

SPECIAL COUNCIL

June 4, 2018

Mayor Kling called the meeting to order at 5:00 p.m.

Clerk called roll with the following Councilmember in attendance Skaug, Haverfield, Levi, Hogaboam, Bruner, Rodriguez.

Mayor Kling explained the reason for the meeting was to explain the rate study methodology, the rate study results – **wastewater cost-of-service rate study** * revenue requirement options; * cost of service options; * hookup fee check-in; **water** * revenue requirement; and **impact of possible move to monthly billing**.

Public Works Director Michael Fuss explained that we did our job and went out and chased down the vote information, we informed the public and the public has spoken on the way to fund our wastewater improvement.

With me today is Matt Gregg and Shelby Smith with Brown and Caldwell, Nate Runyan, Deputy Public Works Director, and John Ghilarducci with FCS Group.

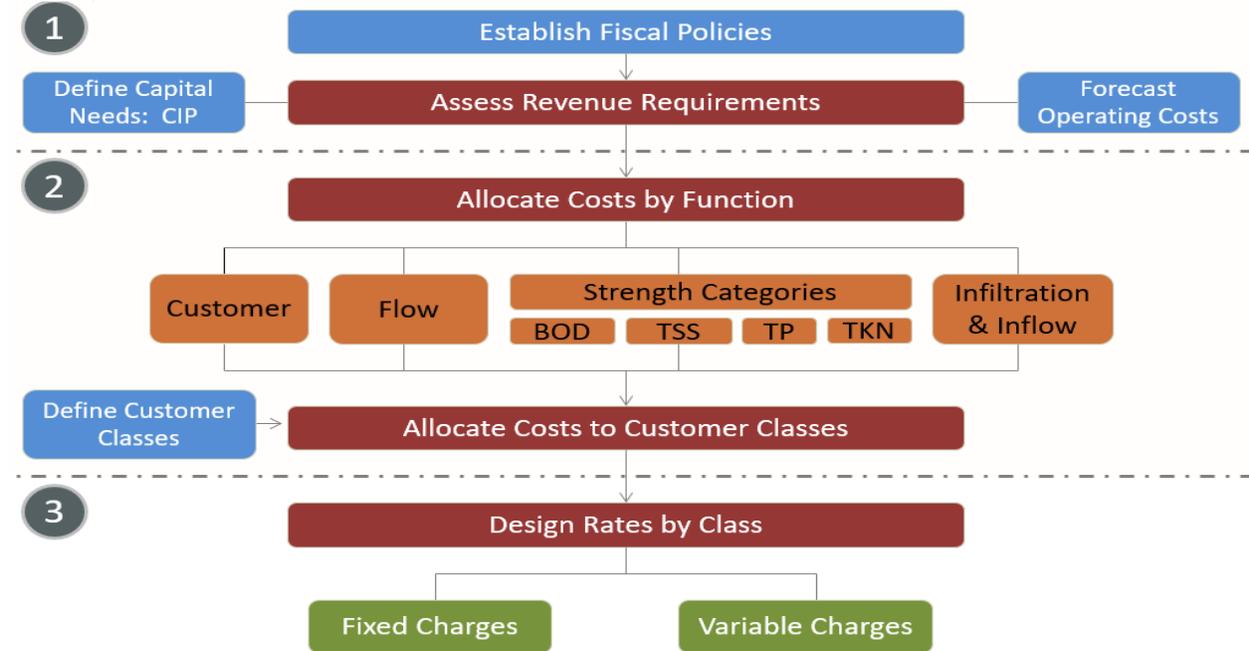
We are looking to get a lot of direction from council, we are going to go through the rate study methodology, the rate study results, the revenue requirements, the cost of service options, hookup fees also water revenue, we are going to be asking why are we talking water, if you recall we did a cost of service study in 2016 water rates would continue to increase. Instead of them bringing that back, they are effective January 1st, we thought that we would bring it up today. The discussion of going to monthly billing.

We do have a couple of action items today most importantly agenda item #5 which is the public hearing if council is interested in continuing forward we would ask for a resolution at the end of this for a public hearing on July 16, 2018.

The City of Nampa has the \$5M available in fiscal year 18 at 2.34% and we will talk a little bit about that.

