CITY COMMISSION WORKSHOP
MEETING MINUTES

Thursday, October 27, 2022	6:00 PM	Hillsboro Community Center

CALL TO ORDER AND ROLL CALL

The meeting was called to order on the above date by Mayor Bill Ganz at 6:12 p.m., in the Hillsboro Community Center, Deerfield Beach, Florida.

Present: 4 - Commissioner Todd Drosky
Commissioner Ben Preston
Vice Mayor Michael Hudak
Mayor Bill Ganz

Also Present: 3 - City Manager David Santucci
City Attorney Anthony Soroka
City Clerk Samantha Gillyard

Absent: 1 - Commissioner Bernie Parness

APPROVAL OF CITY COMMISSION AGENDA

October 27, 2022

MOTION was made by Commissioner Preston, seconded by Commissioner Drosky, to approve the agenda as submitted. Voice Vote:

Yeas: 4 - Commissioner Drosky, Commissioner Preston, Vice Mayor Hudak and Mayor Ganz

Nays: 0

Vice Mayor Hudak attended and voted by phone until physically present during Item 1.

DEPARTMENTAL BUSINESS

1. Discussion regarding the City's Solid Waste Enterprise Fund.

David Santucci, City Manager, said a rate study analysis was completed on the City's three (3) major Enterprise Funds to provide a comprehensive look at each fund, so staff can stay abreast on the ability to fund the capital improvements and operations necessary to maintain viability of these enterprises. Thereafter, he introduced Horace McHugh, Deputy City Manager.

Mr. McHugh stated that in addition to reviewing each enterprise fund, the long-term sustainability will be addressed since the funds should be self-sufficient, independent and adequately funded. He said staff is seeking direction to determine the operational and capital needs to support service levels and funding on a multi-year basis; whereas, financing would not only be determined by operations, but rates. Further, Mr. McHugh said the three (3) areas that will be discussed are solid waste, water and sewer, and stormwater. Thereafter, he introduced Chad Grecsek, Director of Sustainable Management.

Mr. Grecsek highlighted a PowerPoint presentation. He stated that Deerfield Beach is the only city in Broward County that provides full-service collection, which consists of approximately 17,800 single family homes that are serviced twice a week for garbage, once a week for recycle, which is taken to the landfill,

DEPARTMENTAL BUSINESS - CONTINUED

and once a week for bulk. Commercial collections consists of 1,221 dumpsters, 660 multi-family dumpsters, 325 single stream dumpsters, and 6,000 roll-off dumpsters. Additional services include three drop off centers, two household hazard waste collection events a year, etc. Mr. Grecsek said they run 25 routes per day; collect 2,000 tons of materials per week, 100,000/year; on average 84 pounds of solid waste and bulk material is generated per single family home every week; and there are 1,400 residential visits per month at the drop off center.

Continuing, Mr. Grecsek said there have been many industry trends and challenges across the nation due to COVID, i.e. service impacts, staffing issues, and significant rate increases, whereas, they are down six driver collectors. Thereafter, he continued outlining industry trends and challenges, supply chain impacts, rising costs, disposal, and processing. Mr. Grecsek said the City's disposal contract expires in June 2023 and the vendor has indicated that they cannot renew on the same terms, so staff is anticipating significant increases. Staff is also experiencing equipment issues with repairs and maintenance, delivery and part delays, cost increases, appearance and useful life, and inability to adhere to the vehicle replacement schedule; whereby, the City's average age of bulk collection fleet is 11 years, and the industry recommendation is eight. Nevertheless, in an effort to minimize expenditures, 12 collection routes have been eliminated since 2012; reduction of six positions since 2014 (approximate savings of $325,000); improved safety practices and training; route optimization and re-routing; lowest disposal rate in Broward County; suspended recycling program (approximate savings of $400,000/year); and conversion from diesel to CNG, which is $100,000/year savings. In addition to minimizing expenses, we maximized our revenues through transitioning commercial billing into a solid waste management system, hired a business manager and billing coordinator, began delinquent collections, and increased revenues since 2018 by approximately $1.1 million.

