

**CITY OF PARK RAPIDS
CITY COUNCIL WORKSHOP
OCTOBER 22, 2013, 5:00 PM
Park Rapids Public Library-Lower Level
Park Rapids, Minnesota**

1. CALL TO ORDER: Acting Mayor Paul Utke called the City Council Workshop for October 22nd, 2013 to order at 5:05 p.m.

2. ROLL CALL: Present: Acting Mayor Paul Utke, Councilmembers Dave Konshok, Rod Nordberg, and Erika Randall. Absent: Mayor Pat Mikesch. Staff Present: Administrator John McKinney, Superintendent Scott Burlingame, Treasurer Angela Brumbaugh, Facilities Maintenance Superintendent Chris Fieldsend, Planner Dan Walker, and Clerk Margie Vik. Others Present: Ulteig Engineer Brian Hiles, and Anna Erickson from the Enterprise.

3. DISCUSSION:

3.1. Water/Sewer Rate Study: Engineer Brian Hiles stated this will be similar to what we talked about in a workshop back in June about the water rates. I've been asked to include the sewer rates. These graphs include the expenses, employee salaries, rent, utilities, and insurance. We have included your debt service, \$985,000.00 principle payment, and \$55,400.00 in interest payments. There are currently two outstanding debts. One is for the RDO wastewater pond, which is the bulk of this. Total, the expenses are about \$1.5 million.

Hiles stated on the revenue side we have interest, land lease, and connection fees. The debt service on the revenue side is a yearly payment from RDO to offset the debt service from the wastewater ponds. It's a pass through expense for the city. There's a \$50,000.00 city bond on that. There are some assessments and some miscellaneous revenues. The non-fee generated revenues come out to \$1,098,000.00. Using the water usage from last year, based on the \$10.00 per quarter base fee and the \$3.58 per 1,000 gallons that you're charging right now you're generating \$171,700.00 in additional revenue. Your sewer fund has been building up based on your sewer fees.

Hiles stated with the rate structure and the usage that you have right now, you'd be able to do a pretty sizable project and not have to increase the sewer rates because you have that additional \$171,700.00 in the sewer enterprise fund accumulated over the years. The debt service from the RDO project goes off the books in 2015. Your principle and interest payments that you have are going to come off in the next few years. So you'll have zero debt service on the sewer side. The revenue from RDO will go away also. On the sewer side you're sitting really good.

Hiles stated you have been talking about connection fees on the sewer side. Changing fees on the sewer side isn't going to amount to a whole lot. You're not pulling in a lot of revenue on connection fees versus what your overall revenue is. It wouldn't be a

big deterrent to decrease those fees as you have already talked about. The sewer is in a good spot.

Hiles stated as we sit right now without the new water treatment plant, based on last year's water usage, \$46,000.00 is the addition income versus what your expenses are. You do have a positive balance coming in and it's building up your enterprise fund on a yearly basis through the current rate structure. This assumes everything being billed at \$3.15 per 1,000 gallons. You currently have a graduated scale that goes up for higher users. 0 to 15,000 is \$3.15 per 1,000 gallons, 15,000 to 30,000 gallons is \$3.47. When you have higher usage you are making more income than that \$46,000.00. I'm calculating a worst case scenario that you have absolute minimum water usage across the board.

Hiles stated the last time we talked you decided to go with a twenty year loan on the water treatment plant. Using that and leaving the capital outlay, the set aside amount of \$50,000.00 a year, we looked at what sort of increase does that do to the system because we'll have an additional \$75,000.00 in debt service on a yearly basis for the water plant. When you factor that in, if you left the base rate at \$14.00 a quarter, and the costs per 1,000, you'd have to increase the cost per 1,000 up to \$4.21 per 1,000. If you did a 25% increase on the base rate, which would bump it up to \$70.00 for a year, then you'd be at \$3.99 per 1,000 gallons. The rate changes will affect different sized households. The charts list the current rate structure, a 25% increase in the base, a 50% increase in the base, a 75% increase in the base, and then increasing the base rate to maintain your current user rates. For any increase I started with whatever the adjustment had to be for the cost per 1,000 and kept that same increase that you have now moving down through the rate structure.

Hiles stated for a one person household your current rate structure is coming out to \$35.50 per quarter. If you did a 25% base increase it would jump up to \$44.73 a quarter, at 50% it would be \$46.73, at 75% it would be \$48.73, and \$52.50 if you wanted to leave the rates the same. For a one person household the base rate structure would be the lower base rate, with the higher usage rate. If you go to a two person household the quarterly bill would be \$57.00. With a 25% increase it would be \$71.96, a 50% increase would be \$72.46, a 75% increase would be \$72.96, and with the user rates the same it would be \$74.00. On a two person household it doesn't make a lot of difference which way you go, it's pretty even. For a family of four it does make a difference, as far as the usage. Their current bill would be \$104.00. With the 25% increase it would be \$130.00, a 50% increase would be \$128.00, a 75% increase would be \$125.00, and with the same usage rates it would be \$120.00. A family of four actually benefits by having a higher base rate and a lower usage charge because they are using more water. That's the information that you need to make a decision on how you want to proceed on any user increases in order to offset the cost of the new debt service for the water treatment plant.

