contributing a percentage of the treatment facility operating expenses and 80% of any sewer impact fees collected. SSRUS costs would be assigned to its customers and paid from revenues segregated for each system.

In the various operations there were opportunities for savings. For example, two billing systems were consolidated to one. The SSRUS office was sold.

A contribution to the overall billing system and staff is made from each utility, from storm water, natural gas and SSRUS based on the size of the utility and the complexity of the operation.

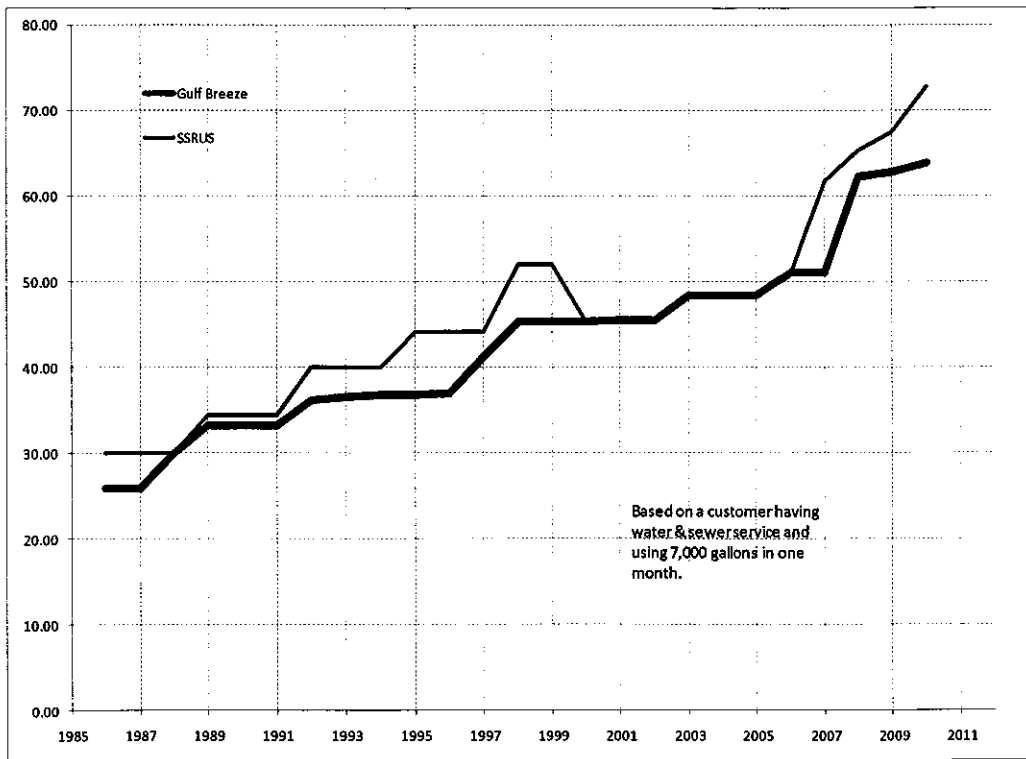
## V. HISTORICAL RATES AND FEES

The utility has been subject to criticism for having separate rates for the utility inside the City limits and the utility outside. It should be noted that these are separate utility systems; each having its own water plant, distribution system and sewer collection systems. The only aspect shared by the two systems is the treatment and disposal system.

The City and SSRUS Board have operated that the systems as separate and unique, and therefore rates should be determined by the needs of each individual utility. The purchase of the SSRUS system placed a debt on its customers that has no equivalent in the City system. Additionally, major renovations and replacements were required in the SSRUS water system. The utility spent 1.6 million to replace its water pumping facility and construct a ground storage tank and field operations facility. The Board also saw the need to meet a minimum fire protection standard, which the City already met. The Board recommended a \$2.00 per month

fire hydrant improvement fee for SSRUS customers to pay for water main and fire hydrant upgrades. All of things lead to a need for separate rate structures.

