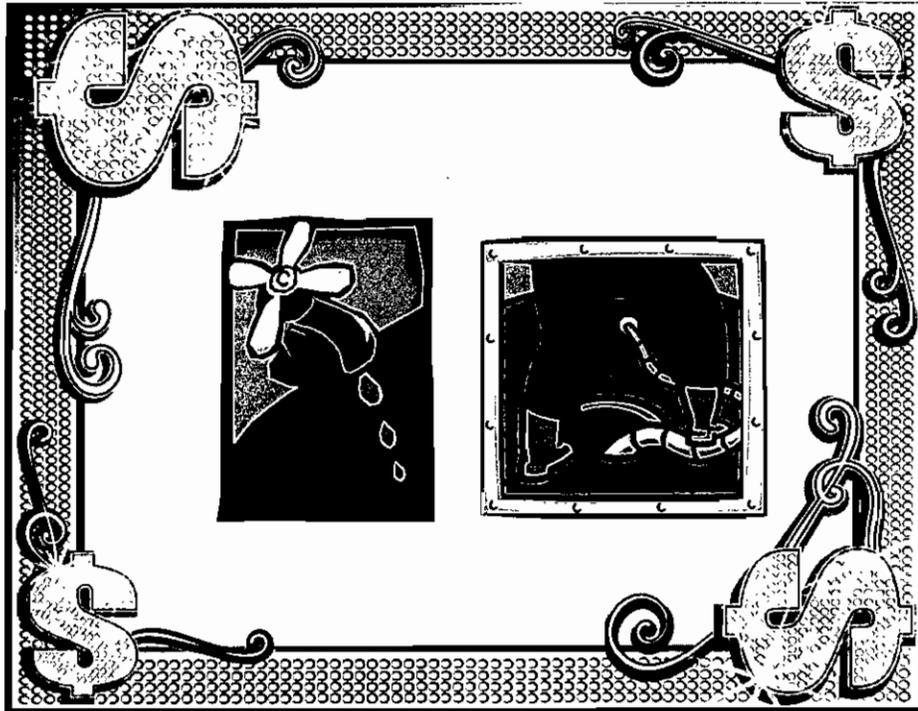


Water & Sewer Rate Task Force
Tuesday
December 18, 2012
Regular Meeting
5:15 p.m.



City Hall Conference Room - Upstairs
491 E. Pioneer Avenue
Homer, Alaska 99603



**NOTICE OF MEETING
REGULAR MEETING**

- 1. CALL TO ORDER**
- 2. APPROVAL OF THE AGENDA**
- 3. PUBLIC COMMENTS REGARDING ITEMS ON THE AGENDA**
- 4. RECONSIDERATION**
- 5. APPROVAL OF MINUTES** (*Minutes are not approved during worksessions*)
 - A. Minutes from the November 20, 2012 meeting Page 5
- 6. VISITORS**
- 7. STAFF & COUNCIL REPORT/COMMITTEE REPORTS/BOROUGH REPORTS**
- 8. PUBLIC HEARING**
- 9. PENDING BUSINESS**
 - A. Email from Regina Mauras forwarded from Mike Dye, CEO, Land's End Resort Questions on the Rate Model and Worksheets. Page 9
 - B. Review and Discussion on Working Draft Rate Model revised November 20, 2012
 - a. Draft Models printed from Working Spreadsheets - for reference only Page 15
- 10. NEW BUSINESS**
 - A. Draft Letter/Presentation to Mayor and City Council Page 21
 - B. Discussion and Planning the January 8, 2013 Scheduled Public Hearing
- 11. INFORMATIONAL ITEMS**
- 12. COMMENTS OF THE AUDIENCE**
- 13. COMMENTS OF THE CITY STAFF**
- 14. COMMENTS OF THE CHAIR**
- 15. COMMENTS OF THE TASK FORCE**
- 16. ADJOURNMENT** the next **REGULAR MEETING & PUBLIC HEARING** is scheduled for **JANUARY 8, 2013** at 5:15 p.m. in the Cowles Council Chambers, City Hall, a **REGULAR MEETING IS SCHEDULED FOR JANUARY 22, 2013** in Conference Room Upstairs in City Hall located at 491 E. Pioneer Avenue, Homer Alaska.

