P4 – Unique Collaborative Water and Sewer Partnership City of Dunnellon Marion County FGUA

May 31, 2018

FCCMA Annual Conference

FLORIDA GOVERNMENTAL UTILITY AUTHORITY

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Session Objectives

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Using a Current Day Case Study -

- Discuss outsourcing Public-Private Partnerships (P3), pitfalls and benefits and difference of “P4”
- Discuss obstacles to good city-county collaboration and conditions to overcome them
- Discuss utility challenges and importance of capacity sharing

The Setting and Conditions

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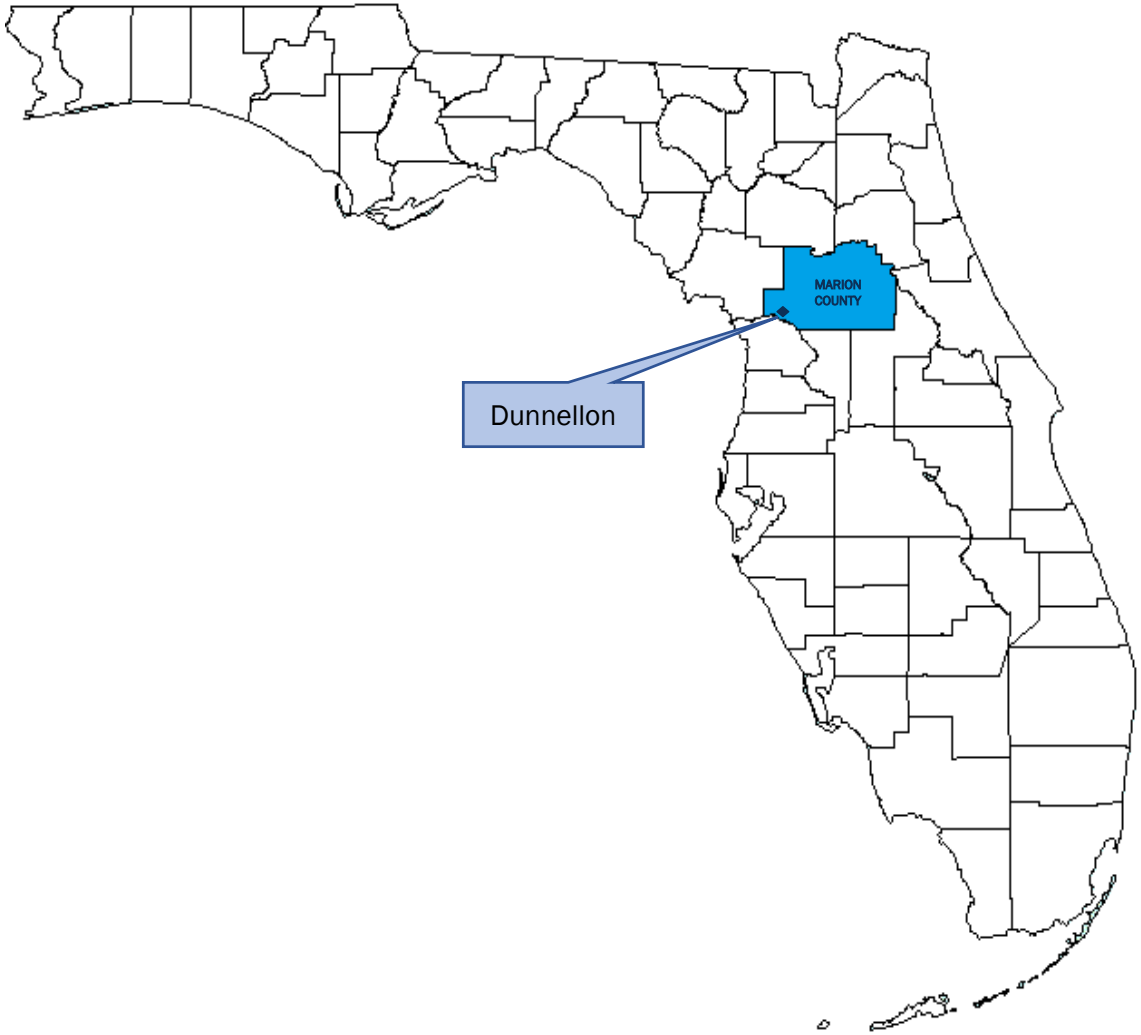