Moreover, Mr. Grecsek said prior to 2008, the solid waste fund had an annual rate adjustment of 2 - 3% and in 2008 there was a 4% increase; however, between 2011 - 2013, the Resource Recovery System dissolved, and disposal rates dropped. As part of the settlement with Broward County, the City was awarded a onetime payment of $1.7 million in 2015. Residents were given a one month credit which was a $350,000 reduction in revenue, and the City also reduced the rate from $24.54 to $22.34 (9%), which was a reduction of $435,000/year in revenue. Additionally, the Sanitation Division was created, which was a $969,350 annual expense with no revenue generated; however, the division was dissolved in 2020, which was an $849,889 savings. Further, Mr. Grecsek said the Annual Comprehensive Financial Report (CFR) found that the solid waste utility rates were insufficient. Also, GASB requires the reinstatement of other post employee benefit (OPEB) costs. The CFR recommended that the City review the solid waste rates to ensure sufficiency to run operations. During the August 2022 Operational Audit Preliminary Findings, it was recommended that the City evaluate all enterprise funds to make sure the rates were sufficient to support the funds and collection costs. Lastly, Mr. Grecsek said the solid waste rate sufficiency study was completed at the end of fiscal year 2022 by Raftelis; thereafter, he introduced Henry Thomas.

Vice Mayor Hudak arrived at 6:18 p.m.

Mr. Thomas said he will highlight in a PowerPoint presentation the study background, tasks and considerations, major cost increase assumptions that were incorporated into the study, proposed rate adjustments, and observations and recommendations. Further, he said the rate revenues and interest income make up gross revenues which are compared to the requirements, which include operations, day to day operating expenses, labor costs, disposable costs, capital needs for fleet, and debt. He explained that the plan is to develop leases to upgrade the fleet and as those leases are paid off, new vehicles can be purchased without having to incur interest expenses with financing. The study considerations include phasing in rates over five years that are adequate and will achieve an overall positive cashflow; build operating reserves to adequate levels by setting up targets within the five-year plan to have a minimum balance of 60 days of rate revenues with a target balance of 90 days; maintain emergency fund at level required per city policy, which is currently depleted to pay for operations; and minimize and mitigate bill impacts to ratepayers.

Continuing, Mr. Thomas reiterated that the City currently services 17,800 accounts, 90% residential and 10% non-residential, with the assumption in the five-year plan that an additional 234 accounts will be added each year or 1.3% annually. The existing rate revenue with no increase would start out at $17.4 million and

DEPARTMENTAL BUSINESS - CONTINUED

over the five-year plan grow to $17.7 million. Other operating revenues, i.e. sale of fixed assets, sale of scrap metal, etc. account for $71,800/year, and interest income based on estimated fund balances would only account for $4,700/year. Thereafter, a pie chart was displayed outlining the operating expenses, which include personnel, disposal /recycling, general fund transfers, fuel, debt, etc. Mr. Thomas outlined the assumed cost increases beyond fiscal year 2022: labor costs - 3.7; health insurance - 8.0%; repairs and maintenance - 5.0%; disposal costs - 3.5%; general inflation - 3.3%; fuel - 6.4%; for an average annual growth rate of 4.4%. He reiterated that the rates were last adjusted in 2008 and prior to that there were annual adjustments of 2 - 3%. In 2015, there was a residential rate relief in response to disposal cost reductions and various cost mitigation measures were undertaken, i.e. route optimization and re-routes, etc. There has been a 35% increase in the inflation rate since 2008 without any rate increases.

