

use of the right-of-way in the unincorporated area. Surcharge levies by other jurisdictions are shown in Appendix G. Water surcharges vary from zero to 50 percent.

Table 5 - Surcharge Collections in the Electric, Water and Wastewater systems, FY 1997 – 2004

<i>FY</i>	<i>Electric</i>	<i>Water</i>	<i>Wastewater</i>
1997	\$2,763,868	\$792,190	\$1,064,605
1998	\$3,035,550	\$909,653	\$1,104,278
1999	\$3,079,612	\$950,094	\$1,195,999
2000	\$3,180,614	\$994,981	\$1,255,760
2001	\$3,382,943	\$1,107,463	\$1,334,324
2002	\$3,268,658	\$1,131,023	\$1,349,167
2003	\$2,690,578	\$881,476	\$1,075,910
2004	\$2,789,671	\$1,034,529	\$1,179,312

6.0. Chronology of Events

6.1. Fire Hydrant and Public Street Lighting Services Agreement since 1990.

1990 – February 12, 1990, the City Commission adopts the Fire Hydrant and Public Street Lighting Services Agreement at an emergency meeting (Appendix A). The motion passes 3 votes to 2 with City Commissioners David Coffey and Courtland Collier dissenting. The 1990 Agreement is ratified by Alachua County. On March 13, 1990 a one-cent sales tax proposed for infrastructure and school improvement fails.

1991 – City Commissioner Courtland Collier proposes a resolution to the 1990 Agreement in a memorandum to the City Commission. He suggests that putting the charges for streetlights and fire hydrants into rates would be a solution to the 1990 Agreement. The GRU analyses shows electric rates would have to increase by 1 percent increase for an average residential customer. Water Rates were estimated to increase by 12 percent.

1992 – Alachua County adopts a public service tax (utility tax) for FY 1993.

1993 - City Commissioner Courtland Collier raises questions about the 1990 Agreement in another memorandum to the City Commission. Responses by the City Manager and General Manger for Utilities are made and no action is taken. The estimate of average base rate increases to the electric system to accommodate streetlights was 1.42 percent. The impact to the water system of including fire hydrants in the base rates was estimated at 9.41 percent.

Alachua County reduces the Municipal Service Taxing Unit (MSTU) by over 2 mills to offset the revenue from the utility tax.

1995 – The Alachua Board of County Commission discusses hiring Purvis Gray, an Accounting firm, to audit the City of Gainesville General Fund Transfer from Gainesville Regional Utilities (GRU) and the use of the unincorporated area surcharge. The Alachua County Commission did not retain Purvis Gray, but entered into discussions with the City Commission. GRU prepared a report that was presented at a County Commission workshop (Appendix B)

1996 – City Manager Wayne Bowers deems that additions to the numbers of streetlights and fire hydrants in Gainesville are not being monitored sufficiently. He amends the accounting procedure for these items and makes the Gainesville Public Works Department responsible for streetlight expenditures. The Public Works Department budget is increased to reflect the City of Gainesville streetlight expenditure. Similarly the responsibility for fire hydrants is given to the Gainesville Fire Rescue Department. The Fire Rescue Department budget is increased to reflect the City of Gainesville fire hydrant expenditures. Annually an estimate of the cost of both Gainesville streetlights and fire hydrants is made by the Gainesville Office of Management and Budget with the assistance of Gainesville Regional Utilities and sufficient funds for these items are provided to the departments prior to budgetary discussions of other items within the respective departmental budgets. The unincorporated area streetlights and fire hydrant expenses are accounted for in the Non-Departmental budget.

1997 – Alachua County Commissioner Leveda Brown requests information from Gainesville Regional Utilities on the destination of surcharge funds paid by unincorporated area customers. City Manager Wayne Bowers prepares a memorandum detailing the percentage of the General Fund represented by the unincorporated area surcharge proceeds.

