

# MINUTES OF WORKSHOP ENTERPRISE COMMUNITY DEVELOPMENT DISTRICT

A rate study workshop of the Board of Supervisors of the Enterprise Community Development District was held Wednesday, January 28, 2009, at 10:00 a.m. at 851 Celebration Avenue, Celebration, FL 34747.

Present and constituting a quorum were:

Matt Kelly	Chairman
Russell Stokes	Vice Chairman
Lance Montague	Supervisor
Pat Wasson	Supervisor

Also present were:

Gary L. Moyer	Manager: Moyer Management Group
Cheryl Stuart	Attorney: Hopping Green & Sams
Brenda Burgess	Moyer Management Group
Tony Hairston	Public Resources Management Group
Brian Kamprath	Public Resources Management Group
Brian Smith	Severn Trent, Management Division

## FIRST ORDER OF BUSINESS

### Call to Order and Roll Call

Mr. Kelly called the workshop to order at 10:10 a.m.

Mr. Moyer called the roll.

## SECOND ORDER OF BUSINESS

### Discussion of Rate Analysis

Mr. Moyer stated the concern we had as we prepared the budget for this year is our revenues were close for water and wastewater, but the irrigation revenue was substantially less than what we budgeted, which may be good news that our water conservation program may be working. We are concerned about Toho Water Authority adjusting their rates and how that affects us going forward.

Mr. Hairston stated we collected a lot of data and we want to share our preliminary results with the Board. We will provide a report for next month with some final recommendations. We are looking at some rate adjustments effective April 2009. For water rates, we have proposed a rate adjustment, and much of this is driven by the Toho Water Authority large user rates. For wastewater, we want to adjust the commercial rates to be the same as the residential rates since there are different rates for commercial for wastewater. The irrigation rates are very much under what your costs are from Toho Water Authority. That is the focus of this study so that you can recover those costs from

Toho Water Authority. The last rate study was done in 2003. We looked at current rates and budget for this year as well as for five years going forward. In 2003, you still had a lot of residential and commercial growth. A lot of that has happened and now you are at the end of that growth. We need to make sure we have the updated list of projects and when they are coming online. Since the last rate study, large user water costs have gone up a little. The wastewater costs have not changed much but the reuse costs have increased dramatically. That is where we are focusing the adjustment. You have about 2,200 water and wastewater customers. The 4,400 BFGs is equivalent connections, which includes commercial customers as if they were residential units at 280 gallons per day. That is the amount of capacity that your customers have requested or that the District has committed. Last year, your purchases from Toho Water Authority were almost 1 million gallons per day for water, 721,000 gallons for wastewater and over 2 million gallons for reuse. Last time one of our recommendations was to adjust the rates for reuse and residential users had a tiered structure. We allowed residential users a certain amount to irrigate twice a week but to also have an incentive not to overuse.

Mr. Kelly asked are multi-family units billed at a residential rate or a commercial rate?

Mr. Moyer stated commercial.

Ms. Stuart asked as you look at historical data, has water consumption dropped as reuse consumption increased? When we instituted those rates, we assumed a drop in potable water and we made some assumptions about that.

Mr. Hairston stated total water consumption has increased because there are more users and you are selling more gallons, but the average use per customer has decreased slightly.

Mr. Kelly asked for the water versus wastewater usage, does that ratio look normal?

Mr. Hairston stated yes.

Mr. Kelly stated some of the water is consumed.

Mr. Moyer stated some is used outdoors and does not go through the system. The good news is that tells me we do not have a significant infiltration problem. You do not want to pay to put groundwater into the lift station just to pump it to Toho Water Authority. It looks like the construction of our system is pretty tight.

Mr. Kelly stated for the benefit of Mr. Montague as our new Supervisor, the Enterprise CDD purchases bulk water, wastewater and reuse from Toho Water Authority under the terms of our Large User Agreement. That is our bulk purchase agreement. We own the system on our property but they provide the water and the capacity to us under a bulk arrangement. Then we sell it to the residents of Celebration.

Mr. Hairston stated a substantial portion of the costs and a lot of what your rates go for are the Toho Water Authority plants and the associated costs to get the system to the community.

Ms. Stuart stated we have done that through an interlocal agreement with Celebration CDD since the inception of the District.

Mr. Hairston stated one of the more important things we look at going forward is to have the rates be sufficient to put back into the system as renewal and replacement. You have a dedicated fund for that, and we want to make sure you are not just paying current costs but you are also putting some into reserves so you can maintain the system as it ages. It is still fairly new, but as it ages, you want to have funds available for that. With commercial developments, we included the major developments that are online or will be online within the next year or so. There are four major projects and other smaller projects, and they all have come online within the last couple years up through next year. With all these projects, there will be \$2.7 million in connection fees that are due as their contribution toward the infrastructure. We do reflect that in our forecast. Those fees are available either to pay debt service or other expansion projects, whatever the plans of the District are. There is just one outstanding bond series, Series 1999, and prior to that were the 1994 bonds. For the previous rate study, the District had a substantial balance in connection fees and we recommended defeasing the 1994 bonds. That has since been done, which reduced the bond payments. You are not in the position to do that with the 1999 bonds but we want to be sure the rates are sufficient to meet your debt service requirements.

