

Naples, Florida

May 5, 1987

LET IT BE KNOWN, that the Rate Study Committee of the Pelican Bay Improvement District Board of Supervisors met on this date in a Committee Session at 9:00 a.m., in the offices of the Pelican Bay Improvement District, 801 Laurel Oak Drive, Suite 510, Naples, Florida 33963, with the following members present: Messrs. Gary L. Moyer and Mr. James P. Ward of the Pelican Bay Improvement District; Mr. Lou Hoegsted of Westinghouse Communities of Naples; Mr. James Hake of the Pelican Bay Improvement District Board of Supervisors; Mr. Paul Cumiskey of Coopers & Lybrand; Mr. Thomas Peek of Wilson, Miller, Barton, Soll & Peek, Inc. and Messrs. Mr. John Hoyt and Mr. James Dunwiddie, the Representative of the Pelican Bay Property Owner's Association.

Mr. Dunwiddie opened the Committee Meeting with a question regarding the concept of "Stand By Fees" verses "Short Fall Fees". He felt the point of issue was one of equity; i.e, the Standby Fee would insure the District of receiving the necessary funds to meet its financial obligations. In his opinion, the Board of Supervisors had agreed that the ones who benefited from the improvements were the property owners, and in the case of the property on which the Ritz Carlton was situated, this was the Developer. Mr. Dunwiddie continued that property values along Pelican Beach Drive had substantially increased since the D-14 line had been constructed, although the value of the land existed prior to the line begin constructed, the developer

could not capitalize on the full value of the land until the improvements were in place. Thus, he suggested the Developer was the principal beneficiary since the District had improved the land by installing the line to the Ritz many years before it was necessary. Therefore, Mr. Dunwiddie recommended to the Committee that they revert to the principle that was adopted in the "Financial Plan Update, Water and Wastewater System", dated July 1984, which, at that time, was totally supported by the Board, and whereby the Stand By Fee was \$10.00 per unit. Mr. Dunwiddie went on to point out that in July of 1985, the Board voted to lower the stand by fee to \$7.00 per unit, per month, and then again lowered the fee to \$2.60 on the theory the Developer should only be charged the cost of carrying the interest as opposed to the cost of the complete debt service which included interest and capital charges. Mr. Dunwiddie concluded that it was fair to expect the developer to pay a full debt service share and a full capacity fee whether the lines were connected or unconnected.

Mr. Cumiskey commented the reason the concept was changed was because the District was concerned about the logic of the fees and therefore had retained Coopers and Lybrand to prepare a rate structure that was more typical of a Municipal Utility operation. He went on to state that by eliminating the Stand By Fee and rolling this cost into the connection fee to recover it, the developer or new customers would pay for the excess cost of the line to the Ritz rather than the current connected customers.

Mr. Dunwiddie suggested that the Stand By Fee be retained and

the Developer would continue to pay the full debt service fee, and the new connection fee of \$2,500.00 be retained, therefore the connection fee and the stand by fees would generate a revenue surplus to be used for the new plant addition, additional debt service, or to reduce the annual capacity rate. Mr. Cumiskey pointed out the only difference was who was paying the fee, because as the capacity fee increased the total revenues from this fee would also increase. Mr. Moyer stated that the lines had a value to the unit owners who were permanently connected to the system, which represented the principal under which the District operated when the lines were installed. He went on to clarify that the line itself had value, and he desired to get away from the idea that the ultimate consumer should pay for the value of the line and let the developer collect the value in the purchase; which was a substantial deviation from the original concept of the District.

Mr. Dunwiddie suggested that one of the problems with the concept of the connection fee versus the concept of the stand by fee was that income from a stand by fee would be a known amount that the District could budget it's financing on, whereby the connection fee was determined by how rapidly the developer sold property or paid in advance for the connection fees. He said one would not know the amount needed for the short fall fee, since this was a net number.

