



TOWN OF PALM BEACH

Town Clerk's Office

REPORT OF THE WATER COMMITTEE MEETING HELD ON APRIL 10, 2008, @ 3:00 P.M.

1 I. CALL TO ORDER AND ROLL CALL

2

3 The Water Committee Meeting was called to order at 3:00 p.m. in the Town
4 Council Chambers. On roll call, Chair David A. Rosow and Committee Member Denis
5 P. Coleman were found to be present. Also present for all or a portion of the meeting
6 were:, Mayor Jack McDonald, Town Council President Pro Tem Gail Coniglio, Town
7 Manager Peter B. Elwell, Assistant Town Manager Sarah E. Hannah, Town Attorney
8 John C. Randolph, Director of Planning, Zoning and Building John Page, Director of
9 Public Works H. Paul Brazil, Town Engineer James Bowser, and Town Clerk Susan
10 Eichhorn. The following were present from the City of West Palm Beach: Mayor Lois
11 Frankel, Eduardo Balbis, Assistant City Administrator, Richard Williams, Fiscal
12 Services Director, and Randy Sherman, Finance Director

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14

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16 II. PLEDGE OF ALLEGIANCE

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18 The Pledge of Allegiance was led by Chair Rosow.

19

20

21 III. APPROVAL OF AGENDA

22

23 The Agenda was approved as printed.

24

25 IV. PRESENTATION BY WEST PALM BEACH MAYOR LOIS FRANKEL AND
26 CITY STAFF REGARDING FRANCHISE AGREEMENT AND PLANS FOR
27 FUTURE WATER SUPPLY

28

29 V. CONSIDERATION OF PROPOSED WATER RATE INCREASE

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1 Richard Williams, Fiscal Services Director responded to the recent water rate
2 increase, advising that the increase was due to operation and maintenance deficits
3 incurred because of reduced water sales. He produced a slide presentation indicating the
4 expenses that the rate increase would cover.

5
6 Mayor Frankel explained that the rate increase was very general; the City had
7 experienced the same or increased costs, but less revenues, because of last year's drought
8 restrictions.

9
10 Richard Williams explained that the City looked at the sales flow numbers, and in
11 2005, there was a 26 million gallons per day average; this year the average was 22.1
12 million gallons per day.

13
14 Chair Rosow pointed out that the fees were being increased 50%, yet the actual
15 reduction in water used was 25%.

16
17 Richard Williams produced a slide that indicated all of the reasons for the rate
18 increase. He explained that the City provided a rate consultant with the actual operating
19 expenses, and any forecasted budgets. The City had provided them with the 2007 budget,
20 and all of the prior expenses from 2000 through 2006. Based on that information, they
21 forecast out, and run it through the rate model, and the rate increase is then calculated.

22
23 In response to the question regarding the 25% reduction in water usage, Mr.
24 Williams explained that there were conservation rate blocks, and it depended upon where
25 those sales were being lost – if they were being used on the high end rate blocks, more
26 money was lost than if the sales were lost on the first rate block. It was the
27 proportionality of where the water sales had declined. In the case of the Town of Palm
28 Beach, it was 30% less today than it was two years ago.

29
30 Committee Member Coleman asked if the revenues had equaled the expenditures
31 in 2005-2006, and asked if there was a catch up involved?

32
33 Mr. Williams responded that there was a catch up on reserves; by bond resolution
34 the City must have a certain amount in reserves. The City had gone from an excess of
35 \$15 million in reserves for water and sewer to \$1.1 million as of today. The City had
36 been operating in a deficit, funding through the reserve fund for the past three years. He
37 produced a schedule that indicated the balance in water and sewer reserves starting in
38 2001. He noted that the requirement in the bond resolution stated that the City must
39 operate on a break even or better basis, and meet debt service coverage. The only way
40 that has been done was by using the prior year surplus to fill in the monthly deficits.