John Ghilarducci presented the following Rate Study Methodology

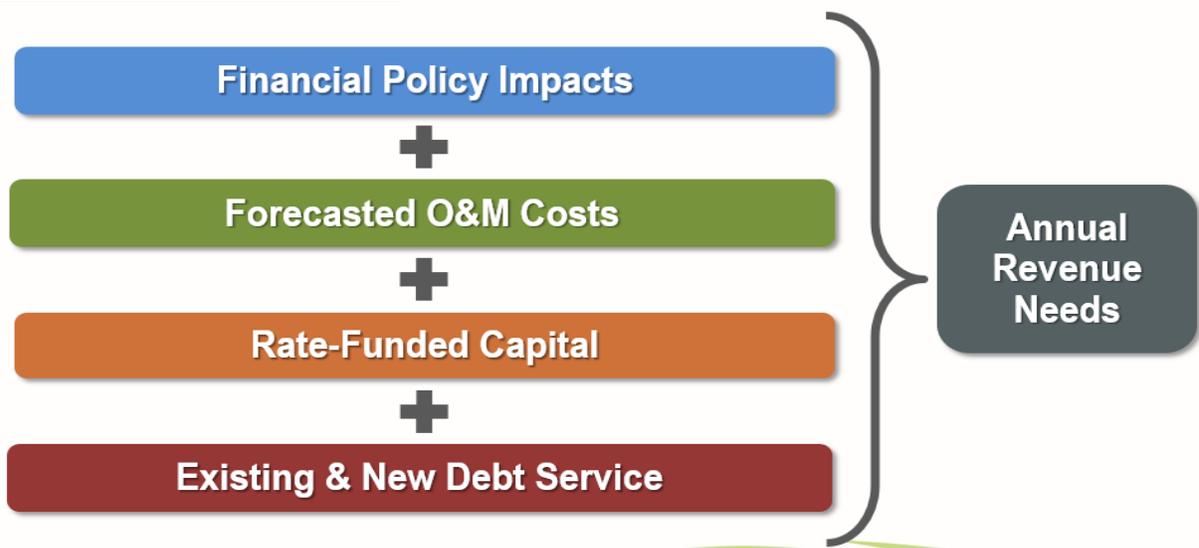
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Revenue Requirement Overview

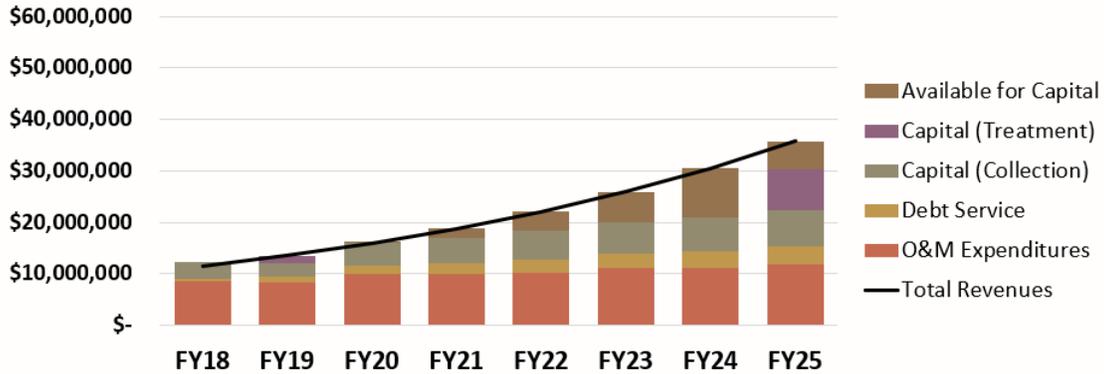
- Determines the amount of annual revenue necessary to meet all utility financial obligations
- Evaluates sufficiency of current rates on a standalone basis
- Develops annual rate adjustment strategy
 - Multi-year financial plan

How Much Revenue is Needed?



Scenario A: Series of 15.5% Increase (Reflects actual low-interest loan rate of 1.68%)

Wastewater Utility Revenue Requirement Forecast



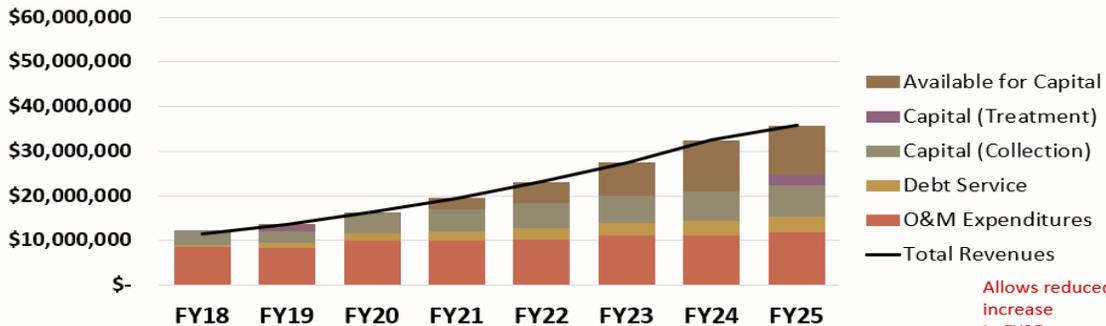
	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25
Annual Rate Increase	0.00%	15.50%	15.50%	15.50%	15.50%	15.50%	15.50%	15.50%
Average Monthly Residential Bill ¹	\$24.47	\$28.23	\$32.60	\$37.67	\$43.55	\$50.26	\$58.07	\$67.10
1.5% Median Monthly Household Income ²	\$51.51	\$51.51	\$51.51	\$51.51	\$51.51	\$51.51	\$51.51	\$51.51

¹Bills shown do not reflect findings from the cost-of-service analysis.