Ms. Stuart asked are these numbers for potable water and wastewater consumption and they do not include reuse?

Mr. Hairston stated that is correct, they do not include reuse but we have projections on reuse. Reuse can have vast differences in usage. In our five-year forecast, we include some growth and at that point, it is a matter of maintaining the rates.

Mr. Kelly stated Overture will not happen so you can delete that project. There are two projects on Celebration Boulevard that I presume are included in the other category.

Mr. Hairston stated we do have a larger list for all the projects. To put it in perspective, 1,000 gallons per day is equivalent to four single-family residential units. If it is a smaller building, it would have been included in the other category.

Mr. Kelly stated the Sherman building or the medical office building is 100,000 square feet, and it is the same size as the Duke-Weeks building, and the LaRosa building is about half that size.

Mr. Hairston stated they are included in our other number. They may not have paid their connection fees or be up yet.

Mr. Kelly stated the buildings are constructed although there would not be much flow since the buildings are pretty empty.

Ms. Burgess stated I believe both projects have paid their connection fees.

Ms. Stuart stated if Overture does not happen, there is still a site where something could happen to consider for future growth.

Mr. Kelly stated it is at least five years out.

Ms. Stuart stated in the next draft, please clarify these are potable water numbers.

Mr. Hairston stated we factored in an annual 3% increase for large user rates. Our understanding is every year they true up their costs and you do not know until it happens. We factored a 3% unit cost increase per gallon for purchased water, wastewater and reuse. With more demand, you are purchasing more gallons. Factoring in that additional growth, it averages about 4.2% per year. One of the things we discussed early on is with that being a significant portion of your costs, is the Board interested in a calculation to automatically adjust your rates for the costs from Toho Water Authority, so that every year you can adjust your rates by hopefully only a small amount to directly cover the additional costs from Toho Water Authority. Your debt service and other costs are fixed, but that is a large component of your rates. We can provide an example of how that will work. After we complete the rates for this year, we can include a mechanism to increase your rates if the Toho Water Authority rates increase. Then you can determine if you want to adjust your rates based on your costs.

Mr. Kelly stated it makes sense to do that.

Mr. Moyer stated at one time, we did that by the consumer price index. We got away from that with the 2003 rate study. He can give us a formula tying it to Toho Water Authority's increases, for every 1% of their increase, it represents .5% of our increase.

Ms. Stuart stated that is easier to explain.

Mr. Kelly stated it may be small enough that you do not have to explain it if it is a minor increase.

Mr. Hairston stated the bills fluctuate every month anyway due to demand. We can provide those recommendations in our next draft. Other costs we factored in the other budget line items were increases of 3% to 5% plus a contingency for operating costs.

Mr. Kelly stated we just bid out our utility contract this year.

Mr. Moyer asked do you have those numbers?

Mr. Hairston stated I have a draft of that proposal. We will make sure we have the most current costs for that contract before we finalize our report. We projected a few capital expenditures, and this is still in draft form. The most significant is the installation of a radio meter reading system at over \$1.1 million. There are reserves available to fund these projects right now at this level, including meter change outs of \$124,000 and a SCADA system of \$214,000. These are programmed to occur by the end of next year.

Mr. Moyer stated SCADA is the Supervisory Control And Data Acquisition. It is a computer system that monitors the various activities of pumps and meters.

Mr. Smith stated it monitors the lift stations.

Mr. Kelly asked is that for the change out of our meters or just for radio control?

Mr. Smith stated it is a radio meter reading program where we do not have meter readers reading all the meters. We will just read everything from our office.

Mr. Kelly asked I assume there will be a cost payback that we will review that shows that it makes sense?

Mr. Moyer stated there would be a reduction in the Severn Trent contract for meter reading.

Mr. Kelly stated that is a lot of money.

Ms. Wasson stated it would have to reduce labor tremendously.

Mr. Kelly stated that is what we need to see if it is worth it.

Mr. Hairston stated we provided an allowance for miscellaneous renewal and replacement every year for \$400,000 a year. If you do not spend it every year, it goes into

the maintenance reserve fund. As the system ages, you will face some larger cost items and you do not want to have to borrow money to repair the system. We used 5% of rate revenue every year to put aside into the maintenance reserve. That is a typical funding rule for utilities. It is anywhere from 5% to 7% depending on the age of the system. You are newer so 5% is a prudent policy.

Ms. Stuart stated this is a generational question on a user system, should this generation's customers be paying for 2020 replacement costs. Many local governments historically—and we know it is different now—will fund it to some degree but not to a great extent. They will issue debt so those future customers will pay the cost of those future improvements. How do you determine reasonable reserve balances? We are new and we deal with depreciation but that is a business decision how much you put on those future generations.

Mr. Moyer stated in my experience in these communities, you look at this as businessmen and Ms. Stuart's comment is right on point. Homeowners, on the other hand, are looking for reserves. They tend to favor reserves versus issuing bonds in 15 years to rebuild the system. That is a mindset.