The City of Dunnellon

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- Founded in 1887 in Southwest Marion County
- Population about 1,800 within 7.4 Square miles
- Nestled between the natural spring fed Rainbow and Withlacoochee Rivers
- Median household income - $27,386 per capita income $17,905

The City of Dunnellon – Con't

- Slightly more than a third of population is 65- years or older and about 16% is below the poverty line
- Ranked #1 as Best Place to Retire in Florida by Realty Track – quintessential Florida "Small Home Town"
- Known as Bass Capital of Florida – fishing destination

- Discovery of phosphate in 1889 lead to area expansion until early 1910

The Rapid Water and Sewer Utility Expansion (Private System Acquisitions)

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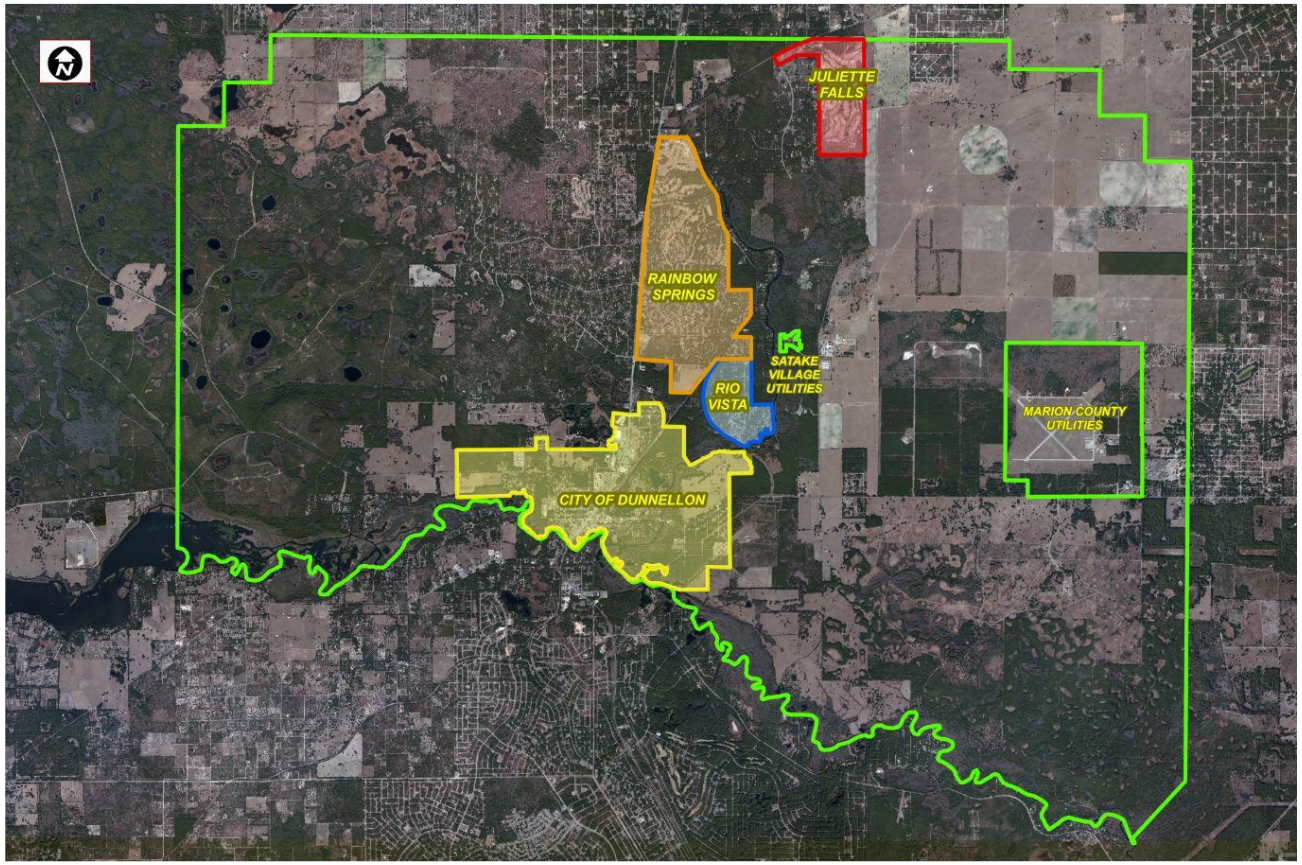