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1 In response to Chair Rosow's question regarding the monies from the PILOT
2 (Payment In Lieu of Taxes) Fund, Mayor Frankel stated that a 1993 bond resolution
3 authorized the issuance of various utility system revenue bonds, and the utility system
4 was permitted to make payment in lieu of taxes. There was an ordinance adopted in
5 1995, which established the PILOT. There were about 14,000+ acres of West Palm
6 Beach land that were off of the tax rolls, and were serviced by the City, including police,
7 fire, public works, etc. The PILOT represented a payment for those services and for our
8 lost tax revenue from the water system. It was a common charge used by utility systems
9 around the country. The number was arrived at through a formula determined in 1995,
10 and had not changed since that time. Otherwise, the people in the City of West Palm
11 Beach would pay disproportionately.

12
13 Chair Rosow suggested that the City revisit the issue, because the City services
14 were also provided to churches and schools and those entities were not charged a PILOT
15 fee.

16
17 Mayor Frankel responded that one of the things that would be reviewed would be
18 the potential to redevelop the area where the water plant was located, perhaps having a
19 smaller plant there, or being able to redevelop the property. That would be a good time to
20 revisit the issue. She noted that the PILOT was in effect in 1995, and the agreement with
21 the Town of Palm Beach was not until 1999.

22
23 Chair Rosow commented that the PILOT program was about \$4 million per year,
24 and the deficit had basically arisen as a result of the funding of the PILOT program.

25
26 Mayor Frankel responded that the City must provide the services. She stated that
27 she wanted to be fair, and look at everything, and that she was open minded. This was a
28 very tough time to ask any City to take \$4 million out of their general revenue; someone
29 must provide the services to the water system. She stated that she was here in the spirit of
30 friendship.

31
32 Eduardo Balbis advised that this morning the South Florida Water Management
33 District (SFWMD) received the proposal from staff to move portions of the system from
34 Phase III to Phase II water restrictions. Originally, the staff recommendation was to
35 maintain the City of West Palm Beach area on Phase III, due to the fact that the order
36 with the SFWMD with emergency water supply depended upon Phase III. The initial
37 vote was to comply with staff's recommendation. The City had made a request to have
38 the City placed on Phase II also, so that it could alleviate 10% of the surcharge as placed,
39 and SFWMD revisited the issue in the afternoon, and had confirmed that they were now
40 reducing the restrictions for the West Palm Beach system to Phase II, as of April 18,
41 2008. The surcharge would then go down 10%.

42

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1 Mayor Frankel explained that rate increase now would get the City back whole,
2 because so much revenue had been lost over the past year.

3
4 Eduardo Balbis advised that the surcharge at Phase III water restrictions was at
5 30%; at Phase II water restrictions it was at 20%; at Phase I water restrictions it was at
6 10%.

7
8 Committee Member Coleman commented that the purpose of increasing the
9 revenues was to bring the system to a break-even point, and then to bring the reserve
10 account back up to the target 15% number.

11
12 Richard Williams responded that \$1.3 million would go back into reserves, if
13 sales were on target.

14
15 Committee Member Coleman asked what would happen in 2029 if there were
16 \$20-25 million in the reserve account, and the bonds were defused.

17
18 Town Manager Elwell advised that there was a specific reserve within their family
19 of reserves that was specific to the improvements that would be made on the Island. If
20 there was any money left in it at the time the assets were to be transferred in 2029, it
21 would go back to the City. Between the two staffs, that pot of money was managed, and
22 went to pay for improvements that were done on the Island. It would be the Town's job
23 to be sure that staff was working together with the City as 2029 approached, to be sure to
24 spend every penny.

25
26 Mayor Frankel noted that the money had been put aside for the Town. She
27 explained that the sensitivity on raising the rates was as great, if not greater, in the City of
28 West Palm Beach as it was in the Town of Palm Beach. She noted that for some City
29 residents, just a few dollars of additional cost was unbearable. The political reality was
30 that the City did not like to raise the rates.