²Based on 2016 MHI of \$41,210.

Scenario B: Series of 16.75% Increases (Reflects published rate increase, but takes advantage of 1.68% loan interest rate in FY 2025)

Wastewater Utility Revenue Requirement Forecast



Allows reduced increase in FY25

	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25
Annual Rate Increase	0.00%	16.75%	16.75%	16.75%	16.75%	16.75%	16.75%	8.28%
Average Monthly Residential Bill ¹	\$24.47	\$28.54	\$33.31	\$38.90	\$45.40	\$53.02	\$61.87	\$66.96
1.5% Median Monthly Household Income ²	\$51.51	\$51.51	\$51.51	\$51.51	\$51.51	\$51.51	\$51.51	\$51.51

¹Bills shown do not reflect findings from the cost-of-service analysis.

²Based on 2016 MHI of \$41,210.

Question #1: Revenue Requirements

- Which revenue strategy does the Council prefer?
 - Scenario A: 15.5% Annual Increases
 - Scenario B: 16.75% Annual Increases
- Staff recommendation: Scenario B
 - Mitigates risk of not receiving all anticipated SRF loan funding (annual appropriations)

Michael Fuss explained that this is the beginning of the work day. Staff is recommending Scenario B, primarily we have published that information at 16.75% they both collect the loan as we know it today. The difficulty is the risk, there is a risk associated with that we are assured \$37M in the SRF loan it is an annual appropriation, if something was to change down the line we would have to go . . . if we take 15.5% we would have to go back, we probably need more of an increase than that. If we take 16.75% and we get all the way to the end the public get the advantage of that lower interest rate in the last year. There is a little bit of wiggle room in the event that something changes you have 1.4% to make up the difference if something doesn't, if all of the loan dollars don't come forward, if construction costs go up. I don't know how much that would handle but it would handle a little bit that is staffs recommendation of B

The way the process is you are not voting today, one thing that I neglected at the beginning we are not voting today for the final answer. The final answer for any rate increase comes at a public hearing and that is why we are asking for a public hearing recommendation in July 16th. Today what we are asking is there is a lot of moving parts in this program and so we are looking at the end of the day we will get all of these answers. John will take them back, put them through the cost of service model and come up with a final rates. We have some good estimates on where they are going to be. You could pick some other number if you so choose between the 15.5% and 16.75%. It is a council decision and whatever you do, John will put it in, run the requirement model it will be presented to the board of appraisers, the board of appraisers will then make a recommendation back to council. First we have to have a starting point and there are a lot of different options

Mayor Kling asked Michael to talk about what we currently have committed in the State Revolving Loan, the fact that we have \$37M that is currently committed but we don't have \$165M committed and knowing that the full commitment – they have committed it but there is a process to actualizing that

It is an annual appropriation so \$37M has been appropriated and then it would come back on an annual basis to look at the next basis. Staff has committed to \$165M but there is really no process that is in place today for programatic funding that is one of the questions that we have been asking along the way

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Mayor Kling said that the reason staff is recommending scenario B is that you can always go down but you can't go up and I support that recommendation that we start at 16.75% until we know that we have the funding at 1.68%. If we come in lower and then for some reason we don't get to use the funds at 1.68% and that would be very unfortunate and we don't anticipate that happening but at a later date we can always go down

Councilmembers Bruner asked if the numbers would be checked on a yearly basis

Councilmember Skaug I had hoped that we would be able to reduce this large amount as time goes by while we work towards that and we are still digesting what we call the Harriman report and I am hoping that is some good news down the road. I would like to just throw another number into the Board of Appraisers an in between number of 16% to choose from I will look carefully at what they recommend

Mayor Kling explained that there is a tremendous amount of work that goes into every number because you have to take your various classes and apply them across the board in quite a few ways. Michael and I have talked about that because I have talked to him about all of these different scenarios already and it does become very time consuming to offer up a bunch of different scenarios

Councilmember Skaug wanted to know how much it would cost to do run another number – it is less than a day of work, it is a dynamic model a couple thousand dollars (don't put another number in)

Councilmember Bruner said that he would go with scenario B at 16.75%

Councilmember Rodriguez asked what the median income for the city of Nampa was, \$41,210 and you are taking the high road and I understand that and I am not okay with that but that is probably the best route to take, however we need to consider that and I am just a little hesitant and I might agree with Councilmember Skaug that we should take another number but does that makes any difference or not, whether that lowers it or not. After we are paying these people millions of dollars what is another couple of thousand that is the way that I look at it. It is something that I need to look at and I don't know the numbers yet

Mayor Kling said something that we might do is turn to back page of the packet and there is a slide that shows the combined monthly bill comparisons with other cities and you can see where Nampa ranks with the 16.75% increase with Caldwell. So with the 16.75% we would be at 28.54%, Caldwell would be at 34.88%, Meridian would be at 41.41%, Boise would be at 35.64% and as you all know Greenleaf is at about 86% for a monthly rate so even with the 16.75% we are still considerably below other cities. I do understand, and I agree with the fact that our income levels are where they are and we need to be sensitive to that, my biggest concern is that if we come in

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under and . . .when we get our funding I will be clear sailing, when it is confirmed that we have that interest rate down the road, I just play it safe.

