

CITY OF KINGMAN
MUNICIPAL UTILITY COMMISSION MEETING
 Council Chambers
 310 N. 4th Street

5:30 p.m.

Minutes

Thursday, February 25, 2016

<u>Commissioners</u>	<u>Staff Present</u>	<u>Visitors Signed in</u>
Allen Burgett, Chairman	Greg Henry, City Engineer	Susan Gilbert
Mike Van Zandt, Vice Chairman	Tina Moline, Finance Director	Harley Pettit
Toby Orr	Rob Owen, Public Works Director	
Aline Parker-Excused	Kathy Lind, Recording Secretary	
Paul Shuffler	Melody Stewart, Recording Secretary	
Marvin Yarbrough-Absent		
Pat Yarush		
Council Liaison Anderson		

REGULAR MEETING

CALL TO ORDER AND ROLL CALL

Chairman Burgett called the meeting to order at 5:30 p.m. with five Commissioners present at time of roll call.

APPROVAL OF THE MINUTES

Commissioner Yarush made a **MOTION** to **APPROVE** the minutes from the January 28, 2016 meeting. Commissioner Shuffler **SECONDED** the **MOTION** and it was **APPROVED** by a vote of **5-0**

1. **PAST COUNCIL ACTION:**

None

2. **OLD BUSINESS:** (for review, comment and/or action)

None

3. **NEW BUSINESS:** (for review, comment and/or action)

a. Review of Water and Wastewater Report including Financial Condition, Cash Reserves and Five Year Capital/Infrastructure Improvement Plans; MUC Recommendation to Council for Use of Funds or Rate Modifications.

Finance Director Tina Moline stated she would be providing water and wastewater audited financial statements, including the revenue and operating expenses, the 5-Year proposed capital improvements plan and an overall discussion of the customer rate burden, desired collection system expansion and water system improvements. After the review and discussion a recommendation to the City Council is requested.

Ms. Moline began by providing background information on the water and wastewater systems. The water system serves 19,050 and the wastewater system serves 9,700 customers. The water and wastewater utilities are operated as enterprise funds, which are effectively separate business units.

The sources of revenue for the water fund are water sales and water meter connection fees. The wastewater fund revenues are the wastewater charges and sewer investment fees. Over the past 8-9 years the rate structure changed to a tiered structure.

Ms. Moline explained water rates are comprised of a base rate, capital renewal fee and a consumption charge. Consumption charges are based on a tiered rate depending on the quantity of water used in each tier. There are different rates for customers inside the City limits vs. outside the City limits. Water connection fees are determined by the size of the meter connected to the system. Most residential customers use a 5/8" x 3/4" meter which cost around \$2,500 plus tax for customers inside the City limits and \$2,625 plus tax for customers outside the City limits. When meter size increases charges increase as well.

Ms. Moline stated wastewater rates are comprised of a base rate, capital renewal fee and a monthly sewer user charge. Last year this Commission recommended and Council approved implementing \$1.00 of the base rate to be dedicated as a Capital Renewal fee, which is why there is now a Capital Renewal Fund. Sewer user charges are computed based on actual monthly metered volume of water used and the expected wastewater strength rate. Winter quarter averaging is used for residential sewer user based on the actual monthly metered volume of water used during the months of December, January and February with that average becoming the sewer usage for the next 9 months. She explained that the only time this does not apply is if the customer has a lower consumption. Sewer investment fees are charged to new users connecting to the system at \$91.00 per drainage fixture unit connecting to the sewer system.

Ms. Moline gave an overview of the Water Fund Financial condition for Fiscal Year 2015. Water usage continues to decline, resulting in a \$340,000 reduction in revenues. Mohave County Water Authority Trust fees have decreased by around \$500,000, varies year to year. The Water Meter Connection fees have increased, offsetting the decreased in revenues by about \$700,000. The fund has a net income of about \$1.2 million. City policy states that the

enterprise fund reserve should have about 45-180 days of operating expenses for any revenue shortfalls or unexpected expenses. Ms. Moline is conservative and prefers to use the 180 days of reserve to keep on hand, which is around \$2.8 million. After that \$2.8 million is set aside, the available fund balance would be \$19 million at the end of Fiscal year 2015 in cash balances. Fiscal year 2016-2021 Capital Improvement program totals \$23 million, leaving \$4 million of Capital Improvement Projects unfunded.