Konshok stated the connection fees for sewer is \$6,000.00 annually. What is the water? Would it be \$6,000.00 as well? Hiles stated yes, they are set the same. That was based on what the income was last year. It was \$12,000.00 last year total for water and sewer. Konshok stated it's been pretty light as far as new construction happening.

Hiles stated going through this exercise of doing different things to the rate structure really helps you make a decision because you can see how different household levels are affected differently by the choices that you make on the rate structure. Your family of four has an advantage by having the lower user rates because they typically use a higher volume of water.

Brumbaugh stated the last time you looked at water rates was in January of 2010. That's when you switched to the conservation rates. Sewer rates were changed in 2007. Utke stated that's how we ended up with a rate where you pay more for higher usage of gallons. Brumbaugh stated we had to do that in order to get the water tower loan that we have. Burlingame stated it was required by the DNR. Utke stated usually when you buy in volume the price goes down, but this is to encourage conservation. Hiles stated that has been a DNR push over the last ten years is to have all of the cities switch to a conservation scale. Konshok stated you don't see much of an effect on the residential side. The big effect is on the commercial side. Hiles stated from your lowest rate to your second rate you have about a 32 cent jump. Burlingame stated our water usage has gone down since then.

Utke questioned what is our timing on when we need to do this, by next spring? Hiles stated the best thing to do is set it up to roll on the new rates by January 1st. Then with the new year comes the new rate structure and then you can start generating the extra income to make your debt service payments in 2014. Utke stated we need to make a decision by the end of November because we only have one meeting in December. Hiles stated I will print out the one, two, three, four person households for your review. Utke stated our increases would take care of the new debt service. Hiles answered right, plus you'd be maintaining the \$50,000.00 a year that you were generating before. Utke stated we need that so we'd have the ability to buy new equipment when needed.

Konshok questioned do you have what the balance is on both water and sewer enterprise funds? Brumbaugh stated they are both at about \$1.5 million each. Nordberg questioned is any of that for debt service on the filtration plant? Brumbaugh stated not to pay it down. We tried to do that. By doing that it would have increased our portion because it's based on a percentage for those state and federal grants, so it lowered our grant. Konshok stated they adjust the grant downward if we put money in from the enterprise funds. Brumbaugh stated I asked them what if we paid \$500,000.00 down, and it lowered the grant by a tremendous amount. We ended up getting \$300,000.00 less in grant by putting in \$500,000.00. It didn't pay for us to do that at all.

Utke questioned how have the fund balances been? Are they staying flat? Are we gaining on them? Brumbaugh stated we gain on them. We don't cover all of the depreciation, which you'll see when you go through the audit. But you make money in your enterprise funds. Utke questioned should we stay where we're at, is there room to adjust one way or another? Is what Hiles showing us where we should be heading as far as maintaining the same margins? Brumbaugh stated the auditors will tell you each year it depends on what you want to do as far as funding depreciation. For your sewer fund you don't even cover 50% of your depreciation. That's because out of \$985,000.00 in depreciation, \$650,000.00 of that is for the RDO wastewater treatment fund. You don't cover a lot of that. On the water fund you cover a majority of your depreciation, but not all of it. They will tell you it depends on how you want to look at that. Konshok stated but it does come up as an item on the audit each year. They identify it as an issue. McKinney stated they also say we're doing better than most of their other clients. Brumbaugh stated I don't think we have a problem with where our funds are, but as part of their job they will tell you you're not covering depreciation. They'll give you a graph that illustrates with depreciation and without depreciation so you have an idea of how it's looking. But it hasn't been a big concern. McKinney stated they presented on the basis of "we're required to point this out to you, but you're really not doing too bad". Brumbaugh stated especially on the sewer fund. They say there really aren't many sewer funds that can cover all of the

depreciation because sewer has such high assets. Nordberg questioned if you covered 100% of depreciation, and you had to drill another well, you'd have money to pay for it, you wouldn't have to bond. You could cover 100% of any expense. McKinney stated if it was fully funded. Then the taxpayers would get after us for charging too high of rates. Utke stated it's a balancing act.

Hiles stated I don't think you'd want to go back from where you are right now as far as how you're funding your enterprise funds. You want to keep proactive on what you're putting away. If for some reason you have a drop in usage, your income is going to drop accordingly because you are so rate structure heavy right now. Say we have a wet year and irrigation use drops, or the conservation rates trigger less usage, your income is going to come down from what you've seen in the past. You want to keep that in mind with what you're doing with the rates too. There's always a cost of living adjustment for some of your expenses, insurance and wages. Your expenses are typically going up on a yearly basis, so you want to keep up with that on your rate adjustments, and you haven't done anything for years. You've done well before by not having to adjust them. It's something you want to look at and stay ahead of.