Below is a chart showing the monthly bill for a water and sewer customer using 7,000 gallons per month. The chart shows that the rates for SSRUS have been higher than the City rates since 1989, with the exception of a six year period from 2000-2006.



In 2000, the City decided at the request of the Board and citizen activists to reduce SSRUS rates to equal the City's rates. This decision was based partly on the receipt of impact fees that existed at the time. The reduction was predicated on a formal rate study being performed to determine the correct rates for the utility. In 2001 the rate study was completed, but the recommendation for rate increases was not enacted by the SSRUS Board. At the time, a few members of the Board stated that they could not support a rate increase with a nearly \$4 million cash balance in the bank.

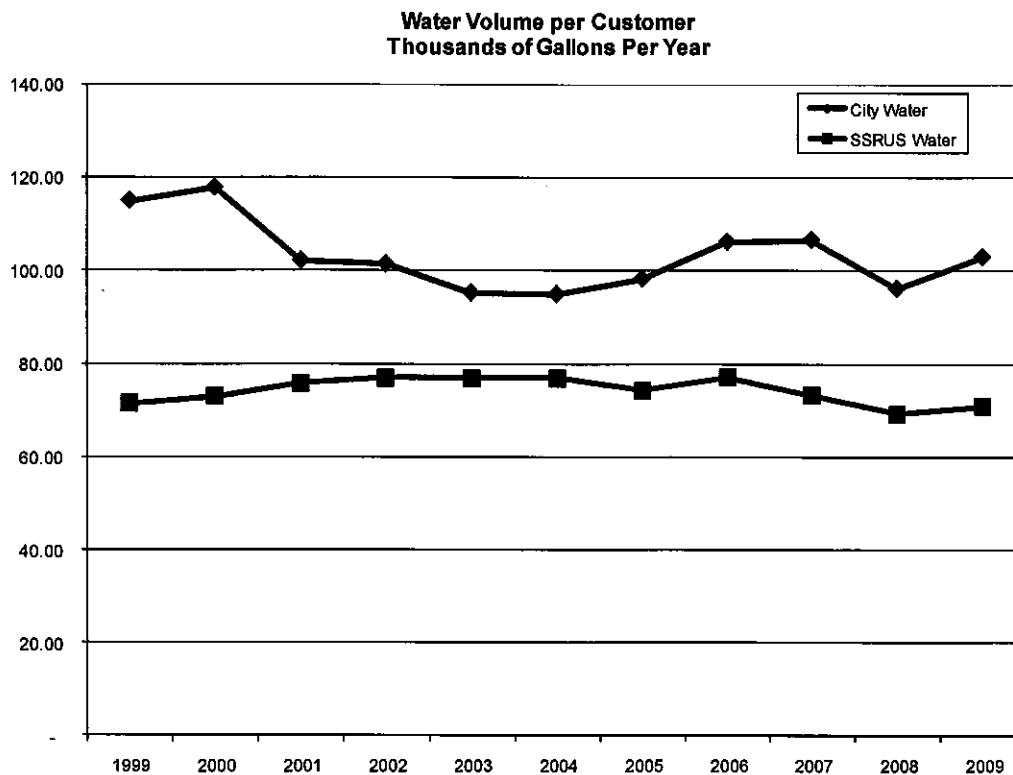
Even though staff advised that the cash balance was from impact fees, and should be reserved for debt principal payment and capital infrastructure upgrades. It wasn't until 2006 that the Board agreed that customer portions of the debt may have been subsidized by impact fees and more of the debt for the original purchase should be shifted back to the customers. At this point, the Board recommended an increase for SSRUS customers that was not required for the City system.

Since 2006, SSRUS has seen a dramatic decrease in impact fees to nearly zero. These funds normally used to pay up to 65% or more of the debt service are no longer available. In order to

make the debt payments, several cost cutting measures were taken as well as rate increases. The City has not been affected by the economic down turn like SSRUS has. The City has not seen significant growth in many years and therefore never developed a strong presence of impact fees in the revenue stream. Additionally, the City infrastructure was mostly dedicated to the City, so there is no large debt service payment to make.