2000 - Alachua County proposes a Privilege Fee. Alachua County proposed a fee in the unincorporated area and inside the City of Gainesville that would raise funds for the Alachua County General Fund. The fee was created as a way for Alachua County to receive compensation for the use of County right-of-way. After much community and intergovernmental debate an ordinance was prepared. The ordinance was adopted without an effective date. Legal maneuvers and public debate ensued and the Privilege Fee was never enacted completely.

2004 – At the July 22, 2004 GRU budget meeting a representative from the International Association Fire Fighters raised the issue of the payment for Street Lights to the Gainesville City Commission.

6.2.Regional Utilities Committee Activities

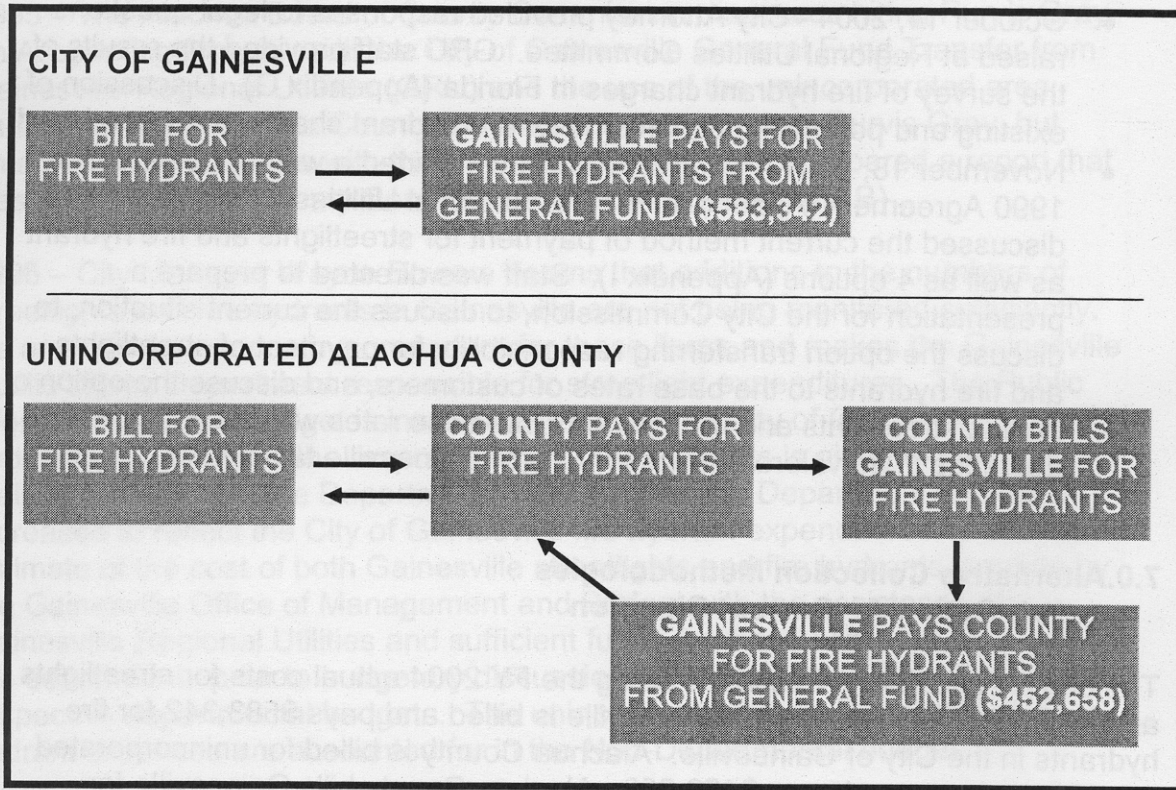
- July 22, 2004 - Fire hydrant charges were referred to the Regional Utilities Committee.
- August 19, 2004 - Regional Utilities Committee discussed referral.
- October 14, 2004 –City Attorney provided responses to legal questions raised at Regional Utilities Committee. GRU staff provided the results of the survey of fire hydrant charges in Florida (Appendix G). Discussion of existing and potential mechanisms for fire hydrant charges was continued.
- November 18, 2004 – The City Attorney provided a written option in the 1990 Agreement (Appendix H). The Regional Utilities Committee discussed the current method of payment for streetlights and fire hydrant as well as 4 options (Appendix I). Staff was directed to prepare a presentation for the City Commission, to discuss the current situation, to discuss the option transferring responsibility for payment of streetlights and fire hydrants to the base rates of customers, and discuss the option of putting streetlights and fire hydrants into base rates with an offsetting decrease in ad valorem taxes for City of Gainesville tax payers.