Mr. Montague stated it also protects property values.

Ms. Stuart stated it is a rate sensitivity question. If times are such that their rates are high, the question is why they are putting all that money away. If you are looking at a significant rate increase, they will not want reserves. When bad things happen and there is money in reserves, there is not a big rate shock. They love not seeing a large rate increase, but there is a balance.

Mr. Kelly stated the debt will be retired and we will be able to issue debt to replace it, so theoretically we can keep rates consistent.

Ms. Stuart stated it is not about having all the cash in the bank to repair the lift station, or some combination.

Mr. Kelly stated I agree.

Ms. Stuart stated that is why we look at the rate consultants. We look at their assumptions, what is the amount of reserves, when do we expect to use that money, or do we have too much in reserves and we do not need to lock it away. This Board has to make a decision and hopefully Mr. Hairston can give them some answers. I agree with Mr. Moyer but there is a balance.

Mr. Hairston stated some of the \$400,000 per year is for things like equipment and meters. One year of meter change outs is \$100,000 and we will lower the \$400,000 to reflect the \$100,000 for meter change outs that is identified and the balance is unidentified. I agree we do not want to build reserves just to build them and put all the burden on today's customers for those customers in 20 years. Having reserves for renewal and replacement is a byproduct of meeting your debt service coverage. The immediate concern is you are a little tight for this year and I want to make sure you do not have a problem this year, especially with growth the way it is.

Mr. Kelly stated I am assuming \$1.1 million for the meter reading system is rate neutral because it should pay for itself. I do not want to pay for this and have rates go up. I want to fund that out of capital and we will see labor savings that will pay for it.

Mr. Hairston stated we are using existing balances for these projects, and we have no additional debt in our forecast period. We will typically provide a five-year forecast, and if you want to look at a longer timeframe, we can do that. We will look at a reserve balance for 2013 and see what the reserves are for, are the projects reasonable and are they for another financial window for future purposes. This study looks at only five years.

Mr. Kelly asked when do the first elements of our system need to be replaced? Some parts of our system were installed 14 years ago.

Mr. Moyer stated the components we need to replace are meters and Mr. Smith has a replacement schedule on meters. We need to keep them operational. We do not have a lot of moving parts to the utility system except for pumps. We have lift stations that have to be maintained and those are the most difficult because they deteriorate due to the hydrogen sulfite gas from the wastewater. For potable water, we have our master pump station but we did some work on that last year. During our utility RFP process, we discussed that very issue of why our operational expenses last year were so high. Part of that was the meter assembly and repump system. Other than the normal maintenance for lift stations, we are in good shape.

Mr. Kelly stated the pipes will last 40 years or more.

Mr. Moyer stated yes.

Mr. Hairston stated we provided a projection from 2009 to 2013 and the largest component is the operating expenses, of which the largest portion is the rates from Toho Water Authority. The second largest portion is debt service on the Series 1999 bonds for

annual principal and interest on that debt. There are the capital expenses for maintenance including meter change outs and renewal and replacement funding. The last portion is the operating expense attributed to the reuse water for the District's common area that no one else pays for. The solid line on the chart is revenue from existing monthly rates. That line will smooth out at some point. The dotted line represents connection fees for new developments that will occur this year and next year. You will not have those fees in the future and we do not want to rely on them to pay debt services. You want to make sure rates are adequate to fund the operations going forward.

Mr. Kelly asked we do not bill for consumption in the common areas?

Mr. Moyer stated that is correct, or for Celebration CDD.

Mr. Hairston stated looking at the costs from Toho Water Authority and the debt service allocated to water and capital, the existing water rates are below the costs for water. We will recommend adjusting those rates. For wastewater costs, we are receiving more revenue than our costs are. Our recommendation in 2003 was to adjust those down and adjust the reuse rates up. Right now, the residential rates are lower than commercial rates, and we want to make those the same. We want to adjust the commercial rates with no change to residential customers for wastewater rates. Also included in the recommendation is that the reuse that is not billed, the wastewater rates will have available surplus to cover that. Everyone is a wastewater customer but there are different levels of usage for reuse. If you are going to fund District reuse water from all the rate payers, does it make more sense to have the reuse rates for those customers who use reuse or to have it in the wastewater rates where there is already some surplus? Everyone has wastewater. It seems that would be more equitable since you have rates established that would be able to fund that. With the existing rates for reuse, they are well under and are not even paying operating costs, let alone the debt service. The chart shows the magnitude of the common area usage, and in reality the wastewater rates will be able to fund that shortage. We will recommend having a substantial increase in the reuse rates, which will help mitigate that somewhat.

Ms. Stuart stated it is visually confusing because the scales on the left are very different on each of the charts.

Mr. Kelly stated the total chart showing the difference gives a more accurate picture.

Mr. Hairston stated the proportion on reuse shows where the reuse rates need to go. On water rates, we recommend a 10% increase adjustment on both the monthly base charge and the monthly usage charges to recover the costs. For a typical residential customer using 5,000 to 6,000 gallons, it results in an increase of \$1.70 per month. For wastewater rates, we recommend a downward adjustment for commercial customers to match the residential rates. There should be no changes to the residential wastewater rates. Reuse rates should be adjusted to reflect the costs. We are proposing these changes be made effective April 2009. The reason for that date is driven from the debt service coverage requirements. We want to be sure you are in a position to meet those minimum coverage requirements.