31
32 Richard Williams explained that the rate study contemplated no surcharge during
33 2009; that was why it was 48%. If it had continued, the 48% would have gone lower. He
34 was hopeful that by September 30, 2008, the entire Phase I, II and III would be
35 eliminated.

36
37 Mayor Frankel commented that every time a rate increase was put off, the City
38 went further into the hole, which meant that the next rate increase had to go up even
39 more. She noted that she had proposed a rate increase about three months ago, and the
40 Commission had taken a step backward – because of that, the increase went up even
41 more. She suggested that the surcharge going down would decrease everyone's bill.

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1 Richard Williams responded that the rate study had been calculated based upon
2 water consumption remaining at the reduced level, but no additional revenues were put
3 into the rate study for the surcharge. It was assumed that the Commission would undo the
4 surcharge by September 30, 2008. A major rate study was done every four or five years.
5 In that study, there were escalators for years two, three, four and five. The escalator for
6 water was 9.75% per year.

7
8 Chair Rosow referred to the contract, section four, rates, Item B: Covenant Not To
9 Surcharge. He maintained that the plain reading of that is that the City could not charge a
10 surcharge.

11
12 Mayor Frankel advised that there had been very contentious negotiations between
13 the Town of Palm Beach and West Palm Beach in 1999 on the water rates. One of the
14 things that was occurring at the time was that the City of West Palm Beach was putting a
15 surcharge on the rates of the nonresidents; that was permitted under F.S. 180.191, which
16 allowed a municipality to do that. The City did concede that they would not charge their
17 nonresident customers differently than the resident customers. She explained that the
18 surcharge that was being billed now was a surcharge to all the customers; it was called a
19 "drought bonus." She referred to the section referenced by Mr. Rosow, and clarified that
20 what was meant was that the City would not charge the Town any more than any other
21 customer, and the City had honored that.

22
23 Committee Member Coleman clarified that the volume surcharge went to every
24 customer in the system, and since Town residents consume more per capita, the bills
25 would be higher.

26
27 Bill Diamond, 220 Wells Road, commented that the PILOT money was supposed
28 to go to normal infrastructure repairs and upgrading of City facilities, and instead, he
29 understood that some of it went to other items, like the City Center.

30
31 Mayor Frankel responded that the PILOT was established in 1995. The PILOT
32 money went into general revenue to pay for services that the City provided to all property
33 owners.

34
35 Committee Member Coleman suggested that the Town Finance Department
36 review the formula for the PILOT charge.

37
38 Marty Millar, South Palm Beach Council Member, representing South Palm
39 Beach, commented that residents in South Palm Beach did not have big lawns, only
40 condominiums, and the rates had been raised. He maintained that South Palm Beach did
41 not use a lot of water. He remarked that he had turned the shower on, and at times it
42 would trickle, and other times it would pour out. He called West Palm Beach, and asked

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1 for more water, and they did. He questioned why some days there was no water coming
2 out of the shower, and other days there was lots of water.

3
4 Mayor Frankel replied that the Utilities Department would be happy to respond to
5 complaints.

6
7 Bill Diamond commented that many people in the Town of Palm Beach were
8 concerned about the amount of new construction planned in the City. He asked how that
9 would affect the supply and quality of water, and the infrastructure?

10
11 Mayor Frankel replied that planning for the future was being done, and part of the
12 whole planning process was to look at the demands on the infrastructure.

13
14 Chair Rosow reminded Mayor Frankel that she had said, about a month ago, that
15 everything was on the table.

16
17 Mayor Frankel responded that meant that she was very open minded, and was
18 always open to listening to new and better ideas; she was for the greater good, and did not
19 come here with any absolute, close-minded position. She urged presentation of any
20 options. Not only the quantity of the water, but the source of the water was important.

21
22 Chair Rosow asked if the Town came to the City in the near future with a proposal
23 for the Town to be water independent, would that be something that would be
24 entertained?

