

**MANAGERS REPORT**  
**March 27, 2012**

**TO:** MAYOR HORNADAY / HOMER CITY COUNCIL

**FROM:** WALT WREDE

UPDATES / FOLLOW-UP

1. Customer Charge / Multi-family Dwellings: This meeting agenda contains an ordinance and two resolutions that would change the customer service charge for water and sewer customers. The Council has recently received feedback that the new customer service charge for units within multi-family dwellings places an undue burden on property owners, the elderly, and people on fixed and low incomes. Some of these comments may have merit and it is impossible to anticipate all unintended consequences when you change fees or charges.

I would urge the Council not to overreact and jump into new fee changes that are not fully researched and adequately vetted by the public. This would have a high probability of resulting in new unintended consequences, more turmoil, and a whole new set of agitated customers. Council spent months working on this last summer. You looked at many different ways to fairly allocate the costs of maintaining and operating the system. You reviewed reams of information and you have heard testimony from state and university experts about the fee structure. The changes in the fee structure just went into effect with the February billing. Unfortunately, there was a billing error in which multi-family dwellings were charged at commercial rates instead of residential rates. This grossly distorted the impacts of the changes and almost certainly had an effect on the reaction the Council received.

We would recommend that the Council take no action at this time and give us all some time to see how the new fee structure works once adjustments are in place. For example, the Finance Department has sent out new bills and provided a credit so that multifamily dwellings are not overcharged at commercial rates. This has dramatically changed some bills. The Finance Department has been diligently working with customers who have complaints. For example, it turns out that one new apartment owner who testified about her high bills had a broken water pipe and the water had been running constantly for a long time. That explained her high bill much more than the individual service charges. Regina has determined, and I agree, that it would be proper to treat the Senior Citizen housing similar to the hospital because residents are receiving an array of medical and other services while there. As a result, we have eliminated the customer service charge for most if not all of the housing units. Finally, we have determined that we should be treating units in multi-family dwellings the same way we treat residential homes and commercial users when those units are vacant. We charge a customer service charge but at 50% of the normal rate. Regina has developed a process for

allowing apartment owners to apply for a credit if they can prove that units were vacant. The burden of proof lies with the apartment owner and it minimizes administrative cost. This will also result in significant savings for multi-family dwellings.

2. Ordinance Amending Title 17: Local Improvement Districts: At the last meeting, there was an ordinance on the agenda that would have amended Title 17 to make it more efficient and easy to understand. It would also have made it possible to establish Special Assessment Districts or LIDs to finance the construction of gas utility distribution systems. This ordinance did not have enough votes to get introduced. This has caused great concern among interested parties who support and are actively working on bringing natural gas to the Homer area. The failure of this ordinance to be introduced has ramifications beyond what you might expect. I am bringing this ordinance back for your consideration with a new number, a new title, and some amendments based upon Council comments received at the meeting. I am doing so because this ordinance is a key component of the effort to bring natural gas to Homer. Council has repeatedly identified this as a top priority and I believe understood that this ordinance was an important part of the strategy for success discussed at the workshop we had. It just seemed like this needed more discussion. If this ordinance does not pass, Council would essentially be saying that it has no intent to even discuss a gas distribution system LID. If that is the Council's intent, then we should be clear about it and avoid sending mixed or ambivalent messages to our partners and to the Legislature and Governor.

I want to apologize if we tried to do too much with the ordinance the first time around. As you know, we have been talking about revising this section of the code for some time and we may have tried to accomplish too much at once. Some of the proposed amendments clearly muddled the water and caused concern. A strikeout version was not provided and this concerned several of you because the amendments were not easy to identify. This new ordinance contains strikeouts and it also addresses the issues that caused the most concern, namely the supermajority issue and public notice.

Several issues came up that should be addressed. First of all, it should be noted that all this ordinance does is amend the code to allow gas utility LIDS if the Council chooses to create one. This is a necessary prerequisite. It puts Council in position to create an LID but it does not create one nor does it obligate you to do so. Even if the Council never establishes a gas LID, approving this ordinance would be a benefit because the City would be left with an improved section of code that would govern all future water and sewer LIDs.