Furthermore, Mr. Thomas outlined the major assumptions for projects within the capital improvement program: garage gas detection - $250,000; front load trucks - $3 million; roll off trucks - $1.6 million; and grapple bulk waste collection vehicles - $1.9 million. The CIP is funded from rate revenues for minor expenditures and proposed capital leases are used for the major fleet expenditures for a total of $10.9 million over five years. Currently, the City has two outstanding leases, 1) JP Morgan - $11,800 annually, which will be paid off in 2023; and 2) TD Loan - $250,000 annually, which will not be paid off until 2035. Further, to allow time to phase in the rate increases to improve the financial position and obtain reasonable levels of reserves, five additional short-term (3 year) leases are being forecasted, ranging from $778,100 to $1.9 million. In 2027, the lease payments are projected to decline as prior leases mature and as the rates are phased in, the transition of pay as you go funding will be established, which will save on interest and other financing costs. Currently, the balance for the operating fund is effectively zero; however, over five years, the deposits will total $3.5 million which will provide a target fund balance of 90 days of operating revenues. The emergency fund requirement, which is a city policy, is 5% of revenues; whereby, the rate increases would provide a $630,000 deposit in 2023, and $63,000 each year until 2027.

Moreover, Mr. Thomas said the sanitation fund primarily covers operating expenses and without a rate increase, those expenses will not be covered in 2023. Thereafter, a chart highlighting the rate comparisons among cities was displayed; the City's current rate is $22.34 for single-family residential, and $25.36 is being proposed, which is still lower than the County's average at $28.84. Although, the residential rates are comparable, commercial rates are not, so a market base approach was taken to increase those rates. Thereafter, a bar graph was displayed outlining the costs for commercial 4-yard dumpsters for various cities, whereby, the current rate is $228.20, and the proposed rate is slightly above average at $329.75. There was also a bar graph outlining the costs for commercial 20-yard roll off dumpsters; the current rate is $400.00 and the proposed is slightly above average at $466.00.

Lastly, Mr. Thomas said additional funding for equipment, fleet and operations is needed to meet current demands. The existing rates are not sufficient to support current levels, nor address the audit concerns; therefore, the recommendation is to adopt the rate schedule to support service levels, address audit concerns, provide financial sustainability, update the rate structures, maintain service levels, and stay consistent with external market conditions.

Mr. Grecsek outlined the potential alternatives: no change will cause the deficit to continue, audit findings to be ignored, service levels will continue below desired standards, and potential impact on the City's bond ratings as well as other financial indicators; increased support from the General Fund will cause millage rate implications and adjusted General Fund administrative fees; notwithstanding, a cost allocation study will be conducted in FY23. Currently, the Solid Waste Fund provides $3.6 million back to the General Fund this fiscal year, which is 20% of the overall fund expense. Additional alternatives include modifying service levels and outsourcing components of services, which will cause annual cost adjustments and lower levels of customer service. Lastly, Mr. Grecsek stated that Deerfield Beach was one of the first cities to be cleaned after Hurricane Irma, due to the City having its own equipment, staff, etc.

In response to Mayor Ganz's questions, Mr. Santucci replied that when deficits occur, money comes from the General Fund. Further, he stated that the audit finding found that the net position of the fund itself was in a deficit, generally caused by rate insufficiency and OPEB change, which was originally reported on an annual basis, but now must be reported as a full cost burden. Nevertheless, the City is currently in a position where the General Fund supports the Solid Waste Fund to make up the difference on an annual basis.

DEPARTMENTAL BUSINESS - CONTINUED

Mr. Thomas stated that the fund can be sustained by using reserves, which has been done in the past and is no longer an option.

Mayor Ganz asked if these rate increases are established in a short period of time, will it provide revenue to build the reserves up to a level that meets the operating needs and adheres to the emergency fund policy.

Mr. Santucci and Mr. Thomas replied yes.

Mayor Ganz asked if there are enough General Fund reserves to subsidize the proposed rate increases.

Mr. Thomas replied that although the intent is for the Enterprise Funds to be self-supporting, it is an option.

Mayor Ganz agreed that the Enterprise Funds should be self-supporting and reiterated that the last rate increase was in 2008. Thereafter, he provided a brief history of the decrease in disposal rates over the years and asked for clarification on where the money went from those decreases.

Mr. Thomas said a 25% decrease in disposal costs would not equate to a 25% decrease in rates due to collection costs, labor costs, fuel costs, etc. Although, he is unsure where the money went without doing additional research, he assumes that the decrease in disposal costs is why rate increases have not been needed until now.

