

**CITY OF DUNNELLON  
SPECIAL CITY COUNCIL MEETING**

DATE: April 20, 2016

TIME: 5:30 p.m.

PLACE: City Hall

20750 River Dr., Dunnellon, FL 34431

**CALL TO ORDER AND PLEDGE OF ALLEGIANCE**

Mayor Whitt called the meeting to order at approximately 5:34 p.m. and led the Council in the Pledge of Allegiance. Mayor Whitt asked if a citizen would volunteer to open with prayer. There was none. Mayor Whitt called for a moment of silence.

**ROLL CALL**

The following members answered present at roll call:

Nathan Whitt, Mayor, Seat 1

Vacant, Seat 2

Chuck Dillon, Councilman, Seat 3

Walter Green, Vice-Mayor, Seat 4

Richard Hancock, Councilman, Seat 5

**STAFF PRESENT**

Eddie Esch, City Manager

Dawn Bowne, City Clerk

Jan Smith, Finance Officer

Mike McQuaig, Police Chief

Lt. Troy Slattery, Interim Fire Chief

Lynn Wyland, Staff Assistant

**LEGAL COUNSEL**

Not present

**PROOF OF PUBLICATION**

Mrs. Bowne announced for the record the agenda for this meeting was posted on the City's website and City Hall bulletin board on Friday, April 15, 2016. She explained the agenda was modified on April 20, 2016 to add an amended financial report provided by Mrs. Smith.

**Mayor Whitt's comments**

Mayor Whitt commented on the challenges the City has been going through, and at the same time, understanding there are still challenges going forward.

**AGENDA ITEM NO. 1 – PUBLIC COMMENTS**

Joan Duggins, 19687 SW 88<sup>th</sup> Court, Rainbow Springs, asked the Council to resolve the financial burdens and allow staff to manage the budget without "borrowing" from water and sewer.

**AGENDA ITEM NO. 2 – REVIEW OF CITY’S FINANCIALS AND FUTURE FINANCIAL PLAN**

Council and staff reviewed the “*Term Sheet*” and the “*Agreement*” from Capital Resource Advisors (CRA) provided in the backup. Councilmembers asked several questions regarding the fee amounts.

Vice-Mayor Green stated his concerns with the language in the second paragraph of the Agreement and read aloud the following: “Client agrees to pay CRA a fee equal to **2% of the loan amount** for CRA’s services. CRA fee payment is due \$7,500 upon engagement and the balance within sixty days after Client receives a conditional commitment to guarantee the loan from USDA or when the loan is closed, whichever occurs first. All payments are non-refundable.” He also read the following from the third paragraph: “Since the application process must be undertaken to determine if an application can be developed and USDA and lender reserve the right to determine what applications they will approve until they review the complete application, **CRA cannot guarantee success**, however, CRA will see the application through to final decision.” He asked Mrs. Smith if the City is to pay 2% of the loan amount to process the application. Mrs. Smith replied yes.

Councilman Hancock said Mrs. Smith explained to him there is more money within the budget than we are currently paying BB&T for the loan. He stated although we show we are paying \$270,000 this year, there is actually \$440,000 budgeted.

Mrs. Smith said the \$270,000 is principal only and the interest is approximately \$144,000.

Councilman Hancock stated there is \$440,000 in the budget to pay BB&T.

Vice-Mayor Green commented on the heavy debt burden that is already established. He said approximately \$ 0.34 of every dollar is to pay interest.

Mrs. Smith provided and reviewed a “Debt Recap” spreadsheet and an “Amortization Schedule” for the BB&T bond refunding.

Councilman Hancock discussed borrowing from the water and sewer fund and said the Council should not add more debt to this utility.

Councilman Hancock stated we should be leading the discussion with BB&T and not waiting for them to come to us. He recommended Council send a formal letter explaining that the City understands it cannot take on more debt, thank them for their support and tell them we will continue to the pay the debt.

Mayor Whitt said this is the first time in many years the water/sewer rates were not increased and he felt it was a huge success. He stated his goal has been to see the rates lowered. He said he understands the debt is frightening, but when looking at other cities’ debt, we are at the bottom end of bonded debt versus value.

Councilman Hancock thanked Mrs. Smith for providing a clear understanding of the City's debt. He stated we have a bare bones budget, but that tells us we are doing the best we can with what we have. He said as he understands it, when it comes to operations, the amount of restricted revenue determines the amount of restricted expenses or projects that are completed. He explained taxes and unrestricted revenues do not determine what is spent for the services we provide. He said the operational short falls have been between \$238,000 and \$380,000 and no reserve dollars have been set aside for capital expenditures or emergencies for many years. Councilman Hancock said reserves were depleted to cover shortfalls and have not been rebuilt. He explained this operational shortfall is not a Greenlight or a debt problem. He said the City operations have a systemic imbalance of insufficient revenues to pay for the services being provided year after year.

Council and staff engaged in lengthy discussion regarding the operational costs and restricted/unrestricted revenues.