Another factor creating the need for different rate structures is usage. The City has a higher volume use per customer than SSRUS customers. While the trend has been for SSRUS customers to conserve and use less per year, City customers maintain a rather level usage. The majority of costs for the utility are fixed and incurred whether water is used or not. The City must budget based on a rate for the projected volumes. If customer usage is decreasing, then rates must increase to insure coverage of expenses.

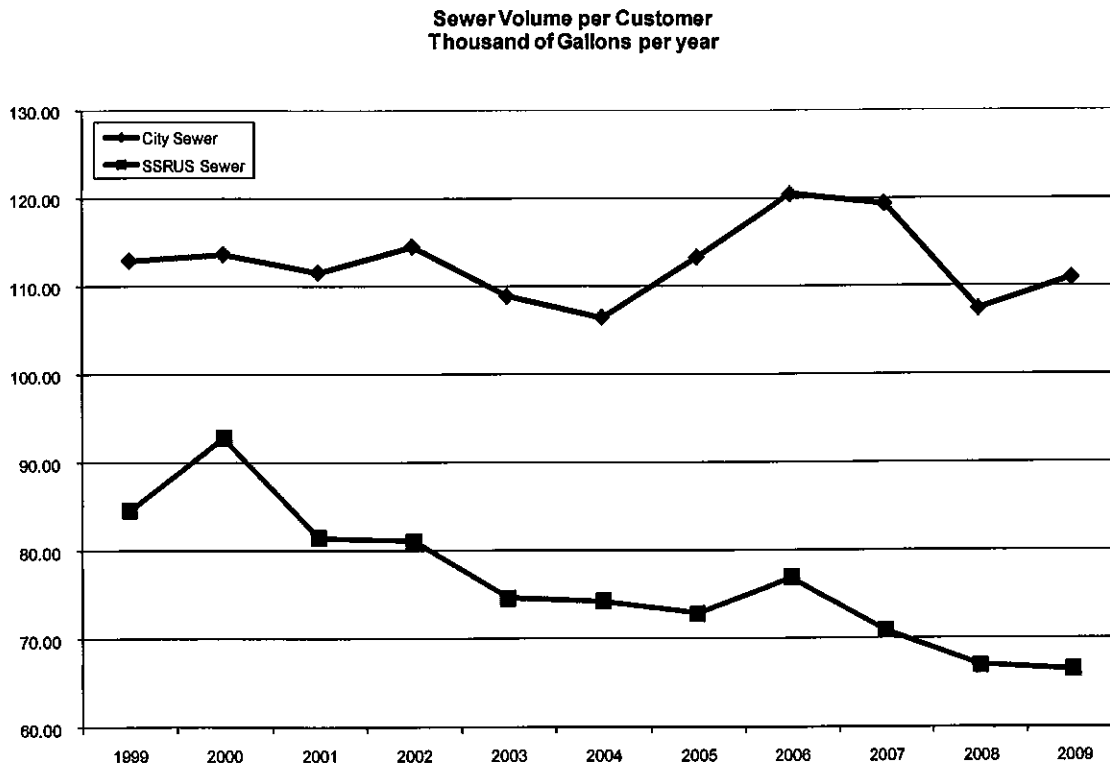
The graph below shows the historical trend for water usage for the City and SSRUS.



As you can see from the graph, the average SSRUS customer uses less water than a City utility customer, and the trend indicates that the SSRUS customers will continue to conserve.

This conservation effort is related to both the economic down turn experienced throughout the United States, but also to rate increases by the Midway Water System. Midway provides water to the utility's sewer only customers. As Midway has increased its volumetric rate to \$5.25 per

thousand, its customers have conserved water. The graph below shows the sewage volume per customer for both the City and SSRUS.



This graph shows that overall sewage usage per customer is trending downward for SSRUS, while the City customers tend to be stable, varying only with climatic conditions.

