

Session 13-01 A Regular Meeting of the Water and Sewer Rate Task Force was called to order at 5:35 pm on January 22, 2013 by Chair Beth Wythe at City Hall Cowles Council Chambers located at 491 E. Pioneer Avenue, Homer, Alaska.

PRESENT: KEN CASTNER, BETH WYTHE, BEAU BURGESS AND LLOYD MOORE

ABSENT: SHARON MINSCH, BOB HOWARD (EXCUSED)

STAFF: CAREY MEYER, PUBLIC WORKS DIRECTOR
RENEE KRAUSE, CMC, DEPUTY CITY CLERK I

Ms. Krause notified the Task Force that Ms. Mauras was available if needed but she would be in her office.

APPROVAL OF THE AGENDA

Chair Wythe called for approval of the agenda as presented.

BURGESS/CASTNER – SO MOVED.

The agenda was approved by consensus of the Task Force.

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

Larry Slone, city resident, complimented the compilation of the background information on what the Task Force has been working on and whoever put that together did a good job; he provided in email the comparison of the current rates versus the proposed rates and wanted the Task Force aware of a minor change to his figures for multiplexes, the model rate would be \$10 more and the residential would be a couple dollars differential.

Mike Dye, city resident, commenting on the draft rate model stated it appears that the City of Homer will recuperate the proportionate sewer costs that the Spit users generate without this proposal to single out the Spit users with a 2.7 surcharge for sewage. Mr. Dye proceeded to quote figures and percentages on what the projected costs and revenue would be if the Spit users were not singled out as a basis for his statement. He further went on to comment on the water rates using a commodity rate. Mr. Dye commented that they are creating a rate system that's taxing the high end users on the water side with a commodity rate that doesn't have any value reduction based on usage and on the sewer side singling out specific areas to charge more fees.

Mr. Faulkner, city resident and proprietor of Land's End, opened his comments that the proposed model is grossly unfair, especially to Spit users; he will provide information to them later with respect to the differential cost; he believes that this is fundamentally flawed; they have no basis to assume that 50% of the total cost of all lift stations is due to Spit activity; by far the most expensive lift station in the flow chain is Beluga Lake which picks up three times the number of businesses and residences that are on the Spit; of the lift stations on the Spit, 2 out of 7 are servicing commercial businesses, the rest are servicing leased property or private residences; these lift stations are not more expensive to maintain than any other lift stations; the Task Force has overlooked assessing others who use lift stations and singled out Spit users for an unknown and unjustified reason; only 23% of lift station costs for 2012 were direct costs according to the information he received from Public Works; 77% is overhead; there is zero basis for burdening the Spit users with this level of overhead for just the lift stations; overhead is not generated by the few users on the Spit; additionally Mr. Faulkner stated that a 13% drop in usage as a WAG is an overestimation admitted to by the Task Force; the cost of any conservation should be socialized; Mr. Faulkner proceeded to comment on the efforts and expense that Land's End made to install and conserve water 3-4 years ago; he believes that they will be penalized if this model is enacted; they are going to have to pay again; it is bad public policy; he showed them a graph and stated he would provide a copy to the Task Force and be delivering this information to City Council comparing the water and sewer costs for 3 months average in summer versus 3 months in winter average for 2012 at Land's End

against the randomly selected cities of Sitka, Palmer, Kodiak and Kenai. He stated that Homer has the perception of being anti-business, these are facts. This is not fiction. Mr. Faulkner listed the costs for each municipality. He then stated that the problem here is Homer is not competitive. Mr. Faulkner suggested the following solutions: the city should examine its overhead and ask itself if the overhead for a city this size and the burden being placed on the residents appropriate for the size of this community; and the city should deduct 10 percent additional overhead from the finance depart budget and allocate it to each resident to cover a shortfall.

Chair Wythe explained that this is the first draft presented for public comments and the City Council will not be addressing this issue for some time. There will be a few more reviews and the Task Force will be taking the comments made tonight under consideration and requested that Mr. Faulkner provide them with a copy of his information instead of City Council.

RECONSIDERATION

There were no items for reconsideration.

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

A. Regular Meeting Minutes for November 20, 2012

Chair Wythe requested a motion to approve the minutes.

CASTNER/BURGESS –MOVED TO APPROVE THE MINUTES OF THE NOVEMBER 20, 2012 MEETING AS PRESENTED.

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)*

Chair Wythe stated that the Public Hearing process and requested Mr. Castner to provide a brief report on the Draft Rate Model. Then they will address questions and comments.

Chair Wythe suggested going through a brief description on the steps taken to create the model then the rates themselves.