Mayor Ganz said increasing the rates in such a short amount of time is not resident friendly; therefore, he recommended using General Fund reserves to build up the Solid Waste Fund, then increase the rate to keep up with inflation, operating needs, etc.

Mr. Thomas said if that's done, as the rates rise over the five-year period, they would be 5% lower at the end point than what has been presented.

Commissioner Preston questioned the lease agreement options, but unfortunately, Mr. Thomas' responses were inaudible.

Mr. Santucci stated that the leases are lease purchase options, whereby, the vehicle is purchased, and a lease purchase arrangement is agreed upon with the bank and the cost is paid off over time.

Vice Mayor Hudak disagreed with using the General Fund reserves, as expenses have increased 35% since 2008, but rates have not.

Commissioner Drosky said prior to increasing rates, staff must prove that all efficiencies have been streamlined. He said although the minimization of expenditures were outlined, there were no recommendations on how to continue minimizing expenditures moving forward. Additionally, he disagreed with changing the service levels and suggested a hybrid approach with the recommendations. Lastly, Commissioner Drosky asked for clarification on the City's emergency fund policy and need.

Commissioner Preston asked that more information be provided regarding the Mayor's recommendation with using the General Fund reserves.

Mr. McHugh said although the usage of General Fund reserves is an option, he cautioned the Commission that there are two (2) other components within the Enterprise Funds that will need to be addressed. Further, in response to Commissioner Drosky's question, Mr. McHugh replied that staff may not be able to prove that everything has been done, as labor costs, equipment costs, etc. have a significant impact on operational expenses.

There was a brief recess from 7:36 p.m. to 7:44 p.m.

DEPARTMENTAL BUSINESS – CONTINUED

2. Discussion regarding the City's Utilities Enterprise Fund.

Priscilla Cygielnik, Director of Environmental Services, said in April 2022, staff presented rate adjustment recommendations based on a plan conducted in 2020; however, COVID stalled that plan. Since then, staff has evaluated the rates based on capital that was received from the American Rescue Plan (ARPA) to see what the impact would be on the recommended five-year plan. Further, she stated that these rate adjustments will be on the December 6th commission agenda, which will be publicly noticed on the residents' water bill. Thereafter, she introduced Chuck Sinclair, Carollo Engineers.

Mr. Sinclair stated that a draft master plan study was conducted in December 2019, which evaluated existing conditions and performance of the utility systems, identified system and facility needs to meet future demands, and recommended a list of projects for the Capital Improvement Program (CIP). The master plan study was provided to Raftelis, who conducted a revenue sufficiency analysis in March 2020, which developed a financial forecast to fund water and wastewater systems through 2040, evaluated the revenue available to fund the operational and CIP costs, and recommended a plan to fund operating costs and capital improvements to include a rate increase, if necessary. The recommended capital improvement program included CIP's for the 5 and 20-year horizons, funding R&R program for each of the main components of the utility, costs for short-term and long-term capital projects, time estimate for each project based on the capacity and demand projections, and the CIP would serve as the basis of the revenue and rate sufficiency study. Thereafter, a table was displayed outlining the type of project, funding category, and timing and duration of funding for the 5 and 20-year horizons. Lastly, a photograph was displayed of the major elements of a five-year $70 million CIP, to include a new ION Exchange treatment system to phase out the existing lime softening system, water main rehabilitation, etc. Thereafter, he introduced Henry Thomas, Raftelis.

Mr. Thomas highlighted the projection of the overall costs, whereby, a recommendation was made earlier this year to start increasing the rate path based on the original plan; nevertheless, the water and wastewater fund is funding more than its operating expenses, but eventually this fund will be in the same situation as solid waste if rates aren't increased. The rate adjustments in the fiscal year 2020 financial forecast were proposed at a 7.1% increase for the first five (5) years to cover short-term rehabilitation and capital needs, rebuild cash reserves, and maintain debt service coverage for existing loan obligations. Mr. Thomas said there isn't an emergency fund, but there is a renewal and replacement (R&R) fund, and an operating and emergency reserves fund; whereas, reserves are needed to help levelize the funding of the capital needs for R&R. Thereafter, a bar graph was displayed of the rate covenants and debt service coverage requirements. Updates were made based on demands, new funding, etc. Lastly, he said the proposed rate increases in 2020 were based on the forecast of the operational and capital costs for a 20-year period but COVID slowed the process, deferring the increases; nevertheless, the process will resume to fund the operating capital needs in a five-year period.