Mr. Moyer reminded the Committee of two points during the year on which the District needed to focus, one of which was the semi-annual interest payments, and secondly the period Westinghouse bought down units so the District could make their payments. He stated Westinghouse

was in agreement with a written Short Fall Fee agreement.

Mr. Hoyt asked when plant capacity was required, under the theory of charging a volume stand by fee and an equal stand by fee, and would these fees satisfy current debt service and when the District relied on connection fees to build future plant capacity, everyone's Stand By Fees would increase. Mr. Cumiskey replied the Stand By Fee would cover just the line distribution and would be an equal charge to everyone, and if set today, would probably hold until everything was built out. He also stated at plant capacity, the District would end up with a connection fee of about half the amount it is now, but it still would have to be monitored as the plant expansions were undertaken.

Mr. Hoyt said this was only for line distribution, and it assured no short fall and full debt service coverage as to that portion of the debt. Mr. Moyer stated that the original rates established in 1979, allocated each component of the system to the user of that component, and if one reverted to the concept of Stand By Fees, the connection fees would most likely be reduced as shown in Mr. Cumiskey's report. Mr. Cumiskey explained the connection fee would most likely remain consistent through build out, as opposed to being setting it at \$1,800.00 now, then increase the figure to \$3000.00 or \$4000.00 when needed. In other words, what he tried to do was level out the connection fee.

Mr. Dunwiddie stated that his quarrel was with equity, as to who paid for what, particularly on the line to the Ritz, due to the fact it was built long before it was really needed. It was Mr. Dunwiddie's

opinion that the present residents in Pelican Bay were paying more today than they would have if the D-14 line had never been constructed.

Mr. Hoegsted stated that the purpose of the Committee was to try to assess costs against the residents who benefited.

Mr. Hake questioned if the present property owners were paying for the line to the Ritz or whether it was completely covered in connection fees. Mr. Cumiskey answered it was covered in the connection fees. Mr. Dunwiddie suggested the connection fee was a fee which over the next twenty years would generate enough revenue to meet the short fall requirements. Mr. Moyer concurred that the current customers are not paying for the line to the Ritz. Mr. Hake asked Mr. Cumiskey to explain why starting in 1994 the Report showed a deficit balance that grows as large as \$3,000,000. Mr. Cumiskey explained that in 1994, there is an assumption that the District will have to build a new plant. He stated that if this happens and the District will issue new bonds in 1994 and increase the debt service requirement and this then would be the amount of monies that would be required. He explained that the capacity expansion could be staged rather than built all at one time.

Mr. Hake wanted to know what happened to the current build out schedule and why the District was currently being confronted with the current build out schedule so far ahead of plant capacity and in his opinion this was the reason for the foul odors. He suggested that a restriction be placed on the number of units being built until the plant capacity caught up.

Mr. Cumiskey suggested that the new bonds could be issued

earlier and expansion could be started earlier than 1994.

Mr. Dunwiddie said he would personally like to see something more on how the debt service numbers were generated to determine the best connection fee. He also mentioned that Westinghouse would have to agree to do some very substantial pre-buying in order to get the money back later, unless they made a gift of the funds the way the present document is written. He stated that the stand by fee was something WCN was supposed to pay in cash. He pointed out that Westinghouse could also pre-pay the connection fees. Mr. Cumiskey replied that once WCN prepaid connection fees they would be required to begin paying a monthly capacity charge.

Mr. Hake suggested to Mr. Dunwiddie that the lines already being in the ground, therefore the properties are all being sold enhanced by the fact that the lines will be in the ground prior to, thus the line going to the Ritz is no different than any other line that is within Pelican Bay. Mr. Dunwiddie stated that was not the case because it was constructed many years before it was required. Mr. Hoyt asked if the present residents of Pelican Bay were paying for that line. He continued that if the answer was no, then it seemed to him that it was not a burden to the present customers, and thus it equitable to all users of the system. Mr. Hoyt also questioned the connection fee and asked whether the new user wasn't being unduly penalized.