Mr. Castner proceeded to explain the Draft Model as a self-writing model which could be changed according to the revenue requirements. Mr. Castner noted the following aspects in the development of the Draft Rate Model:

- Commercial rates are almost the same
- Task Force reviewed the costs to the system including the City/Municipal uses
- Costs affecting the system
- Fairly apportioning the costs
- The customer base is one user group; the entire tax base is another user group
- Costs should be borne by the general fund and some costs apportioned to the users within the system

Mr. Castner then went through the Draft Water Rate Model line item by line item noting the figures that were budgetary in nature; the process to determine the proposed fee for a service charge and that this is based on 40% of the budgeted amount; he provided further clarification on who is charged the current service charge; he noted that the entire system is established around fire protection for the entire town thus the increase to

the line item of Hydrant Rents and delegated 10% of the water costs; it was further determined that the citizens should cover this expense and not the utility; Mr. Castner noted that every time they add something to the City's budget means that they will have to find the revenues to cover the expense; he further stated that the fee charged to businesses that are plumbed for Fire protection is a reasonable fee to cover that demand which offers a benefit to the consumer; Mr. Castner went on to explain the amounts that are produced and sold; it was consensus that there will be some conservation but they do not want to raise rates in the second year because they came up short in the water sales.

Chair Wythe recommended explaining the Draft Sewer Rate Model then they can entertain questions and comments on the Rate Model as a whole.

Mr. Castner employing the same approach explained the process the Task Force used to develop the Draft Sewer Rate Model. He proceeded to note that sewage has some costs that water does not; staff provided information verbally that costs were approximately \$200,000 to run the lift stations; the Task Force has requested this information on how it was apportioned to the cost and staff provided minimal information on the electricity for each of the stations; he noted the locations and service route of the lift stations that service Kachemak City and Kachemak Drive; staff has provided information that 50% of the lift stations cost is generated by the Spit users; Mr. Castner stated they applied the same percentage of water conservation to sewer.

Chair Wythe opened the period for comment or questions. She also stated that she would be reviewing the draft presentation to Council.

Mr. Faulkner inquired why the Task Force decided to make a philosophical decision not socializing the 13% conservation but placing that burden on the commodity side so that larger users pay a greater share of the WAG? Mr. Castner responding for the Task Force stated that they did not believe it was disproportionate penalization to any user, when it was corrected the following year the user would then receive a proportionate benefit. The Task Force is open to recommendations of an appropriate number for conservation.

Chair Wythe explained the meaning of conservation as it applies to this draft rate model and is included as a preventative measure on how much they will lose by the consumer reducing their usage.

Mr. Burgess further explained how the commodity rate model would provide incentive for the larger user to conserve more and stated that a smaller user would not be able to see on a system based largely on usage fees as opposed to the amount of usage.

Mr. Faulkner indicated he did not believe the Task Force thought through the charges for BOD. He continued by stating he believed the BOD from a residence was no different than BOD from his hotel. He stated a substantial portion of their water is no different and but it all is charged at the higher rate and questioned what is high BOD; he also believes there should be more disclosure to the public as the Task Force develops these proposals, such as to what constitutes high BOD as that in itself is controversial.

Mr. Castner responded that he was not sure what formula could be entertained for mixed use customers such as Land's End. He agreed that it would be unfair to charge everything like it is filthy, high BOD water; but every city with a water system is dealing with plugged up systems at the intersection of a restaurant and a city system.

Mr. Burgess stated that in previous testimony from Mr. Faulkner he indicated that it was unfair to penalize a customer that has taken measures and he would be very amenable to include that if provided proof of measure to counteract grease, etc., from entering the system to waiving the proposed BOD fees or charges.

Mr. Castner went on the further state that other options had been considered but a case was made that it should be a rate associated with gallonage.

Mr. Faulkner went on the further state that before the Task Force proposes new policy they should disclose the basis these recommendations are being made; the public needs the information in order to determine if the recommendations are fair. He feels that it is important for the Public to be able to judge.

The next item that Mr. Faulkner questioned was the comment of "We were told that 40% of the overhead from the Finance Department, who told you and is it, documented somewhere?"

Chair Wythe responded that the budget breaks out the allocation. Mr. Faulkner inquired if Council has assessed that 40% of Finance's time is on the water and sewer.

Chair Wythe continued to explain that information comes from the Finance Director and the Council approves the allocation when they approve the budget. Mr. Castner noted that given Finance's other duties it is plausible that the staff spends that amount of time.

Deputy City Clerk Krause noted that all materials used or reviewed by the Task Force have been compiled in the notebooks on the table. Each notebook contains the same information but that the public is free to review that information.