McKinney stated traditionally if you have a significant increase in rates, there tends to be a dip in usage in reaction to that, which gradually comes back. Is that still the case? Hiles stated yes, it's like a diet. People will start out really good on it, and then they get a little lack as time goes on. You do have a certain percentage that will stick to it. It's the same mentality when it comes to conserving water.

Nordberg stated there's not much question that we are going to have to make a change. The second question is whether it's a single jump, or we phase it in. Is that for today? The discussion has to be about making any raise before how it will be implemented. There are two basic questions. It's usually accepted better if it's phased in. Hiles stated I think with your enterprise fund the way it is you do have the flexibility that you don't need to make a huge increase in your water rates in one year. You could make a half step this year, and half a step next year. You can phase it in over a couple of years so it isn't as significant of an increase, with the understanding that in the first year you're not going to have as much revenue generated because you only do a portion of the increase. With your enterprise fund where it is, you could use some of that to offset and not fall behind.

McKinney stated the problem with the phasing is, the second time around they'll say you just did that to us. It's a political issue as much as anything else. What money are you planning on taking out of the enterprise fund? What money are you talking about? Hiles stated I'm saying it's all up to the Council as to how to do it. It depends on how they want to do it. Nordberg stated say you set certain increases and say it's good, and you take part of it January 2014, and part of it January 2015? McKinney stated I would think that the best way to deal with that, politically, is to announce it at the very beginning as to what you're going to do so it doesn't come up as, "Oh, they didn't do it right from the beginning". Randall stated I agree. McKinney stated the phasing would be okay, but we'd have to announce that we're doing a rate increase in two phases. After you hit them the second time we tell them this was talked about.

Randall stated I tend to like just getting it done with. Konshok stated if it's not too dramatic. We haven't raised it at all in six years. In 2010 we adjusted it. Brumbaugh stated what happened in 2010, anyone with huge families and businesses, high users were upset. Now the family of two, they loved it because they saw a huge decrease. The

minimum now is \$42.00, when it used to be \$63.00. You didn't hear them complain at all. Randall stated the good news about increasing it all in one shot is we're able to tell them this is why, the water treatment plant, versus a year later it's done, and then they'll say you increased our rates for this water treatment plant why are they going up now again.

McKinney stated you can adopt a rate ordinance now that has the phasing built into it so you don't have to bring it back. It could outline an effective date into the future so that it's all done. That's a compromise between the two. Some of them will see their bills go up twice. Hiles stated now that we've gone through this effort, on a yearly basis you should be looking at whether or not they need to be revised. You go through the budget process every September. The rates could be part of that budgeting process. There are things that could affect those rates into the future. You don't do anything with them for seven years, people forget that they have to increase with everything else.

Nordberg stated speaking politically that brings up the fact about the rate increase, if you do it once, and then later in the year of 2014, we look at the rates and say we didn't need that much, then we could lower it like the connection fee. That looks like you were overcharging to begin with. People expect an increase. They don't expect a decrease and when they get one, they wonder why. McKinney stated you get criticized for the increase but you don't get much credit for the decrease. Hiles stated most cities take that extra and put it into the enterprise fund for improvements.

Utke stated the plan will be that you will supply us with all of those numbers. We're going to need to do this in November. McKinney stated we need to do an ordinance, so we need to know how to prepare it. Do you have enough direction from the Council? Hiles stated I will give printouts of the numbers that will give you the information, you can review that and decide what direction that you want to go in. Ultimately it's up to you to set up the rate structure. Any one of these scenarios will work. McKinney stated we have yet to make the decision of which of the structures that we want, whether or not we want to phase it, when we want to make it applicable. That's what we need to fill in the form of the proposed ordinance. We don't have those decisions yet.

Konshok stated the Finance Committee had a recommendation. Hiles stated the recommendation was the 25% base increase, with the associated fees. Konshok added and to cut the connection fees for water and sewer by 50%. It's two separate discussions but we looked at the amount that we are generating and even if we had a sudden increase in development, which we hope for, you can see that the connection fees don't really generate a huge amount so we felt that it was certainly feasible to cut those back in the interest of economic development we could lower connection fees. We raised them up from \$35.00. It was a rather dramatic increase. It was the first time we raised them that we really didn't know what the outcome would be. Now that we've had a chance to see it in operation we feel that we can comfortably cut them back by 50%. It would be an economic development spur and it wouldn't materially affect the balances in the enterprise funds going forward. McKinney stated I think that is the consensus of the Finance Committee. We didn't actually put it in the form of a recommendation.