25
26 Mayor Frankel replied that she would consider whatever would be for the greater
27 good. She urged that the Town go through its own deliberative process and feel free to
28 present a proposal for a better or different way. She suggested moving forward in the
29 spirit of friendship; there were two members of Palm Beach and South Palm Beach who
30 were on the Water Advisory Committee, and the City was very transparent about their
31 planning.

32
33 Harvey Popell, town resident, remarked that in the business world, when sales
34 were down, top executives looked to cut expenses, and he asked what was being done to
35 manage expenses at the same time that rates were being raised?

36
37 Mayor Frankel replied that a lot more money was being put into the facility; the
38 system must be as efficient as possible, and the Health Department and the Florida
39 Department of Environmental Protection mandated certain things. She requested that
40 Gary Deremer, who was running the Water Plant, provide a response.

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1 Gary Deremer advised that an efficiency audit of the facility was being done.
2 There were a number of critical items that needed to be in place, since reliability,
3 redundancy of equipment, and the public health and welfare was at stake. With that in
4 mind, an efficiency study was being done to look at items such as power, chemical usage,
5 and labor. Some cost reduction measures for ongoing operation and maintenance
6 expenses had already been put into place. The City would have a report available that
7 could be reviewed to compare operating expenses within 60-90 days.

8
9 Harvey Popell referred to the pricing for the residents of Palm Beach, and pricing
10 to other customers and the tier system. The sales deficit of 18% somehow translated into
11 a 48% price increase, because of the tiering and because the drop in sales occurred at
12 higher price points. He asked whether the tiers had changed materially since the Town
13 water contract was signed.

14
15 Richard Williams clarified that there were six rate blocks that the City of West
16 Palm Beach used since 1993, and the City was contractually obligated, under the
17 franchise agreement, never to change the proportionality of those rate blocks.

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19
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21 VI. PRESENTATION BY DR. PAT GLEASON, Ph.D., VICE PRESIDENT OF
22 CAMP, DRESSER & McKEE ON DIFFERENT WATER SUPPLY OPTIONS
23 AVAILABLE
24

25 Dr. Pat Gleason and Dave Collins with Camp, Dresser & McKee (CDM) provided
26 a power point presentation regarding reverse osmosis and desalinization. Mr. Collins
27 stated that CDM had been commissioned to do a report for SFWMD, which looked at
28 costs for different sources of supply for water. Dr. Gleason discussed alternative water
29 supplies, water treatment plants, and water usage demands. He provided information
30 regarding costs for various water plants, using alternative water supplies, such as brackish
31 water and sea water. He explained the method used for arriving at costs for SFWMD:

- 32
33 ▶ Costs were developed at the request of SFWMD for 5, 10, 15 and 20 million a
34 gallon per day plants; these costs were not to include the disinfection, onsite
35 generation of chlorine, land, water storage tanks or the high service pumping
36 costs, or new power that may be necessary.
37
38 ▶ Alternative water supplies used more power than conventional treatment
39
40 ▶ Total production costs represented dollars per thousand gallons.
41

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1 ▶ Some of the general assumptions were that there would be no unusual conditions,
2 that the raw water sources would be close by, that the source of power would be
3 close by, and that power costs would be \$10 per kilowatt hour. At the time the
4 report was done, the costs of oil were not as high as today. The plants were very
5 sensitive to petroleum costs.
6

7 Dr. Gleason discussed deep injection wells, which disposed of waste products
8 from brackish water. The option to try to discharge the waste out to sea had not been very
9 successful. He reviewed capital costs and production costs. He noted that sea water was
10 about twice the capital cost of Floridan Aquifer reverse osmosis. The production costs
11 would follow the same trend; brackish water reverse osmosis on a dollars per thousand
12 basis was much less than sea water reverse osmosis. He emphasized that if there were
13 some way that the Town of Palm Beach and the City of West Palm Beach could work
14 together to build one plant, rather than two separate plants, there were significant
15 economies of scale.
16