Councilmember Hogaboam said that I agree with playing it safe just because you are looking at less than a dollar difference for the first few years and it is only going to be more than 1.5% of the median monthly household income projected for fiscal year 23, 24 and 25 in one scenario, two years in the other, so I don't want to spend a couple more thousand on a consultant if you look at the cost benefit ratio of potentially losing the funding our people would lose out a lot more. Paying out about \$0.60 more a month is a good insurance policy from having to pay a lot more potentially. I support what the staff put together.

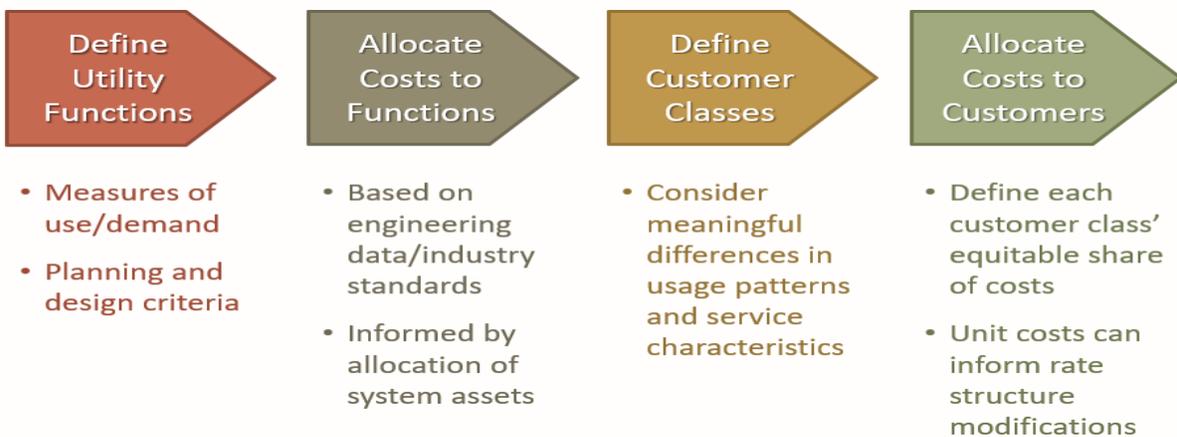
Councilmember Haverfield said that I was going to suggest 16% but I held back because I knew Bruce would. I don't have a problem with the option preferred by our staff at this point, especially knowing that we are going to revisit this each year so I would be in favor of scenario B as well.

Councilmember Levi said that I concur.

Role of Cost-of-Service Analysis

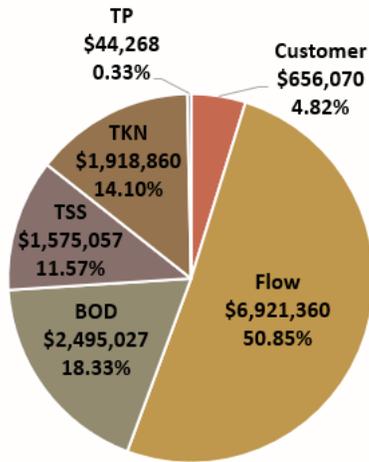
- Allocates the revenue requirement among customer classes
 - Based on the demand each class places on the system
- An equitable distribution of costs can consider:
 - Measures of volume and demand (levels and patterns)
 - Planning, engineering, and design criteria
 - Facility requirements (pumping, treatment, etc.)
- End result
 - Allocated cost by class
 - Unit costs (\$ per customer/unit of usage)

