

Special Ketchikan City Council meeting was called to order by Mayor Williams at 7:02 p.m., August 7, 2012, with the following members present: Sam Bergeron, Dick Coose, Kj Harris, DeAnn Karlson, Matthew Olsen, Robert Sivertsen and Marty West.

The Pledge of Allegiance was given by all persons in the Chambers.

Staff present were Assistant Manager Martin, Finance Director Newell, Public Works Director Allen, Electric Division Manager McConnell, Water Division Manager Kleinegger and City Clerk Suiter.

COMMUNICATIONS

Mayor Williams noted there was a memorandum from Finance Director Newell laid on the table.

PERSONS TO BE HEARD – None

NEW BUSINESS

Review of Revised 2012-2018 General Government and Ketchikan Public Utilities Capital Improvement Programs – Cost of Service for Water, Wastewater, Storm Drainage and Electric Rate Design Studies

Assistant Manager Martin said following the meeting of June 4, 2012, staff was directed to present the revised capital projects to FCS and D. Hittle relative to the cost of rate analyses they were working on, factor in the changes that were made, and revise the analyses.

Finance Director Newell said both consultants incorporated the revised capital improvement plans and they were asked to incorporate a couple of other suggestions that came from the City Council. He explained one was the creation of a separate Public Works Director Department and the second was to consider an increase in the Engineering Division staff by two positions, an increase in Electric Division staff by two lineman and add two Street Division maintenance techs. He continued that all those recommendations of the City Council have been incorporated into the water, wastewater, stormwater and electric rate studies. He said because of the addition of the street maintenance techs, the creation of the Public Works Director Department and the increase in Engineering staff, there is an impact on General Government outside of the funds that we're doing the rate study for. He informed staff incorporated an analysis for the Public Works Sales Tax Fund assuming that whatever wasn't paid for by those increases in the utilities would be paid for by the Public Works Sales Tax Fund. He introduced Karen Johnson from FCS to update the Council on the water, wastewater and storm water studies.

Karen Johnson provided an overview of the study conducted by FCS Group, noting she would cover the revised capital programs, staffing levels, customer class cost of service adjustments, and rate structure alternatives. She addressed the major revisions for the water rates and assumptions they made since the last presentation, which included a total capital program reduction from \$32.5 million to \$23.9 million as well as lower near term costs. She pointed out the goal is to have an intrafund subsidy phased out over five years, when the rates would pay for all water expenditures.

Ms. Johnson displayed a graph outlining the water capital financing program as to where revenues would come from. She then proceeded to display a revenue requirement summary as well as a rate adjustment forecast, both with additional staff (8.5% yearly increase) and with existing staff (8% yearly increase). She emphasized the increase in staff is due to the Engineering Division increase only, not the Public Works Department increased staffing level.

In response to Councilmember Coose, Finance Director Newell said the Engineering Division provides services to the Water Division, so a portion of the increase in Engineering staff will be paid by the Water Division.

Ms. Johnson continued by covering the same information relative to the Wastewater Division utility. She pointed out the capital program reduction from \$25.6 million to \$22.5 million and the increased near-term costs, noting there is approximately a 44% need for bond issuance to help pay for the capital program. She displayed a revenue requirement summary and the rate adjustment forecast. She noted if the utility were to keep existing staff the rate would increase by 5% initially, up to 12% for three years and down to 6.5% for an additional three years. She explained to provide for additional Public Works staff, the rate adjustment would be the initial 5%, up to 13.25% for three years and down to 6.5% for the following three years.

In discussing a potential stormwater utility, Ms. Johnson commented the total capital program cost was reduced from \$12.6 million to \$6.9 million, was separated from the Streets fund and has lower near-term costs. She said there are two funding scenarios and provided figures for both: one that is applicable to all parcels of land and one that is applicable to only developed parcels of land. She continued by explaining the financing plan and the revenue requirement summary. She displayed the dollar impact as it related to a monthly rate through 2018, which ranged from \$10.00 to \$20.11 for all parcels under existing staff and \$10.25 to \$22.96 for all parcels with additional Public Works staff. She also displayed rates using only developed parcels.