- Original city customer base – 1110 connections
  - August 2011 – Rio Vista – 200 connections
  - December 2011 – Rainbow Springs – 1600 connections
  - January 2012 – Juliet Falls – 295 connections

Utility Expansion (Con't)

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- Threefold increase in connections
- Over 65% of customers in unincorporated area
- Out-of-City surcharge intended to fund acquisitions challenged and ultimately rescinded in settlement
- City left with high debt, strained budget, weakened staffing level, high customer rates and significant infrastructure needs (regulatory/environmental compliance)
- Antithesis of making money from utility

Compounding Problem – The Environmental Challenge

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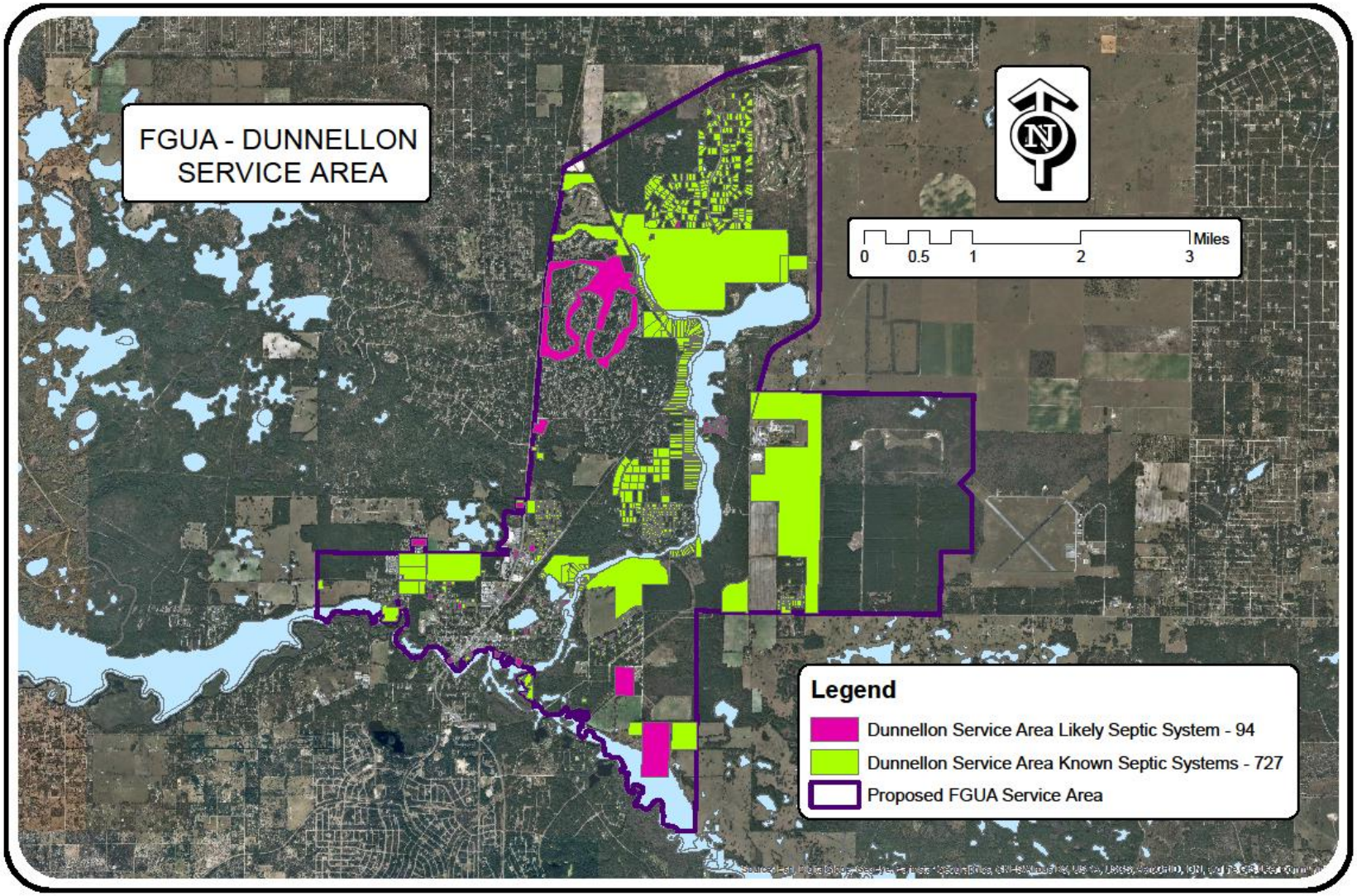