7.0.Alternative Collection Methodologies

7.1. Option A - Current Situation

The current situation is described using the FY 2004 actual costs for streetlights and fire hydrants. The City of Gainesville is billed and pays \$583,342 for fire hydrants in the City of Gainesville. Alachua County is billed for unincorporated area fire hydrants and pays \$452,658. Alachua County bills Gainesville for unincorporated area fire hydrants. Gainesville pays Alachua County for unincorporated area fire hydrants (\$452,658). The City of Gainesville General Fund pays \$1,036,000 for fire hydrants in the City of Gainesville and unincorporated Alachua County. The City of Gainesville receives utility tax (\$618,848) and surcharge (\$1,034,529). Alachua County receives utility tax (\$517,332)

Figure 1 – Diagram showing the current payment methodology fire hydrants



This diagram also represents the flow of funds for streetlights.

7.2. Option B – Base Rate Increase

Option B redirects the cost of streetlights and fire hydrants from the host local government to the customer. The costs of streetlights and fire hydrants are incorporated into the total system cost and result in rate increases.

Fire hydrants - city and unincorporated customers are billed for water, including an amount for fire hydrants. City fire hydrants cost (\$583,342) and unincorporated fire hydrants costs (\$452,658) are removed from the City of Gainesville General Fund. The net General Fund increase is \$1,036,000 for fire hydrants and the customer rates increase 9.48%. The City of Gainesville will recognize utility tax increases of approximately \$60,000 and surcharge of approximately \$49,000. The GRU Utility Plant Improvement Fund (UPIF) requirements would also be increased because an increase in base rates increases the surcharge, resulting in additional net revenues to GRU. UPIF for all systems is calculated as one half of the net revenues of the preceding year

less priority debt. Utility tax to Alachua County increases by approximately \$45,000. Customers pay for these increases in taxes, not currently charged. Billing the host government for fire hydrants does not require a utility tax or surcharge levy.

Streetlights - city and unincorporated customers are billed for electricity, including an amount for streetlights. City streetlight costs (\$1,432,874) and unincorporated streetlight costs (\$621,803) are removed from the City of Gainesville General Fund. The net General Fund increase is \$2,054,677 for streetlights and the customer rates increase 1.3%. The City of Gainesville will recognize utility tax increases of approximately \$140,000 and surcharge of approximately \$70,000. The GRU UPIF requirements would also be increased because an increase in base rates increases the surcharge, resulting in additional net revenues to GRU. UPIF for all systems is calculated as one half of the net revenues of the preceding year less priority debt. Utility tax to Alachua County increases by approximately \$62,000. These increases in taxes, not currently charged are paid for by customers. Billing the host government for streetlights does not require a utility tax or surcharge levy.

Option B would result in a customer using 7,000 gallons of water and 1,000 kWh of electricity realizing an increased bill of approximately \$14 for water and \$12 for electricity annually