Commissioner Orr asked if water usage is still declining even with the city growth.

Ms. Moline stated that water usage continues to decline due to conservation, which is partially a result of the high sewer rates.

Ms. Moline went on to review the Water Capital Improvement Projects for 2016-2021. Some of the funded projects include; \$10 million dollars for the Automated Meter Reading Project, \$1.9 Million for the East Bench 16" Transmission as well as many other projects in the pipeline that are considered important projects to be completed. There have been discussions about using the cash balance for system expansions, economic development and securing future water resources. In 2013 water customers received a \$2.00 reduction in the base rate decreasing revenues by \$450,000, which is a \$1.3 million dollar decrease in revenues to date. Consideration of any reduction in the water fund would impact the funding of the future Capital Improvement Projects.

Ms. Moline moved on to reviewing the Wastewater Fund. The Hilltop Wastewater Treatment Plant was expanded and upgraded in 2011 and the Downtown Wastewater Treatment plant in 2012. The cost to upgrade and expand the Hilltop plant was \$33.7 million and the Downtown Treatment Plan was over \$16 million dollars but we were only required to pay back \$14.4 million, a \$2 million dollar benefit. Additional infrastructure replacement and/or upgrades are needed such as; the Downtown Sewer Outfall Line at a cost of \$8.8 million. There are also operational costs that continue to increase. Wastewater rate adjustments have been necessary to ensure compliance with lending requirements and to meet cash flow needs due to the decline in the economy and diminished new construction during 2008-2013. Our sewer investment fees decreased and did not meet the projection that we had hoped when the treatment plants were built, so in order to meet our debt service payments rates had to be increased.

Ms. Moline went on to review the Wastewater Financial Condition. To determine the wastewater financial condition the following was presented for review; FY15 unaudited financial Statements, FY16 estimated revenues and expenses, FY17 projected revenues and expenses and FY17-FY21 funds available for CIP program. From FY17-FY21 there are about \$18 million dollars in CIP Programs. There are many projects in the sewer CIP program that staff has put together for the next five years. Excluded from the list of projects is the reclaimed water project that staff has not received direction on how to proceed. This could be a \$10 million dollar project that is not included in this report.

In FY15 unaudited financial statement there was a slight decrease of \$200,000 in revenues from FY14 as a result of continued decrease in sewer investment fees. Capital expenditures increased by \$400,000 and an unaudited net income of \$2.5 million. The fund balance at year end is \$10,082,012 and in addition a repair and replacement reserve of \$1 million and a debt service reserve of \$3.6 million. The debt service reserve cannot be spent on operating expenditures until the loan has been paid in full so there is only the 10 million available to use.

FY16 revenues will be about the same as 2015. Capital expenditures will increase by \$1.2 million dollars leaving an estimated net income of \$2.0 million dollars. The City policy is to set aside 45-180 days of operating expenses, about \$3.0 million dollars. The estimated available fund balance at the end of FY16 after the reserve is \$8.3 million dollars.

FY17 is projected to have increased revenues by about 2%, which are \$8.9 million which is a slight increase over FY16. It is estimated to have a net income of \$2.6 million dollars. The FY17 CIP Programs are estimated at \$2.4 million dollars, so the available fund balance would decrease to \$7.7 million dollars.