Driving to Solutions

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- New City Council and management engage external consultants to perform in-depth utility analysis to better educate themselves before considering one of three options:
  - Outsource operations
  - Rebuild the City department
  - Sell the system to a private IOU

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- Council deliberates between Outsourcing and Divesting the system
- Both require significant increases to customer rates which are already the highest in the area

Outsourcing, Contracting or the "P-Word" (Privatization)

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- State and local governments annually spend between $1.1 – 1.5 trillion on contracted services
- 80% of American cities use contracting to some extent

- According to the National League of Cities 90% of city officials support contracting out services
- Operations and Maintenance (O&M) contracting is sometimes regarded as a form of Public Private Partnership (P3)

Services & Activities Most Frequently Contracted By State & Local Governments

• Building & Grounds Maintenance	• Pest Control
• Building Security	• Solid Waste Collection
• Custodial Services	• Street Repair
• Operation of Prisons and Jails	• Parking Meter Maintenance
• Fleet Management	• Utility Billing & Meter Reading
• Landscaping & Maintenance	• Vehicle Towing & Storage
• Libraries & Museums	• Information Technology
• Parking Garages	• Transit & Paratransit
• Personnel & Payroll	• Risk Management
• Printing & Graphic Design	• Park Maintenance
• Planning, Building, & Permitting	• Accounting
• Legal Services	• Elevator Maintenance
• Food Services	• Substance Abuse & Mental Health Counseling
• Ambulance Services	

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Outsourcing, Contracting (Con't)

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- About 75% of municipal water and sewer systems in US are publicly owned
- Numerous municipal water and sewer utilities of all sizes contract out O&M; most self perform
- Many contract for specialized services including engineering and construction, maintenance support, laboratory services, line repair and televising
- There is a large O&M contract service industry capable and skilled at providing quality public utility services
- Financial benefits to municipalities is mixed depending on
  - Quality of Contractor
  - Quality of Contract
  - Quality of Contract Management
  - Cost Structure of Public Entity

Divesting or Use of Public Private Partnership "P-3"

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- As defined by the National Council of Public-Private Partnerships:

  - A contractual relationship between a government and a private sector entity whereby, "the skills and assets of each sector are shared in delivering a service or facility for the use of the general public. In addition to sharing of resources, each party shares in the risks and rewards potential in the delivery of the service and/or facility."