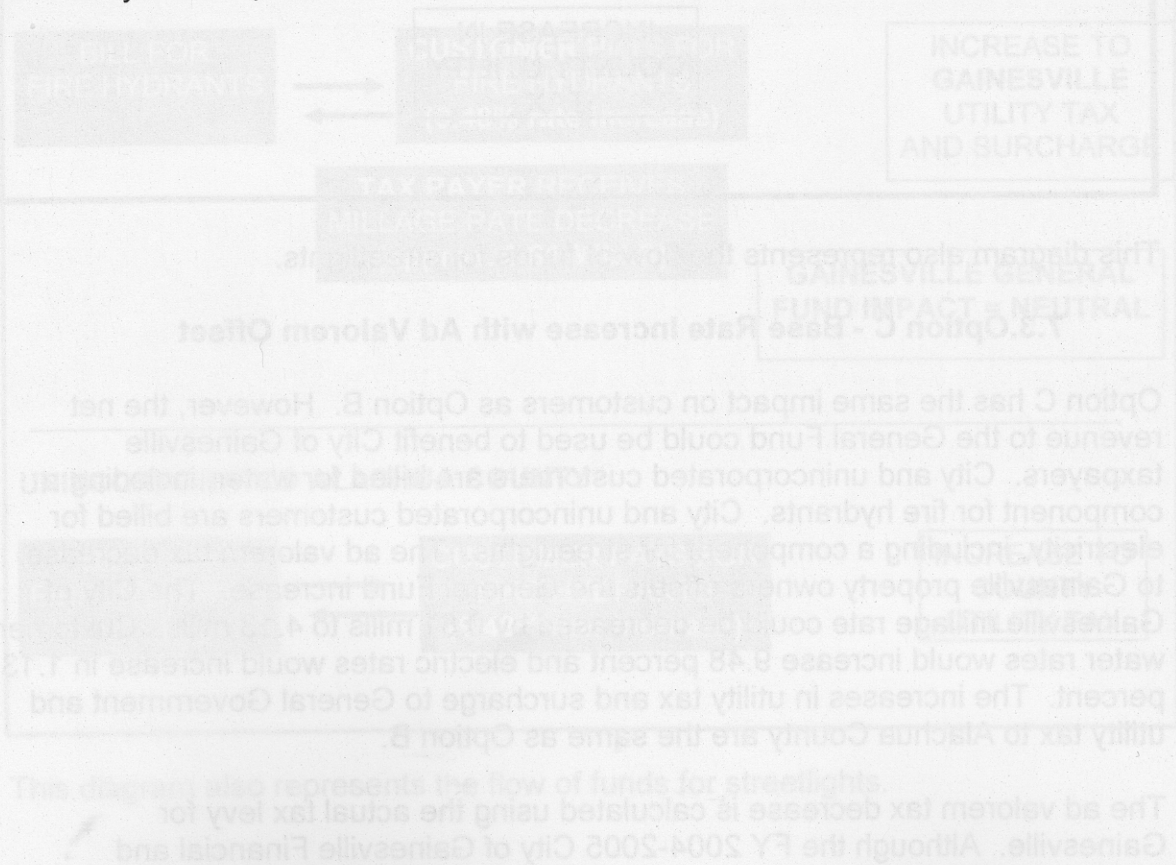
