

CITY MANAGER NOTES FOR

CITY COUNCIL WORKSHOP ON OCTOBER 9, 2017

RE: ELECTRIC DISTRIBUTION SYSTEM PURCHASE FROM GULF POWER ELECTRIC COMPANY WITHIN THE CITY OF DESTIN

I. INTRODUCTION

- a. Good evening and welcome to the Destin City Council Workshop to discuss the merits of purchasing the Gulf Power Electric Distribution System for the City of Destin.
- b. We have 2 guest presenters tonight. Mr. Bernard Johnson, representing Gulf Power Electric is here to speak to several issues and questions that were posed to Gulf Power by Mayor Scott Fischer and city staff at a non-negotiation meeting that was approved by the City Council. Our other guest, invited by Councilmember Braden, is David Langham, Investment Broker-Dealer with INTL FCStone Financial, Inc.

II. BRIEF HISTORY

- a. On May 16, 2016 the City Council reviewed proposal from Attorney Chef Wright to negotiate a new Franchise Agreement with Gulf Power Electric. During that discussion, Mr. Wright brought to the Council's attention the Purchase Clause and suggested to the Council that they explore the option to purchase. A 2 year contract extension was agreed to by Gulf Power and the City.
- b. At the direction of City Council, the city issued RFQ 17-03-CM on January 9, 2017 for a firm to perform a Pro Forma (financial analysis) of a potential purchase by the City of the Gulf Power electric distribution system within the city boundaries of Destin. As a result, a contract was entered

into with WHH Enterprises through Resolution No. 17-12 for \$58,500.

- c. Then on August 21, 2017 WHH Enterprises presented the Pro Forma to Council and it was decided a workshop should be scheduled to further discuss the merits of a purchase of the electric system.

III. TOPICS OF DISCUSSION

- a. **What is the city looking to accomplish?** At the City Council May 2017 Strategic Planning Workshop, under the category of Infrastructure, the Council expressed interest in Undergrounding the Electric Utilities along Hwy 98 and considering the purchase of the Electric Distribution System.

- i. **Is the City Council interested in purchasing the utility system for the sole purpose of undergrounding Hwy 98? Creating an additional revenue stream, or both?**

- ii. **Is the City Council interested in options other than purchasing the utility system that have the potential to pay for undergrounding and creating an additional long-term revenue stream? (Exhibit A & B).**

- b. **What are some potential benefits of owning the electric utility?**

- i. Undergrounding utility lines along Hwy 98 and possibly throughout the City.
 - ii. Controlling and potentially lowering electric rates.
 - iii. Providing additional funding for construction/stormwater projects.

- iv. Potentially realizing a new revenue source.
 - v. Increasing revenues without increasing property taxes above our current 2 mill cap.
- c. **What are some projects that could benefit from the purchase of the electric utility?**
- i. Undergrounding the electric utilities on Hwy 98 from Marler Bridge to the Walton County line, with the possible exception of properties east of Indian Bayou Trail (County).
 - ii. Ability to fund stormwater projects without creating a Stormwater Utility.
 - iii. Funding of numerous capital projects already in the CIP.
 - iv. Funding CRA projects.
 - v. Undergrounding electric utilities in other areas of the City.
 - vi. Beautification of the City ROW's.
- d. **What are the risks involved for the City to purchase the electric utility?**
- i. The City does not have a history of owning and operating a utility or other Enterprise Fund activities.
 - ii. If the purchase and take-over of the electric utility is not done correctly from the very beginning, it could deplete City Reserves and the General Fund Balance, without having an alternate revenue stream to compensate for shortfalls.
 - iii. Financing the purchase of the electric utility could be complicated by our inexperience in operating an existing utility or Enterprise Fund.

- iv. The WHH Pro Forma projects an acquisition price at \$71M. This acquisition price must be negotiated and funds to pay for the O&M in lieu of revenue shortfalls should be calculated into the overall Bond/Loan amount, which could reasonably be between \$80M - \$100M.
- v. If the Pro Forma is not accurate, the cost to manage, operate and service the debt could put the City in financial duress.

In the Pro Forma, WHH Enterprises stated that they do not believe that the design, construction, operation and maintenance of an electric distribution system is relatively more complex or riskier than the other service functions already managed by the City, whether it is Fire, Emergency Rescue, Police or Wastewater services, each function requires technical competence, around the clock staffing and the commitment of the City to respond quickly and competently as the situation dictates. Owning and operating an electric system is no different (page 57).

But it would be very different for the City of Destin, compared to the alternative revenue streams and existing provision of services that the City of Winter Park had...the only municipality in Florida that successfully purchased and operated an independent electric utility, because the City of Destin does not operate a Fire Department, Emergency Rescue, Police or Wastewater services.

What staff proposes is that we continue to entertain the purchase, and perhaps hire an outside firm to address the technical feasibility, and simultaneously allow formal negotiations with Gulf Power to move forward with a new franchise agreement. This dual path was recommended to the City of South Daytona by WHH Enterprises:

- Negotiate a renewed franchise including purchase option, and;
- Refine financial evaluation of purchase option:
 - Refine replacements cost less depreciation analysis
 - Begin discussions with alternate power supply providers
 - Begin discussions with distribution services providers

There is also the consideration of whether or not to place the question of purchase on the March election ballot as a non-binding referendum.

If it is the will of the Council, at the end of this workshop, these options can be presented to the Council for discussion and vote at the October 16th City Council meeting. Staff is available throughout the rest of this workshop to answer any questions based on our research.