Elements of Cost-of-Service Analysis

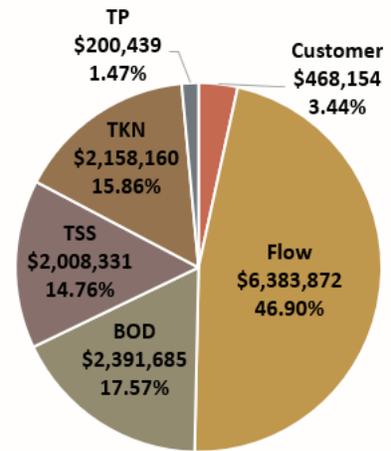


Functional Allocation of FY 2019 Revenue Requirement

Allocation Used in Current Rates



Updated Allocation

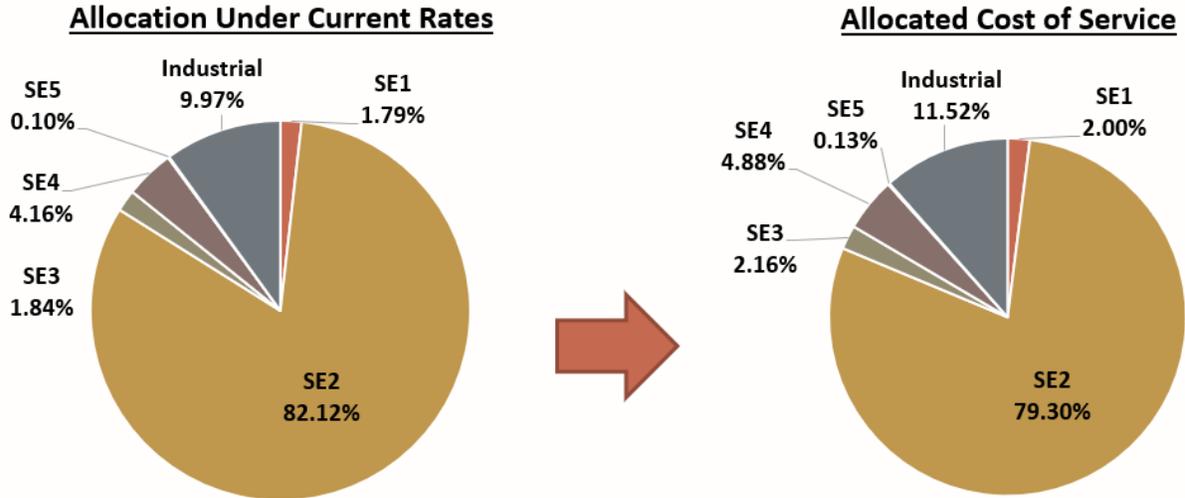


Current analysis indicates a shift in cost allocation toward treatment-related functions, especially phosphorus removal

Customer Class Definitions

Customer Class	Example Customer Types	# of Accounts
SE1 (BOD: 0 – 200 mg/L)	Laundromats & car washes	29
SE2 (BOD: 200 – 400 mg/L)	Residential & retail stores	27,302
SE3 (BOD: 400 – 600 mg/L)	Hospitals and daycares	66
SE4 (BOD: 600 – 800 mg/L)	Restaurants	155
SE5 (BOD: 800 – 1,000 mg/L)	Other non-residential	1
SE6 (BOD: 1,000 – 1,500 mg/L)	None currently	None
SE7 (BOD: 1,500 – 2,000 mg/L)	Special permit	None
Industrial	Large industrial users	9

Customer Class Allocation



Current analysis indicates a shift in cost recovery from SE2 (residential / retail) to non-residential / industrial users

Rate Alternatives Summary

	Existing Rates (2018)	2019 COS Rates (Scenario A: 15.50% Rev. Inc.)			2019 COS Rates (Scenario B: 16.75% Rev. Inc.)		
		Full COS	2-Year Phase-In	5-Year Phase-In	Full COS	2-Year Phase-In	5-Year Phase-In
All Customers Except Industrial Users:							
Monthly Base Rate (per Account)	\$7.60	\$8.47	\$8.62	\$8.71	\$8.56	\$8.72	\$8.81
Volume Rates (per ccf of Water Use)							
SE1 (BOD: 0 – 200 mg/L)	\$1.94	\$2.51	\$2.37	\$2.29	\$2.53	\$2.40	\$2.32
SE2 (BOD: 200 – 400 mg/L)	\$2.41	\$2.69	\$2.74	\$2.76	\$2.72	\$2.77	\$2.79
SE3 (BOD: 400 – 600 mg/L)	\$3.12	\$4.25	\$3.93	\$3.73	\$4.30	\$3.97	\$3.77
SE4 (BOD: 600 – 800 mg/L)	\$3.66	\$4.98	\$4.61	\$4.38	\$5.04	\$4.66	\$4.43
SE5 (BOD: 800 – 1,000 mg/L)	\$4.52	\$6.51	\$5.86	\$5.48	\$6.58	\$5.93	\$5.54
SE6 (BOD: 1,000 – 1,500 mg/L)	\$5.35	\$8.05	\$7.17	\$6.64	\$8.14	\$7.24	\$6.71
SE7 (BOD: 1,500 – 2,000 mg/L)	\$6.48	\$9.96	\$8.76	\$8.04	\$10.07	\$8.85	\$8.13
Industrial User Rates:							
per Million Gallons of Flow	\$2,374.99	\$2,454.94	\$2,599.03	\$2,685.48	\$2,481.53	\$2,627.16	\$2,714.55
per Pound of BOD	\$0.210	\$0.320	\$0.281	\$0.258	\$0.324	\$0.284	\$0.261
per Pound of TSS	\$0.170	\$0.283	\$0.240	\$0.214	\$0.286	\$0.242	\$0.216
per Pound of TKN	\$1.450	\$2.246	\$1.960	\$1.789	\$2.270	\$1.982	\$1.808
per Pound of TP	\$0.150	\$0.992	\$0.582	\$0.337	\$1.002	\$0.589	\$0.341