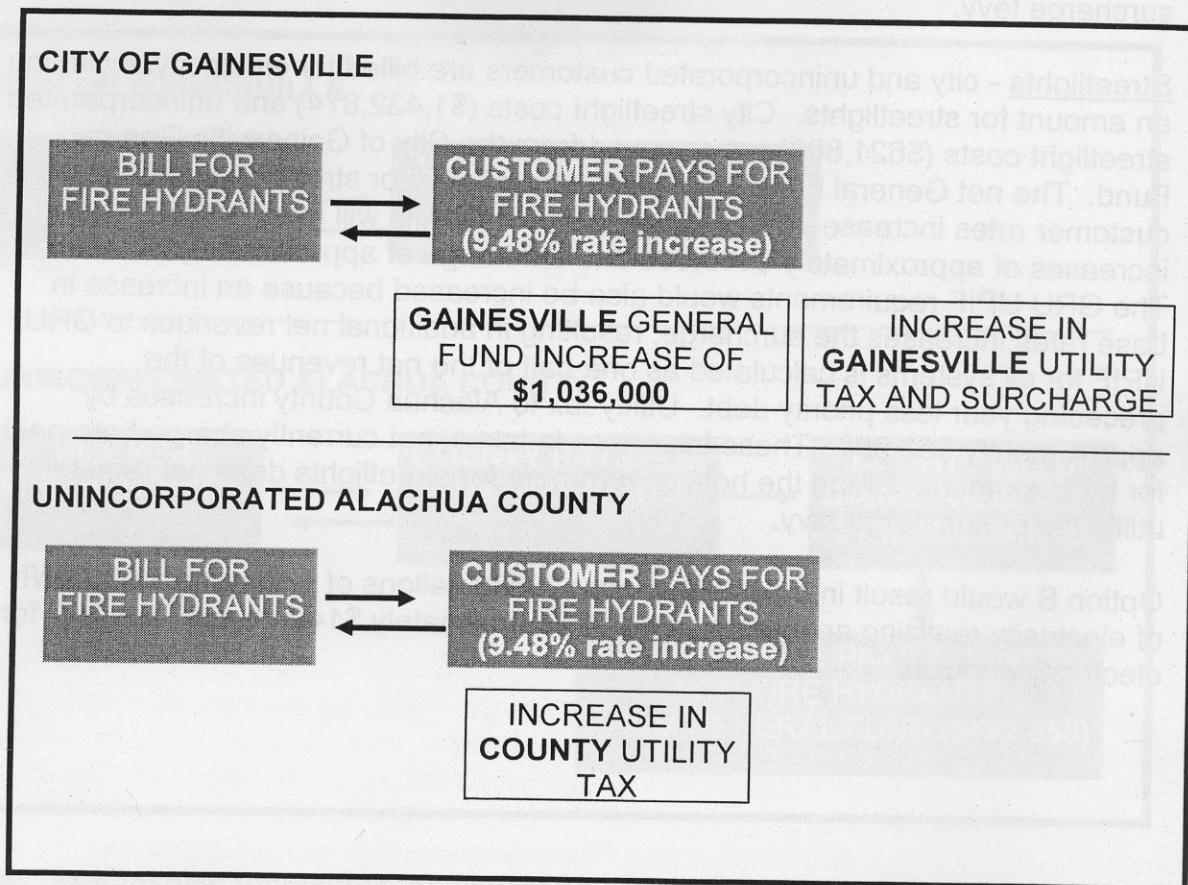