Mayor Whitt commented on the need to move forward and look to the future. He said we have new businesses coming into town which will increase revenue. He stated he firmly believes the City is poised to move in a positive direction, knowing full well the concerns of our citizens. He said we must continue to look forward and know we have our challenges to meet.

Vice-Mayor Green stated his position regarding the City's obligations to the citizens of the community and the businesses. He said we have to be fair to our community as a whole, everyone that we serve. He said we have known for approximately four (4) years that payment was due to BB&T and we should have been making preparations to pay that money back.

Councilman Hancock commented on the new businesses that have come to town and said it is also important to talk about the businesses who have closed. He stated the importance of analyzing the facts and acting on them. He said he will support any Council decision or any solutions that correct the imbalance of revenues and expenses that does not add to our debt and effectively manages the debt that we have.

Councilman Dillon stated he agreed with Councilman Hancock's comments. He said he is prepared to have a round table meeting (discussion) and decide what we need to do to find solutions.

Councilman Hancock stated the City has two major issues to deal with: high debt and systemic problems in matching revenues to expenses. He prepared draft suggestions that he shared with Council:

Draft suggestions for bringing city services in line with city revenues

**Overview:** there is a systemic shortage of revenues to adequately finance and support the current configuration of city services.

Unrestricted revenues do not fund services being provided or fund reserves.

The city has had operating deficits for many years, and has drained capital reserves to cover the losses.

With no operating profit and the depletion of existing capital reserves, the city does not provide adequate capital support for the services being provided.

In order to correct the extreme imbalance between revenues and current operating costs the city needs to take extreme corrective action. The type of proposals that could allow for balancing revenues and costs include:

1. The city of Dunnellon could determine a combination of substantial tax increase and operational savings to provide adequate support for all services being provided by the city.

\*2. The city of Dunnellon could increase ad valorem taxes up to 25% to provide adequate support for all current services being provided by the city.

\*3. The city of Dunnellon could outsource the fire/rescue department in order to bring balance between revenues received and services provided by the city.

\*4. The city of Dunnellon could outsource the police department in order to bring balance between revenues received and services provided by the city.

\* If public input is desired via referendum for this proposal, simply substitute "should" for "could" to make this a referendum statement.

Draft suggestions for handling the extensive debt in the water/sewer utility

Overview: The purchase of water/sewer utilities outside the city through debt alone, and with unsustainable terms, has created a critical debt crisis similar to the Greenlight Communications utility failure.

The city apparently overpaid for the Rainbow Springs Utility by 15%-20% with borrowed funds at unsustainable re-payment terms.

Like the General fund, all reserves were depleted and must be re-built quickly in this capital-intensive operation.

Current Water/Sewer rates are comparably high to other utilities, and additional rate increases simply tied to normal operating costs will be difficult to achieve.

This leaves little space to increase rates or surcharges in order to cover any additional debt service costs.

In order to effectively deal with the extreme debt funding issues, the city needs to take extreme corrective action. The type of proposals that could allow for resolving the unsustainable debt as currently configured include:

1. The city of Dunnellon could determine a combination of substantial rate increase and operational savings to cover debt costs for this utility.

2. The city of Dunnellon could maintain the current BB&T debt payment until the loan is paid off through revised agreement with the lender.

\*3. The city of Dunnellon could increase water/sewer rates 1% for every \$30k of additional debt re-financing costs required to pay down the BB&T loan.

\*4. The city of Dunnellon could assign a surcharge to cover additional debt re-financing costs to pay down the BB&T loan.

\*5. The city of Dunnellon could divest of all utilities outside the city limits of Dunnellon as a result of the unsustainable debt that currently exists in the utility.

\* If public input is desired via referendum for this proposal, simply substitute "should" for "could" to make this a referendum statement.

Additional draft suggestions for improving operating processes in the city

1. The Goal of the General Fund budget should be to balance unrestricted revenues to unrestricted expenses/services and provide for a reserve set-aside.
2. Eliminate inter-fund charges and allocations that do not materially affect individual fund results.
3. Transfers and allocations are to be used for grant re-imbusement and intra-fund purposes.
4. No budgeted capital budget dollars can be used for operational expenses.
5. Prepare an annual, separate Capital Budget in conjunction with the General Fund and the Water/Sewer Utility.
6. Combine the Water/Sewer Utility budget until there is a material cost effect between "water only" users versus water/sewer users.
7. Re-instate two-year council terms to provide more flexibility to the electorate and reduce required length of service for council members.

Councilman Hancock reiterated, these are suggestions and he believes they would help the City get back on track and create solutions.

Mayor Whitt said it frustrates him that he gets beat up for being optimistic. He stated he is extremely optimistic and feels like Council has been talking about solutions for the City. He stated he thinks we can find savings in a refinance. He said the fire assessment is another step in the right direction if we can see it through. Mayor Whitt said it should help our bottom line and potentially take pressure off our citizens who are paying 7.5 mills. He said it would allocate the burden over 100% of the citizens, rather than ad-valorem taxpayers only.