Mr. Faulkner stated that he obtained information from the Public Works Director, through proper channels, regarding the costs of maintaining the lift stations are itemized for the review of the Task Force and he does not believe since he obtained this information that it would not be readily available to the Task Force and should have been consulted before the recommendation to add a surcharge to the Spit customers. He believed that this information proved how low the maintenance cost is at least for the lift stations on the Spit.

Mr. Dye remarked on the conservation aspect of the rate model, he believes that the hospital currently outsources the washing of their linens as Land's End does and he disagrees with the argument proposed by the Task Force. He asked for clarification on the Spit Rate for Sewer and Water Service. Chair Wythe and Mr. Castner responded. He then asked what number the Task Force was using for cost recovery for the Spit. Mr. Dye expressed concern for the amount that was being collected from the Spit users for sewer services. Mr. Castner noted that the rate was the same as everyone else, 1.5 cents per gallon; he additionally expressed that the Task Force was provided a number that it costs to run the lift stations. He continued that if those are not the correct numbers they will get to those numbers. Mr. Dye believed the Spit was already paying its portion if the percentage of use was reviewed. Mr. Castner explained that most of the system is gravity feed and by attributing costs directly related to specific areas they are directing costs to cost causers. Mr. Burgess entered into the dialog to provide further clarification on the process. Mr. Dye remarked that he hoped they did further review of the proposed rate for the Spit users and see that they Spit users did pay their fair share of costs.

Mr. Moore voiced that he disagreed with the direction the Task Force is going. He questioned if Mr. Dye was satisfied with the proposed water rates since he has not presented any testimony against the proposed water rate. Mr. Dye stated that Mr. Faulkner address the concerns with the water rates.

Mr. Moore additionally commented on the high water rates; costs to run the system; overhead more than it should be; taxing the high end commercial users; there won't be money for the Library; now the pendulum has swung way too far in the other direction. There must be a happy medium.

Chair Wythe reviewed the draft presentation to City Council. She explained the reasons the Task Force was created; what the Task Force was directed to do - review existing rates, propose rates and submit a recommendation. Chair Wythe noted that the Task Force reviewed rate structures from other cities; the basic concept of rate setting - consulted information from manuals and the internet; tried to answer the question why is our system so expensive; the regulatory requirements; staff requirements and certifications; community sense - there was never and probably never will be a water rate that will make everyone happy, the system is very expensive and is unique to the system; the City of Homer is one of the only systems that is compliant with regard to Federal regulatory requirements. Kenai and Soldotna are currently in the throes of bringing their systems up to grade and will be looking at higher rates when they do this; Chair Wythe touched on the fact that they have few users and it is not very dense; the cost of serving the very few users on the Spit; services provided to Kachemak City reviewed and ensuing recommendations for that area also.

Chair Wythe continued by stating that the Task Force examined different Rate Models before choosing what they believed was fair to the majority. She acknowledged the rolls of Mr. Castner and Mr. Howard for going through the various rate models. She believes that the Task Force has put their best foot forward on this Rate Model and tried to keep the political aspects removed from the process and the resulting model.

There was a brief discourse on the perception of fairness, large commercial revenue providers versus residential in regards to administrative costs, and the opportunity and appointment of a Spit resident or business owner to sit on a Water Sewer Task Force.

There was no further comments, questions or discussion Chair Wythe closed the Public Hearing.

PENDING BUSINESS

A. Review and Discussion on Working Draft Rate Model

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

Chair Wythe stated although they did not individually touch on these next items she believed these have been covered under the previous agenda item.

NEW BUSINESS

A. Incorporating Public Comments or Suggestions into the Draft Rate Model

Chair Wythe stated that they would be addressing this item at the next meeting as she did not believe there was time for that now.

B. Discussion and Recommendations on Draft Presentation to City Council

INFORMATIONAL MATERIALS

A. Public Comment received January 18, 2013 Re: Proposed Water & Sewer Rates submitted by Mr. Slone, resident.

There was no discussion or comment on the informational items.

COMMENTS OF THE AUDIENCE

Mr. Sloan, city resident, stated that he supports the proposed rate model. He further stated that cost causer-cost payer - there was nothing more fairer than this; there are fixed costs to running this system and there is no way around it; all additional costs have been identified such as spit users, BOD, fire and bulk; all other costs are essentially identical for 90% of the users; cannot identify how many feet of pipe individuals use; Mr. Meyer has stated that the costs are indistinguishable; Mr. Slone asked, "if users pay on what they use how much fairer than that can you get?" He commented on how you could differentiate between the users with higher BOD generation; he is sure that it could be refined a bit more. He then commented that the general concept of the lift stations is appropriate but it too can be refined. The administration costs are high and works out that each user is paying \$18 a month and the rest is spread out among the rest of the users. If someone can come up with a better system then they should do so.