Divesting or Use of Public Private Partnership "P-3"

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- How Public-Private Partnerships (P3s) Differ from Contracting:
  - Change in government/private sector roles and responsibilities
  - Longer contract time periods
  - Private sector partner may provide some or all of the funding for the project and may assume significant risks from the government partner
  - A potentially high degree of risk for the partners
  - Contracting process does follow many traditional government procurement policies and procedures, but with a few important differences

Municipal Risks in Contracting of P3s

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- Service Interruption/Schedule
- Political
- Financial
- Control in General

Enter "P-4" to Lessen Risks

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- Public – Public – Private Partnership
- Essentially, introduce a partner public entity uniquely skilled, experienced and accessible with private sector benefits

Dunnellon's P4 Partners
The Florida Governmental Utility Authority (FGUA) and Marion County

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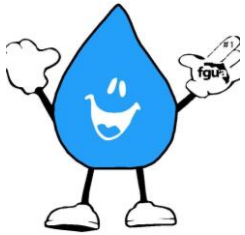
- Utility authorities are authorized under Section 163.01(7)(g)1, Florida Statutes
- Special purpose government (like Expressway Authority) rather than General Purpose (like City or County)
- The FGUA is a multi-jurisdictional "Portable" entity for utility improvement, operation, management and ownership
- FGUA established in February 1999 by Interlocal Agreement between Brevard, Lee, Polk and Sarasota Counties to acquire former Avatar Utilities
- FGUA is governed by a local government appointed Board (non-elected)
- Member local governments including Marion County have control over the FGUA but do not incur any liability for debt or operations

Structure of FGUA



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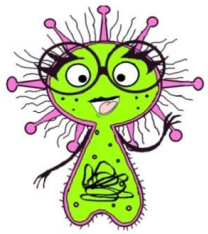
- A six-member Board of Directors governs the FGUA, with representatives from six counties (Citrus, Hendry, Lee, Marion, Pasco, and Polk)
- Each Board Member is an employee appointed by "host" government
- Not all host governments are members (i.e. Lake, Seminole, Putnam)
- The Board is deferential to host government's preferences
- The Authority has no employees of its own and uses full service contract management, operations, maintenance, customer service and billing



Current FGUA Utility Enterprise Systems

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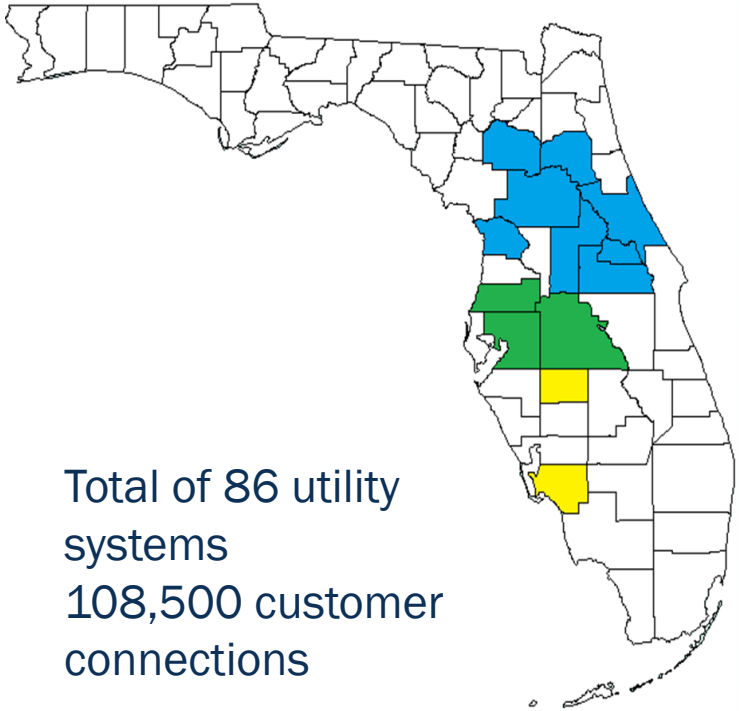
- Lehigh Acres Utility System (Lee County)
- North Fort Myers Utility System (Lee County)
- Pasco Utility System (Pasco County)
- Consolidated Utility System (Pasco County)
- Lindrick Utility System (Pasco County)
- MacDill Air Force Base Utility System (Hillsborough County)
- Pasco Aqua Utility System (Pasco County)
- Lake Aqua Utility System (Lake County)
- Unified Aqua Utility System