Mayor Whitt applauded the City's departments. He said Mr. Esch brought Council a document from Capital Resource Advisors (CRA) and Vice-Mayor Green pointed out a flaw in the document that raises a red flag. He said a fire assesmtent is not going to solve our problems overnight but we are on the right track. He said at the same time we clearly have obstacales in our way and we will face them one at a time. He said he refuses to yield to negativity and pessimism.

Councilman Hancock stated he is glad the Mayor is happy and applauds his optimism. He said he is trying to be a realist and he will take all the good news the Mayor wants to deliver, but he also wants to talk about the news that's not so fun to listen to. He said, "If you want

to move this forward, quit calling everybody who disagrees with you a pessimist. They are people who are trying to do their job and they are trying to be a realist.”

Councilman Hancock stated the Mayor’s view according to a recent news article is that three councilmembers are bullying him and they need to get out of his way. Councilman Hancock said as far as he knows, they are equal voting partners and he believes that is what the public expects.

Mayor Whitt stated he is not labeling everyone a pessimist but he feels there is a lot of pessimism and it belittles his optimism. He said in no way, shape or form is he pointing fingers at any specific person. He said he likes positivity and a “can-do” attitude.

Councilman Hancock said it’s important for this Council to understand if they want formal public input there are strict deadlines with regard to placing the items on a referendum. He asked Mrs. Bowne to address the timeline.

Mrs. Bowne explained if Council chooses to place referendum questions on the local primary ballot in August the deadline would be June 24<sup>th</sup>. She said the Supervisor of Elections will require an approved referendum ballot ordinance for the August 30<sup>th</sup> local primary election. She said the first reading would have to take place no later than May 9<sup>th</sup> and the public hearing and the second/final reading of the ordinance and consideration will have to take place no later than June 13<sup>th</sup>.

Councilman Dillon stated he believes there are a number of items to be placed on a referendum and he would like the citizens of Dunnellon to decide if they want a City Manager, Police Department and Fire Department. He said if they do, they should be prepared for a tax increase. He said educate the people and help them decide what they want. He said he has no problem going to ten mills, implementing a fire assessment and increasing water and sewer rates, if that’s what the people want.

Mayor Whitt said he feels we have to allow time for the growth; the rebirth of the City to take root. He said he feels very strongly by going to referendum, we are putting the cart before the horse. He said you are asking for the citizens to make the decisions. He said that’s what he was elected to do, to make decisions to move us forward, and we have clearly done that.

Councilman Dillon reflected back to the financial condition of the City prior to having a City Manager and a strictly volunteer fire department. He said the City had reserves, a fire and police station. He reiterated once the people say what they want, he’s willing to make the hard decisions.

Mayor Whitt stated clearly there is an outpouring of support for the fire and police departments. He said the City Manager, is really what the crux of this is about. He said there is a personal animosity here that will not allow us to get past a rational debate.

Vice-Mayor Green called "point of order." He asked Mayor Whitt to explain his last statement.

Mayor Whitt stated he is not personally attacking anyone. He said there has been continued attacks on the City Manager by many on this Council.

Vice-Mayor Green asked the Mayor to provide evidence.

Mayor Whitt stated he would have to go back to the record.

Vice-Mayor Green stated if the Mayor continues to make accusations about members of this Council, he wants to hear the facts.

Mayor Whitt stated his point is that he doesn't know if Mr. Esch has been given a fair shake at being the City Manager.

Council and staff engaged in a lengthy discussion regarding Council's frustrations and disagreements among peers.

Mayor Whitt made a motion to appoint Valerie Porter Hanchar to Seat 2 on the Council. He said Mrs. Hanchar is a former Councilwoman and has a good understanding of city business. He called for a second.

Councilman Dillon stated this is a workshop and he could not make that motion.

Vice-Mayor Green stated the meeting was changed from a workshop to a council meeting. He said it would be unwise to go any further on the motion because the position was advertised and the deadline has not passed. The City is still accepting applications.

Mayor Whitt reiterated his reasons for nominating Mrs. Hanchar and asked for a second on his motion.

Vice-Mayor Green asked if a deadline for applications was advertised.

Mrs. Bowne explained a press release was issued at the direction of Council, and the deadline for receiving applications is April 25<sup>th</sup>.

Mayor Whitt's motion died for lack of a second.

Councilman Hancock requested an update from the Chair of the Utility Advisory Board for their meeting held on Monday, April 18th.

Mr. Lochrane provided a handout *which is attached hereto and made a part of these minutes*. He said he can address the recommendations at the next meeting during the board reports.

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**AGENDA ITEM NO. 3 – ADJOURNMENT**

At approximately 7:20 p.m. Councilman Dillon moved the April 20, 2016 City Council meeting be adjourned. Councilman Hancock seconded. All members voted in favor. The motion passed 4-0.

Attest:

\_\_\_\_\_  
Dawn Bowne, MMC  
City Clerk

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Nathan Whitt, Mayor

**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.

*Submitted to Council 4/20/16 Spec. Council Meeting*

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