

**CITY OF KALAMA
CITY COUNCIL MEETING
OCTOBER 7, 2015**

1. OPENING

Mayor Pete Poulsen opened the City Council meeting at 7:05 p.m. Mayor Poulsen led those present in the Pledge of Allegiance.

Councilmembers present were Mike Truesdell, Dominic Ciancibelli, Mike Dennis Langham, Don Purvis, and Mary Putka. City staff present were City Administrator Adam Smee, Superintendent of Public Works Kelly Rasmussen, Clerk/Treasurer Coni McMaster, and Police Chief Randy Gibson. Members of the public present are listed on the sign-in sheet.

2. EXECUTIVE SESSION - None

3. CHANGES TO THE AGENDA - None

4. PRESENTATIONS & AWARDS - None

5. PUBLIC HEARINGS - None

6. PUBLIC COMMENTS/CONCERNS - None

7. UNFINISHED BUSINESS

A. Water/Sewer Rate Study – HDR Presentation

Engineer Joe Healy with HDR, Inc the City's consultant presented the review of the draft study. The overview looked at the process and a discussion of the findings, conclusions, and alternatives for both the water and sewer revenue requirements. The goals and objectives of this kind of study include rates that are sufficient, stable, understandable, easy to administer, affordable, promote economic development, reflect an efficient use of resources, equitable, and legally defensible. The cost structure is a mix of fixed and variable costs. Fixed costs include salaries and debt and are usually 80-90 % of costs. Power and chemical expense are variable costs as they can vary on the demand or volume of water pumped. The idea is to try to balance the needs to goals and objectives. Mr. Healy reviewed the process used in the study which included three elements: (1) Revenue Requirements - revenue to expenses. (2) Cost of Service – allocation of revenue to the users. (3) Rate Design - based on classes of service. The major driver for revenues for both water and sewer are the Capital Improvement Plans (CIP) and inflation on operating costs. The study includes projections for the next five years through 2020.

Water Revenue Requirements. The CIP includes replacing aging infrastructure which includes one large project per year. The study assumes that operating and maintenance costs (O&M) will increase from \$726,000 to \$837,000. There will be increases to the debt service to increase to cover projects for which the City will seek grants and low interest loans.

There is 1% in customer growth based on standard projections included in the calculations. Using a levelized approach to meet the needs and target recommended reserve levels the study shows a need for a 4% water rate increase in 2016 with 2% in each following year through 2020. Using 600 of a current bimonthly water bill is \$30.40 and would increase \$1.22 to \$31.62 for 2016 and up to \$34.22 in 2020 for a five year increase of \$3.82 every two months. Clerk/Treasurer Coni McMaster noted that by the end of the year all customers will be on monthly billing instead of bimonthly. Without rate increases the City will have a revenue deficiency over the 5 year period. The City's target operating reserve is for 90 days O&M expenses and with the proposed increases the forecast for reserves is healthy and will hold steady. The equipment shows growth as there are not equipment replacements projected for the 5 year period.

Water Cost of Service. This part of the study looks at allocation of costs to the classes of customers which include residential, commercial, multifamily, and then outside residential, commercial and multifamily. Mr. Healy proved a table of the results for all the customer classes. Using the outside residential class he explained how the table worked. Outside residential is projected to contribute \$382,000 in revenue but has allocated costs of \$393,000 so it is \$11,000 short or 2.7% below what it should be paying. If the City were to begin trying to shift the rate structure it would increase this class by 2.7%. Mayor Poulsen noted that he would have thought there would be more of an imbalance, so this is good information. Mr. Healy explained that this information is based on a single point in time or single year and usage characteristics are not steady and the points can change over time. Generally if a class is in range of within 5% either way they are considered to be adequate. Since this is Kalama's first study, HDR is not recommending the City make any adjustments. It would be best to do another study, compare results and then look at possible changes.