Water and Sewer Rate Task Force Purpose:

TO EXAMINE THE EXISTING RATES AND RATE STRUCTURE

TO PREPARE A RECOMMENDATION TO COUNCIL ON A RATE AND RATE STRUCTURE FOR 2013.

Session 12-10 A Regular Meeting of the Water and Sewer Rate Task Force was called to order at 6:01 pm on November 20, 2012 by Chair Beth Wythe at City Hall Cowles Council Chambers located at 491 E. Pioneer Avenue, Homer, Alaska.

PRESENT: SHARON MINSCH, KEN CASTNER, BETH WYTHE
BEAU BURGESS

ABSENT: LLOYD MOORE, BOB HOWARD (EXCUSED)

STAFF: RENEE KRAUSE, CMC, DEPUTY CITY CLERK I

Chair Wythe was detained and the meeting did not start until 6:00 p.m.

APPROVAL OF THE AGENDA

Chair Wythe called for approval of the agenda.

MINSCH/BURGESS – SO MOVED.

There was no discussion.

The agenda was approved by consensus of the Task Force.

PUBLIC COMMENT REGARDING ITEMS ON THE AGENDA *(3 Minute Time Limit)*

Mr. Walter Suomela, non-resident, owns rental property within city limits, commented on the high water and sewer bills he receives; his tenants do not pay these bills he does and pays well over \$3000 a year; he would like to see uniform rates that are fair across the board and his understanding is that is the goal of this Task Force. He commented that in his opinion there has been bias; this is an expensive system; he noted a recommendation that was made to Council previously when the rates were in discussion at charging everyone \$144; Mr. Suomela apologized for being ill prepared to testify at this meeting but had just come back into town from being aboard his boat.

Mr. Burgess provided direction where Mr. Suomela may find the information he was seeking regarding the work the Task Force has been doing.

RECONSIDERATION

There were no items for reconsideration.

APPROVAL OF MINUTES *(Minutes are approved during Regular Meetings only)*

A. Regular Meeting Minutes for October 23, 2012

Chair Wythe requested a motion to approve the minutes.

MINSCH/BURGESS – SO MOVED

There was no discussion.

The minutes were approved by consensus of the Task Force.

VISITORS

There were no visitors scheduled.

STAFF & COUNCIL REPORT/COMMITTEE REPORTS/BOROUGH REPORTS *(Chair set time limit not to exceed 5 minutes)*

There were no reports included for this meeting.

PUBLIC HEARING *(3 minute time limit)*

There were no items for public hearing.

PENDING BUSINESS

A. Staff Responses to Requests for Information

1. Email from Carey Meyer dated November 13, 2012 Re: Number of Meters per Meter Size and Response to Request for Number of Six Inch Meters For Identifying Fire Service
2. Email from Carey Meyer dated November 13, 2012 Re: Spit Restroom Water Usage 2011
3. Email from Carey Meyer dated November 13, 2012 Re: Analysis of Spit Surcharge
4. Response from Regina Mauras/Laurie Moore dated November 13, 2012 Re: Kachemak City Rates and Questions with Resolution 11-094(S) as backup.
5. Copies of Actual Invoices for Water and Sewer Service
6. Kachemak City Rates, Billing Formulas, Number of Commercial Units

There was no discussion on the information provided by staff.

B. Review and Discussion on Working Draft Rate Model November 5, 2012

- a. Draft Models printed from Working Spreadsheets - for reference only

Chair Wythe introduced the item for discussion and asked how the group wished to proceed.