Ms. Stuart stated having rates effective in April will be hard to do with our meeting schedule and having to notice a rulemaking hearing. It probably cannot happen until May from a calendar perspective.

Mr. Kelly asked how many residential users will ever go above the BFG? Is it a small number?

Mr. Smith stated it is a small number.

Mr. Hairston stated a typical bill is 6,000 gallons.

Ms. Stuart stated we implemented different rates on residential and commercial wastewater because of different kinds of discharges into the system and resulting differences in costs. What is the rationale for making those the same?

Mr. Hairston stated residential charges were lower and the intention was when we adjusted the rates in 2003 that all the rates would be adjusted equally. Our projections were to lower all the wastewater rates, and right now there is a differential between residential and commercial.

Mr. Kelly asked was there a differential prior to 2003?

Mr. Hairston stated no.

Ms. Stuart stated the change in residential was for reuse and commercial was not going to consume as much reuse.

Mr. Moyer stated reuse water for commercial has always been metered and billed.

Mr. Hairston stated the commercial reuse rate is lower than the residential reuse rate. It is a shifting of those who use reuse, including commercial customers.

Mr. Kelly asked is there a good reason for wastewater rates to be different? Are we saying no, or is that just a question you are asking?

Ms. Stuart stated I am just asking the question. Maybe we cannot quantify it. Some parties will look at the different types of discharges from commercial as putting a greater burden on the system. There are different levels of filters.

Mr. Moyer stated some of the commercial projects have their own lift stations that are part of our system that we maintain. We just put one in for Siena.

Mr. Kelly stated that is how we setup our system. They use the lift station just like everyone else does. It is a matter of whether or not they have a dedicated lift station.

Mr. Moyer stated that is correct.

Mr. Smith stated commercial usually puts a heavier burden on the system because of the types of discharges. Restaurants put a burden on the system, just cleaning grease out and that results in more costs to the system.

Mr. Kelly stated flow is flow, but what is in the flow is different.

Ms. Stuart stated that is correct, and sometimes that is why there are different rates for commercial versus residential.

Mr. Hairston stated the Public Service Commission allows for somewhat of a differential. Grease traps cannot capture all of that, and some still gets into the system. We can take a closer look at that.

Mr. Kelly stated maybe you do not quantify it but just come to a reasonable approximation. Perhaps the rates go from \$4.71 to \$4.20 instead of \$4.71 to \$3.90. It sounds like we are open to looking at that.

Ms. Stuart stated we can look at that as a reason to maintain and a policy matter related to costs and operational realities to come up with a differential.

Mr. Kelly stated common sense says there should be a difference. Do you see these kinds of differences in other utilities that you manage or are they usually the same?

Mr. Moyer stated usually they are the same.

Mr. Stokes stated the water rate increased by 10% or \$.17. What is the percentage reduction on commercial?

Mr. Hairston stated 17.2%. On the reuse system, Toho Water Authority charges the District \$.81 and the lowest rate we bill to residential customers is \$.40 up to 10,000 gallons. You are charging half of what the direct costs are, and the costs increase on a

tiered rate. For commercial gallons, Toho Water Authority charges the District \$.81 and you bill the customer \$.28. We definitely need to correct that. There is a portion of the water that you purchase from Toho Water Authority is unbilled. There are several reasons for that. One is operational line loss from leaky pipes or slow meters, which is estimated at 10%. The other significant portion is District use for common areas, and there is no customer to bill for that. The surplus in wastewater revenue will fund that costs, so it is a policy question if you want to collect that through the wastewater fees. Putting the numbers together, we have charts that show what these rate changes mean to the customer.

Mr. Montague asked is typical residential use 6,000 gallons of reuse?

Mr. Kamprath stated the reuse average is 14,000 gallons and potable use is 6,000 gallons.

Mr. Hairston stated that is typical reuse usage. For 6,000 potable gallons and 14,000 reuse gallons, that results in a water increase of \$1.70 and the reuse portion will increase \$13.25. If they use less water, the increases will be less. The cost to the District for reuse has increased fourfold.

Ms. Stuart asked where are the proposed reuse rates?

Mr. Hairston stated I have that in the backup material.

Ms. Stuart asked did you do graduated rates for commercial and residential?

Mr. Hairston stated there are graduated rates for residential but we do not have them for commercial at the moment. We can look at doing that because commercial does have a reuse BFG identified, so we can calculate that.

Ms. Stuart asked would it not make some sense to do that for commercial users because some customers use more reuse than others? A store downtown will not use any reuse but the golf course will use a significant amount. We ought to consider a conservation reuse rate for commercial customers. You may have a tiered structure with rates that are different from the residential structure.

Mr. Kelly stated for the golf course, we would have to look and understand what this change would do to them.

Ms. Stuart stated maybe we look at bulk users and perhaps there is a large consumer for us. There is nothing that says we cannot have a class for a consumer over a certain number of gallons at a certain rate. We can do that.