Second, the question about whether the City should be subsidizing Enstar is a recurring one. The fact is that Enstar almost never pays for main line or distribution system expansions out of its own pocket. The customers do. It is the same with almost all utilities, including HEA. Homer residents are going to pay for getting gas mains in the streets one way or another. The question is whether

they pay for the full cost up front direct to Enstar or whether the City helps them get the benefit of gas quicker by providing financing at attractive terms. In short, the City would not be subsidizing Enstar, it would be subsidizing its own residents and businesses in an effort to lower the overall cost of living and stimulate economic growth. In fact, subsidizing is probably not even the correct term since the property owners would be paying all of the money back.

Third, some have questioned whether the City should provide financing for the construction of infrastructure that it does not own. This is common practice with all utilities including the City water and sewer system. Customers pay for the utility expansion and the utilities own the improvements. One way to look at this is who would you want to own the improvements? The City? Does the City want to be responsible for maintenance, operations, and the liability associated with gas lines? Does the City want to have anything to do with being in the gas utility business? You have made it pretty clear so far that you do not.

Finally, some have questioned whether the City should be in the business of promoting one business over another. This happens all the time because governments have an interest in doing things that benefit society as a whole. There are many, many examples of this and I won't go into that here. There is no doubt that if natural gas comes to Homer, some businesses will be negatively impacted. That is unfortunate and regrettable. However, many businesses and their customers will benefit. I believe that the City Manager has a responsibility to the Council to make recommendations that would benefit the community at large. This is perhaps one of the biggest economic and community development opportunities to hit Homer in decades. Perhaps it would be helpful to look at this question from another angle. Would it be proper for the City to deny the benefits of gas to its residents and business so that it could protect the interests of a few? Just food for thought and discussion.

3. Future Council Workshops: At the last meeting, the Council discussed several topics that would be suitable for future workshops. There were three topics discussed in particular that were prioritized in terms of timing in the following order: 1) Community Recreation Program 2) Community Economic Development Strategy (CEDS) and 3) E-Mail training. The Council asked me to come back with a suggested plan for addressing these issues. Council seems to like two hour workshops that are held from 4 to 6 PM on the Mondays between Regular Council meetings. If so, in April, the open dates would be April 2, 16, and 30. I don't think that any of us are all that interested in meeting every Monday for the next six weeks. If I am wrong, let me know! I would suggest starting with the Community Recreation Program on April 16 and then scheduling the CEDS on either April 30 or May 7. The e-mail training could require longer than two hours, especially if you want to add additional training topics. We should probably talk about that one a little more before scheduling something.
4. Juneau Trip: As you know, I was in Juneau March 14-16. While there, I had the opportunity to meet with two of the Governor's staff and a number of key

legislators, including Representative Seaton and Senator Stevens. The City Lobbyist was very helpful when it came to scheduling meetings, discussing key points, and formulating strategy. We worked on a number of bills and topics that might have impacts upon municipalities including revenue sharing and PERS. We also of course, focused on the City's capital projects. Most of the time was spent talking about the gas line, the gas distribution system, the proposed Port G.O. Bond (Deep Water Dock), and the Proposed Transportation Bond (City Intersection Improvements and Main St). We also talked about the City's number 3 and 4 priorities, (the firestation on Skyline and the Nick Dudiak Fishing Lagoon) since they are high priorities but lower cost requests which might be suitable for discretionary funding. Finally, there was discussion about a proposed amendment to the Capital Budget to provide low cost loans to Homer and a number of other communities through the Alaska Municipal Bond Bank. This low interest money could be used to finance the gas distribution system and could save a great deal of money. This issue is important and should be discussed further during the meeting.

5. HB 312: This is a bill that we are watching closely which could have big impacts for Homer residents if natural gas arrives in the community. Katie testified in favor at a hearing last week and Linda Anderson is working on it as well. Council has not formally expressed an opinion on this one so we want to bring it to your attention and make sure you knew that we are working on it. HB 312 would provide low interest loans to businesses and residents who wish to make the conversion to natural gas.

#### ATTACHMENTS

1. Letter to Chief Painter from Borough re: Alaska Shield 2012