Discussion ensued and it was agreed to review the draft rate model as provided by Mr. Castner line item by line item. There were no recommendations to change the draft presented. Mr. Castner responded to questions from Mr. Burgess and Ms. Minsch regarding particular line items and accounting for various components of the model. Mr. Castner explained how the Rate Model Committee approached the task and accomplished the draft model as presented. Ms. Minsch presented her concerns on accounting for the multi-family customers and covering all the costs that those customers could bring or cause to the system and adequately covering the expenses.

Mr. Castner announced he had a prior commitment at 7:10 p.m. and needed to leave the meeting.

Chair Wythe noted his statement; asked for further questions and then confirmed with the Clerk the next meeting for the group was December 4 and it was a worksession. She stated they could discuss this further at that meeting.

NEW BUSINESS

There was no new business on the agenda.

INFORMATIONAL MATERIALS

- A. Meeting Calendar as of November 14, 2012
- B. Timeline as of November 14
- C. Resolution 12-094 Amending Resolution 12-027(A), Allowing Mayor Wythe to Remain on the Task Force.
- D. Confirming the Appointment of Beauregard Burgess to the Task Force

Chair Wythe noted the items under Informational materials for the record and asked if there were any questions or comments. There were none.

COMMENTS OF THE AUDIENCE

Mr. Suomela questioned how the invoices in the packet were chosen. Mr. Castner explained what they represented and Mr. Suomela argued that they were not representative of what people pay and the average usage. He opined that it was very low. He commented that with the high cost of living in Homer he needed to determine if he could improve two additional lots he owned. He acknowledged earlier comments of the Task Force that customers have phones and could call and complain but he would like to see the true costs and where this money is actually going.

Ms. Minsch inquired what Mr. Suomela's average usage was and his response was vague since he was not present for the last several months being out on his boat.

COMMENTS OF THE CITY STAFF

Ms. Krause had no comments.

COMMENTS OF THE CHAIR

Chair apologized for her tardiness and thanked the members for attending the meeting.

COMMENTS OF THE TASK FORCE

There were no comments from the Task Force members present.

ADJOURN

There being no further business before the Water and Sewer Rate Task Force Chair Wythe adjourned the meeting at 7:15 p.m. The next meeting is a **WORKSESSION** scheduled for **TUESDAY, DECEMBER 4, 2012 at 5:15 P.M.** The next **REGULAR MEETING** is **DECEMBER 18, 2012 at 5:15 P.M.** All meetings are scheduled in the **UPSTAIRS CONFERENCE ROOM** at City Hall, 491 E. Pioneer Avenue, Homer, Alaska.

Renee Krause, CMC, Deputy City Clerk I

Approved: _____

Renee Krause

From: Regina Mauras
Sent: Tuesday, December 04, 2012 5:31 PM
To: Renee Krause
Cc: leceo@alaska.net
Subject: FW: City Water Sewer Task Force Questions
Attachments: Water and Sewer Rate Task Force.doc

Hi Renee,

Jon Falkner contacted me earlier today as he intends on asking these questions of the task force this evening.

For some reason however, I am only just receiving the email from Land's End now.

I apologize to all for the tardiness of receipt of this.

Regina M. Mauras, CPA, CFE, EA
Finance Director
City of Homer
(907)435-3117

The great thing about working in the accounting department is that everybody counts.

From: Mike Dye [<mailto:leceo@alaska.net>]
Sent: Tuesday, December 04, 2012 2:23 PM
To: Regina Mauras
Cc: landsendidf@gmail.com
Subject: City Water Sewer Task Force Questions

Hello Regina,

Jon mentioned that alerted you to this email. I have some initial questions regarding the City Water/Sewer task force rate modeling and worksheets.

If you could please provide these answers prior to tonight's meeting it would be appreciated.

Thank you.

Mike Dye
Chief Executive Officer
Land's End Acquisition Corporation
Land's End Resort, The Van Gilder Hotel
& Kenai Landing
[907.399.8118](tel:907.399.8118) Cell
[907.235-0410](tel:907.235-0410) Office

To: Water and Sewer Task Force

Fr: Mike Dye, CEO Land's End

Re: Proposed rate Model

Date: December 5, 2012

City Task Force:

With reference to your worksheets and proposed rate modeling, I have the following questions.

