Date of Meeting: November 27, 2018
Date Submitted: November 24, 2018
To: Honorable Mayor and Members of the City Commission
From: Jack L. McLean Jr., Interim City Manager
       Ted Beason, Finance Director
Subject: Hurricane Michael-Damage Financing Options

STATEMENT OF ISSUE:

This agenda item is intended to seek the City Commission’s direction and authorization to pursue funding to pay the cost of Hurricane Michael. On Wednesday, October 10, 2018, a category 4 hurricane, named Michael, slammed the western part of Florida and left a trail of devastation in its path. The damage to the City’s electrical grid is great, which left about 4,750 residents without electricity for more than one week. The storm also caused tremendous property damage including damage to the roof of many citizens’ properties and to governmental structures. The total estimated damage to the electrical system and general government is $3,154,114. See Attachment 1-City Commission’s Workshop Documents. One hundred ninety-three thousand, six hundred dollars ($193,600) of this amount is for damages to the general government. The Utility System had a net loss in revenue of $103,539, because of the short number of days of power outages.

Federal Emergency Management Agency (FEMA) is expected to reimburse the City for 75% of its cost, and the State of Florida is expected to cover the cost of the remaining 25% of cost related to the hurricane. (FEMA may reimburse the City for 90% of its cost; however, FEMA has not yet decided.) Although, the City can expect reimbursement from FEMA through the State of Florida; the date of the reimbursement is uncertain. Affected Florida utilities have not received reimbursement from Hurricane Irma, which occurred in 2017.
Background:

In the aftermath of Hurricane Michael, at least four of the City's nine circuits were significantly damaged or on the ground. Significant damage was done to the electric grid and the fiber systems supporting the electrical system. Many of the poles which were damaged doing hurricane Michael exceeded the industry standard for pole-life, i.e., the poles were more than 35 years old. In our restored system, following the hurricane, the Utility System has at least 50% of its 2,500 poles that exceed 35 years of age. The damaged fiber is needed to allow the Utility System to implement the SCADA, outage management, and smart grid systems. SCADA is an acronym for Supervisory Control and Data Acquisition, a computer system for gathering and analyzing real time data. SCADA systems are used to monitor and control a plant or equipment in industries, such as telecommunications, water and waste control, and electrical distribution. Outage management systems, as with Quincy’s Utility System, are also commonly integrated with SCADA systems which can automatically report the operations of monitored circuit breakers and other intelligent devices, such as SCADA reclosers.

On October 12, 2018, the City hired thirty (30) linemen to aid the Utility’s restoration of the electrical power to City Hall, Public Safety, the County’s EOC, County Government Offices, Supervisor of Election Office, the hospital, and residents north and south along the east/west Hwy 90 corridor. By October 15, 2018, thirty-five percent (35%) of the customers’ power was stored, after Duke Energy repaired key parts of the City’s system to energize the transmission line. The extent of damage, however, would have needed at least thirty (30) days to restore power to all customers. To cut that time in less than half, the City added, through the FMPA mutual aid agreements, one hundred and twenty (120) linemen. The percentage of customers’ power restored on October 17, was 39%; October 18, was 62%; October 19, was 87%, October 20, was 93%, and October 21, was 98%. The linemen invoices from their cities’ utilities are expected to arrive in the next 60 to 90 days. Two of those invoices are now in the City’s hands for payment.
The City’s multiple pre-Hurricane Michael outages and the extensive damages left in the wake of Hurricane Michael show the need for an aggressive Tree Trimming and Vegetation Management Program. The City has experienced an average of four (4) outages per week, leaving 320 to 400 without power. Squirrels play a significant role in the outages; however, falling trees and limbs are the major cause of the outages. The City has not had a robust Tree Trimming and Vegetation Management Program, because it could not compete for the most advantaged price. (The City Commission recently approved Staff’s recommendation to enter into a piggyback contract with the City of Tallahassee to obtain best competitive pricing; however, the current budget of $30,000, per year for tree trimming is not enough to properly protect the electrical grid in advance of next year’s hurricane storm season.

After the storm, Staff made plans to spend $1,001,800 to protect the Utility System against the damage that hurricanes can cause. This is called storm hardening. And, in the Utility System, includes things such as fortifying overhead wires, pole replacement, set up for six (6) added positions, aggressive tree trimming and vegetation, replacement of copper wire with aluminum wire (the copper wire in the air now is more than 50 years old), and improving networks and systems to supply access to remote controlled gear. The obvious goal was to protect against future weather-related outages. These expenditures are an investment in infrastructure. More importantly, it is a vital investment. If this spending didn't take place, the next big storm will cause just as much, if not more, damage.

