

UTILITY UPDATE:
NOTICE OF CITY PUBLIC MEETING TO RAISE
COMMERCIAL (ELECTRIC) UTILITY RATES

This update provides Chamber Members key background, facts, and data regarding the pending electric rate increase for commercial customers, and water rate increase for all customers, by the City of Tallahassee (“City”) with particular attention to the electric rate increase issue. While the City has been deliberating over the past year on how to address budget shortfalls through the City’s utility, the proposal to increase the rates for *only* commercial customers has surfaced in the past few weeks and upon the conclusion of a consultant study performed at the direction of the City.

The Business Advocacy Committee recently sent you a local government update on October 6 (attached) containing initial information upon this issue and the actions to be taken by the City Commission to decide whether to raise commercial utility rates to address their budget shortfall and to meet budgeted revenue goals. Since your Business Advocacy Committee recently learned of this proposal, we have been communicating with the City to obtain the background, facts, and data to better inform you on this City proposal. Because this proposal will have financial impacts on our members and the overall business community, we are providing you with this update while we continue to evaluate the proposal with the City. The City has explained that due to the nature of their budget process, they do not have the discretion to delay this matter.

I. CITY’S PROPOSAL TO RAISE COMMERCIAL UTILITY RATES.

On Wednesday, October 22, at 6 p.m. in the Commission Chambers of City Hall, the City of Tallahassee is set to approve a rate increase (from 0.3% up to 5.7%) for their electric utility that will only apply to commercial customers (note: there is *no* residential rate increase), as well as approving a 5.3% increase to water utility rates on all customers (business and residential). Electric rate increases for most commercial users will be above 5%. For full information about the

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City's proposal, and to view the October 8 City staff report regarding the City's proposed rate increases, please see Agenda Item #12.01 [via the following link](#).

II. BACKGROUND.

The following is a summary of the City of Tallahassee Utility Department's impact on our community, the annual City budgeting process, and the fiscal actions behind the pending City utility rate increase proposal:

A. Overview of the City of Tallahassee Utilities.

The City of Tallahassee operates the electric, natural gas, water and sewer utilities on behalf of the community and within the City of Tallahassee's defined utility service areas. The electric and water systems have existed for more than 100 years. The City's utilities operate as enterprise funds and, significantly, they provide a top revenue source (alternative to property taxes) for general government activities such as Police, Parks and Public Works. The electric utility is the largest enterprise fund, with an annual operating budget of approximately \$300 million (nearly half of the City's annual total budget of approximately \$680 million). The Electric Utility is the 26 largest municipal utility in the country, and serves approximately 115,000 customers throughout a 221 square mile area.

1. City of Tallahassee's Electric Facilities.

Electricity is produced at three power plants: the Arvah B. Hopkins Plant in western Leon County, the Sam O. Purdom Plant in St. Marks, Florida, and the C.H. Corn Hydro Station on Lake Talquin. According to City representatives, the following are some key facts:

- The combined summer capacity is 746 MW, which is ample to meet the 2015 projected peak demand of 563 MW.
- The majority of the City's generating fleet capacity is comprised of two state-of-the-art natural gas-fired combined cycle units. As a result, CO2 emissions are approximately 30% lower than the national average, and are among the lowest in the State.
- Power is delivered over 194 miles of transmission lines, and 2,849 miles of distribution lines (1,710 underground and 1,139 overhead).
- In fiscal year 2013, the City sold 2,542,612 MWh of electricity, which was 2.4% lower than in fiscal year 2012.

With continued conservation initiatives, which the City supports, the Electric Utility does not project the need for constructing/acquiring a

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new generating unit to meet the system's demand until 2020, at which time Hopkins Unit 1 is scheduled to be retired and replaced with a new, more efficient unit.

2. City Utilities Support General Government Activities.

The City of Tallahassee's fiscal year 2015 general fund budget is approximately \$142 million, which includes Police, Public Works and Parks and Recreation and other services. Ad valorem taxes make up approximately 23% of general government revenue. *Revenue transfers from the utilities make up approximately 29% of general government revenue.* Of this 29%, the Electric Utility will transfer \$28.8 million or approximately 9% of gross electric revenues to the General Fund to support governmental services.

The use of utility transfers versus increasing Ad valorem (property) taxes was a topic in this year's City budget development process, similar to what has occurred in previous years. The City Manager's Budget Message stated that increasing utility transfers would result in a lower per-household impact than increasing Ad valorem taxes:

"Rate studies will be conducted in 2015 to include the modification to the transfer policies. It is estimated that the results of a rate study will show an increase to average customers around \$2.50 a month. In comparison, an increase to Ad Valorem on the same scale would impact the average homeowner by almost \$7.50 a month."

As presented in Section III A (below), the City hired an outside consultant in July 2014 to study the City's current utility rates and to, in part, determine how to allocate rate enhancements to close the City's budgetary gap of \$8.2 M within state regulations and industry best practices. Based upon their independent review of the current rate structure of the City utilities, the consultant's study dated August 8, 2014, ultimately recommended rate increases for commercial electric customers, and no increases for residential electric users. According to the City, the increase of commercial utility rates, per this current proposal, allowed the City to avoid having to increase property tax rates in the 2015 adopted budget effective October 1, 2014, or to mitigate expenditures in other priority areas of the adopted City budget. For the full FY 2014/2015 City Budget, please [click HERE](#).

