

**CITY COUNCIL
SPECIAL MEETING**

**February 1, 2018
5:00 P.M.**

DRAFT MINUTES



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Location: Bonney Lake Justice & Municipal Center, 9002 Main Street East, Bonney Lake, Washington.

- A. CALL TO ORDER** – Deputy Mayor Randy McKibbin called the special meeting to order in the main conference room of Suite 200 in the Justice & Municipal Center. In addition to Deputy Mayor McKibbin, elected officials attending were Councilmember Terry Carter, Councilmember Justin Evans, Councilmember Michelle Surdez, Councilmember Dan Swatman and Councilmember Tom Watson. Councilmember James Rackley was absent due to illness.

Staff members in attendance were City Administrator Don Morrison, and Administrative Services Director/City Clerk Harwood Edvalson.

B. DISCUSSION: Utility operations, revenues, expenditures, and projects.

The City Council began with a discussion of the utility revenues and the impact of the 12% increase in water rates authorized over the past two years. Councilmember Swatman said he would like to see stabilization in the rates and questioned the impact of the recent rate increase triggered by the increase in the Consumer Price Index (CPI). Councilmember Watson said recent financial data shows the water utility expenditures have been exceeding revenues. He suggested increases are needed now to reduce the need for greater future increases. Councilmember Surdez added long-term solutions are needed. Councilmember Watson observed that the current revenue problems were created years ago by delaying rate increases in the water utility. He proposed a reduction in sewer rates to moderate the overall impacts to the utility customer of an increase in the water rates. The Council briefly discussed this proposal. City Administrator Morrison pointed out that balancing rate impacts between sewer and water is what got the water utility in its current state. Deputy Mayor McKibbin said the Council simply looked at the bottom line to the consumer the last time they made rate decisions and didn't take into account the separate impacts on the individual utilities.

Councilmember Evans asked if the Council has the authority to set the rates where they feel they should be. City Administrator Morrison said the Council has the obligation to have a well-run and maintained water system. He pointed out that the Council spent money to hire the FCS Group and RH2 to establish the rates needed to support the City's utilities. Councilmember Surdez said the variables are the capital projects the City needs to do and their timing. City Administrator Morrison said if the rates could be increased to get the utility out of the negative cash flow, then the City could get back with its consultants and really look again at the capital projects.

Councilmember Surdez asked if the City had taken a close look at the utilities' operations. Deputy Mayor Swatman said we could more closely scrutinize the utility operations, but felt there are not great sums of money to be recovered there.

Councilmember Evans noted that operational expenses had increased almost \$1.4 million between 2016 and 2017. City Administrator Morrison said the increase correlates with the increase in bond payments which fall in this category of operational expense. Councilmember Carter said the utility rates should be able to pay for the product provided. Councilmember Surdez said the utility rates need to be established with solid justification and asked if the rates are reviewed annually rather than relying on a CPI adjustment. Councilmember Swatman and City Administrator Morrison said an increase based on the CPI is reasonable to cover actual changes in the marketplace for the cost of goods, services and labor. Both Councilmember Surdez and Deputy Mayor McKibbin observed that compared to other parts of the United States, the water rates in Bonney Lake are very reasonable.

City Administrator Morrison announced the Mayor is intending to hold an open house, perhaps on Saturday, March 3rd to include a historical perspective of the City's utilities from RH2 Engineering and an explanation of the rate study produced by the FCS Group, followed by a question and answer period with the participants. Deputy Mayor McKibbin said it sounded like a good educational opportunity for the customers.

Councilmember Watson said the Council knows what needs to be done based on the current rate study. City Administrator Morrison said the State Department of Health is closely watching the City's actions in funding the utilities. There is the potential that without proper funding the City's system will be flagged as out of compliance, and eventually taken over and rates imposed to bring the utility back into a state of proper operation and fiscal funding. Councilmember Surdez said the Council needs to look rationally at the water utility and not make decisions based on scare tactics. Deputy Mayor Swatman suggested the utility operations may include some industry best practices that are not truly necessary and have increased expenses. City Administrator Morrison proposed checking with the consultants to see if a cost of service study could be done quickly and without major expense. Councilmember Surdez suggested this be done before taking action for another rate increase.

The City Council concluded to ask the administration to investigate the time required and cost associated with a cost of service study. They asked that results of that investigation be presented at the February 20th Council workshop along with the Chief Financial Officer providing more detailed projections for 2018 to include the impacts of the 3% CPI increase implemented in January 2018. Councilmembers Surdez and Watson applauded the Mayor's proposed workshop and suggested the customers need more education regarding the utilities' summer rates before the rates go into effect. City Administrator Morrison said the Executive Department is working on those communication pieces.

C. ADJOURNMENT:

At the conclusion of discussion, Deputy Mayor McKibbin adjourned the meeting at 6:00 p.m.

Harwood T. Edvalson
City Clerk

Randy McKibbin
Deputy Mayor

Items submitted at the February 1, 2018 Special Council Meeting:

- Spreadsheet – “Unaudited operational revenues and expenses showing net operating expenditures, and SDC revenues and capital expenses showing net capital positions in the fund.” – Don Morrison, City Administrator.
- Table – “Ten Year Water Rate History – 10 Year Sewer Rate History” – Don Morrison, City Administrator