- 1) Page 5 references Finance Department overhead of \$775,192. What does this number represent? Is it just overhead associated with the City Finance department?
 - A) What percentage of all City overhead is allocated to water? Sewer?
 - B) The \$775,192 figure represents 60% of total adjusted revenue requirement. Is this accurate?
- 2) It appears that lift stations are costly to maintain. It also appears the spit lift stations are singled out for "Differential" cost adjustment.
 - A) Are lift station costs itemized by the Finance department for the Homer Spit?
 - B) Are all lift stations similarly itemized? I would like to request .
 - C) What is the precise breakdown of costs associated with the Homer Spit lift station of \$181,915?
 - D) Is Kachemak City on a lift station, and are those costs tracked separately.
- 3) Both the water and sewer models project a 13% drop in usage due to "conservation". This increases the effective rate per gallon. What evidence is there to support that this assumption is reasonable?
- 4) This model proposes to reduce fees to Kachemak City residents. What is the financial basis for these reductions?
 - A) Kachemak city has 127 users (more than Homer Spit) and accounts for a total of \$134,430 in revenue annually. Is this accurate?

- B) Kachemak City residents pay about \$60.90 / mo. (which includes a \$6 pumping fee) for unlimited waste. Is this accurate?
- 5) Surplus Bulk water sales show 23,072,500 gallons. If the proposed rate is \$1.6 / gal, why is revenue assumption (line 6) only \$98,750?
- 6) This new rate model introduces a "High BOD" charge. Is the intent behind this surcharge to apportion costs?
 - A) What constitutes "High BOD"?
 - B) How is BOD measured, or are all treated the same?

City of Homer Water and Sewer Rate Study Draft Rate Model			
Updated November 20, 2012 by KC			
Sewer Rates		Version 7 - Working	
	Revenue Assumptions (dollars):		Source:
1	2014 Total Revenue Requirement=		1,680,279 Annual Budget
2	Spit Differential Sewer (.86*50% of Lift Stations) =		78,223 Spit Users
3	High BOD Generator Sewage Differential (10%) =		21,980 New Fee
4	Customer Fee from KC/Tennants (\$5/mo) =		53,160 Reduced Fee
7	Kachemak City Fees (less pumping) =		81,270
8	Summer Metered Gallons (Septic Reduction) =		(400.00)
9	Adjusted Revenue Requirements=		1,446,046
	Usage Assumptions (gallons):		
10	Discharge Sales Projection (gross metered) =		125,000,000
11	13% Commodity Reduction due to Conservation =		(16,250,000)
12	Metered Spit w/o entering Treatment Line=		(9,150,000)
13	Adjusted Discharge Sales Projection =		99,600,000
	Informational:		
14	Spit Sewer Discharge (gallons)=		7,225,000 Prior Year
15	Lift Station Costs=		181,915 Annual Budget
16	Single Connection Multi-Tenant Units=		886 Prior Year
17	Public Facilities Contribution =		46,918 Annual Budget
18	High BOD Generator Sewage (gallons) =		15,700,000
19	Dumping Station Fees =		10,500 Annual Budget
	All Customers - Sewer Base Rate /gal		
	0.015		
	Spit Customer - Sewer Rate /gal (Base plus Differential)		
	0.025		
	Spit Customer - Sewer Rate /gal (High BOD = .004)		
	0.029		
	High BOD Rate		
	0.0183		