Mr. Cumiskey replied that he had no idea what Westinghouse transactions were, but if the connection fees were way out of line with other areas, no one will want to build in Pelican Bay. Mr. Cumiskey

commented that there is an additional \$2,200.00 on the cost of the unit, and either the builder or the purchaser or the developer has to absorb the cost. Mr. Dunwiddie went on to say that it was not known who would really pay the cost, but at this rate, it would all probably be absorbed by the new builder, yet it was the Developer who was the large beneficiary. Mr. Dunwiddie asked the Committee whether they were willing to give Westinghouse a gift of several hundred thousand dollars and put the burden on everyone who purchased property in Pelican Bay.

Mr. Moyer suggested that everyone on the committee had no argument with new users paying for the facilities that they are using, so the value of the line should be paid for by the new user and the real issue was who would pay the interest carry on the debt. He went on to state the new user and the developer pick up all the interest, and there was no question that if the risk didn't exist, and the District built the line ten years from now, the line would cost more than the amount it cost in 1984, and the new user would have paid the differential on the cost, and again the District just pass on the principle value of the line to the person who moves in. Mr. Moyer continued that whether the additional cost was equal to the interest carry or not, was the question.

Mr. Moyer stated the committee objective was to make a recommendation to the board, i.e., something needed to be decided as to whether the rate study stood or if it was to be amended. Mr. Hake stated that the board had approved in the past the method by which this was being done and was accomplished by the Board in September or October

of 1986, when the questions and arguments came up at that time by the Property Owners Association, the board decided to vote in the fashion in which they had, therefore it has been approved one time. Mr. Hake questioned whether it should be brought before the board again.

Mr. Hake questioned whether all of the numbers were equitable to pay for the line, whether the fees were collected at the beginning or end of the year, the carrying charges, etc., and asked whether all these things had been taken into consideration. Mr. Cumiskey replied that it had been assumed on the build out schedule and for the purpose of the study, that the units were connected in the middle of the year. Mr. Hake asked when the money was received. Mr. Cumiskey explained that some units would connect at the beginning of the year, and some at the end of the year, so for the sake of the study, the middle of the year was used. Mr. Hake then asked if the numbers were fitting and proper, because when he sees a number in parenthesis it means there is a deficit balance, and how was the deficit paid for, and by whom. Mr. Cumiskey reminded the Committee that when they looked at the balance, it was assumed that another bond issue would provide enough proceeds to build all the facilities that were needed through the build out of Pelican Bay. He went on to state that the Committee might not want to do it that way, and by staging the new facilities, one could reduce the deficit balance. Mr. Cumiskey also suggested that if Pelican Bay continued to have strong build out, it would reduce the next bond issue, both of which would reduce or eliminate the negative numbers. He went on to say that what the study showed was that when the District was ready to build new

facilities, they were going to have to monitor the connection fees on a yearly basis to make sure whether they were high enough, whether the absorption was taking place as scheduled, and to look at the way the next level of expansion would be built. Mr. Cumiskey summarized all those things that would have an impact on what the District would be facing in 1995 to 2003 time period. Mr. Hake asked what would happen if WCN paid for five hundred connection fees, and what would it do to the following year's financial picture. Mr. Cumiskey replied that the balance would be carried forward to the next year. Mr. Hake said he felt the 1994 build out schedule should be brought up to 1992.

In Mr. Hake's opinion, as long as the present property owners were not being charged for the Ritz line then where the money came from was a point that could be argued forever.

Mr. Cumiskey reminded the Committee he had been requested to perform several tasks at the last board meeting: 1) to re-calculate the irrigation rates to include the right-of-ways within the consumption numbers which would be billed to the District and the District would in turn pay for the water and include the numbers in the District's Water Management Budget; 2) to include the golf course effluent in the total irrigation consumption; 3) to check the use of the 5.75 ERC for commercial customers; 4) to get an opinion from Bond Counsel as to the 110% debt service coverage on an annual basis; 5) to recalculate the irrigation charge based on Option #3 in the supplemental Coopers & Lybrand Report; 6) to leave the connection fee concept as is; and 7) to continue to use the 225 gallon per day design number to determine the

total number of serviceable units.