The staff has also fielded several questions regarding the possibility of rates decreasing in the future as debt is paid off or impact fees increase. In 2000, SSRUS customers realized a 12.7% rate decrease (based on 7,000 gpd), which has never been afforded City customers. Therefore, it is likely that a rate decrease is possible if economic conditions are favorable.

## VI. COST ALLOCATIONS

The City's overhead allocation for the treatment of wastewater is based on a percentage of total metered sewer flow between the City and SSRUS less any items that are paid directly by the City such as other contractual services (i.e. sludge disposal services with ECUA). The City transfers 1/12<sup>th</sup> of the annual amount to SSRUS each month. No yearend adjustments either positive or negative have been made between the City and the WWTP budget.

## VII. FULL TIME EQUIVALENT (FTE) EMPLOYEE ANALYSIS

The SSRUS staffing has been called into question because of the growth from 17 employees in 2000 to 29 employees in 2007. This is a misrepresentation of the facts. In the years from 2000 to 2004, SSRUS was not fully staffed to its approved levels. We had positions approved but not

filled. We did fill positions as necessary and the Board instituted a wastewater operator training program that aided in hiring.

The other fallacy is that the 29 people were all SSRUS. In 2006 the City changed its allocation system in order to dedicate pay costs to the different utilities where the employees actually perform work. Some SSRUS employees are partially dedicated to City water & sewer system, and the Stormwater Utility; others are additionally partially assigned to natural gas and City streets. The City water & sewer fund also contributes 30% of wastewater operator salaries directly. The actual equivalent number of full time employees in 2007 was 25.75 dedicated to SSRUS. Going from 17 employees to 25.75 over a 7 year period is actually a 6.1% growth rate per year. This percentage matches the nearly 6% growth in new sewer connections.

To more objectively evaluate the number of employees, the table below shows the dollars per billed service. The reasoning is that costs vary by the service provided. A customer with only water service does not incur the same expense that a customer with water and sewer service does.

	City Water &				SSRUS			
	Regular Salary Only	Total Salary (OT, Temps, Regular)	Total Billed Services	Total Dollars per Billed Service	Regular Salary Only	Total Salary (OT, Temps, Regular)	Total Billed Services	Total Dollars per Billed Service
1998	\$121,420.41	\$131,249.56			\$404,669.26	\$439,599.44	8,700	
1999	\$219,499.40	\$240,855.57	3,945	\$61.05	\$478,941.91	\$530,303.83	8,710	\$60.88
2000	\$229,894.19	\$248,179.78	3,984	\$62.29	\$511,893.06	\$558,850.71	9,162	\$61.00
2001	\$257,851.70	\$284,279.18	4,038	\$70.40	\$599,775.12	\$660,322.10	9,463	\$69.78
2002	\$278,825.26	\$315,107.81	4,084	\$77.16	\$673,978.22	\$780,039.17	9,753	\$79.98
2003	\$297,990.97	\$326,898.88	4,110	\$79.54	\$716,026.73	\$791,467.89	10,138	\$78.07
2004	\$286,623.38	\$329,887.16	4,126	\$79.95	\$668,304.68	\$813,499.88	10,865	\$74.87
2005	\$299,044.53	\$369,893.01	4,087	\$90.50	\$786,347.51	\$975,387.75	10,678	\$91.35
2006	\$242,591.08	\$285,093.60	4,057	\$70.27	\$964,029.24	\$1,140,649.94	11,090	\$102.85
2007	\$275,095.60	\$316,976.93	4,072	\$77.84	\$996,088.92	\$1,309,972.25	11,226	\$116.69
2008	\$293,825.49	\$412,473.83	4,087	\$100.92	\$1,075,058.08	\$1,365,005.39	11,335	\$120.42
2009	\$257,458.20	\$353,301.20	4,100	\$86.17	\$798,737.80	\$938,554.80	11,335	\$82.80
2010B	\$319,500.00	\$409,740.00	4,100	\$99.94	\$686,800.00	\$735,460.00	11,335	\$64.88

The costs per billed service for the two utilities have been nearly the same over the years. With the change in the employee pay allocation in 2006, SSRUS did have an elevated cost per billed service. SSRUS did have a large growth in sewer and reclaimed services during this period, that required a great deal of time spent establishing new services. Some of these new services have never connected to the system; therefore they cannot be accounted for in this analysis. In years subsequent to 2006, as new growth declined, and the salary allocation system was refined, the SSRUS cost per billed service has decreased, and is now less than the City's cost.