Mr. Sinclair said a 7.1% rate increase was recommended and approved in April 2022. Further, he said additional research was conducted on population projections and water and sewer system demands to see if there were changes post COVID, which there were not. Mr. Sinclair said additional research is needed on cost estimates and other revenue funding sources, to add the revenue stream and offset costs. Currently, the average residential user consumes 6,000 gallons/month and pays $62.28, which is a $4.14 increase. Thereafter, a chart highlighting the rate comparisons among cities was displayed, whereby, the City, who services about 70% of the residents, is below Broward County's rate, who services 30% of the City's residents. Mr. Sinclair outlined the recommendations and next steps: update the master plan and revenue sufficiency studies by revising the population projections; updating the financial data and reviewing the financing alternatives; and adopting the five-year rate schedule to allow planning of capital and operational needs and financing alternatives. Lastly, he stated that the 7.1% increase was used as a benchmark to illustrate the cost impact for those consuming 6,000 gallons/month over 5-years as follows: 2023 - $4.42 increase; 2024 - $4.73 increase; 2025 - $5.07 increase; 2026 - $5.43; and 2027 - $5.82. Thereafter, a chart highlighting the rate comparisons among cities was displayed, whereby, the proposed rate in five-years would be $87.84, which would be below the County's average.

Vice Mayor Hudak commented on 30% of the City's low-income residents paying the County's rate, which is currently $20/month more than City's current rate.

DEPARTMENTAL BUSINESS - CONTINUED

Commissioner Drosky expressed concerns with the increases, as the residents will be negatively impacted with a 7.1% annual increase.

Horace McHugh, Deputy City Manager, stated that projects within this fund would need to be addressed due to various safety and regulatory concerns, as well as others. Most of the projects within this fund are long-term, and if underground utilities are impacted, then the integration with stormwater or repaving would be recommended, so the roads aren't constantly impacted.

3. Discussion regarding the City's Stormwater Enterprise Fund.

Priscilla Cygielnik, Director of Environmental Services, said Hazen & Sawyer was the consultant retained in 2018, for the creation of the stormwater utility, and they are currently re-evaluating that utility based on the stormwater master plan approved in 2021. Thereafter, she introduced Rob Taylor, Hazen & Sawyer.

Mr. Taylor said a stormwater system is critical within the City, as it helps prevent flooding, provides water quality treatment for waters discharged to the receiving waters, serves roadways and developed areas, and encompasses visible storm drains, swales, canals as well as underground pipes. In 2018, the stormwater utility fund was created to cover operation and maintenance costs only and provide funding for capital improvement projects. In 2020, the Stormwater and Flooding Resiliency Master Plan was completed to identify and prioritize stormwater capital projects. Three CIP projects are partially funded by ARPA funds; however, additional funding is needed to complete both ARPA and remaining projects.

David Santucci, City Manager, stated that several projects have been completed from the existing fee structure as well as grants.

Mr. Taylor said operation and maintenance costs include city staff, equipment and materials, drainage system inspection, and reporting processes. The Stormwater and Flooding Resiliency Master Plan identified a significant number of projects that need to be addressed, to include drainage improvements, water quality treatment, tidal flooding, etc. The first two priority projects, S.E. 8th Avenue and Deer Run Community of West Deerfield, are fully funded and under construction. Mr. Taylor outlined the City's stormwater updates: Phase 1 - update stormwater GIS impervious area, estimate stormwater fee under alternative financing mechanisms, and technical memorandum; Phase 2 - date review, billing roll mitigation, ordinance/resolution for development and adoption, public notification and outreach, and review of non-ad valorem implementation schedule.