3. Use of City Utility Reserves.

The use of Electric Utility revenues to support general government activities has also had an impact on reserve accounts. The Electric Utility has operated at a deficit for five consecutive years, beginning in fiscal year 2010. These deficiencies have been funded from reserves. Approximately \$36 million in reserves have been used during the five-year period and as a balance against further rate

increases or property tax increases during this period arising from economic recession toward economic recovery.

Fiscal Year	Utility Reserve Usage
FY2010	\$ 7,990,310
FY2011	\$ 8,721,419
FY2012	\$ 9,423,242
FY2013	\$ 6,170,981
FY2014*	\$ 3,720,753*
Total	\$ 36,026,705

* Estimated

4. Utility Rate and Reserves' Impact upon City Credit Ratings.

The City funds electric and natural gas capital improvements through a combination of cash and debt. Energy System revenues are pledged for debt service payments. The three major credit rating agencies rate the Energy System Revenue Bonds at the time of a new issuance, and routinely between issuances. The City has historically maintained a high credit rating, in the top one-third of all municipal utilities. The latest updated rating was issued by Moody's in June 2013. A surveillance review is currently underway by Fitch. Issues of relevance include: liquidity (Days' Cash on Hand), Debt Service Coverage, and timely adjustment of rates, among other items. The following are the current ratings by the top three credit agencies:

Rating Agency	Rating	Last Review
Moody's	Aa3	Jun-13
Standard and Poor's	AA	Oct-10
Fitch	AA-	In Progress

5. City Utility Economic Stimulus and Programs for Business

The City's utilities will provide approximately \$41.7 million in revenue for general government activities this year. In addition, over the last six years, the City's Energy Smart Plus programs have resulted in approximately \$133 million in local spending with retailers and local contractors. The City reportedly offers the most extensive list of rebates and loans for energy efficient electric and natural gas appliance and solar photovoltaic systems in the state. Over the past six years, the City has loaned approximately \$1.2 million to local businesses, performed over 40,000 free residential and commercial

energy audits, and provided over 45,000 rebates to customers.

According to City staff, the City is presently the only utility in the state to offer a preferred customer discount to its medium and large business customers. Approximately 900 local businesses have taken advantage of this program and receive approximately \$4.5 million a year in discounts. Moreover, in 2012 the City worked with the Economic Development Council of Tallahassee/Leon County, Inc. (a Chamber affiliate organization) to implement an economic development electric rate program to help recruit/attract businesses to Tallahassee and encourage growth for existing local businesses. The rate was the first of its kind in the state. Finally, in June 2014, the City added its "PeakSmart" conservation program for businesses. Participating businesses receive a monthly utility bill credit in exchange for reducing their usage during peak periods.

III. Current Status of Proposal.

The recent actions taken by the City include the following:

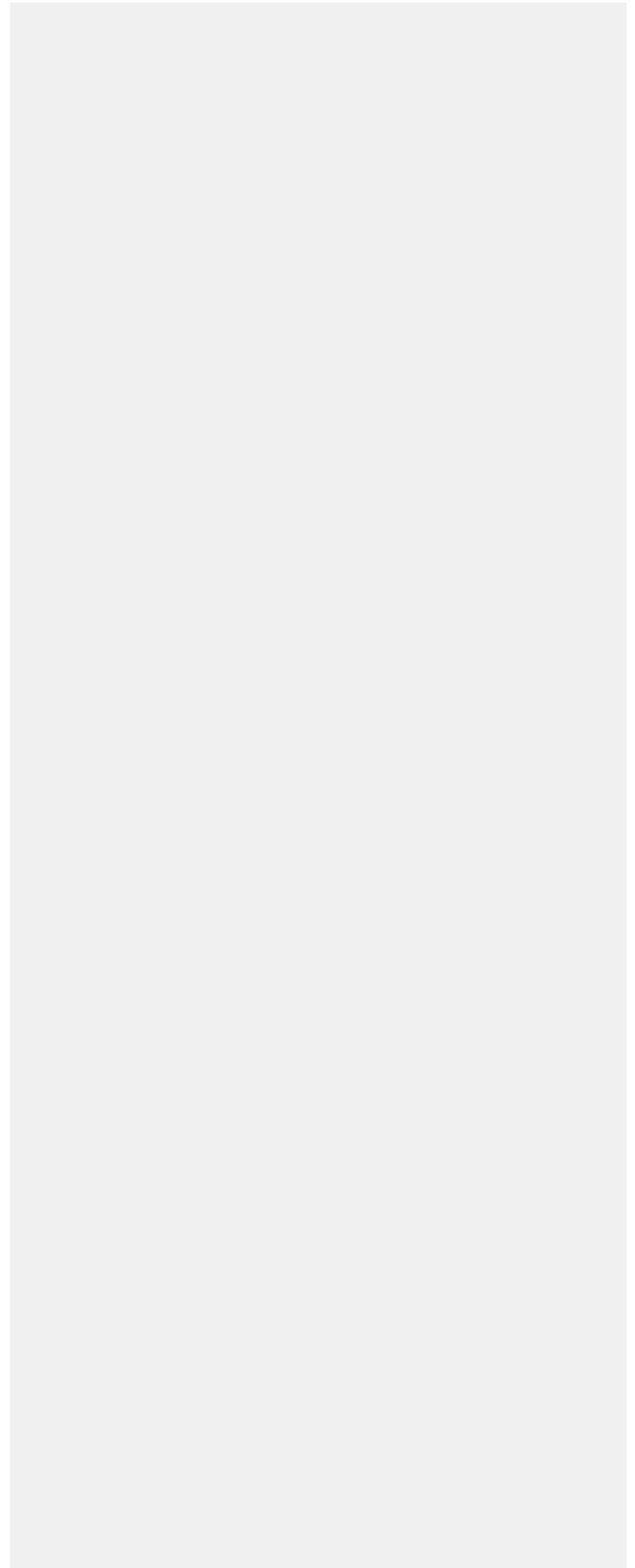
A. Proposed Rate Increases Determined by Consultant Review.