## VIII. VEHICLES AND OTHER POLICIES

Some attention has been focused on the utility's vehicles that are taken home by employees. This policy was established as a benefit for the area citizens and utility customers. This policy is not exclusive to the utility, but is widely practiced in most City departments.

The actual cost of the policy is limited to the fuel and maintenance costs. Insurance costs would not be significantly different. The table below illustrates the maximum and minimum expected fuel costs of the policy.

**COST OF VEHICLE TAKE HOME POLICY**

	<u>SSRUS</u>	<u>Water &amp; Sewer</u>	<u>Natural Gas</u>
Total Vehicles	10	9	9
Take Home Vehicles (excludes call duty)	6	5	2
Miles per Day (avg)	25	25	15
Vehicle MPG (average)	12	12	12
Gasoline Cost (max)	\$4.50	\$4.50	\$4.50
Gasoline Cost (min)	\$2.00	\$2.00	\$2.00
Annual Cost (max)	\$14,625.00	\$12,187.50	\$2,925.00
Annual Cost (min)	\$6,500.00	\$5,416.67	\$1,300.00
Total Miles	39,000	32,500	7,800

Insurance costs do not increase with the additional use. Maintenance costs increase marginally, but staff has found that vehicles allowed to be taken home are better maintained, because employees have a larger stake in the vehicle and are familiar with the workings of the vehicle. Pool vehicles that are routinely driven by many employees do not have the level of care that permanently assigned vehicles do.

SSRUS could save \$6,500 to almost \$15,000 per year by not allowing key personnel to take home vehicles. Offsetting the savings are the operational problems that are avoided by having key personnel available for emergencies. Many of our personnel have one car for their family, meaning it may not be possible for them to respond to an emergency situation after hours. Also, the vehicle gives employees the incentive to respond. As a salaried employee, the incentive to respond to an afterhours emergency is limited when additional out of pocket costs are incurred to drive their personal vehicle without additional salary.

Emergency response is a vital part of the water and sewer systems. Water outages, sewer spills, water leaks and sewer overflows in houses, are all problems that have the potential for major damage to homes and the environment but have a very short notification time. If staff can be notified and mobilized quickly, major catastrophes costing untold thousands can be avoided.

## IX. LEGISLATIVE AUTHORITY VERSUS CITY POLICY

One aspect of the difference in utility rates that must be understood is the legislative authority over utility rates that exist in the State of Florida. Included in the appendix of this report is a copy of Florida Statute Section 180.191 entitled; "Limitation on rates charged (utility) consumer outside City limits".

Municipalities are given the authority to charge consumers of utility services outside the boundaries of the municipality, a rate 25% higher than those consumers inside the boundaries are charged.

If all the factors that must be considered in setting a utility rate yield a rate that is higher than that rate charged in the City, the City can add 25% to that calculated rate. In this case, the rate charged cannot be more than 50% higher than the rate charged inside the City.

## X. 2009 WATER AND SEWER RATE SURVEY

Staff received a water and sewer rate survey from Hatch Mott McDonald Engineers in October 2009. The survey covers over 60 water and sewer utilities located in the Florida Panhandle.

Each utility is ranked from lowest to highest cost based on residential rate class at 7,000 gallons consumption per month.

A review of the City's 401 water rate and the SSRUS 403 water rate indicates that the City is slightly less than the survey average (-\$1.55) \$27.13 City versus \$28.68 (survey) and SSRUS is slightly higher (+\$3.12) \$31.80 versus \$28.68 (survey) as shown in the table below.