She continued by explaining once the overall utility-wide rate needs were established, recovery from the different types of customers on the system needed to be examined. She said because most of the users aren't on a metered system, they had to go through a water-usage estimating exercise. She reviewed the process they used for this estimation process, and compared the figures with other sample data sets, industry standards, regional norms and made some judgment calls.

Ms. Johnson reviewed the cost allocation results and highlighted some of the figures, explaining the customer classes. She pointed out the shifts from current rates that would occur, then showed a strategy for a phased in scenario. She repeated explaining the exercise for wastewater, then showed comparison rates with several municipalities in Southeast Alaska. She pointed out the requested policy direction: whether to use the “existing staff” or “additional Public Works staff” staffing level; to use “immediate” or “phased-in” cost of service adjustments; and to use “simplified current flat rate,” “combination of flat and metered rate,” or “all non-residential metered rate” as a preferred rate structure alternative. She answered questions from the Council.

John Heberling from D. Hittle and Associates addressed electric revenue requirements. He said included in the analysis is the Whitman Lake Hydro Project and the revised capital improvement program. He said they also evaluated some alternative financing options, which allow the City to smooth out the increases that might be required in electric rates as we look forward.

Mr. Heberling said the majority of electric revenues come from residential and commercial customers in almost equal amounts. He said the electric revenue requirements examined include all the operating expenses of the electric utility, the debt service, capital improvement expenditures, and maintenance. He explained those expenditures are typically funded from current revenues and some are funded from other sources such as grants, new debt and reserves. He felt it was important the rates are set to recover sufficient revenue to pay all of these costs. He pointed out there are inflationary impacts affecting the expenses, new load requirements, and debt service. He stated in the next few years significant debt will be retiring so this debt service will not have to be recovered through rates.

Mr. Heberling continued by examining the revenue requirements over the next several years by looking at the estimated cost to produce or purchase power over time. He commented if it is assumed there is no Whitman Lake Hydro Project, it will increase from roughly \$18 million in 2012 up to \$25 million in 2020. He felt a good portion of the change is tied to the fuel expenses. He explained the capital improvement program, as it has been revised at this point, includes about \$24 million for the Whitman Lake Project, and the remaining costs are approximately \$15 million. He noted there is a big expense in 2012 for transmission distribution related costs related to the Bethe Substation, of which a majority is funded by grant money. He related the expected funding sources for this whole capital improvement program at the present time is about \$15 million of bonds, \$11.2 million from grant funds and the remaining amount coming from annual revenues.

Mr. Heberling summarized when this is all put together, if Whitman Lake doesn't go into effect, the City will need increases in the next couple of years that will total approximately 7% to pay all the costs – at least through the time period the City is still paying debt service through the existing debt. He continued once that debt is retired for the most part in 2018, the City could potentially reduce the rates again if there were no

other expenses that come up. He displayed a case that assumes there are two new line crew positions added in 2014 or 2015, and that the costs of those positions will also be included in the revenue requirements. He said another case doesn't assume any line crew. He explained ways the City could adopt increases in electric rates.

In discussing Whitman Lake, Mr. Heberling said the assumptions have been changed around a little to a smaller project. He said if the project goes into effect on a smaller scale, there is a higher increase required to fund the additional debt service related to the project as well as the additional labor costs related to operations and maintenance. He again said there are options to adopting rate increases, which could be dropped once debt is paid off. He explained a graph related to rates and potential increases, showing base rate and diesel surcharges, noting if the smaller Whitman Project were to go forward there would be an increased base rate.

Mr. Heberling explained if the City were to borrow money to fund capital improvements over the next few years to smooth out expenditures over the next few years, the City can amortize the cost of the improvements for 20 years out into the future, and lower the immediate need for improvements.