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Sample 2019 Monthly Bill Impacts

Customer	Bill Under Current Rates	2019 Average Monthly Bill Scenario A: 15.50% Revenue Increase			2019 Average Monthly Bill Scenario B: 16.75% Revenue Increase		
		Full COS	2-Yr. Phase-In	5-Yr. Phase-In	Full COS	2-Yr. Phase-In	5-Yr. Phase-In
S-F Residence (7 ccf/mo.)	\$24.47	\$27.30	\$27.80	\$28.03	\$27.60	\$28.11	\$28.34
Industrial Customer A	\$49,622.96	\$68,192.32	\$62,746.92	\$59,497.68	\$68,945.93	\$63,417.49	\$60,136.26
Industrial Customer B	\$2,354.18	\$2,625.29	\$2,672.38	\$2,700.61	\$2,653.79	\$2,700.78	\$2,729.58
Industrial Customer C	\$15,504.85	\$22,856.58	\$20,383.82	\$18,906.29	\$23,117.43	\$20,585.79	\$19,107.25
Industrial Customer D	\$6,307.14	\$7,902.00	\$7,591.39	\$7,408.59	\$7,992.68	\$7,671.77	\$7,490.04
Industrial Customer E	\$6,748.76	\$8,664.96	\$8,225.74	\$7,968.33	\$8,766.88	\$8,314.05	\$8,057.66
Industrial Customer F	\$139.90	\$144.61	\$153.09	\$158.19	\$146.17	\$154.75	\$159.90
Industrial Customer G	\$9,804.09	\$10,134.12	\$10,728.93	\$11,085.80	\$10,243.89	\$10,845.06	\$11,205.81
Industrial Customer H	\$1,182.95	\$1,807.25	\$1,586.40	\$1,454.58	\$1,827.13	\$1,603.76	\$1,470.23
Industrial Customer I	\$1,224.38	\$1,691.14	\$1,553.35	\$1,470.48	\$1,709.80	\$1,568.33	\$1,485.66

Councilmember Hogaboam asked questions concerning the industrial classes.

Question #2: Cost-of-Service Analysis

- How should the City implement the COSA findings?
 - No phasing (move to full cost of service)
 - 2-year phase-in (50% of COS adjustment)
 - 5-year phase-in (20% of COS adjustment)

Councilmember Bruner asked for customer C, D, E you can't differentiate as far if they are five or two year, you need to have them all the same

Michael Fuss explained a lot of the discussion that I have had with Mayor Kling is that we are making a one year decision today but we could essentially provide some direction for the future. If you chose the five year example and only implemented one year and then no further you could do that, it is still a shift towards cost. What we can not do is not move at all towards cost of service. We have the information and we need to move somewhere. How far we move and how fast we move. . . because if we do a cost of service any given year it is going to have slightly different answer so I don't want . . .this is the best information that we have today, I wouldn't say if we ran this information in another year or three years that this would not shift a little bit

Councilmember Skaug said based on the election which I have never seen a bond anything close to this where 84 or 85% of people wanted a phase in slowly. My preference is to get it all done but based on that vote, I would say that the five year is what people would prefer. I would support that

Councilmember Bruner asked if you realize the five year phase-in is actually a little more for residential

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Mayor Kling said the one thing that is important to remember is the numbers that were provided to the public did not reflect any shift in cost of service. So whatever we do, at whatever rate will end up in a number that was less than what was presented to the public. My greatest concern in this cost of service analysis is the impact that we have on our businesses. The economic vitality as it relates to our industrial customers and business in the community is really important. So what we want to do is be able to attract business so we have jobs. Different users and different industrial customers use different levels of water, they discharge different kinds of water, but there could be other extenuating circumstances that we experience by the rate increase that we may not want in our community. That would have even greater impact to our citizens because of jobs and because of industry and so I have to say that I support the five year phase-in. Then Michael can we decide next year on what we do for the next year. So we could implement a 20% cost of service adjustment now and then next year reevaluate that and determine where we go from there. I think my concern is that we need to attract business and we don't want to chase them away

Councilmember Bruner said that I am repeating one more time for clarification so on the residence segment we can't give the opinion of going full cost of service for them and doing the five year phase in for industrial

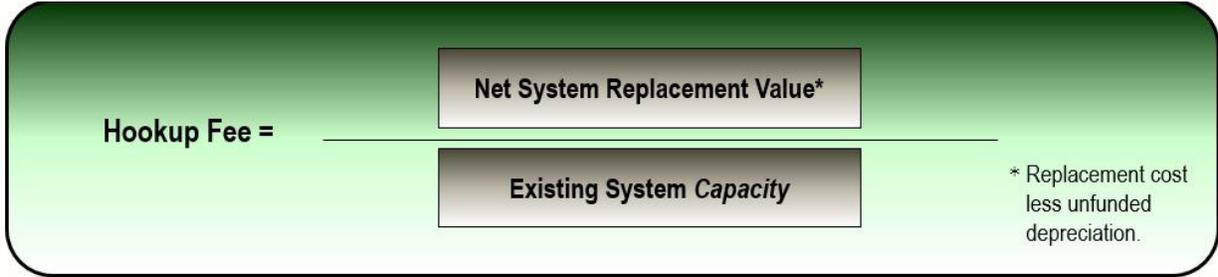
Michael Fuss explained that these are based on all collecting 100% of the revenue requirement. If you start getting one different than the other you won't collect all of the revenue requirement. All of them collect the revenue requirement. If we pick different numbers then and you could shift them all one way or the other to move one different than the other