Continuing, Mr. Taylor said Phase 1 consists of a true up of the impervious area (IA) to come up with the billing units, equivalent residential unit (ERU), which represents the average IA on a single-family residential parcel. The update to the stormwater GIS IA and billable ERU's is underway and estimated to be completed by mid-November and will look at comparing the existing GIS layer of the historical IA, to the most recent aerial imagery and update for new development. The update will also capture all billable ERU's to determine billable revenue potential to update financial scenarios. The alternative stormwater financing mechanisms are also underway and estimated to be completed by mid-November and will include revenue growth assumptions of a 1%/year ERU, as well as escalation rate assumptions in operation and maintenance.

Furthermore, Mr. Taylor outlined the stormwater costs - personnel, operation and maintenance, estimated capital, and contingency. The three (3) stormwater CIP funding scenarios will pay back the $2.2 million loan from the Water and Sewer Fund and include a 10% contingency; thereafter, he outlined each scenario. The PayGo allows for the capital infrastructure to be built up based on the revenues collected; public financing will be funded through federal/state loan programs and will have a lower interest rate than private; and privately financed options go through private bank lending/bonding. Thereafter, the estimated monthly rate per ERU for each scenario was displayed, The PayGo option is collected at a significantly higher rate because it can only be built based on revenue collected and the money would be collected over a shorter amount of time. The current monthly stormwater fees compared to other communities was displayed, which illustrated Deerfield Beach on the lower end; however, any of the scenarios would move the City to the middle-higher end.

DEPARTMENTAL BUSINESS - CONTINUED

Lastly, Mr. Taylor said the review of the City's existing billing date and transition accounts to a non-ad valorem assessment is underway and estimated completion is mid-November. If this option is approved, the information will be included on the TRIM notice in summer 2023 for FY 23-24 tax bill. The implementation schedule for the non-ad valorem assessment consists of the City entering into an agreement with the Property Appraiser and Tax Collector providing for reimbursement of necessary administrative costs; adopt a resolution of intent to collect non ad-valorem assessments at a public hearing by January 1st; notice must be published in the newspaper for four weeks prior to public hearing, which is scheduled for December 6th; Property Appraiser will send the City a list of properties to be assessed by June 1st; and the assessment roll must be adopted by the City at a public hearing and submitted to tax collector by September 15th.

In response to Vice Mayor Hudak's questions, Mr. Taylor replied that most entities outline this utility on water bills; however, Deerfield is unique because some residents are billed by the City, while others are billed by the County. Further, he said non-profits would be obligated to pay, as there are no exemptions.

Jaime Leonard, Hazen Sawyer, said the most recent Florida Stormwater Association survey noted that 35% of surveyed utilities utilize the non-ad valorem or special assessment for revenue generation with respect to a stormwater fee collection.

Commissioner Drosky said he is not against adding the utility to the tax bill, as it guarantees the City will be paid, as opposed to chasing delinquent accounts; however, he is hesitant because it feels rushed and there are other utilities being addressed.

Mr. Taylor stated that adopting the resolution on December 6th does not obligate the City to make the change but protects the City's ability to make the change if desired.

Mr. McHugh summarized the direction of the Commission. Staff offered recommendations for other solid waste and the Commission agreed that the needs must be addressed. Recommendations included: possible usage of General Fund reserves; water and sewer will mirror what was presented; the stormwater study and analysis will be completed, thereafter the rates will be finalized and presented. Lastly, staff will move forward with the non-ad valorem assessment process, as adoption preserves the option for it to be done later.

Mr. Santucci thanked the Commission for allowing staff to present the rate recommendations based on the need analysis of maintenance operations and capital expenditures for the three Enterprise Funds. Further, the intent is to consolidate the conversations more, so the Commission understands the necessity, as well as the impact to the residents.

ADJOURNMENT

There was no additional business to discuss.

MOTION was made by Commissioner Preston, seconded by Vice Mayor Hudak, to adjourn the meeting at 8:31 p.m. Voice Vote:

Yeas: 4 - Commissioner Drosky, Commissioner Preston, Vice Mayor Hudak and Mayor Ganz

Nays: 0

BILL GANZ, MAYOR

Samantha Gillyard, CMC, City Clerk