

9. **OLD BUSINESS**

b. Utilities Department

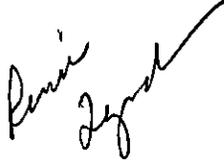
2. Direction to staff regarding pay-back schedule

July 28, 2006

MEMORANDUM

TO: City Manager

FROM: Finance Director



RE: Sanibel Sewer System Repayment of Long-term Note from the General Fund

In 1998 a loan made by the General Fund to the Sewer Reuse Fund as the result of a Department of Environmental Protection (DEP) consent order placed on the Sanibel Sewer System (SSS), which required alternative methods of effluent disposal. In response to this consent order the SSS and Island Water Association (IWA) jointly built a deep-well injection system and the SSS constructed a transmission system to pump effluent from the SSS treatment plant to the deep well at the IWA site. The consent order had to be satisfied prior to the DEP allowing new customers to connect to the sewer system. In 2000, City Council approved a \$2.7 million interfund loan from the General Fund to cover the cost of this project. A year later the deep well had to be retrofitted with special sleeve due to corrosion, the costs of which further increased the loan from the General Fund to the SSS.

As of September 30, 2005, the amount of outstanding interfund loan from the General Fund to the SSS was \$3.5 million. According to generally accepted accounting principles the interfund loan was appropriately recorded in the General Fund as a Reserve of Fund Balance. This reduces the amount of General Fund balance, which is available for appropriation in fiscal year 2006 and consequently available for fiscal year 2007 thus requiring a higher ad valorem millage rate to fund the City's operating budget.

As part of the update to the annual financial feasibility study just completed by Hartman Consulting Group, the rate impact of two alternatives for a structured repayment schedule was prepared. These are:

<u>Repayment Term</u>	<u>Annual Amount</u>	<u>Monthly Rate</u>	<u>Rate Increase Amount</u>
Current rate		\$39.61	n/a
20-Years	\$175,000	\$45.55	\$5.94/month
10 Years	\$350,000	\$47.53	\$7.92/month

A benchmark comparison of these SSS rates with other cities is included as Table 6 (attached) of the Financial Feasibility Study. The average monthly residential rate of these 7 benchmark cities is \$54.17. Therefore, adopting either a 20-year repayment or a 10-year repayment schedule will maintain the SSS residential rate well below the average.

By adopting a repayment schedule, the annual amount of the repayment to the General Fund will then become available and able to be appropriated in the General Fund, since it will no longer be a Reserve of Fund Balance. The annual amount shown above can then be used to fund projects/initiatives or to reduce the ad valorem (property tax) millage rate.

The impact on the ad valorem tax rate for the Proposed Fiscal Year 2006-07 budget would be as follows:

<u>Repayment Term</u>	<u>Annual Amount</u>	<u>Reduction to FY 07 Millage Rate</u>
20-Years	\$175,000	0.0351
10 Years	\$350,000	0.0702

If a Resolution establishing a repayment schedule beginning in Fiscal Year 2006-07 is adopted by Council prior to the September 19<sup>th</sup> Final Budget Hearing, the Final Millage Rate established for Tax Year 2006 could be reduced by the respective millage rate associated with the repayment schedule shown above.

Rml

Attachment: Table 6 from 2006 Update to Sewer Financial Feasibility Study

**Table 6  
Wastewater User Rate Comparison  
Fiscal Year 2007**

**Monthly Residential Rates Based on Usage of 12,000 Gallons <sup>(1)</sup>**

	<u>Wastewater</u>	
<b><u>City of Sanibel</u></b>		
Existing Monthly Rate	\$	39.61
Alternative A (\$5.94 increase from existing)	\$	45.55
Alternative B (\$7.92 increase from existing)	\$	47.53
<b><u>Neighboring Utilities <sup>(2)</sup></u></b>		
City of Amelia Island (JEA) <sup>(3)</sup>	\$	59.18
City of Gulf Port		60.94
City of Homestead		54.31
City of Marco Island <sup>(4)</sup>		41.46
Lee County <sup>(5)</sup>		46.56
Town of Longboat Key <sup>(6)</sup>		43.69
Village of Islamorada <sup>(7)</sup>		73.08
<b>Average of Other Utilities</b>	<b>\$</b>	<b>54.17</b>

**Notes:**

1. Based on Island Water Association average residential monthly water consumption for the City of Sanibel customers.
2. Based on rates effective July 2006. Increases may occur for Fiscal Year 2007.
3. Monthly gallonage charges capped at 22,000 gallons per month.
4. Monthly gallonage charges capped at 6,000 gallons per month.
5. Monthly gallonage charges capped at 9,000 gallons per month.
6. Maximum sewer billing is \$43.69 per unit for single-family homes, which includes 7,000 gallons of usage.
7. Monthly gallonage charges capped at 12,000 gallons per month.