Councilmember Hogaboam said that he is confused because the five year phase in there is just two categories that are higher than the two year phase-in. It is more for residents in the five year than the two year are those correct numbers and then industrial customer G is the only class of all of the classes that has an increase in the five year over the two year. Why is it that only residents and industrial customer G has to pay more per month in the five year than the two year where all of the other categories

Council recommended five year to staff

Hookup Fee Methodology

Calculate fee "by dividing the net system replacement value by the number of users the system can support". Loomis v. City of Hailey



Features:

Simple, straightforward

- Requires less information
- Likely under-recovers future costs (regulatory changes, capacity expansion)
- Protects developers from wish lists

Hookup Fee Update

- Hook-up fee can only incorporate usable assets
- Phase I Upgrades are still in progress
 - PGA completion expected summer 2018
 - PGB completion expected spring 2019
 - PGC completion expected winter 2019
- Options:
 - Integrate phases of plant improvements as they come on line
 - Wait for plant completion and update hookup fee

Question #3: Hookup Fees

- How often should the City update its hookup fees?
 - Annually?
 - As part of system planning cycles?
 - Some other frequency?
- Should the City adjust hookup fees annually for inflation (ENR) between updates?

Councilmember recommended to staff for a annual review.

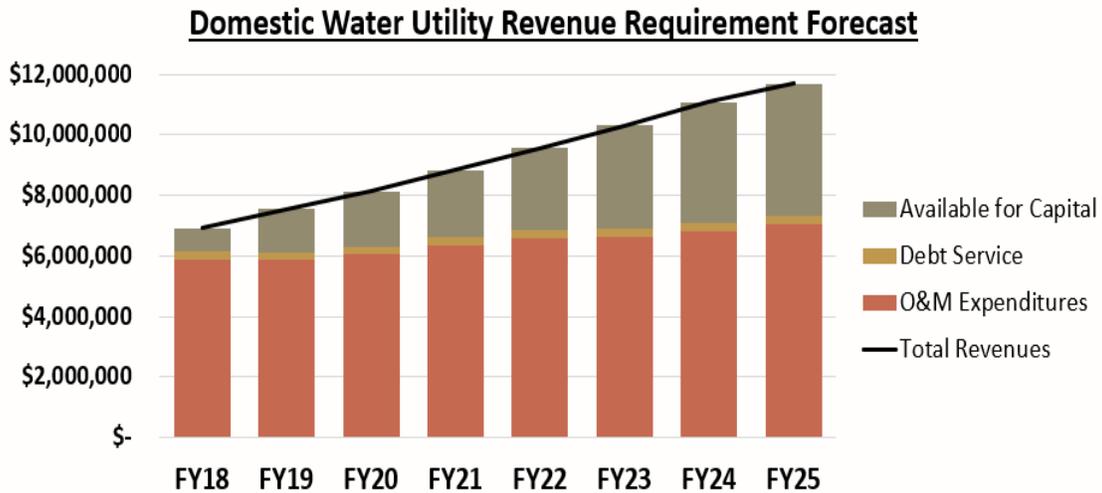
Water Rate Update

- Domestic water rates most recently reviewed in 2015

Domestic Water Rate Increases	FY16	FY17	FY18
Recommended	18.00%	18.00%	18.00%
Adopted by Council	18.00%	9.00%	9.00%

- Domestic water rate update considers:
 - Updated revenue projections (at adopted rates)
 - Updated expense projections (current budget)

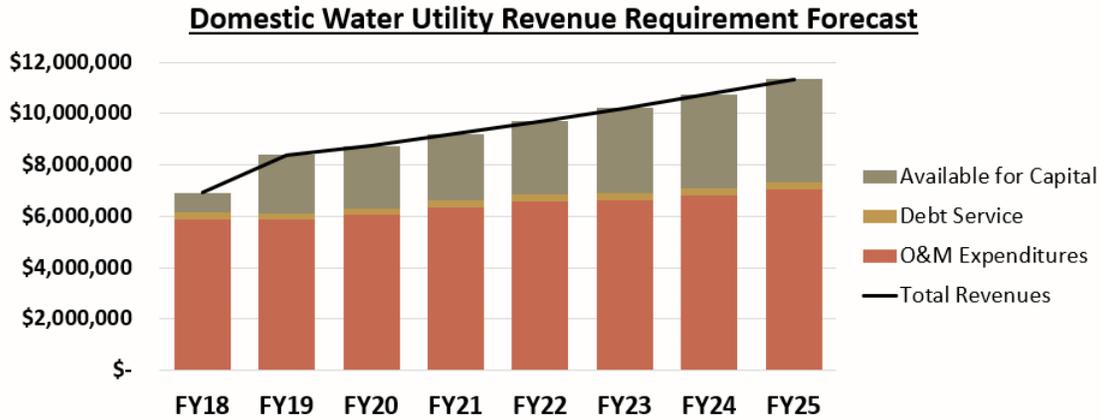
Scenario A: Smoothed Water Rate Increases