Mr. Kelly stated theoretically people benefit from the golf course looking nice.

Ms. Burgess stated for the golf course, they are not given 10,000 gallons for their BFG. They provided their proposed flow to be their monthly BFG. Some commercial customers have 4,000 gallons for reuse BFG and others may have 30,000 gallons. That is the number we would use for the commercial structure and come up with equivalent units. If the customer with a BFG of 30,000 gallons uses only 20,000 gallons, then they pay all of it at the low rate.

Mr. Kelly stated I agree that there should be an incentive to conserve.

Ms. Stuart stated that is my point. When you increase the rates for the smaller reuse users, who really are not using a lot of gallons, you can show that you are putting the burden where it belongs and having a conservation rate for larger user might make it easier for commercial customers to understand.

Mr. Hairston stated for commercial customers, there are BFGs for capacity amounts for commercial that we can identify but they are all different. That is the difficulty in looking at how you graduate it and how you allow different amounts for a different size user. Do we have a straight large-user rate and if we do, what is the threshold? There is no typical commercial customer. We provided a sample bill for a commercial customer using 750,000 gallons of water and 625,000 gallons of reuse. The water portion increased and the wastewater portion decreased. The reuse portion increased by \$1,000. This is one sample of how it will impact a commercial customer with graduated rates. This is a lot more reuse gallons than any typical residential customer would use.

Mr. Kelly stated the total bill increased only 5% and that is not too bad.

Mr. Stokes stated using a percentage is a good point of reference.

Mr. Hairston stated with the graduated reuse rates, they are not overly graduated. It sends a conservation message and is not overly punitive. We looked at a sample for 100,000 gallons of reuse and 75,000 gallons of water. Their bill decreased slightly. What matters for commercial customers is how much water and wastewater do they use relative to reuse. It is an interaction and we want to spend a little more time looking at the billing impacts. We wanted to bring to you what we are seeing and we do not want to be insensitive to the billing impacts. We will look at a realistic implementation date and see what the implications of a new date will be. With these proposed rates, we are meeting our costs for the next couple years. By 2012 or 2013, you may need to look at marginal

increases to keep up with costs. These proposed rates will be good through 2011. We also looked at the minimum debt service reserve requirements and the annual cash flow requirement that you have to maintain in net revenues. Revenues minus operating expenses have to not only meet your debt service but they have to be 110% of your debt service. This year you are right at that level without relying on connection fees.

Ms. Stuart asked what do you assume happens with connection fees where you show a large increase in revenue in 2010? There is a huge surplus in one year but it shows no benefit to coverage ratios for future years. We will not spend all that money in that year.

Mr. Moyer stated it falls to fund balance.

Ms. Stuart asked that is not taken into account for debt service reserve coverage ratios?

Mr. Moyer stated it depends on how the indenture is written. We have done that in other areas, where we apply fund balance on a going-forward basis, and that does help your coverage.

Ms. Stuart asked can we put that money into some category where it will apply to cover debt service coverage?

Mr. Hairston stated it is a rate stabilization concept.

Mr. Kelly stated it is not operating money and it is not in a reserve. It is in a capital account but we do not have any capital improvements to make.

Mr. Moyer stated our indenture says it will be used for the redemption of bonds or for system expansion. We have always kept it in system expansion. We did redeem the 1994 bonds, and right now those funds are kept for system expansion.

Mr. Kelly stated I like that, and if we need a source for reuse water, we have money to do that. We have discussed running a line to the south in the future and things of that nature, if reuse becomes more scarce and we need to tie in somewhere else, we have a funding source.

Mr. Hairston stated those monies are in reserves for those future expansion needs. As far as a rate comparison for water and wastewater, we are above average from the other utilities that are shown on the chart.. You are at a stable level at this point as long as the Toho Water Authority rates stay stable. There is not a lot of debt coming online that you have to absorb, absent some infrastructure improvements that may need to be done, but you have reserve monies available.

Mr. Moyer stated in the nature of public relations, in your next presentation I would like you to show on the operating expense how much Toho Water Authority is as a percentage of our operating expenses.

Ms. Stuart stated it would be good to show the Toho Water Authority rates for 2006, 2007 and 2008 plus your projections for them increasing going forward. That is what is driving this, because otherwise we would not be having this workshop. I think we need to document that increase in costs. On the billing impacts, one of the commercial bills increased 20%.

Mr. Kelly asked how much are we still truing up rates? Related to reuse, we have had a long history of people overwatering, and we wanted an incentive to reduce that. It seems we are truing up that issue. I do not know if people are watering appropriately now or are they still overwatering.

Ms. Stuart stated it is not about usage; our rates went from \$.25 to \$.81 and that is what is driving this. This is not about people using too much water. Our costs have gone up fourfold.

Mr. Kelly stated people can still be using too much reuse possibly, but we will not have this conversation if it were not for this increase in reuse rates.

Mr. Montague asked is there a graph of reuse usage?

Mr. Hairston stated we have analytical backup documentation that we did not distribute that will show that.