Total of 86 utility systems
108,500 customer connections

How P-4 Reduces P-3 Risks

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- Because the contracting government sits on the Board of the special purpose government partner, strong control over services and project is retained
- For the same reason and with the special purpose government partner having the same public transparency and accountability standards, political risk is minimized
- As owner and holder of outstanding debt responsible for vigorous performance standards, all financial risk is transferred to the special purpose government partner

Marion County's Role

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- FGUA must have consent of the "host" government (within whose jurisdiction a majority of utility customers lie) to acquire a utility
- Given 65% of Dunnellon customers are in the unincorporated area, Marion County is the host government for consent
- With nine other FGUA utilities in Marion, it is already an FGUA Member government with a seat on the Board
- The County has had an interest in stabilizing utility services and rates in the Dunnellon service area but not a strong interest in acquiring the system
- County declined City's request to perform acquisition due diligence – ceding to the FGUA

The Classic and Common City-County Control "Tugs" Emerge

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- Disagreements:
  - Service Area
  - Future Rate Structure
  - Repurchase Rights

The Spirit of Mutual Support and Collaboration Prevails

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- All parties (County, City and FGUA) were strongly committed to doing what was best for the customer first and to support the transaction
- The county administration and Commission had developed a trustful and confident good working relationship with the FGUA
- FGUA had built similar standing with the City staff and Council
- Because the FGUA had been a good partner to both and "walk in the same shoes" of local government, it became a useful intermediary to bridge communication and facilitate compromise
- In short by extending goodwill and place the broader public interest over provincial interest the City and County delivered a win-win solution to their citizens

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The Deal and Results

The Deal and Resolution

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- With FGUA and City concessions no rate increase required for acquisition; potential for CPI index adjustment at 2020 but will seek to avoid
- City budget for FY18 requires 7.5% ↑ WW and 3.5% ↑ water; Rate consultant report estimates potential 17.45% rate increase required over forecast period under continued city ownership
- The negotiated Purchase and Sale Agreement provides for a $12.2m purchase price
- After payoff of $10.8m existing City debt, transaction costs and required cash deposits, net cash to City is $1.323m

The Deal and Resolution

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- FGUA to receive all existing utility cash balances including $1.309m in bond construction fund to complete priority capital projects
- City eligible for “Futures” payments of 50% of capacity charges for City invested capacity available (beyond reserved capacity) for new connections for up to 10 years from new capacity availability
- Financing of the acquisition is from an approved USDA Rural Development Loan @ 2.75% interest 40- years amortized over 30-years; this defeases high cost existing city debt saving customers over $250,000

The Deal and Results (Con't)

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- $2.2m existing State Springs grant to be reassigned to FGUA by DEP/WMD for priority environmental project
- Pursuant to a negotiated three (3) party interlocal agreement (City, County, FGUA), the service area is reduced for the FGUA but expandable as needed
- By the same agreement, the FGUA will have a minimum 5-year ownership period and the City has the right of first purchase and if not exercised, flows to the County

The Deal and Results (Con't)

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- All governing body action items were approved unanimously on multiple occasions by the FGUA Board, City Council and County Commission
- At all public meetings and hearings, there have been no customer objections and only support from the Utility Advisory Committee

Primary Concessions – The Art of Compromise

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City

- $500,000 lower net proceeds from system net equity by foregoing pre-approved rate increase
- Reduced service area for FGUA than what City had previously established

County

- Five-year holding period for FGUA ownership
- Assignment of "Right of First Purchase" to City in event of FGUA sale

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- Capacity "Futures" payment
- Capital grant and fee (Rio Vista) reimbursement

Current Status

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- All approvals from all three government partners complete
- $12.9 million USDA acquisition loan (first of its kind) obligated with interest locked in
- Awaiting USDA National final sign off on appraisal and bond resolution
- Bond Validation
- FGUA lending interim support to City

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QUESTIONS/DISCUSSION