Utke stated you talked about the 25% base increase. What was the current base? Konshok stated \$14.25 a quarter, or \$57.00 a year. So it would go to \$70.00 a year. Utke questioned and the water gallon rate? Hiles stated \$3.15 to \$3.99. Konshok stated the other option we talked about was the 50%. It would raise that base rate to \$84.00 a year, but would lower the usage rate to \$3.77. Our recommendation out of the Finance Committee was 25% increase in the base, and \$3.99 water rate. Hiles stated the 50% is

going to be more economical across the board, meaning the increases are more fairly spread out across all users, more equitable. I'll run the numbers and you'll have to look at them to compare. These numbers are a result of the Finance Committee meeting.

Nordberg questioned how does it affect the snowbirds? If they didn't use much water at all their minimum is about \$56.00, plus what they use. They'd have to pay a minimum of \$94.00 under the 50%. Brumbaugh stated with the snowbirds, our rates have gotten cheap enough now where the snowbirds say I'm not going to turn my water off, I'll pay the minimum. But then if something happens and they have a leak, they'll say we weren't even there, and then they request a credit from you. For our benefit it's better if they turn their water off. McKinney questioned have we looked at the hookup, re-hookup fee as part of this? Nordberg stated its \$25.00 for the on and off, that's pretty minimal. McKinney questioned we're not proposing to change that? Utke stated that's going out to the curb stop versus turning it off right where it enters the house. Then they'd get billed the minimum. Fieldsend stated the difference is \$50.00 to turn it off and on, or paying the minimums through the winter. That's what they're looking at. Utke stated it's going to end up being a wash if it went to the 50%. McKinney stated most utilities make it more than a wash so that you don't bother to turn it off.

McKinney stated what we need is direction from the Council to prepare an ordinance for your consideration. Hiles stated the Council needs to look at this again at their next meeting on November 12th. McKinney questioned are we assuming an effective date of January 1st? We also need some time for the public to see it. Hiles stated at this point you can manipulate it to get it how you want it. Utke questioned do we want him to focus on the 25% and the 50%? Hiles stated the program will generate that. I'll print out the pages and then you'll have all of the information. McKinney stated you can data this to death. Eventually, you'll have to tell us what you want. Randall stated I'd like a chance to look at the numbers. This is the first time that I've seen any of this. Utke questioned what you're finding is the 50% base rate increase is the most fair across all users at this point? Hiles stated quickly looking at the numbers, that's my gut feeling. Konshok questioned are we okay to put this on the agenda for the next Council meeting with essentially an ordinance with blank numbers? Will we be ready to make a decision? We don't want to kick this can too far down the road. McKinney stated we will bring you an appropriate document with blanks for you to fill in. Vik stated if you bring a blank ordinance to the next meeting on November 12th that will not be considered a first reading. You can discuss it and put the numbers into it at that meeting. There are two Council meetings in November. You can have a first reading on November 26th, and second reading on December 10th, followed by the adoption of the ordinance with an effective starting date of January 1st, 2014. By following that schedule you will stay on track.

McKinney questioned did the Council agree on reducing the connection fees by 50%? Nordberg stated I'd like to discuss that a little more. McKinney stated the conclusion that seems to be coming was to reduce them by 50%. Is there more information that you want about that? If so we'll get you that, or are you ready to make a decision? Konshok stated those aren't tied to usage or the base rates. They are flat fees. Nordberg stated I think they are still high. They should be reduced by at least 50%. Konshok stated we don't need any more analysis. Utke stated now it's just deciding the number. Hiles stated I would only recommend that the city's costs associated with those hookup fees are covered. Brumbaugh stated we already did that. Konshok stated the city's costs are around \$300.00 total for water and sewer connections. McKinney stated we're recommending \$350.00.

Nordberg stated we could go to \$200.00 each and still cover costs. Utke stated if \$300.00 are the bare costs, I'd want to see a minimum of \$500.00. You have to leave some margin in there because some jobs will go good and some jobs are going to take extra time. At that point we're not getting rich but it's only fair that we cover our expenses at that job site. With \$700.00 you have a little room to play with. Konshok stated the original idea was we're not only going to cover expenses but we're also going to make an investment in the enterprise fund knowing that as you add more residences and commercial structures eventually it will trigger having to expand your water and sewer systems. We're trying to get ahead of that game. Utke stated we're talking rates. How do we fill that into the rates as far as an ongoing user fee. Konshok stated we weren't just trying to cover actual costs of the connection. We were also putting a substantial amount for investment in the infrastructure system.

4. ADJOURNMENT: A motion was made by Konshok, seconded by Nordberg, and unanimously carried to adjourn the workshop at 5:50 p.m.

[seal]

Acting Mayor Paul Utke

ATTEST:

Margie M. Vik
City Clerk