17 In response to Chair Rosow, Town Engineer Jim Bowser referred to his
18 memorandum, dated April 1, 2008, regarding reverse osmosis treatment facility costs, in
19 which he had estimated that a town facility would be 16.5 mgd. He explained that he had
20 taken the peak demand in 2006, of 9.5 mgd on average, and put a peaking factor of 1.6 on
21 the water supply capacity, and arrived at 16.5 mgd. He advised that was an engineering
22 analysis and was fairly standard for the industry.
23

24 In response to Committee Member Coleman, Mr. Collins advised that the sources
25 of water were generally regulated by the SFWMD; the Florida Department of
26 Environmental Protection (FDEP) regulated deep injection wells, and the Palm Beach
27 County Health Department. He explained that taste normally came from organics that
28 were in the water, and taste would not be an issue with reverse osmosis facilities. Dr.
29 Gleason added that membranes did a wonderful job of removing pharmaceuticals,
30 personal care products, and inorganics.
31

32 Regarding irrigation, Dr. Gleason advised that SFWMD would not provide any
33 more fresh water. The Floridan Aquifer was too salty to use for irrigation, and a reverse
34 osmosis process would be needed to use that for irrigation. If a pipeline from the
35 mainland was going to be built to bring some sort of less treated water to the Town of
36 Palm Beach, that might be an option for consideration. That pipeline had been thought
37 about lots of times, and the waste water would be coming from the ECR plant, which was
38 quite a distance inland.
39

40 Regarding the economies of scale, Dr. Gleason advised that the curve started to
41 flatten at 10 mgd.
42

REPORT OF THE WATER COMMITTEE MEETING
HELD ON APRIL 10, 2007 @ 3:00 P.M.

1 Regarding the regulation of Floridan Aquifer use by the SFWMD, Dr. Gleason
2 agreed that restrictions may be in the future. Basically, SFWMD had been pushing
3 utilities to go to the Floridan Aquifer, but eventually there would be so many utilities
4 using it, that it would become another regulated aquifer. Right now, the selling point had
5 been that if the Floridan Aquifer (brackish water) was used, there would not be
6 restrictions, if that was the only source being used. He noted that it was difficult to see
7 how that was going to last for a long time. There was no water available from the
8 Biscayne Aquifer, nor from Lake Okeechobee – everyone was being pointed to go to the
9 Floridan Aquifer right now, however, in a few years down the road, there may not be
10 wide-opened, unlimited usage. SFWMD did not regulate sea water, and SFWMD had an
11 exemption for its permitting process, if there was 100% usage of sea water. For such a
12 plant, the FDEP and Palm Beach County Health Department would be involved in the
13 permit. Injection wells were regulated by FDEP.

14
15 Bill Diamond, 220 Wells Road, questioned whether there was any worldwide
16 business that built plants and assumed the capital costs.

17
18 Mr. Collins replied that there had been examples of design, build, operate
19 contracts, which may be composed of a combination of companies. Proposals would
20 need to be gathered and then negotiations.

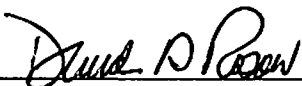
21
22 Chair Rosow thanked Dr. Gleason, Mr. Collins, Mayor Frankel and all staff from
23 the City of West Palm Beach.

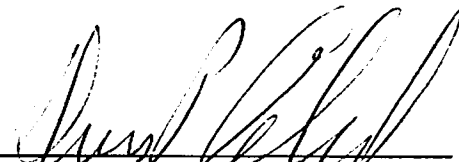
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26 VII. ANY OTHER MATTERS

27
28 There were none.

29
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31 VIII. ADJOURNMENT

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33
34 There being no further business, the Water Committee Meeting of April 10, 2008,
35 was adjourned at 4:30 p.m.

36
37
38
39 
40 _____
41 David A. Rosow
42 Water Committee Chair
43


44 _____
45 Denis P. Coleman
46 Water Committee Member