Mr. Kelly stated we wanted to see people irrigating less per household because we knew they were overwatering. That is why we implemented the rate structure that we did.

Ms. Stuart stated we are required to do that because in our Large User Agreement with Toho Water Authority, we agreed that we will have conservation rates. It will be good to see where we have been on reuse consumption by average customer over time over the course of a year. I do not think we want to send this message to people who have been doing a good job conserving. The hard thing is if people are conserving and we hit them with a rate increase. We need to think about this.

Mr. Kelly stated our costs have increased from \$.25 to \$.81 and those are the facts.

Ms. Wasson stated they do not know that and we have not done any communication on that.

Ms. Stuart stated your other choice is to look at whether you put all that cost increase on the reuse rate. This is an attempt to get expenses on a commodity-by-commodity basis where water pays for water, wastewater pays for wastewater and reuse pays for reuse. No one is ever that pure.

Mr. Kelly stated the percentage is big but the dollars are fairly small.

Ms. Stuart stated we need to look at the sensitivity of these rates. If you consume 20,000 gallons of reuse and 4,000 gallons of potable, where are the break points of those averages and what are those impacts?

Mr. Kelly stated our monthly bills are between \$85 and \$125 in Bay Hill from OUC. Reuse is not included because it is metered separately. There is no reuse; it is all potable.

Mr. Stokes stated that is the same for me.

Mr. Montague stated yes.

Mr. Kelly stated that is why some people in my neighborhood got a separate irrigation meter to save some on wastewater.

Mr. Moyer stated on residential, we left the wastewater rate the same and yet according to this chart, we are collecting a 20% to 25% overage for wastewater.

Ms. Stuart stated somehow we have to pay for District consumption in the common areas.

Mr. Kelly asked do we want to drop the rate for commercial as much as the residential rate and try to balance it out more? I think it would be best to have uniform rates but I do not think we do it all of a sudden.

Mr. Stokes stated by reducing the amount for commercial, we would reduce that delta between the 20% increase in commercial versus a 5% increase for residential.

Mr. Kelly stated we can drop it in stages over the next several years. It makes it more palatable for now.

Mr. Hairston stated we can implement different rates by phases and doing that over two of three years. You can adopt the entire phasing or just adopt the first phase to get part of the way there.

Ms. Stuart asked if we set our rates to cover our costs exclusive of the Toho Water Authority rate and did a Toho Water Authority surcharge, what would that look like? It will show the District's rates that have not changed and then show the addition of the Toho Water Authority rates, resulting in their total bill.

Mr. Hairston stated the difficulty is they bill you differently for water and wastewater than they do for reuse.

Ms. Stuart stated I would only do it for reuse. That is where we received the biggest increase. They tripled our rates on reuse. We could show our reuse rates as x and then show a surcharge as y from Toho Water Authority.

Mr. Kelly stated Toho Water Authority has tripled the reuse rates but the good news is, your rate is only increasing twice or 2.5 times or whatever we decide. The rate has more than tripled.

Ms. Wasson stated the important message we need to send is we do not control Toho Water Authority. The Enterprise CDD rates have increased but we have no choice because our costs from Toho Water Authority have gone up. That is your communication to the residents. You can show them a graph over the years where we were with our rates but explain that we cannot continue to do that. We need to offer a message on whether or not the initial starting to charge for reuse has worked overall. We really need to show some numbers on that. A lot of people said it does not make any difference but statistics speak for themselves.

Ms. Stuart asked can you mitigate the impact by changing the conservation tiers for reuse?

Mr. Hairston stated we can look at that. You have to estimate what the elasticity effects are, and you run the risk of raising the rates and people use less. In looking at the surcharge, you have to determine how that fits on your bill. You can do it, but will it be understandable to customers.

Ms. Stuart stated all utility bills have extra charges added. I think by adding a surcharge from Toho Water Authority will be easier to explain from the District's perspective and to show them the reality of the change in rates.

Ms. Burgess stated that is similar to Progress Energy bills for anyone who lives in Celebration. They include a right-of-way fee on their monthly bills that they pass onto their customers because they have to pay that to the District.

Mr. Kelly stated there are some different comparisons than what are shown on this chart. My lowest water bill this year was \$60 and I had one that was \$250. Enterprise rates are much lower than what I am paying to OUC.

Mr. Hairston stated your usage may be higher than 6,000 gallons.

Ms. Stuart asked are these comparisons calculated on our averages or their averages?

Mr. Hairston stated we used 6,000 gallons average. We have a client in South Florida whose average is very high so you cannot compare that to 6,000 because hardly anyone has usage that low.

Ms. Stuart asked if you took the average consumption of one Celebration customer and ran that consumption through all these utility rate structures, how would we fare?

Mr. Hairston stated that is shown on page 16.

Ms. Stuart asked what did you assume about those who do not have reuse rates?

Mr. Hairston stated reuse is not factored in this chart. We will have to develop those comparisons.

Ms. Stuart stated that is what is driving this bill.