Type of User	\$18/mo Service Fee	1.2¢ gal Water Fee	1.6¢ gal Bulk Water	1.4¢ gal Sewer Fee	2.7¢ gal Sewer Fee	\$5/mo Customer Fee	\$.0183/gal BOD Fee	\$5/mo Fire Demand
BASE FEES:								
Bulk Water Purchaser			✓					
Residential/ Commercial - City*	✓	✓		✓				
Residential/ Commercial - Spit	✓				✓			
Residential/Com - Kachemak City						✓		
ADDITIONAL FEES:								
Commercial/Institutional Kitchens							✓	
Multi-unit Customer Fee**						✓		
Car Washes							✓	
Hotels/Motels							✓	
Processing Facilities							✓	
Campground/RV Parks							✓	
Laundromat							✓	
Service Stations							✓	
Buildings w/ Sprinkler Systems								✓
* Includes:								
B & B's								
Businesses								
Churches w/o DEC Kitchens								
Cocktail Lounges								
Groceries w/o DEC Kitchens								
Private Club w/o DEC Kitchens								
Public Authority w/o DEC Kitchens								
** Includes:								
Apartment/Housing Complexes								
Malls & Other Multi-unit Commercial								
Trailer Parks on Shared Meter(s)								

City of Homer Water and Sewer Rate Study Draft Rate Model					
Version 7 - Working					
Updated November 5, 2012 by KC					
Water Rates					
Revenue Assumptions (dollars):				Source:	
1	Total Water Revenue Requirements (2014)=			1,890,265	annual budget
2	Deduct Water portion collected through Service Fee			310,077	annual budget
2	Hydrant Rents (10% of E6) =			189,027	annual budget
4	Sprinkler Differential (20 buildings - \$5/mo)=			1,200	Building Customer
6	Surplus Water Sales (Bulk) surcharge only =			98,750	Bulk Sales
8	Adjusted Revenue Requirements =			1,291,211	Calculated
9	Usage Assumptions (gallons):				
10	Metered Sales Projection (gallons) =			125,000,000	Prior Year
11	Commodity Reduction due to Conservation =			13%	Number to be tested
12	Adjusted Sales Projection (gallons) =			108,750,000	Calculated
	Informational:				
13	Spit Water Sales =			17,921,000	Prior Year
14	Surplus (Bulk) Water Sales =			23,072,500	Prior Year
15	Number of Meters =			1,472	Prior Year
16	City Hall Finance Department O/H=			775,192	annual budget
17	Public Facilities Water Usage (value)=			134,904	annual budget
	All Customers	Water Rate	Metered Service Fee		
		0.0119	17.55		

DATE

Homer City Council

Attached is the Water & Sewer Rates Task Force's ("the Task Force") recommendation regarding the rate-setting model for the City of Homer Water & Sewer services. The Task Force was established in accordance with the provisions of Resolution 12-027(A), consisting of five City of Homer residents (Ken Castner, Bob Howard, Sharon Minsch, Lloyd Moore and Terry Yager) and two City Council members (Barbara Howard and Beth Wythe), appointed by Mayor James Hornaday through Memorandum 12-056. Subsequent to the original appointments, community member Terry Yager submitted his resignation from the Task Force and the seat remained unfilled for the duration of the review process. Also, following the October elections, Beth Wythe was authorized to continue on the Task Force through Resolution 12-094 following her election as Mayor. Barbara Howard resigned from the Task Force in November and was replaced by Council Member Beau Burgess through Memorandum 12-161(A). Copies of all Resolutions and Memoranda are included in the appendix of this report as supporting documentation.

Following the establishment of the Task Force the initial meeting was held May 9, 2012. At this meeting the Task Force established the framework for a meeting schedule for meeting the first and third Tuesday of each month with the first Tuesday being a work session and the third Tuesday being a regular meeting. All work sessions and meetings were scheduled in the conference room. The schedule was adjusted from time-to-time to accommodate holidays and scheduling conflicts for members of the Task Force.

The initial meetings of the Task Force were primarily focused on determining the types and sources of information that would be required to allow the Task Force to more fully understand rate making concepts and the nature of the City of Homer's current rate design. This process included:

- Reviewing the 1991 Water and Wastewater Utilities Rate Study conducted by KPMG Peat Marwick.
- Reviewing the 1997 Utility Rate Study prepared by Montgomery Watson. Task Force Members Castner and Moore were participants in that rate study as well and were able to provide valuable insight into the resulting rate model which was successfully used by the City until recent history.
- Reviewing budget documents from several prior years, as well as more current information included in the proposed 2013 budget.