In July 2014, the City hired Leidos Engineering, LLC to prepare electric and water rate studies using the proposed budget for fiscal year 2015 and the most up-to-date usage forecasts. The studies reviewed all costs by customer class (e.g., residential, small commercial, medium commercial, etc.) and concluded that the current electric and water rates are not adequate to meet budget and will result in a deficiency in the Electric Fund for the sixth consecutive year if not modified. Costs and proposed rates were assigned by class via the study as presented to the Commission on October 8, 2014 (*Note: the complete consultant study has been provided by the City and is attached to this email for your review*).

B. City Staff Recommendation and October 8 City Commission Action

A full overview of the situation facing the City was presented to the City Commission on October 8, 2014. This report, contained in Agenda Item #12.01, included a staff recommendation to schedule a public hearing (for October 22) to approve select rate increases at a final public hearing and the approval of an updated ordinance. This recommendation was based, in part, on the budgetary reality that City inaction to advance a utility rate increase would result in an actual deficit in the utility fund (estimated at over \$8.22 M) over the present fiscal year compared to the adopted 2015 City budget.

The below graphic (Table 2) details the results of the Cost of Service



analysis performed. The following staff recommendations were approved by the City Commission during their October 8, 2014 City Commission meeting (reference Agenda, Item #12.01):

- 1) No change to residential electric rates,
- 2) increases ranging from 0.3% to 5.7% for commercial customer rates, and
- 3) increase of 5.3% to water rates.

(1)	(2)	(3)	(4)	(5)
Customer Class	Cost of Service	Existing Revenue	Difference	% Difference
Residential	\$131,741,068	\$132,037,727	\$296,659	0.2%
General Service Non-Demand	\$22,206,401	\$20,843,008	(\$1,363,393)	-6.5%
General Service Demand & Large Demand	\$125,905,852	\$119,087,413	(\$6,818,439)	-5.7%
Interruptible	\$3,565,948	\$3,553,394	(\$12,554)	-0.4%
Curtailable	\$2,387,703	\$2,269,592	(\$118,111)	-5.2%
Traffic Control	\$137,716	\$130,461	(\$7,255)	-5.6%
Lighting	\$3,907,039	\$3,707,795	(\$199,244)	-5.4%
TOTAL	\$289,851,727	\$281,629,390	(\$8,222,337)	-2.9%

C. Rate Comparisons at Proposed (New) Levels.

According to the City, if the City Commission approves the rate increases on October 22 the City's new electric and water rates will continue to remain below the statewide average in all categories. City management has confirmed the following: (1) residential rates are just below the statewide average; (2) commercial rates are in the lowest quartile; and (3) rates for small businesses are the lowest in the state and approximately 20% less than the statewide average. For additional information, rate comparison charts have been provided by the City for review (attached).

D. Communication Between the City and the Chamber Upon Rate Increase Proposal.

The Chamber first became aware of the City's specific commercial rate increase proposal on Monday, October 6 during an online review of the City's then recently published agenda for their regular meeting on October 8. Since that time, Chamber leadership has worked diligently and expeditiously to gather the above data, hold meetings, share concerns, and discuss possible alternative solutions with City management. We have held numerous meetings daily to prepare and provide you this full report so that you can become fully informed on the issues surrounding this matter.

IV. Conclusions and Next Steps.

The City Commission will make their final decision on October 22 at a public hearing at 6 p.m. As a result of this recent development, this issue has become a top priority of your Chamber and the Business Advocacy Committee. We have worked hard during a short window of time to make sure you have full information toward an informed opinion on this complex issue. As we look ahead to 2015, we anticipate keeping you informed, obtaining your input, and communicating your feedback to the City.

Cordially,



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