Mr. Cumiskey distributed the first schedule he had prepared which he explained was a change of Exhibit Four of the Report. This Schedule combined the residential and golf course cost numbers into one column, i.e., the budgeted cost of the irrigation system total without splitting the numbers between Golf Course and Residential Customers. This irrigation system total was then divided by the estimated usage to arrive at the proposed commodity charge to all users of \$.28, as opposed to current charges of \$.31 for residential users and \$.26 for the golf course. Mr. Hake then questioned what happened to this rate when the District reached the point when the District used almost 100% effluent waste and with no make up of the well water. Mr. Ward stated that the rate would change based upon the use of effluent water or the use of raw water and that it would be calculated in the 1988 W/S Budget.

Mr. Hoyt asked if the tendency would be to increase the share of new water because we the golf course was a fixed user. Mr. Ward answered he would make an assumption and calculate the monthly irrigation usage in total and subtract the estimated effluent during the month. Mr. Cumiskey discussed the questions on how the 169,757,000 consumption figure was determined. The original document stated that it was based on an average figure of 210 gallons per day which took into account when new units came on line, but did not include the hotels and some other large customers due to the fact the 1987 budget was prepared in 1986. Mr. Cumiskey then explained that his figures and Mr. Ward's Budget figures were within 2% of each other. Mr. Ward then agreed with

Mr. Cumiskey's figures, and responded to all the Committee's questions concerning these figures and their origins.

Mr. Hake commented on the figures relative to the averages of 610 and 698 for irrigation verses 550 which he were received in a letter from Mr. Petty dated July 29, 1986. Mr. Petty replied that the numbers have come down due to the fact that the area was under irrigation even though no one was living there, and when units begin coming on line the irrigation consumption did not change significantly.

Mr. Hake discussed a letter that he had received from Mr. Scofield, and asked Mr. Hoegsted if he agreed with the information concerning the irrigation numbers. Mr. Hoegsted replied that he was still studying these numbers.

Mr. Hake questioned if the original agreement by Westinghouse bound the District in any way as to phase two costs. Mr. Moyer replied that he had reviewed the agreement at length and was of the opinion with the Agreement and Exhibit A related only to the actual operation and maintenance costs, as set forth on Exhibit A, to the 1979 Bond Issue and since additional costs will be incurred from the 1985 Bond Issue, it was his opinion that it would not be covered by the 1979 Bond Agreement.

Mr. Cumiskey stated the recomputing of the capacity charge was next on the agenda, which included revising Exhibit Five of the Report. He explained that he took all of the 1979 Bond issue, and allocated 12% to the Golf Course irrigation system, which was based on the golf course flows of 3.3 million compared to overall flows of 4.12 million.

Mr. Cumiskey discussed the final change in the schedule which

was the connection fees to the City of Naples, now part of the line distribution. Finally, Mr. Cumiskey discussed the 110% debt service coverage which he stated he had included in the fees.

Mr. Moyer then discussed the Bond 110% Coverage Requirements. He stated that there were two tests which had to be performed if the rates were to be reduced. First there was a sufficiency test and secondly is whether the Bond Covenants are being met. In terms of the meeting the Bond Covenants one was permitted to include other monies that were available to be paid and surpluses accumulated in past years that were available for these purposes. Mr. Hoyt stated it was added on to the cost and expenses and fees cannot be reduced below that number. Mr. Ward took it a step further and stated surplus cash, from the prior year, could be used as revenue. The Committee agreed revenues could not be reduced. Mr. Moyer stated the resolution provided for surpluses, with various funds established within the resolution; i.e. surpluses flowed from the revenue fund which paid for operation and maintenance, then into the debt service accounts and finally falls to line extension funds, renewal and replacement funds, reserve funds and finally to the bond redemption account. Thus he explained that he needed to look at whether the surpluses shouldn't be funneled into these accounts. This would determine whether there were any other available monies at the end of the year. Mr. Moyer explained that the 110% bond coverage was a low factor and the rates should generate some surplus. Mr. Hake asked how the additional 10% coverage was reflected in the bottom line. Mr. Cumiskey explained that the new rates ended up being 10% higher because