Ms. Moline began review of the loan requirements. One of the loan requirements is called a debt service ratio calculation which requires that the net income must cover the highest debt service payment by 1.2 times; the annual debt service payment, is about \$3.6 million dollars. There is also the reserve requirement that must be met. There is an annual funding of the repair and replacement reserve and a debt service reserve which is \$778,000 dollars that is set aside in those special funds that cannot be touched. The operating reserve is about \$3.0 million dollars. When we review the use of fund balances there are discussions around the four different areas of what we should spend the monies on. Funding the 5 year CIP Program is a very important one, increasing wastewater customer connections to spread the burden of the rate among the capacity we have at the plant, the appropriate level of user rates, and economic and environmental impacts. Our sewer rates are currently one of the highest in the state. So, rather than fund the CIP program or connect new users we can consider a rate reduction. There are four different options presented. There is a 25% reduction to residential base charge and user rates, a \$2.00 reduction in all users' base charges, a \$1.00 reduction in base rate and a 5% reduction in usage rates and a \$3.75 one-time credit each year allocated to users on a monthly basis. A thing to keep in mind is there are critical projects in the CIP Program; our loan coverage ratio needs to exceed 1.5. There is a repair and replace reserve that must be funded and also the 180 day reserve policy.

The WIFA board is in the process of reviewing our request for the restructuring of our current loan and one of the stipulations of that loan is that we exceed the 1.5 loan coverage calculation. In FY16-17 the plan is to exceed that loan requirement. The restructuring of the loan will decrease the annual debt service payment by about \$350,000 and City Council has discussed using that savings to give back to the users of the system, which is not projected in the options presented. The dollar amounts projected are the full dollar amount of our debt service payments.

Ms. Moline went on to review the sewer options attachment and how it will impact the sewer fund. There are five different options presented, the first one is a projection for FY17 which shows the current rates and each of the options with 25% reductions on residential water rates, reduction to everyone's base charge, the reduction to base charge and user rates and a one-time credit of \$.3.75. On the total operating revenue there is a reduction; option 1 decreases revenues by \$1.2 million, option 2 decreases revenues by a couple of hundred thousand dollars, option 3 by a few hundred thousand and option 4 by about \$400,000. Further down on the attachment it shows what the net operating income would be for each option. If we kept the rates the way they are now we would end up with 2.6 million in net operating income. Option 1 is almost a 50% decrease in operating income and option 2, 3, 4 decreased \$200,000-\$450,000. Also included on the attachment is the estimated coverage ratio which we must meet the 1.5 if the board approves the loan reconstruction. In most all scenarios presented we meet the 1.5 ratio requirement, other than option 1. The next section provides an analysis of funding for the next five years of Capital Improvement Projects and shows what the fund balance would be using the projections from FY17. The first column has an estimated beginning fund balance of \$8.3 million and after funding CIP programs and the \$778,000 replacement extension provision it gives us an estimate ending fund balance of \$7.7 million. As we look at FY18 and FY19 it quickly depletes and by FY20 there would only be about \$604,000 left in the fund balance, meaning in FY21 we would not be able to fund those projects.

Commissioner Shuffler stated that to stay out of the red we either have to do less Capital Improvements or charge more money.

Ms. Moline said that the goal is to get more users. We need to fund these CIP programs but it's difficult to get the money to be able to fund all of those years. The water fund is a healthy fund and we still end up with under funding by about \$4 million. We don't want to sell ourselves short and provide a reduction in rate and then only be able to fund three years of the projects or take projects out of the pipeline. The goal is to have the cash on hand to pay for these projects. There are other ways to fund these projects by issuing more debt. Currently, there is not enough cash to fund the 5-year Capital Improvement Project.

Commissioner Shuffler asked if there are any outside funding and other capital funding that staff or City Council is looking at that might impact these numbers; like funding for sewer improvements for Kingman Crossing and the other side of town.

Ms. Moline stated that there haven't been any conversations about borrowing money for Kingman Crossing.

Commissioner Shuffler asked if these CIP programs presented are what staff is looking at right now?

Public Works Director, Rob Owen stated the Sewer Master Plan is currently going through an update and would identify capacity issues in the future and some of those projects could end up on the east side of town.

Chairman Burgett asked if we have received any new plans or new residential developments that would need wastewater connection.

City Engineer Henry said there are some preliminary talks but most are platted subdivisions that were shelved due to the economy that are now coming back to life.

Commissioner Yarush said based on the options presented, it looks like an across the board rate reduction is not going to be healthy in the long run without increasing the customer base. Could we offer incentives to new customer, for example; as in option 1, existing sewer customers would receive a 25% reduction and potential new sewer customers would have an estimated time period to connect to receive the 25% reductions, similar to how we waive the DFU's for customers connecting within one year of the sewer line extension to create an incentive to connect sooner and broaden the base.