Water Rate Design. The City is currently using a fixed monthly plus volume rate design which is the industry standard. There are no recommendations to change this structure. The City does have large industrial customer with declining block rate where they are charged a lesser rate once consumption reaches a certain level. In looking at how to increase the rates as recommended they looked at two alternatives. Alternative 1 would be to increase both the fixed and consumption rates. Alternative 2 would increase only the fixed rate and leave the consumption rate as is during the full five year period. This would still include the current outside rate differential and keep the low income program that is in place. In both cases the recommendation is to phase out the declining rate offered to the one customer. Both alternatives would get the City to the revenue requirements discussed earlier. The difference is related to revenue stability as the percentage of fixed revenue is only 27% in all years under alternative 1, but rises to 37% by 2020 with alternative 2. Alternative 2 would allow the City to maintain a better revenue balance toward the fixed costs improving revenue stability. Alternative 1 provides more control to the customer to affect their bill by conservation measures.

Sewer Revenue Requirements. The sewer CIP is much bigger than water including new pump station, new main lines and major rehab. The study assumes the O&M costs increase from \$560,500 to \$648,000 by 2020. The current debt service is just over \$400,000 and would increase by 2020 take on debt for new projects. The City would seek out grants and low interest 20 year loans. Estimated growth is 1%. Based on the findings the City is facing a large deficiency of funds by 2020. The recommendation is to adopt rate increases of 9.5%

in each of the next 3 years and then to 8.5% in 2019 and then to 2% in 2020. Using 600 of a monthly sewer bill is currently \$74.50 and would increase by \$7.08 to \$81.58 in the 2016 and up to \$108.25 in 2020 for a five year increase of \$33.75 per month. The study concluded that there would be a deficiency of funds to cover needs for operations, improvements and build adequate reserves. The target for operating reserve is 60 days of O&M costs rather than the 90 days for water as sewer is more stable than water, However, the projections won't meet that target Other reserves include the I&I fund which isn't being increased and improvement reserve which is not currently covering the debt service. The recommended rate increases will improve that situation by 2020.

Sewer Cost of Service. Like water this was based on 2016 including the recommended 9.5% adjustment to rates using generally accepted methodology. The results are simpler since there are no outside sewer services. The results show some variation, but again they are not recommending any changes be done as they would need more study results

Sewer Rate Design. The sewer rates are designed much like water and based on water consumption with a fixed and volume rate combination. There are three classes: residential, commercial, and multifamily. As with water the same alternatives for implementing the rate increases were presented. Alternative 1 would make the increases to both the fixed and consumption fees. Alternative 2 would apply all of the increase to the fixed portion of the charges. Both produce the same revenue level. Again, the difference is related to revenue stability as the percentage of fixed revenue is only 52% in all years under alternative 1, but rises to 67% by 2020 with alternative 2.

Mr. Healy summarized that the comprehensive review for each utility indicates a need for rate adjustments to meet the future needs and the City needs to improve revenue stability.

In the following discussion it was clarified that the sewer rate is based on a fixed cost plus water consumption. There was much discussion regarding the ability to control consumption and to encourage such conservation for water. Alternative 2 does not allow for conservation or for the customer to affect the amount of the bill. While this may be better for the city as it provides a more stable revenue stream it is not as equitable to customers. Mr. Jim Bain proposed the Council think more about the rate payer and consider an alternate 3 with much less on fixed costs and more increase to consumption fees as it would provide an incentive for conservation. It was noted that as revenues decrease due to conservation, the debt and fixed costs still rise so it could lead to more or higher rate increases. Mr. Bain stated he is not suggesting the utility should lose money, but thinks those that use more should pay more and the City should incentivize conservation. Mayor Poulson pointed out that the utility that is being paid for is not just the water received, but all that it takes to get it to the customers and the people who provide it including those going out in the middle of night to get the water running so it's there when you turn on the shower. City Administrator Adam Smee noted the fixed costs of providing services are not going to change based on conservation of water. The debt on the water plant will be paid by 2022, but it has aged and is in need of upgrades. More growth would help to stabilize the increases as well, but can't rely on that. In the past it wasn't planned to build reserves for the long range and need for future improvements. As costs increase it becomes harder and harder to balance the needs and the rates. When the City was mandated to build the sewer plant, the engineers recommended annual sewer rate increases be implemented. This was about the time the economy started the down turn and