of the 110% requirement. Mr. Cumiskey discussed various accounts that were set up in the resolution. Mr. Moyer stated the payment of certain lines were from the last Bond Issue, and the District could use any surplus to pay principal and interest on that portion of the debt represented by the buy-out of the lines. The Committee questioned if they should keep the 10% or not, and no conclusion was reached. Mr. Moyer stated a reasonable amount of monies should be kept available to operate the system. Mr. Moyer suggested he would return to Bond Counsel for more direction.

Mr. Moyer felt that the interest was earned regardless, and if the interest was equal to the 110% requirement, there was no need to place the 110% in, since it drove the rates up. He also reminded the Committee the interest income came from a Bond Issue funding facilities used by current and future customers, and the interest earnings were more than the 10% requirement, and tended to keep the capacity charge down.

Mr. Cumiskey commented that he would send the new numbers with and without the 10% figure.

Mr. Moyer commented that the 5.75 commercial equivalent was close to the actual 5.74 figure based on actual use.

Mr. Dunwiddie suggested the first week in June, for the next meeting date. He stated the Board would decide between the concept of Stand By Fees versus the concept of Connection Fee. Mr. Cumiskey reminded the Committee the two open issues were the Golf Course capacity charge and the use of the peaks of the wastewater system when

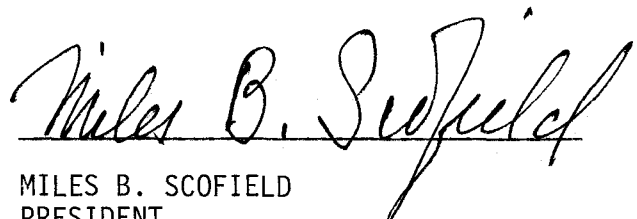
determining the actual capacity charge. Mr. Moyer requested Mr. Cumiskey to calculate figures that concerned the Golf Course capacity charge for the Board to guide them in making their decision. He continued if the Golf Course was given 500,000 gallons of treated effluent and only used 450,000 gallons, they would not have been a purchaser of irrigation, as specified in the first agreement. Mr. Dunwiddie stated the Golf Course had received the amount specified in the original agreement, and were now under an expansion. He continued the line was the question and what the Golf Course was using it for. He also felt the users of the Golf Course should pay for irrigating the Course and not the entire community of Pelican Bay. Mr. Hoegsted stated the District benefited most from the disposal of the effluent onto the Golf Course. Mr. Moyer stated the effluent had changed from a problem at the onset to a commodity within the last year.

There being no further business, the meeting was adjourned.

determining the actual capacity charge. Mr. Moyer requested Mr. Cumiskey to calculate figures that concerned the Golf Course capacity charge for the Board to guide them in making their decision. He continued if the Golf Course was given 500,000 gallons of treated effluent and only used 450,000 gallons, they would not have been a purchaser of irrigation, as specified in the first agreement. Mr. Dunwiddie stated the Golf Course had received the amount specified in the original agreement, and were now under an expansion. He continued the line was the question and what the Golf Course was using it for. He also felt the users of the Golf Course should pay for irrigating the Course and not the entire community of Pelican Bay. Mr. Hoegsted stated the District benefited most from the disposal of the effluent onto the Golf Course. Mr. Moyer stated the effluent had changed from a problem at the onset to a commodity within the last year.

ADJOURNMENT

There being no further business, the meeting was adjourned.


MILES B. SCOFIELD
PRESIDENT
PELICAN BAY IMPROVEMENT DISTRICT