

**Utility Advisory Board
Recommendation
Return of Funds Removed from Water and Sewer Enterprise Fund Reserves**

At its April 18, 2016 meeting the Utility Advisory Board (UAB) reviewed and discussed options relative to the return of funds that were removed from Water and Sewer reserve accounts and used to fund the Greenlight project. The following background information and recommendations are hereby presented to the Dunnellon City Council.

1. Background:

a. Resolution 2010-06, dated 7/26/2010, authorized the creation of Greenlight and the associated Communications Enterprise Fund. The resolution also authorized a loan of \$50,000 from the Water/Sewer Funds to Greenlight. It is our understanding that this loan has been repaid and no further action is required.

b. Resolution 2012-29, dated 11/13/2012, authorized an inter-fund loan of \$1,478,430 from the Water/Sewer Funds to the Communications Fund. Stipulations of the loan are that it carries a .01% per annum interest rate and that it be paid in its entirety by 2017. To date, no action has been taken to repay this loan. The funds were transferred from the Water Capital Improvement/Connect Fees and Reserve Equipment Replacement accounts, and from the Sewer Reserve Equipment Replacement account. This loan remains outstanding.

c. Resolution 2013-18, dated 11/12/2013, authorized the transfer of \$1,962,826 from the Water/Sewer Funds to the Communications Fund. The funds were transferred from the Water Unrestricted Equity and Emergency Reserve accounts, and from the Sewer Capital Replacement account.

d. Resolution 2013-18 also authorized the transfer of \$1,362,664 from Water/Sewer bond proceeds to the Communications Fund. The UAB recognizes that the City is dealing with this transaction separately due to legal issues. The UAB recommends that the City continue making payments from the General Fund to replace the amount removed.

e. The combined amount transferred from Water/Sewer Fund reserve accounts is \$3,441,256.

2. Current Situation:

a. The Water/Sewer Reserve Accounts for Equipment Replacement are empty.

b. The combined amount in the Water/Sewer Emergency Reserve accounts is \$7,308.

c. The combined amount in the Water/Sewer Capital Improvement accounts is \$127,234.

d. The lack of funds in these reserve accounts directly affects the immediate and long-term safety and reliability of the Water and Sewer Utility Systems. This is a significant public interest situation that needs to be addressed by the City Council.

e. The lack of funds in these reserve accounts makes it impossible for the city to undertake utility system improvements and enhancements without borrowing funds.

3. Recommendations:

a. Assuming that the City does not have funds available in the short term to replace funds loaned and transferred from the Water and Sewer reserve accounts, and taking into consideration discussions about this matter at the joint Council and UAB workshop on 3/21/2016, the UAB recommends that the Council approve an agreement that allows the funds to be reimbursed over a period of time.

b. Starting with the fiscal year 2017 Water and Sewer Enterprise Fund budgets, the city should suspend any inclusion of expense items for city staff providing support to water and sewer operations and administration. For the purpose of determining the yearly amount to be applied toward the reimbursement, the city should use the amount of \$143,728, which is the amount being charged in the fiscal year 2016 budget.

c. Starting with the fiscal year 2017 Water and Sewer Enterprise Fund budgets, the city should include one-half of indirect expense items that contribute to the operation and administration of the water and sewer utilities, instead of the two-thirds contribution in the fiscal year 2016 budget. The yearly amount of \$12,274 (based on amounts in the fiscal year 2016 budget) should be applied toward the reimbursement.

d. The total of the above items is \$156,002 per year that would have to be absorbed by the General Fund. By not having these expenses included in the water and sewer funds, and by maintaining the existing utility rates, it should be possible to accommodate operation and maintenance expenses, gradually increase reserves and satisfy debt obligations.

e. The UAB recommends that the City establish a process for allocating these savings to the various reserve accounts.

e. The UAB recommends that the City establish optimum account balances for reserve accounts and continue adding to these accounts until the desired balance is achieved.

f. The UAB feels that the method of formalizing this plan to return funds to the water and sewer reserves should be determined by the Council.

Respectfully submitted,



Hugh Lochrane
Chairman, Utility Advisory Board

Utility Advisory Board

- **Joint meeting March 9, 2016 - discuss loan to Greenlight**
- **Produce a recommendation relative to action taken by Resolution 2012-29**
- **UAB meeting April 18, 2016**

UAB Meeting

- **Draft recommendation for repaying “loan”**
- **Concern about other transfers**
 - **\$1.96M from reserve accounts**
 - **\$1.36M from bond proceeds**
- **Board agreed to address all transfers**

Background

- **Resolution 2012-29 (11/13/2012)**
 - **Interfund loan of \$1.5 to be repaid by 2017**
- **Resolution 2013-18 (11/12/2013)**
 - **Transfer of \$1.9M from reserves**
 - **Transfer of \$1.36M from bond proceeds**
- **Total funds transferred \$4.82M**

Replace Bond Proceeds

- **Legal obligation to replace \$1.36M**
- **Separate line item in General Fund budget**
- **Time period and amount per year ????????**

City decides how to deal with this matter.

Current Situation

- **Reserves for equipment replacement = \$0**
- **Reserves for emergencies = \$7,308**
- **Reserves for improvements = \$127,234**

Impact

- **Re-building reserves means higher rates**
- **No means to replace aging equipment without incurring debt**
- **No funds available for major emergency situations**

Fix the Problem

- **Restore funds to reserve accounts**
- **Suspend General Fund expense items currently being charged to water and sewer funds (\$143,728)**
- **Allocate specific amounts to depleted reserves**
- **Establish optimum account balances for reserves**
- **Formalize plan**