so the Council didn't make rate increases as recommended. Now we are playing catch up. Now the question will be how the rate increase should be done. It was noted that the recommendations include doing away with the declining balance for the one customer. A Public Hearing on the rate study will be held on October 21st at 7pm. The public is being encouraged to attend. Superintendent of Public Works Kelly Rasmussen informed everyone that he will provide tours of both the water and sewer plant to the public, just contact him if interested. Mayor Poulsen noted the Council will be looking at all alternatives.

8. NEW BUSINESS - None

9. ORDINANCES & RESOLUTIONS

A. Resolution No. 626 – Write off Utility bad debts

Resolution No. 626 was read by Title: A Resolution of the City Council of the City of Kalama discharging and removing uncollectible charges totaling \$54.52 on delinquent utility accounts in order to clear the City records. Councilmember Dominic Ciancibelli made a motion the City Council adopt Resolution No 626 as read. Councilmember Mike Langham seconded, and the motion carried.

10. CORRESPONDENCE - None

11. MAYOR'S REPORT & COUNCILMEMBERS' REPORTS

A. Mayor Pete Poulsen reported he is looking for 2000 sq. ft. building for a business that wants to locate here. On October 24th the City is holding a fundraiser for the Community Building which will be a Salmon feed with both baked and smoked salmon left from 125th Anniversary. He is also looking at a distiller that will bring in vodka and wine. It will be from 6 to 9 and presale tickets for \$10 are available at City Hall. Councilmember Don Purvis noted that he had received some comments from the public that the floor is showing wear and tear and we may to reseal the floor in the near future. It was noted that the Community Building is currently not self-supporting and is in need of some other repairs such as gutters, as well.

B. Councilmember Mike Truesdell no report.

C. Councilmember Dominic Ciancibelli no report.

D. Councilmember Mike Langham no report.

E. Councilmember Donald Purvis stated he would attend an informational meeting on the issue of e-cigarettes and their effect on youth.

F. Councilmember Mary Putka no report.

12. DEPARTMENT REPORTS

A. City Administrator Adam Smee had no report.

B. Superintendent of Public Works Kelly Rasmussen presented a written report., He informed the Council that the State Department of Health was here last week to do an audit of the facilities and except for a couple of minor findings it went well.

C. Police Chief Randy Gibson presented his statistical report noting that it wa a long reporting period resulting in 140 calls for service with 22 investigations.

D. Clerk/Treasurer Coni McMaster presented the September Treasurer's report, the 3rd Quarter Treasurer's report and an overview of the 2016 Draft Budget.

E. City Attorney Paul Brachvogel was absent. Mayor Poulsen noted that the City has put out a request for proposals for the position of City Attorney as Mr. Brachvogel has moved from the area.

13. CONSENT AGENDA

Councilmember Mary Putka made a motion the City Council approve the Consent Agenda including:

1. Claim and Payroll Warrants 35272 – 35341 plus Electronic Claim and Payroll transactions totaling \$184,720.60
2. Minutes of the September 16, 2015 City Council Meeting
3. Set Public Hearing on Water/Sewer Rate Study – October 21, 2015 @ 7pm.
4. Set 2016 Revenue Public Hearing including Property Taxes and Utility Rate increases for November 4, 2015 @ 7pm.
5. Approve the Mayor's appointment of Leah Johnson to the Kalama Housing Authority Board

Councilmember Don Purvis seconded, and the motion carried.

14. EXECUTIVE SESSION - None

15. ADJOURNMENT

Mayor Poulsen adjourned the meeting at 8:30 p.m. These minutes are not verbatim. A copy of the recording for this meeting is available for review upon request.

Pete Poulsen - Mayor

Coni McMaster - Clerk/Treasurer