Figure 2 – Diagram showing Option B, methodology for fire hydrants that includes charges in the base rates and has a net benefit (of \$1,036,000) to the General Fund



This diagram also represents the flow of funds for streetlights.

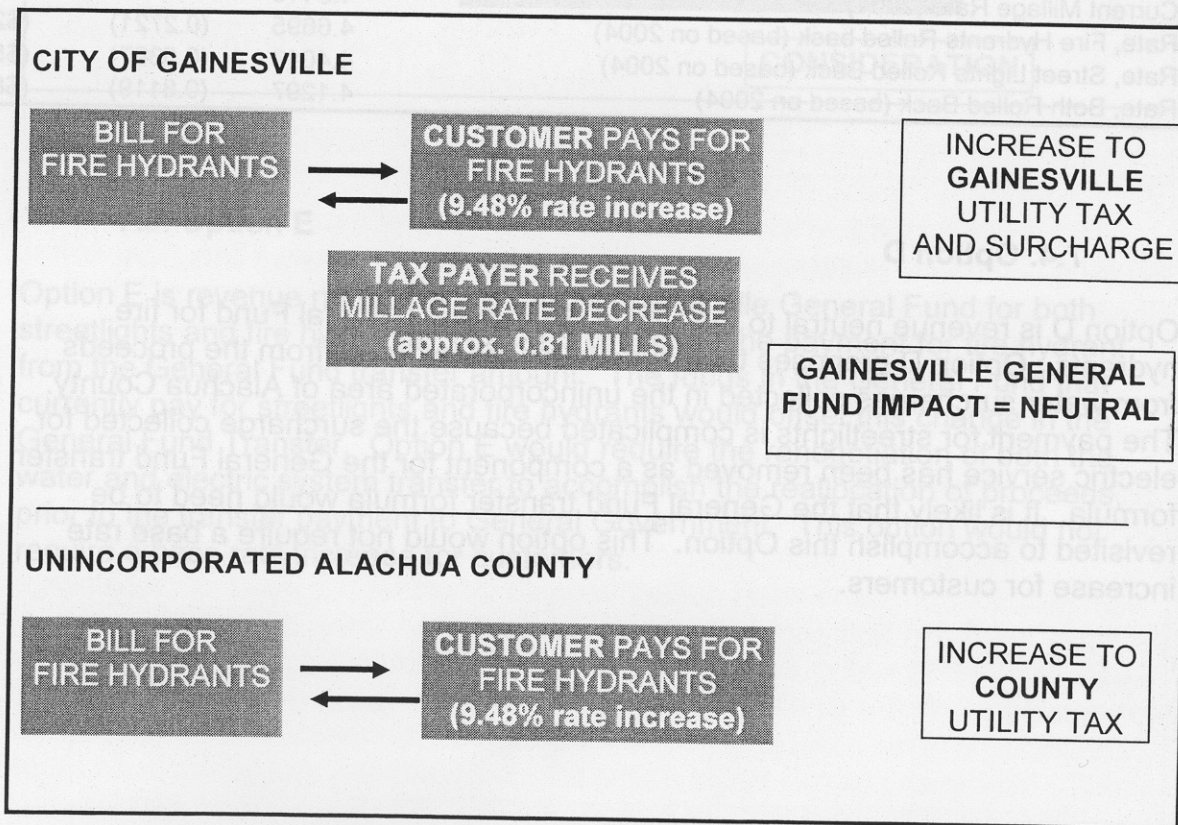
7.3.Option C - Base Rate Increase with Ad Valorem Offset

Option C has the same impact on customers as Option B. However, the net revenue to the General Fund could be used to benefit City of Gainesville taxpayers. City and unincorporated customers are billed for water, including a component for fire hydrants. City and unincorporated customers are billed for electricity, including a component for streetlights. The ad valorem tax decrease to Gainesville property owners offsets the General Fund increase. The City of Gainesville millage rate could be decreased by 0.81 mills to 4.13 mills. Customer water rates would increase 9.48 percent and electric rates would increase in 1.13 percent. The increases in utility tax and surcharge to General Government and utility tax to Alachua County are the same as Option B.

The ad valorem tax decrease is calculated using the actual tax levy for Gainesville. Although the FY 2004-2005 City of Gainesville Financial and

Operating Plan reports \$18.1 million in ad valorem revenues, that include the 3.5 percent discount rate for prompt ad valorem tax payment. However, the actual tax levy and total taxable value for the City of Gainesville reported by the Alachua County Property Appraiser must be used. The final certified taxable value for the City of Gainesville is \$3,806,938,468. When the current millage rate of 4.9416 is applied the total levy is \$18,812,367. The total streetlight and fire hydrant net impact to the General Fund must be deducted from the \$18,812,367 to compute a resultant millage rate reduction. The 0.81 mills is an estimate. This reduction amount should be considered with caution. The millage rate is sensitive and the potential reduction is a function of the final certified taxable value for FY 2005. The ratio of the streetlights and fire hydrant amounts to the total City of Gainesville taxable value determines the millage. However the actual ad valorem collections are also determined by the timeliness of payments by taxpayers. For this reason local governments in Florida use a 3.5 percent discount factor.

Figure 3 – Diagram showing Option C, a payment methodology for fire hydrants that includes charges in the base rates and the net benefit (of \$1,036,000) to the General Fund is used to roll back ad valorem taxes.



This diagram also represents the flow of funds for streetlights.

Option C would result in a customer using 7,000 gallons of water and 1,000 kWh of electricity realizing an increased bill of approximately \$14 for water and \$12 for electricity annually. A City of Gainesville taxpayer with \$100,000 taxable value would recognize approximately \$80 in savings annually. These estimates are based on current rates and ad valorem estimates based on the 2004 final certified taxable value and 2004 streetlights and fire hydrant costs.