Water Residential	7,000 gallons	Survey Average	Difference
City 401	\$27.13	\$28.68	-\$1.55
SSRUS 403	\$31.80	\$28.68	+\$3.12

We also compared sewer rates and our fees in both 401 and 403 are substantially less than the survey average. The City's 401 sewer rate is \$7.28 less (\$36.73 versus \$44.01 survey) and SSRUS is \$3.01 less (\$41.00 SSRUS versus \$44.01 survey) as shown in the table below.

Sewer Residential	7,000 gallons	Survey Average	Difference
City 401	\$36.73	\$44.01	-\$7.28
SSRUS 403	\$41.00	\$44.01	-\$3.01

The rates illustrated above do not include any other fees such as Municipal Utility Services Taxes (M.U.S.T.) or Fire Hydrant improvement fee.

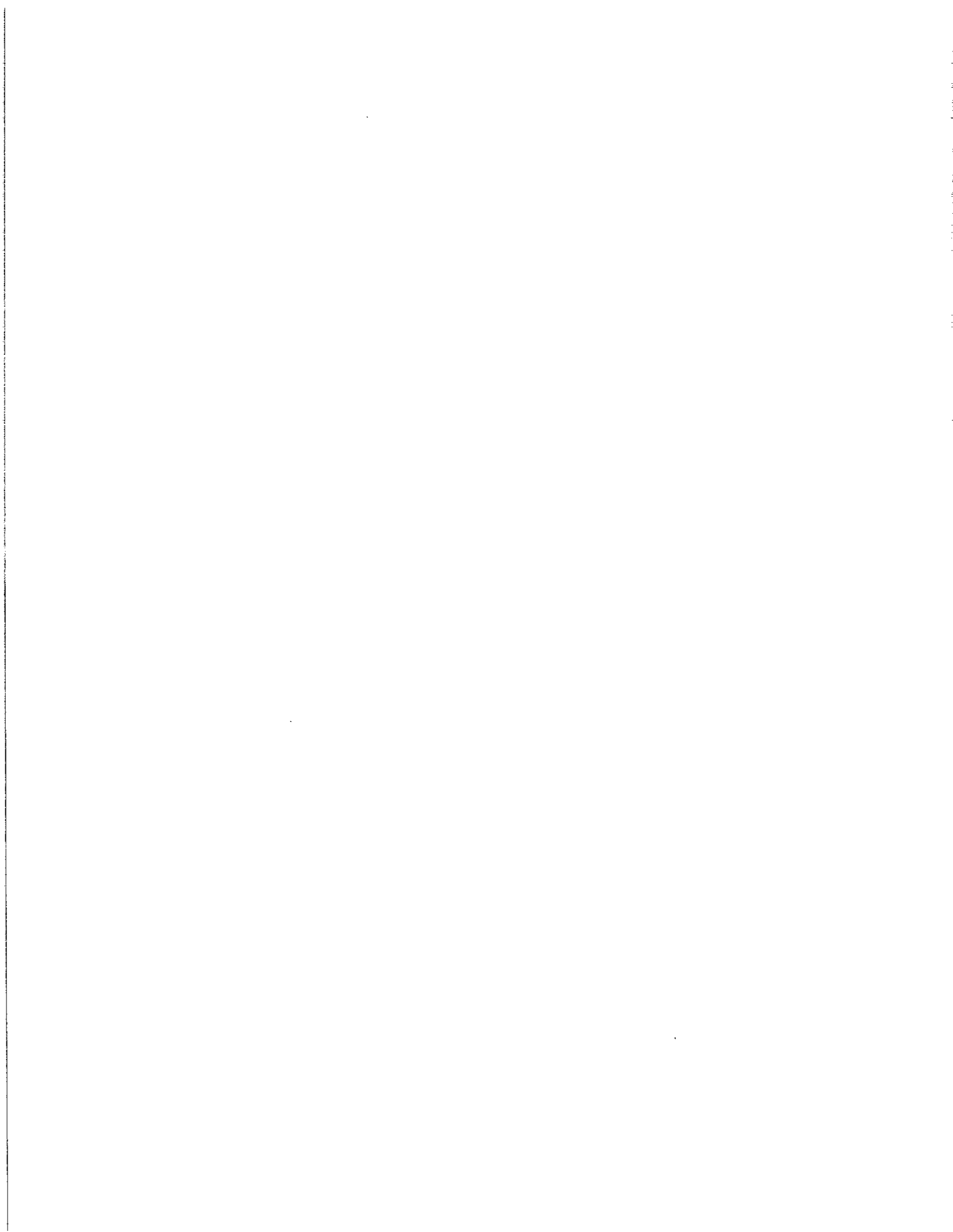
In any case, the survey clearly demonstrates neither the City nor SSRUS have excessive rates nor the rates that are the "highest in Northwest Florida."

