

**CITY OF KALAMA
CITY COUNCIL
OCTOBER 5, 2011**

WATER/SEWER RATE INCREASE WORKSHOP

Mayor Pete Poulsen opened the workshop of the Kalama City Council at 5:30 pm. Councilmembers present were Dominic Ciancibelli, Chuck Hutchinson, Don Purvis and Bud Gish. Councilmember Adam Smee was absent. City staff present was Assistant Director of Public Works Kelly Rasmussen and Clerk/Treasurer Coni McMaster. Members in the audience are listed on the sign in sheet.

Clerk/Treasurer Coni McMaster provided information to the Council based upon the previous discussions which detailed the condition of the sewer and water funds, their debt obligations and their ability to fund improvements. All of these are driving the need for rate increases.

Sewer – The current rates are not sufficient to cover the operating costs and the debt payments, even including all available reserves. The City would be in the red by the end of 2013 and not able to make the full loan payments. There are some funds available in the operating fund and the current rate can be restructured to transfer more to the reserves, but these will not fix the shortfall. Using up all of the reserves would be less than ideal, as emergencies happen. The system might need to be repaired. Requesting an extension of the loan term is being researched. Ms. McMaster has not been able to speak with anyone at Department of Ecology (DOE) as of today. If a ten-year extension was to be granted, the annual payments would be reduced by over \$100,000. This would reduce the amount of rate increase considerably. The second question would be if interest would be added to the current no interest loan. This would increase our debt obligation. Since it is unknown whether DOE will even consider an extension, Ms. McMaster suggested that for tonight's discussion they assume the loan payments will remain as they are. The idea of cutting operating expenses has been looked at hard. The City is required to have two operators at the plant, so staff cuts are not available. The City has cut back over the last couple of years, so there is not a lot of room to make further cuts. No option discussed would keep the City from raising the rates. The options for increasing the rates were discussed. The range would be from a \$10 per two-month bill increase to nearly \$40 per two-month bill. The proposals include incorporating funds from operations through additional transfers from the current rates and then an additional rate increase or simply raising the necessary funding with an increase to the rates. Ms. McMaster recommended that the Council look at Option 2 which would be a \$15 per two-month bill increase for 2012 and then again the same increase in 2013. This would get the rates where they would need to be to cover the City's obligations. It was asked if the City would be able to offer monthly billing soon to help the customers. Having just received the new utility software last week, Ms. McMaster is hopeful that monthly billing will be available at the first of the year. This led to a discussion of the costs to the City to do monthly billing and if the citizens really want it. Councilmembers have heard both yes and no on the public's desire for monthly billing. The cost for mailing out the bills will increase with monthly billing, but this would be a few hundred per month. The City would not be reading the meters monthly, but averaging for one month and then reconciling the bill in reading month. There is not the manpower to read all the meters every month. The City can offer the monthly billing to those that want it and not make it mandatory as well. During the discussion, Mayor Poulsen commented that all the options are being looked at to reduce the impact, but they are pretty thin.

Water - The water reserves are being impacted slightly by the current debt payments. However, one loan is paid off in 2012, and another in 2015. The City will be able to cover the payments and maintain a \$200,000 balance in the reserves. This is not sufficient to meet the needs for improvements to the aging system. Since there is not an immediate need, the City could simply

not do any projects and not raise rates. They can transfer any excess funds from the operating fund to the reserve and restructure the amount being transferred from the current rates to increase the reserve. Another proposal would be to repeal the current third tier rate given to the industrial customers. There is only one user that qualifies. The savings in doing this is minimal at only about \$1600 per year. The goodwill this provides is probably worth this. So while an option, it is not significant. Options for raising rates were presented which ranged from \$1 per two-month bill to \$9 per two month bill. Ms. McMaster would like to see the Council consider setting a multi-year increase at the minimum amount of five cents to the cubic footage charge. This would result in approximately a \$1 increase in the first year with additional five-cent increases in the next four years. At the end of the five-year period, the total increase would be \$8 for a two month bill or 3% per year. It would be much easier for all. Considering the large sewer increase being considered, implementing this could be put off for a year or two. However, the City should consider doing this to meet the needs for the future of the system.

Mayor Poulsen adjourned the meeting at 6:55 pm. These minutes are not verbatim. A copy of the tape can be made available for listening.

Pete Poulsen - Mayor

Coni McMaster - Clerk/Treasurer