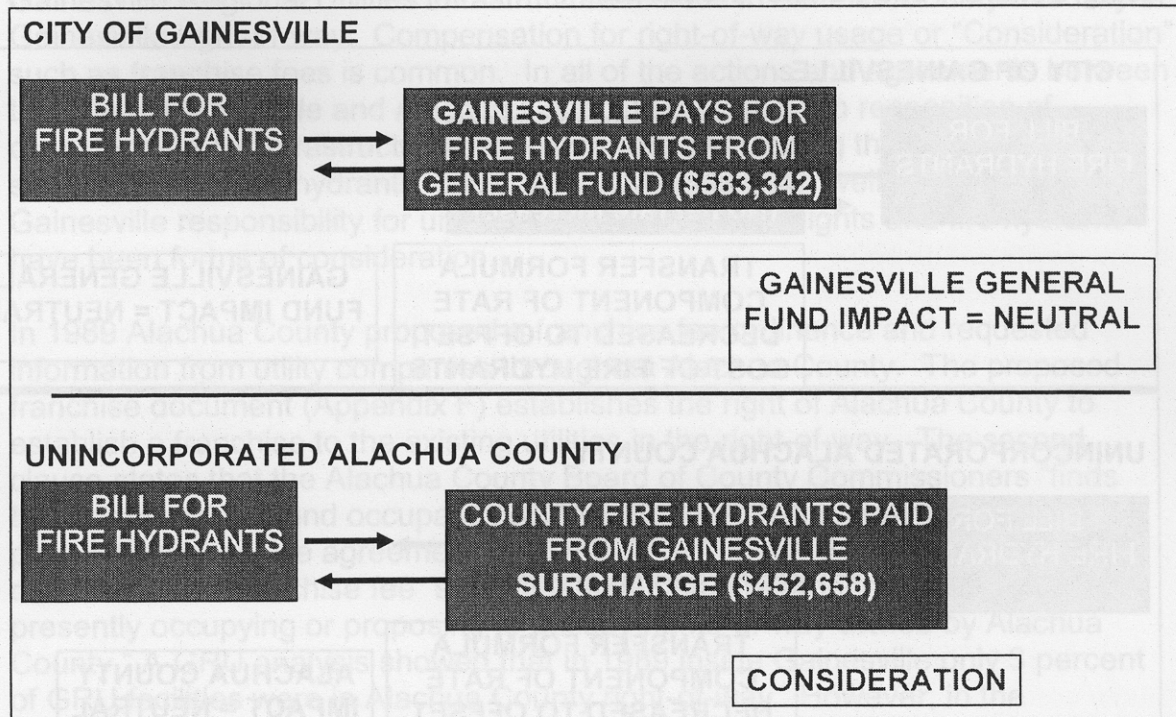
Table 6 – Ad Valorem Tax Reduction Estimation Based on 2004 Final Certified Taxable Value and 2004 Streetlights and Fire Hydrant Costs.

2004 Fire Hydrants	\$1,036,000		
2004 Streetlights	\$2,054,677		
Gainesville Final Certified Taxable Value	\$3,806,938,468		
2004 Taxes Levied (taxable value * current millage)	\$18,812,367		
Financial and Operating Plan (with discount rate)	\$18,153,934		
	Millage	Difference	Impact on \$100,000 Taxable
Current Millage Rate (2004)	4.9416		
Rate, Fire Hydrants Rolled back (based on 2004)	4.6695	(0.2721)	(\$27.21)
Rate, Street Lights Rolled Back (based on 2004)	4.4019	(0.5397)	(\$53.97)
Rate, Both Rolled Back (based on 2004)	4.1297	(0.8119)	(\$81.19)

7.4. Option D

Option D is revenue neutral to the City of Gainesville General Fund for fire hydrants. Option D proposes the payment for fire hydrants from the proceeds from water surcharges collected in the unincorporated area of Alachua County. The payment for streetlights is complicated because the surcharge collected for electric service has been removed as a component for the General Fund transfer formula. It is likely that the General Fund transfer formula would need to be revisited to accomplish this Option. This option would not require a base rate increase for customers.

