

**SULTAN CITY COUNCIL
AGENDA ITEM COVER SHEET**

ITEM NO: Consent C 2
DATE: May 14, 2009
SUBJECT: Council Meeting Minutes

CONTACT PERSON: Laura Koenig, Clerk/Deputy Finance Director

SUMMARY:

Attached are the minutes of the April 23, 2009 Public Hearing on Water Rates as on file in the office of the City Clerk.

RECOMMENDED ACTION:

Approve as submitted

MOTION: Move to accept the consent agenda as presented.

CITY OF SULTAN COUNCIL MEETING – April 23, 2009

PUBLIC HEARINGS:

The Public Hearing on the Water Rate Increase was called to order by Mayor Eslick . Councilmembers present: Champeaux, Slawson, Weidiger, Davenport-Smith, Flower, and Blair.

Staff: The staff report was presented by Deborah Knight, City Administrator.

The issue is the need to increase the water rates because the last water rate study was completed in 2004. Ordinance No. 864-04 was effective December 1, 2004 and set \$2/year increases in the base water rates for five years. The last rate increase took effect December 1, 2008. The current base rate is \$25.25. The base rate includes 600 cubic feet of water per month (6ccf) for all residential (single family and multi-family) and commercial users.

The City Council approved a water rate study in 2008 in part because water revenues were not adequate to cover operating expenses in the 2008 budget. Since the water utility is an enterprise fund, the user fees and revenues collected must cover expenses.

The need to increase water rates is driven by four primary factors:

1. Operation and maintenance costs increase each year. The City anticipates operating and maintenance costs will increase an average of about 3.5 percent per year. Water rates represent about 82 percent of the water system's annual revenues. Non-rate revenues are relatively static and are not expected to increase with increased costs. There is no grant funding for operations and maintenance. A 3.5% increase is necessary to fund on-going operations.
2. Current rates do not support an ongoing repair and replacement program. The water fund does not include funding to repair and/or replace existing infrastructure to serve current users. The water fund does not have an emergency reserve.
3. Current revenues do not support debt service or ongoing capital improvements. Rate increases are needed to fund the debt service and capital improvements to serve current customers.

During high growth years, 70% of the general facility charge paid by new customers was covering debt service payments for plant improvements used to serve current customers.

With the downturn in the economy and few new connections, debt service payments for previous plant improvements must come out of the operating or capital fund. Debt service payments for 2009 are \$50,000 for water revenue bonds and \$152,000 for the Everett water connection and second storage tank.

4. Due to water conservation efforts, water demands are expected to decline each year (assuming normal weather patterns and economic conditions). Increased costs will need to be spread over decreased water sales, necessitating a rate increase just to maintain stable revenues.

In short, it is not realistic to expect that water rate increases can be limited to the general rate of inflation. In order to meet both ongoing operating as well as capital program needs, rate increases ranging from 11.25 to 4.0 percent per year are required during the next five years.

Without the proposed rate increase there is a "net deficiency" in the utility fund. The net deficiency increases to \$419,503 in 2014.

The preferred alternative under consideration revises the water rate structure by lowering the base rate charged for water from \$25.25 to \$23.38. The amount of water included in the base rate would decrease from 600 cubic feet of water (6ccf) per month to 300 cubic feet (3ccf) of water per month. The proposed rate structure meets the state requirements for encouraging water use efficiency.

Under the preferred alternative, residential customers who use less than 2 ccf per month would decrease their water bills by \$1.87 per month from \$25.25 per month to \$23.38 per month. Residential customers who use less than 4 ccf/month would have an increase of \$.64 from \$25.25/month to \$25.89 per month. Residential customers who use 6 ccf per month would pay \$30.91/month for water. Water rates continue to increase as water usage increases. Currently, the average Sultan family pays \$26.06 per month for water use.

Public Input

Sam Simpson wanted to express his choice for the second option he feels it would be a better for his family.

Garth York says this is touch times and would like to see the increase delayed.

Jeff Beeler supports the across the board increase.

On a motion by Councilmember Champeaux, seconded by Councilmember Slawson, the public meeting was closed. All ayes.

Carolyn Eslick, Mayor

Rosemary Murphy, Clerk