## **XI. SUMMARY**

At the end of producing this report, staff has found nothing to justify any change in policy or status. However, this report is not all inclusive and can be expanded based upon the direction received from public input and Board and City Council authorization.

Overall, the City Council and SSRUS Board have navigated the trying economic times with the best interest of the SSRUS customer in mind. The utility has cut costs, minimized debt as much as possible and raised rates to cover costs and generate a modest reserve for contingencies. While some unforeseen economic difficulties have created a difficult path, as many concessions as possible have been made to minimize the cost to SSRUS customers.

## **APPENDIX A – HISTORICAL RATE DATA**



**APPENDIX B – FLORIDA STATUTE 180.191**

Select Year:  

## The 2009 Florida Statutes

[Title XII](#)  
MUNICIPALITIES

[Chapter 180](#)  
MUNICIPAL PUBLIC WORKS

[View Entire Chapter](#)

### **180.191 Limitation on rates charged consumer outside city limits.--**

(1) Any municipality within the state operating a water or sewer utility outside of the boundaries of such municipality shall charge consumers outside the boundaries rates, fees, and charges determined in one of the following manners:

(a) It may charge the same rates, fees, and charges as consumers inside the municipal boundaries. However, in addition thereto, the municipality may add a surcharge of not more than 25 percent of such rates, fees, and charges to consumers outside the boundaries. Fixing of such rates, fees, and charges in this manner shall not require a public hearing except as may be provided for service to consumers inside the municipality.

(b) It may charge rates, fees, and charges that are just and equitable and which are based on the same factors used in fixing the rates, fees, and charges for consumers inside the municipal boundaries. In addition thereto, the municipality may add a surcharge not to exceed 25 percent of such rates, fees, and charges for said services to consumers outside the boundaries. However, the total of all such rates, fees, and charges for the services to consumers outside the boundaries shall not be more than 50 percent in excess of the total amount the municipality charges consumers served within the municipality for corresponding service. No such rates, fees, and charges shall be fixed until after a public hearing at which all of the users of the water or sewer systems; owners, tenants, or occupants of property served or to be served thereby; and all others interested shall have an opportunity to be heard concerning the proposed rates, fees, and charges. Any change or revision of such rates, fees, or charges may be made in the same manner as such rates, fees, or charges were originally established, but if such change or revision is to be made substantially pro rata as to all classes of service, both inside and outside the municipality, no hearing or notice shall be required.

(2) Whenever any municipality has engaged, or there are reasonable grounds to believe that any municipality is about to engage, in any act or practice prohibited by subsection (1), a civil action for preventive relief, including an application for a permanent or temporary injunction, restraining order, or other order, may be instituted by the person or persons aggrieved.

(3) This section shall apply to municipally owned water and sewer utilities within the confines of a single county and may apply, pursuant to interlocal agreement, to municipally owned water and sewer utilities beyond the confines of a single county.

(4) In any action commenced pursuant to this section, the court in its discretion may allow the prevailing party treble damages and, in addition, a reasonable attorney's fee as part of the cost.

**History.**--ss. 1, 2, 3, 4, 5, ch. 70-997; s. 1, ch. 88-301; s. 1, ch. 92-181; s. 1, ch. 98-15.

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## **APPENDIX C – WATER & SEWER RATE COMPARISON**