- Reviewing the areas served by the Water & Sewer Enterprise and discussions related to potential users that have a disproportionate impact on the existing infrastructure. These include the requirements of the system specific to providing fire hydrant services, commercial building sprinkler services, and the expense of delivering water and returning sewage to the Spit.
- The requirements for certified staff and the staffing plan for the water and sewer treatment plants were reviewed, as was the allocation of other staff services to the Water & Sewer Enterprise.
- The loss of large volumes of treated water as a result of dead-ended lines.
- Rates from other nearby communities were reviewed and the reasons for the difference in operating costs as well as coming impacts for new regulations on these systems as compared to the Homer system were discussed.
- User data was reviewed to develop a sense of the “average” user, and again to develop a better understanding of the disproportionate users.
- Staff provided an overview of both the water system from treatment to return, and the sewer treatment from return to treatment.
- Fire protection expenses.

Following the collection and review of this volume of information the Task Force considered a variety of ratemaking formulas with consideration for fairness and consumer satisfaction.

(NOTE: Get the comparison table from M54 Book, Regina)

Upon considering the various rate design options, the Task Force determined that focusing its energy on designing a commodity based rate structure that took into consideration expenses that were not directly related to the delivery of service to consumers, such as system size due to fire hydrants (improve list) _____, and also considered extraordinary expenses on the sewer side (BOD?) _____. The recommendations of this report are based on these presumptions and result in the Water & Sewer Enterprise collecting the needed funds, but distributing the expense for the system more equitably based on a cost-causer, cost-payer foundation.

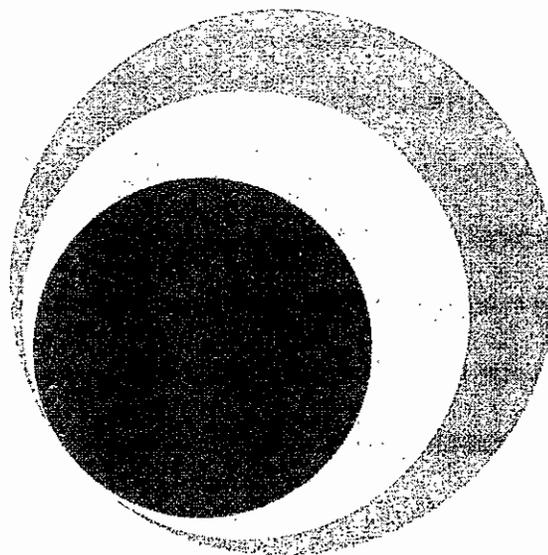
Respectfully submitted,

HOMER WATER & SEWER TASK FORCE

Chair: Mayor Wythe

Vice Chair: Beauregard Burgess

Current Members: Ken Castner, Robert Howard, Sharon Minch, and Lloyd Moore



Water & Sewer Task Force Rate Review Recommendation Report – Draft

Fair and equitable distribution of system expenses based on cost-causer.

This document contains a review of findings of the 2012 Water & Sewer Task Force and a recommendation for a commodity based rate structure.

Contributing Task Force Members:

Beauregard Burgess, Ken Castner, Barbara Howard, Robert Howard, Sharron Minch, Lloyd Moore, Terry Yager, Beth Wythe

(DATE SUBMITTED TO COUNCIL)

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DISPROPORTIONATE IMPACTS:	5
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CRITERIA FOR EVALUATING THE SOLUTIONS:	5
OTHER CONSIDERATIONS:	5
CONCLUSIONS:	6
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INTRODUCTION:

(This section will provide an explanation of what lead to the development of the Task Force. What our commission was and briefly what the recommendation is.)

CURRENT RATE STRUCTURE:

This section will review what the billing system is currently and the resulting rates using three categories (residential, small volume commercial, and large volume commercial), etc.

FAIR AND EQUITABLE RATES:

This section will provide discussion on what makes a fair and equitable rate design.