Ms. Moline said that's a great idea and is certainly another option that can be looked at.

Commissioner Yarush said he thinks providing incentives to motivate people to connect will be better in the long run for the City.

Ms. Moline confirms with Commissioner Yarush that his suggestion is to give some sort of discount to existing customers and then provide some sort of incentive to new customers.

Commissioner Yarush responded that if they don't connect within a certain time period they won't get that 25% reduction. The customers that are now paying that additional amount to compensate for people that aren't connected will receive some relief. It's a gamble but we are trying to generate more customers and broaden the base. There have also been previous discussions on a sewer availability fee. If there's a lateral or a sewer line available in front of a property that property owner could help absorb some of the cost by paying that sewer availability fee and lightning the load for existing customers.

Commissioner Shuffler said he would personally like to see development on the other side of town. There are 3- 12" lines there that all dump into each other and wants to know what capacity is left in that system for future development in that area.

Public Works Director, Rob Owen said that the line in Airway is near capacity so any development in that area is limited without a new trunk line.

Mr. Shuffler asked about the new overlay that we have. Have any estimates been done as far as getting the main trunk over there and let the developments pay for it , whatever it takes to tie in.

City Engineer Henry said the Sewer Master plan does size the lines for the anticipated developments and there are estimates for that. That report should be finalized in the next couple of weeks and will bring a presentation to the next MUC meeting.

Commissioner Shuffler thinks that needs to be looked at on the CIP and maybe bump some of the other items.

Mr. Henry said whether the City pays to get the trunk line to the development or the developer pays needs to be answered.

PW Director Owen said the possibility of the City's participation to upsize some of those lines would be required. The Developers are required to run an 8" line to service their development but if we know in the future we will need a 12" or 16" line there have been cases where the City has participated in upsizing the lines for future capacity.

Commissioner Orr wanted to know when the \$3.6 million dollar debt would be paid off and if we can accelerate the payoff of that loan.

Ms. Moline responded that the loan will be paid off in 2028. The lender will not allow us to pre-pay anything on the loan for up to 10 years.

Ms. Moline continued, In conclusion, construction of infrastructure with additional capacity to support growth, necessary replacement and repair of infrastructure, and ongoing operations and maintenance all require adequate financial resources with the water and wastewater enterprise funds. Established rate structures and sound financial condition of the City's utility systems are necessary to assure loan compliance, continual infrastructure improvements, and maintenance and operation of the utility systems in order to provide adequate, safe and reliable utility services. Ms. Moline state that she was hoping for some type of recommendation to take to Council tonight but can come back next meeting with other options with what the impacts might be.

Commissioner Yarush said that there's a lot of maintenance that needs to be done on the line down in the canyon and flood plain and fixing or replacing the outfall line. What's the plan for the re-design needed to get it out of the flood plain or are we using a similar design?

Mr., Henry responded, that it would come out of the flood plan and require a couple of lift stations to lift it up and construction of a new gravity line along the Old Trails alignment. The problem with the Downtown plant is there is a large box culvert that crosses the wash to get it to the plant. At some point we will bring that study to this commission.

Mayor Anderson commented that the City Council approved the last rate increase in 2012. At that time there were 9,030 customers and at the end of 2015 there were 9,700; which is about a 2-2.5% growth. There are a number of studies that Public Works has been doing in terms of efficiency increases in their operations.

Chairman Burgett asked if the options presented are the same as last year and what option was suggested last year.

Ms. Moline responded that Option 4 was suggested last year. Each year would be reassessed so we're not tied to certain dollars, it's based on the net income that year and the CIP programs for 5 years.

Mr. Burgett said some of the CIP programs seem to get pushed aside because the money isn't there. Are there any CIP programs on the 5-year plan that staff are concerned about if development picks up.