The Utility System does not have a storm reserve. Since Hurricane Andrew in 1992, IOUs (investor-owned utilities) and municipal owned utilities are unable to get insurance coverage on their transmission and distribution systems. Although, the Utility is eligible for government funding to cover hurricane costs, there is no
guarantee that the federal government will fund 100% of all damages incurred by the Utility.

Because of Florida’s recent history of hurricanes and the intensity of such storms and global warming, an essential element of wise and prudent utility planning is the establishment of a storm reserve – a rainy day fund – which will help with future storm recovery and is a part of the Staff’s plan.

The conventional methods to recover costs related to hurricane damage is to set up a rate increase and/or a storm surcharge. Both methods are means to collect monies to pay for the financing of storm costs, storm reserves, and system hardening. The period of repayment should cover the two years to pay a short-term $3,000,000 loan (bridge loan) from Capital City Bank or BBVA Compass Bank, and the period to pay back $1,001,800 in Utility hardening costs.

A rate increase of 1¢ would generate $1,250,000 a year. On average, residential customers would pay an expected $10.96 more per month for the entire storm and hardening cost over a four-year period. The bridge financing would be retired in 2.48 years and the storm hardening cost would be paid out in 0.80 years, depending on the structure of the loans. The City could reduce the monthly charge to customers, if it were to use the $500-$1 million available in the Utility System Improvement and Refunding Revenue Bonds, Series 2003 and the Utility System Revenue Bonds, Series 2011, available for Renewal and Replacement Reserve, depending on consultation with bond counsel. These funds would have to be repaid, however, the City would have more flexibility in the terms of the repayment and the carrying costs.

The storm surcharge on the customers’ bills is the monies collected to pay for the financing of the storm costs and storm hardening associated with Hurricane Michael. This storm recovery mechanism was suggested by Duke Energy, Orlando, Florida’s largest power supplier and Florida Power & Light, and approved by the Florida Public Service Commission (PSC) in 2005, based on the PSC file records. Both Entergy Louisiana and the Louisiana Public Service Commission
approved the storm surcharge on customers’ bills. Staff understands, based on a FMPA meeting, that Chattahoochee will be pursuing similar strategies.

The rate increase would be included in a sunset ordinance. Similarly, the storm surcharge could be implemented to pay storm recovery and storm hardening costs. Both methods would require an amendment to Chapter 74 of the City’s Code of Ordinances. Any amendment to the code will require that the customer be credited, if the cost of the storm recovery and storm hardening is less than expected.

The Utility will set up a storm reserve that will be funded by federal and state reimbursements, which is expected to be $2.7 million, and not through the rate increase or the storm surcharge.

**Conclusion and Recommendation:**

Staff recommends that the City Commission approves, either a rate increase, or a storm surcharge, based on the analysis above to recover Hurricane Michael’s damages and storm hardening costs. The recommended plan will carry out the following:

- Timely payments to the utilities of the 12 cities supplying linemen to restore the electric grid and power to the City’s 4750 customers;
- Supplies funding to harden the electrical grid to better withstand and reduce future damages from severe storm and hurricanes as described above;
- Supplies funding for a storm reserve; and
- Improve the resilience and reliability of the Utility’s operations.

**OPTIONS:**

Option 1: Approve:

- a rate increase of 1¢ to pay for Hurricane Michael’ damages and storm hardening;
- introduction of an ordinance to implement the rate increase and provide for customer credits, if the hurricane's cost and storm hardening are less than expected;
• direction to Staff to secure a bridge loan from private financial institutions;
• the draw-down from Series 2003 and 2011 Bond Renewal and Replacement Reserves with a repayment plan, if available to fund a part of the damages; and
• establishment of a storm reserve in the Utility system.

Option 2: Approve:

• a storm surcharge on the utility bills to pay for Hurricane Michael’s damages and storm hardening;
• introduction of an ordinance to implement the storm surcharge and provide for customer credits, if the hurricane’s cost and storm hardening are less than expected;
• direction to Staff to secure a bridge loan from private financial institutions;
• the draw-down from Series 2003 and 2011 Bond Renewal and Replacement Reserves with a repayment plan, if available to fund a part of the damages; and
• establishment of a storm reserve in the Utility system.

Option 3: Do not approve option 1 or option 2.

**STAFF RECOMMENDATION:**

Option 2.

**ATTACHMENT:**

Attachment 1, City Commission’s Workshop Documents.