Mr. Faulkner, in closing, he would say that his water and sewer bills after conservation have doubled. He does not know any business that can sustain the kind of increases that are being proposed and there will be consequences, real consequences. He does not think people appreciate how tough it is to do business in this town; he does not think the Task Force appreciates the seasonality. It is time to cut, because that is what he has to do... and he has done it; and if he has to march the people he has cut in front of City Council so they can afford to hire people, extend their hours and benefits of people within government, then that's what he will do; because it has consequences. These rates...the best measure of fairness...there is a process, it is called benchmarking, when he decides what to charge for a hamburger, he has to look at what all the businesses in the area are charging for their hamburgers. The comments about what other communities are facing due to increases, the reality is when he compares what he would have to pay in the exact similar situation in another community, we are twice the amount in some cases, there's no excuse for that and that is what the Task Force should be focusing on, not burdening businesses more, they should focus on burdening businesses less.

COMMENTS OF THE CITY STAFF

There were no additional comments from staff present.

COMMENTS OF THE CHAIR

Chair Wythe had no comments.

COMMENTS OF THE TASK FORCE

Mr. Moore commented on the rate Land's End will pay to get the sewage off the Spit and he can almost truck it off in a semi-truck. There is something wrong with that costing so much. He went on that the cost being almost equal to the expense of running a truck there is something wrong with that. That is what the Task Force needs to look at. You put it in a line you don't have the labor or the fuel costs and wear and tear on a truck. He sees a problem with that.

Mr. Castner commented that Mr. Faulkner was given different information than the Task Force and they will look into those numbers. But whatever the cost of the lift stations are if it is less which Mr. Faulkner stated was a lot less, those numbers will go down. He was glad that they had the Public Hearing tonight. He believes that most of the work will be focused on this one area for the next meetings; he would like to come up with a formula for businesses that have kitchens or similar situation such as regards to the senior citizens. But he is glad they had the Public Hearing. Thanks.

Mr. Burgess stated that in regards to Mr. Faulkner comments, the extremely relative high cost of the system in Homer just brings us back to the larger subject of a very expensive core infrastructure utilized by a relatively small number of users. He noted that although an important issue, the Task Force wasn't tasked to address that issue. He believes there are certain things that can be done but they need to address infilling and getting more people to participate in the larger system. There is a system that can serve the large portion of the city and there is a small core. He resents a little bit being called insensitive or discriminating towards businesses being a business owner. This is not about being a business or an individual or anything else. It is about cost causers being cost payers. We are doing our best to achieve that goal. The simple reality is when you put a cost into a unit of commodity and people, who use more of the commodity, pay more. The alternative would be to put that cost onto smaller amount user, or having everyone subsidize the system. The only answer is to get more users.

Mr. Castner requested a motion to be made to create a subcommittee to draft the presentation to Council.

Chair Wythe was not sure that a motion was proper during closing arguments. Ms. Krause noted that it has been done, but is not proper process. Ms. Krause would leave it to the Chair's discretion.

CASTNER/BURGESS - MOVED TO APPOINT A SUBCOMMITTEE TO DRAFT THE PRESENTATION TO COUNCIL.

A brief discussion on the purpose of the motion and clarification on the Task Force requirement to submit a recommendation to City Council and what the Task Force has so far drafted followed. Chair Wythe noted that the timeline is running out and they need to get things completed.

VOTE. YES. NON-OBJECTION. UNANIMOUS CONSENT.

Motion carried.

Chair Wythe requested that item to be on the next agenda. She noted that it would be a good time to work on that issue. She thanked everyone for attending and acknowledged that this has not been the easiest task.

ADJOURN

There being no further business before the Water and Sewer Rate Task Force Chair Wythe adjourned the meeting at 7:00 p.m. The next **WORKSESSIONS are scheduled for FEBRUARY 5 and 19, 2013** at 5:15 P.M. All meetings are scheduled in the **UPSTAIRS CONFERENCE ROOM** at City Hall. The next **REGULAR MEETING AND PUBLIC HEARING IS SCHEDULED FOR MARCH 5, 2013** at 5:30 p.m. at Cowles Council chambers, City Hall 491 E. Pioneer Avenue Homer, Alaska.

Renee Krause, CMC, Deputy City Clerk I

Approved:_____