Mr. Kelly stated a better comparison is not system rates; it is community rates. Poinciana does not maintain their system like we do. I am not sure that is a good comparison. I would like to see bills from Hunters Creek or Baldwin Park as better comparisons. Sizes of yards, amenities and maintenance standards dramatically impact those kinds of things. Retirement communities do not have as many people in the house and we have children in this community.

Mr. Stokes stated we use 8,000 to 9,000 gallons of potable per month, and irrigation is separate, but 8,000 gallons is average for me. Irrigation is another 8,000 gallons.

Ms. Stuart stated these are not comparable communities.

Mr. Kelly stated a 1,200 square-foot home in Poinciana with a brown yard is not a good comparison for Celebration.

Ms. Stuart asked what is an average usage for Baldwin Park?

Mr. Hairston stated Baldwin Park is probably very similar to here. They are billed by OUC and the City of Orlando.

Ms. Stuart asked how different is their consumption?

Mr. Hairston stated it is not very different. They have secondary irrigation, too, and I would not be surprised if their reuse is similar to Enterprise.

Mr. Kelly stated of the four Board members here today, the one with the lowest bill is the one who lives in Celebration.

Mr. Montague asked does it make sense that reuse water is more expensive than potable water?

Mr. Kelly stated yes, they have to treat it and get it back to you, so it runs through the system twice. Potable is much easier; they just pump it to your system.

Ms. Stuart stated it is also newer, more expensive technology. There is the question of whether the filter in the plant is attributable to wastewater treatment or is it attributable to reuse treatment. What are you trading off? If you are a disposal site, should you be characterized as that? The reuse customer is in lieu of a pond or a spray field.

Mr. Kelly stated if you go back 20 or 25 years, they would treat the water and they needed to put it somewhere because they had no place to put it, so they would give it to you for free or pay you to take it. Now that we have a reuse system in place, that whole market has changed. Now they charge you for it.

Ms. Stuart stated the Water Management Districts have demanded that you go to this as a way to conserve potable water. Now it is a commodity and before they were begging people to use the water.

Mr. Kelly stated they need a way to pump it back to you. Now we need a separate line in the ground and there are significant costs that come with that.

Mr. Moyer stated keep in mind that even though we are talking about water and wastewater, wastewater usage includes the common area landscape so we are not comparing apples to apples. Common area landscaping for the City of Orlando is probably paid through the general fund and not through the utility bills.

Mr. Hairston stated you can take that portion of the bill out of the comparison.

Mr. Kelly stated that will help us but it may confuse the public. You are right in your analysis.

Mr. Moyer stated we will have to think about that.

Mr. Hairston stated looking on the comparison sheet, Toho Water Authority in 2003 charged \$.23 and now they charge \$.81, but now there is also a \$23,000 meter charge each month, which you did not used to have. That is another significant part of that increase. They are charging you a fixed monthly rate for having a certain amount of capacity available.

Mr. Moyer stated it is like our base facility charge.

Mr. Kelly stated then \$.81 is not the right comparison.

Mr. Hairston stated you are now billed a base facility charge for reuse and you were not in prior years.

Ms. Stuart asked if the Toho Water Authority reuse rate had not changed, what would we be looking at? That is how you tell people. If Toho Water Authority had not increased their rates to this number, here is what we would be looking at.

Mr. Montague stated or if it had increased like the other water costs, because it probably would have increased some, like the CPI adjustment.

Ms. Stuart stated I do not know if there is a simple way to do that.

Mr. Hairston stated we can boil it down to the dollar increase as an increase in cost from purchased reuse.

Mr. Kelly stated we need to figure that out to tell our customers. The biggest question is giving you direction to get this finalized. I would like Mr. Hairston to summarize where the rate analysis is so that we can give you some final input.

Mr. Hairston stated we recommend an increase of 10% on water to cover your costs. I think that makes sense. For wastewater, we are looking to reduce the rate for commercial and we will look at a differential cost or a standard we can use to lower the commercial rate some.

Mr. Kelly stated I would not spend a lot of time on it but perhaps we reduce it halfway instead of all the way to the same as the residential rate.

Mr. Hairston stated for reuse, the common areas costs will be recovered from the wastewater revenue but you need to meet your costs for other reuse usage. We will fine-tune the residential and commercial rates and we will provide a structure with conservation rates. We need to work on defining the rates for commercial. We ran this model effective in April and it sounds like that will be too soon. We will have to see if that will affect us.

Ms. Stuart stated if you think you have enough information to set rates at your February 18 meeting, we need to provide 30 days' notice to advertise a hearing, which means the earliest you could have your hearing would be in late March.

Ms. Wasson stated if you are going to have a hearing, have it in the evening.

Ms. Stuart stated if you decide on a rate increase and start the advertising process for a hearing in late March, the billing system will need some transition time. Will you have these rates implemented when bills are rendered or for consumption after a certain date?

Mr. Hairston stated we recommend implementing when bills are rendered.

Ms. Stuart stated we are safer going June 1 but at least May 1.

Mr. Kelly stated I agree April will not work, but we have the public hearing, we take public input, and we make a decision. More time will not help us make that decision, but it is just a decision that needs to be made. We will not make that decision at the hearing but at a following meeting.