SYSTEM REQUIREMENTS:

This section will provide an overview of why the system is sized the way it is and the resulting financial impact to the consumers.

DISPROPORTIONATE IMPACTS:

This section will review wasted water, the cost of sewage return due to lift stations, and BOD impacts.

OPTIONS FOR DISTRIBUTING COSTS TO CAUSERS:

This section will discuss the proposed reallocation of costs. The user fees proposed, the reallocation of expense to fire hydrants, etc.

CRITERIA FOR EVALUATING THE SOLUTIONS:

This section will discuss how we arrived at the use of a commodities based rate structure.

OTHER CONSIDERATIONS:

This section can include other items that we wanted to educate the community on. (staffing certification requirements, EPA regulation changes, etc.)

CONCLUSIONS:

This will be our recommendations list and supporting statements. Remember we need to include such things as “it is proposed that the rate model, if adopted, be managed without consideration of political influence and public out-cry”, etc.

WORKS CITED

We should include a list of publications that were considered throughout the information gathering process.

APPENDIX

We need to include the resolutions and memorandums and any the documents that support our recommendation.

Table 4-2 Illustration of volumetric/usage charge calculation

Line No.		Base	Year 1	Year 2	Year 3	Year 4	Year 5
1	Total revenue requirement*	\$828,000	\$870,000	\$915,000	\$963,000	\$1,012,000	\$1,063,000
2	Less: Nonoperating revenue†	(27,000)	(27,000)	(27,000)	(27,000)	(27,000)	(27,000)
3	Less: Fixed service charge revenue‡	(374,000)	(390,000)	(409,000)	(428,000)	(447,000)	(467,000)
4	Net revenue requirement from volume sales	\$427,000	\$453,000	\$479,000	\$508,000	\$538,000	\$569,000
5	Volumetric sales in 1,000 gal§	285,000	289,481	293,962	298,444	303,052	307,659
6	Volumetric rate per 1,000 gal	\$1.50	\$1.56	\$1.63	\$1.70	\$1.78	\$1.85
7	Annual percentage change in volume rate		4.3%	4.2%	4.5%	4.3%	4.2%

*Total revenue requirement amounts to revenues under existing rates plus nonoperating revenue (see appendix A, Table A-3).

†From Table 2-4, lines 2 and 7.

‡From Table 4-1, line 11.

§Future growth projected at 1.5% per year.

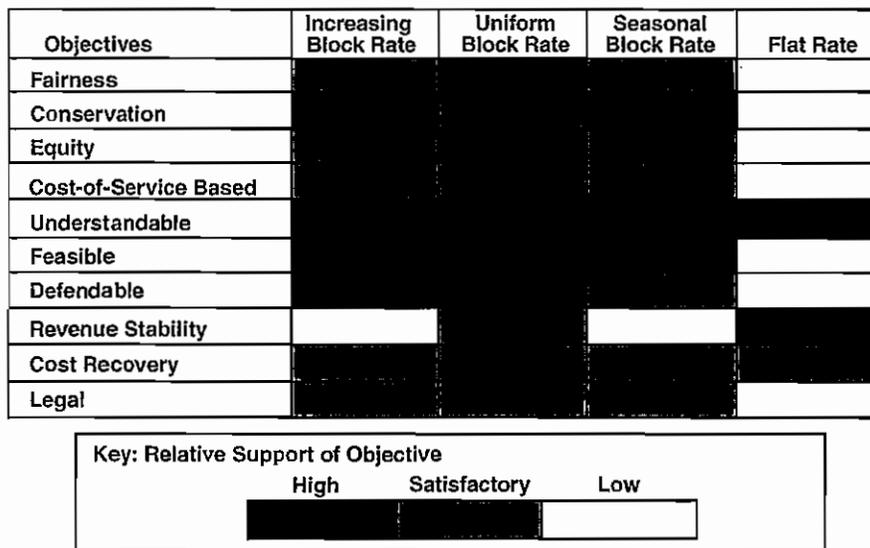


Figure 4-3 Example of evaluation