Councilmember Bergeron expressed concern about conservation, feeling it needed to be part of the equation. Mr. Heberling pointed out, based on a 3.4% increase overall in revenues, the cost of service analysis indicated the City is reasonably good. He said residential is currently paying a little more than cost of service, whereas commercial is paying a little less than cost of service. He emphasized the shipyard is the most significantly under the cost of service at the present time. He referred to the tables that were provided.

Councilmember Bergeron spoke to joining with SEAPA in raising the level of the Swan Lake Dam, which could be brought out within five years, feeling there may not be any rate increases. He felt it was a far better option to have a larger entity do it with the opportunity to have zero or a very small rate increase for such a project.

In response to Mayor Williams, Assistant Manager Martin said staff hoped for some kind of direction from the Council as the budget is being put together, for what the Council wants staff to start looking at bringing back relative to proposed staffing, stormwater moving forward and how it will be funded, any adjustments as far as water, wastewater and the electric side.

Councilmember Bergeron pointed out the state doesn't look at stormwater the way it looks at water, sewer and electric. He said this is an actual needed cost and we should get hold of representatives in Juneau and our lobbyist and have that discussion. He hoped to see some participation from the state in this area.

Mayor Williams said he would like to bring this back to the Council whenever the manager is ready for it. He presented several items: does the City want to keep existing

staff or add more staff; immediate cost of service or phased-in cost of service; and the rate structure.

Councilmember Coose said he was not in a position to give any direction relative to rates, but he wanted to see additional information: the revised capital project list; a proposed organization chart for any increase in staffing; a list of funding that will be grant funded vs. bonds; and the possibility of meters on residences.

Councilmember Sivertsen spoke relative to the staffing level, and after discussing the issue with some staff, right now they are fully staffed and working well. He said we have the option for apprentices and some other ideas. He felt we needed to look at the Public Works staff to see what each individual position would cost us and exactly what they would do. He felt to bring them on without direction would not be wise. He pointed out the cost of service for water and the difference between Ketchikan and Juneau, and he felt we would need to review where the differences are. He said there are some costs that we need to search out and determine what we can do either on the operation base, capital base or bond rate to reduce that difference. He felt we should be more in line with them than where we were on that chart. He spoke in favor of metered rates on industrial and commercial because you need to pay for what you use. He said without a metered structure we aren't going to get conservation, and without conservation we will need to put in more resources. He felt the through put of water causes a lot of the wear and O&M that we have to work with.

Mayor Williams encouraged the Council to be ready to get into an enterprise fund for a stormwater utility.

Councilmember Olsen expressed serious concerns with the fish processors particularly as related to wastewater. He did not feel the figures were all that accurate, and he noted we don't have that many fish processors in town and the few we do have are year round employers. He said he would hate to see them ship their product out for processing because we are raising their costs.

Mayor Williams discussed getting the KPU Advisory Board weighing in on the conservation issue, which will be starting soon. He felt they would be big on ideas and he asked Councilmember Bergeron to encourage them in this.

MAYOR AND COUNCIL COMMENTS

Councilmember Bergeron felt the diesel surcharges are pretty alarming, especially at the rate that is being forecasted. He said the conservation effort that is coming up will be hugely important, and conservation is a lot less expensive than building more hydro. He said there are more things we can do like low-interest loans, getting compact fluorescent light bulbs, LED light bulbs, and other things to reduce energy consumption. He thanked Councilmember West for coming up with idea to use the KPU Advisory Board in this effort.

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Councilmember Sivertsen said with the proposal of moving ahead with the Swan Lake Project and raising the storage capacity approximately 25% will hopefully give the City more water going into the winter months when the heating loads bring those demands on, so we may be able to work deeper into the winter without running the diesels.

Mayor Williams thanked everyone for coming.

ADJOURNMENT

As there was no further business, the Council adjourned at 8:32 p.m.

Lew Williams III, Mayor

ATTEST:

Katherine M. Suiter
City Clerk