Figure 4 – Diagram showing Option D, a payment methodology for fire hydrants using surcharge proceeds.



7.5. Option E

Option E is revenue neutral to the City of Gainesville General Fund for both streetlights and fire hydrants. Option E proposes the payment for fire hydrant from the General Fund transfer amount. The funds in the General Fund that currently pay for streetlights and fire hydrants would offset this change in the General Fund Transfer. Option E would require the renegotiation of both the water and electric system transfer to accomplish the reallocation of proceeds, prior to the transfer payment to General Government. This option would not require a base rate increase for customers.

Figure 5 – Diagram showing Option E, a payment methodology for fire hydrants using General Fund transfer proceeds.

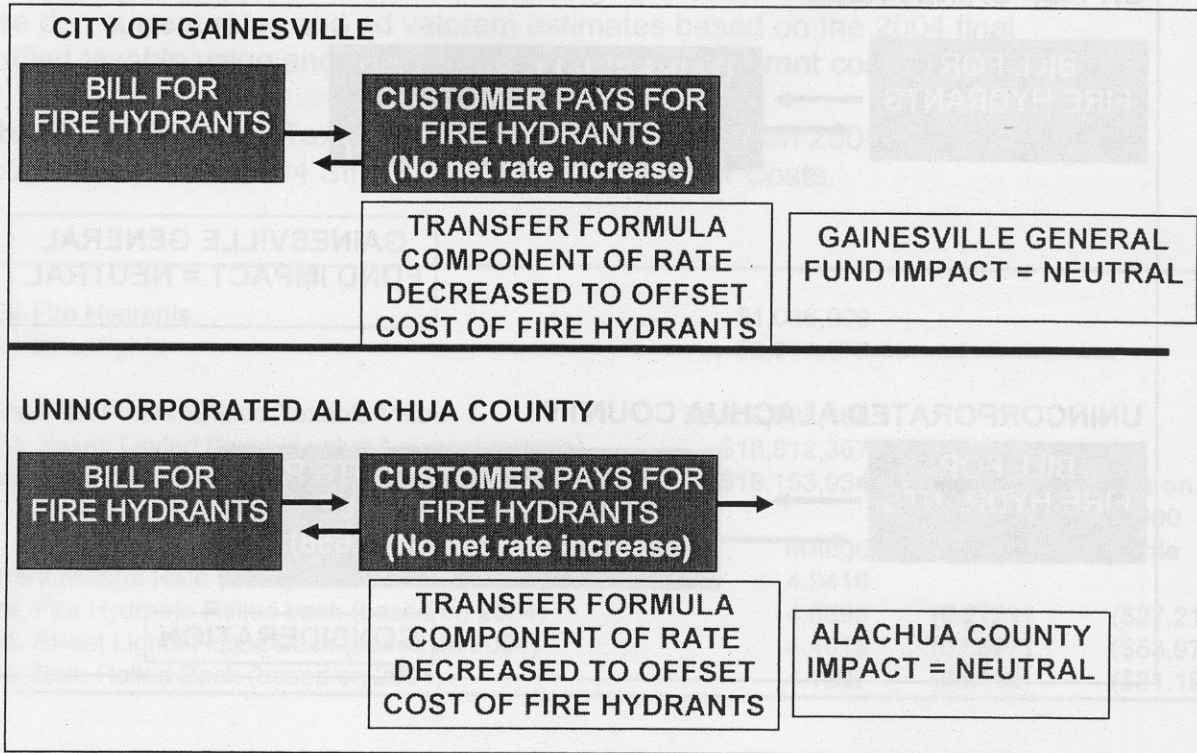


Figure 6 - Option E showing an example of payment for fire hydrants from General Fund Transfer.