PW Director, Owen responded that the one project of concern is the influent/infiltration project. There are 46 manholes identified that need to be rebuilt. There are serious issues at the Downtown Treatment Plant. During monsoon storms there is a lot of drainage run-off infiltration being treated in the sewer system and we are doing everything possible from discharging into the wash. The Downtown Outfall line is also a very important project; if not replaced or repaired it could be a major violation of sewer overflow to the wash.

Chairman Burgett said it looks like it's not in actual construction until FY19.

Mr. Henry added that it's likely that the project will be a multiple phase project. There will be a considerable amount of design time, possible ROW acquisitions and then construction, which will likely be phased over several years.

Chairman Burgett asked Ms. Moline if she needed a decision tonight or can we come back next month to give us more time to look at the option talked about.

Ms. Moline responded that she can bring it back next month with the different options requested. The reason she was looking for a recommendation now was there is a City Council work session on March 14th. The actual budget work session is not until May so would like a recommendation to Council by the second meeting in April.

Commission Orr wanted to know how many sewer taps are outside the City limits?

Ms. Moline said there are about 1000 existing sewers customers outside the City. There are currently 19,000 water customers and only 9,700 are on sewer. That's a pretty big difference; these could serve another 9,000 potential customers.

Commissioner Yarush asked Ms. Moline if she could elaborate on how many more existing customer we will need 5 years down the road. Rather than discounting the rates of existing customers and creating more of a deficit, we should provide incentives to new customers connecting. It will create more of a customer base with current customers knowing that in 4-5 years down there will be looking a rate reduction across the board due to the expansion.

Ms. Moline said those would be hard numbers to put together but can provide how many customers will be needed to break even.

Mr. Henry said before putting those numbers together we should check with the attorney to make sure the incentives would be legal.

Commissioner Yarush said generating more connections should be the main focus. If you go through areas in Butler and request “mandatory connections” how many people are really going to respond or just can’t afford it.

Mr. Henry said in most cases the sewer is not there to have a mandatory connection so there’s cost associated with extending it. The Sewer Master Plan looks at certain areas and what size line it needs to serve a certain area. It doesn’t look at all the individual extension.

Commissioner Yarush said our primary focus should be to make it as inexpensive as possible for a new customer to get connected and then there would be a consistent income to the overall base. We want to concentrate on where it is going to do the most good and people are actually going to connect.

Chairman Burgett wants a motion to postpone the decision to make a recommendation to council at our meeting next month so staff can comeback with numbers on the options discussed tonight. Commissioner Orr made a **MOTION** to postpone discussion until next meeting for further information from staff, Commissioner Yarush **SECOND** the **MOTION** and it was **APPROVED** by a vote of **5-0**

4. CONSIDERATION & DISCUSSION OF PUBLIC COMMENTS

Mr. Harley Pettit wanted this Commission to know that the City of Bullhead has a current working model to bring in new sewer customers. They notify customers by section giving them two year notice to connect. They also offer a finance program giving the customer the option to pay in full or finance with a finance penalty. Mr. Pettit feels that if you want more people to hook-up you have to look at it as an investment, not an expense

The next thing is to establish a rate so one person isn’t paying \$5,000 and another paying \$40,000. Make the investment and pro-rate with everyone involved so everyone pays the same, just like we do for curb and sidewalks. The City of Bullhead has a 20 year finance program that is doing so well that after 15 years they forgave the pre-pay penalty.

Mr. Pettit feels we should use our Capital money to get the rest of the sewer lines in and use the City of Bullheads working model as an approach to the City of Kingman’s current situation. He will ask the City of Bullhead how this finance program worked and where the money came from and get back to City staff with what he finds.

Next, Susan Gilbert addressed the Commission. She feels that it’s a good idea to make sure there is enough money to fund Capital Improvement projects because if you need to get a loan to fund things that may not be anticipated it will cost more due to the interest. She also had

some questions regarding Finance Director Moline's presentation, specifically attachment E, which she will address with staff after the meeting.

5. **COMMISSIONER'S COMMENTS**

There were no comments

ADJOURNMENT

Commissioner Yarush made a **MOTION** to adjourn at 6:33 p.m. **SECOND** by Commissioner Shuffler and it was **APPROVED** by a vote of **5-0**.