Ms. Stuart stated the process I just described is to have a vote at the hearing.

Mr. Kelly stated I think we will want to come back to another meeting to make the decision. Does that make sense?

Ms. Stuart stated that will move you to June 1. It would make sense if you get a lot of input to review it and take time to make a decision.

Ms. Burgess stated you can have a hearing in April but have the effective date be for usage after another date, like June 1.

Mr. Kelly stated we can have our regular meeting a few days alter.

Ms. Stuart stated he is afraid of coverage ratios.

Mr. Hairston stated especially with bondholders and the current economic times. They are taking a closer look at these things. One thing that is helpful is if the Board has adopted the rates even though they may not be implemented yet.

Ms. Stuart stated our only coverage ratio issue starts in 2011.

Mr. Moyer stated that is assuming we collect these connection fees. I just looked at the financials through December 31, 2008, and we have not received anything for connection fees yet this fiscal year.

Mr. Hairston stated the model we ran was effective for bills rendered on or after April, and you would be right at your coverage.

Mr. Moyer asked what if we add connection fees?

Ms. Stuart stated the question is if we can add that to our coverage ratio, and the answer is we cannot.

Mr. Hairston stated there are two tasks and with both of them, you can use connection fees toward that coverage.

Ms. Stuart asked then why is there ever a problem? We have connection fees in the bank. If we collect them in 2010, do not spend them and leave them in the connection fee account, why is that not to be counted toward our coverage ratio?

Mr. Moyer stated it is recognized as revenue for the period received and it is then an asset to fund balance. It is no longer a revenue.

Mr. Kelly stated it is annual collection that is counted and not the balance.

Mr. Moyer stated that is correct.

Mr. Hairston stated perhaps we should have a conversation with bond counsel to clarify.

Mr. Moyer stated it will be clear in the indenture.

Mr. Kelly stated whenever we hold the hearing, we can meet a few days later or the next week to make the decision. We do not need to wait a month. That will help with the schedule.

Ms. Stuart stated we can have a meeting in February and the hearing in March.

Mr. Kelly asked can you advertise the hearing before our meeting in February?

Ms. Stuart stated no because we have to publish the rate schedule.

Mr. Kelly stated we always provide the minimum legal notice. If we know the date and time, then we can start telling people about it ahead of time. Then we can just take care of the legal notices.

Ms. Stuart stated I do not believe you will know enough to prepare a notice and have it drafted properly until we meet in February.

Mr. Kelly stated putting out a notice for a utility meeting and not providing the content is a bad idea.

Ms. Stuart stated you have to publish the rates anyway.

Mr. Moyer stated keep in mind that "notice" is legal notice in the Orlando Sentinel.

Ms. Wasson stated we need to put it in the Celebration News and the Front Porch. This is a large increase so we need to notify them.

Ms. Stuart stated you will have a meeting probably in late February to set your hearing, which will most likely be in late March. Then you have a Board meeting scheduled for April.

Mr. Kelly stated I think we need to let a little time pass after the hearing before we meet again, but it can be the following week if that helps the billing process.

Mr. Hairston stated we will work on finalizing our report. When did you want that to be ready?

Ms. Stuart stated at the next meeting.

After a brief discussion, the next meeting was set for February 23, 2009, at 4:00 p.m.

Ms. Stuart asked are there any elasticities of demand we ought to be looking at with these proposed rates or consumption?

Mr. Hairston stated on the commercial side, I would say no. There is more of a risk if there is a bankruptcy or vacant area that will affect consumption, regardless what the rates are. On residential, you are looking at good increases of \$13.00 for reuse per month on their total bill. Residents usually look at their total bill and see what they can control, and is that enough incentive for someone to reduce their reuse consumption from 14,000 gallons a month to 8,000 gallons. When we look at the commercial inverted rate, we may want to factor in some of that thinking.

Ms. Stuart stated we need to show the impact on what reuse consumption has been from our residential customers to send them the message that this is not about their consumption but we want to see if the conservation effort worked in some identifiable format.

Mr. Kelly asked if we provide notice to the residents that says Toho Water Authority has increased our reuse rates and we expect our average residential bill to increase about \$13.00 per month, do you think that will bring out a lot of people?

Ms. Wasson stated yes.

Mr. Kelly stated it will really be our first increase in five years.

Ms. Stuart stated we did a reuse restructuring in 2003.

Mr. Kelly stated that is what I mean; it is the first increase in five years. If you annualize that, it is \$2.00 to \$3.00 per year. It is not horrible news but it is coming at a lousy time in our economy.

Mr. Moyer stated we will draft an article for the next newsletter.

Mr. Kelly stated if the average bill will increase \$13.00 per month and this is the first increase in five or six years, there is a good message. At better times it would not be a big deal but it will be this year.

### **THIRD ORDER OF BUSINESS**

### **Other Business**

There being none, the next order of business followed.

**FOURTH ORDER OF BUSINESS**

**Adjournment**

On MOTION by Mr. Stokes, seconded by Ms. Wasson,  
with all in favor, the workshop adjourned at 11:45 a.m.

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Gary L. Moyer, Secretary

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Matt Kelly, Chairman