	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25
Annual Rate Increase	0.00%	9.00%	9.00%	8.00%	8.00%	7.00%	7.00%	4.50%
Average Monthly Residential Bill @ 7 ccf	\$14.10	\$15.36	\$16.74	\$18.08	\$19.50	\$20.86	\$22.32	\$23.35
1.5% Median Monthly Household Income ¹	\$51.51	\$51.51	\$51.51	\$51.51	\$51.51	\$51.51	\$51.51	\$51.51

¹Based on 2016 MHI of \$41,210.

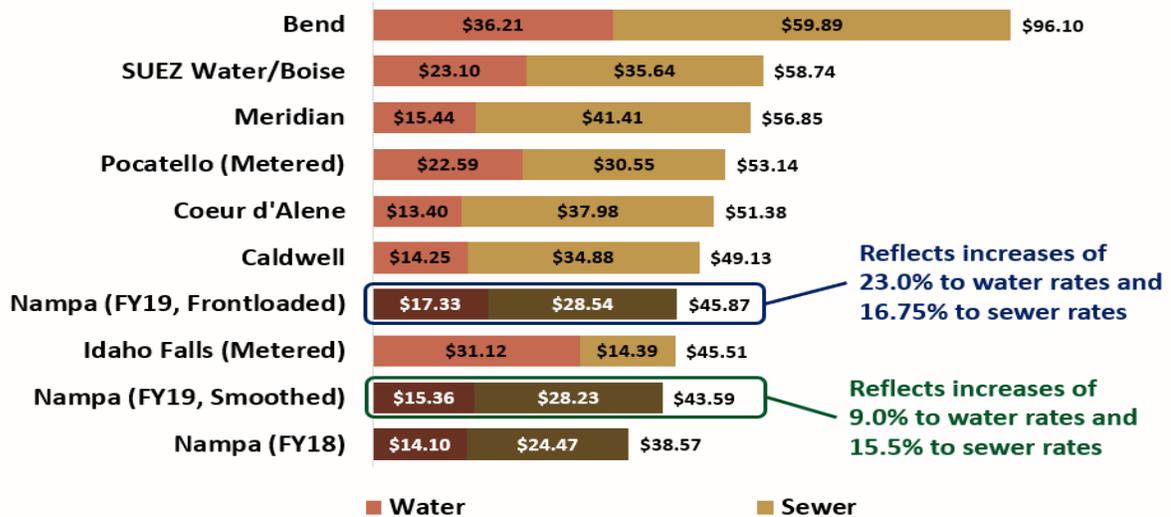
Scenario B: Frontloaded Water Rate Increase



	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25
Annual Rate Increase	0.00%	23.00%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%
Average Monthly Residential Bill @ 7 ccf	\$14.10	\$17.33	\$18.11	\$18.91	\$19.77	\$20.65	\$21.56	\$22.53
1.5% Median Monthly Household Income ¹	\$51.51	\$51.51	\$51.51	\$51.51	\$51.51	\$51.51	\$51.51	\$51.51

Councilmembers recommended scenario A Smoothed Water Rate Increases to staff.

Combined Monthly Water/Sewer Bill Comparison (3/4" Single-Family Residential @ 7 ccf/Month)



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 Impact of Monthly Billing

- City staff estimated the incremental costs of monthly billing:
 - \$101,753 per year in salaries/benefits for 2 additional FTEs
 - \$95,616 per year in merchant processing fees
 - \$85,860 per year in printing/mailing costs
 - \$30,712 per year in lock box services
 - \$7,500 for billing software support services (one-time expense)

On-going Annual cost of \$313,941
- Based on the City’s allocation of utility billing costs among utilities, the following rate increases would be needed to cover the incremental costs:

Utility	Allocation of Utility Billing Costs	Incremental Cost (Ongoing)	Rate Increase Needed
Domestic Water	44.0%	\$138,134	2.0%
Wastewater	25.0%	\$78,485	0.6%

Mayor Kling said that she was surprised at the cost of this and so before going to any public hearing we are going to be doing further research to see what we can do to minimize that impact. I personally don’t like to see that cost. I am going to be looking at ways to midigate that

Councilmembers asked questions on the use of the cash flow that would be coming in quicker. And what is the cost of billing for bi-monthly

Mayor Kling asked the question when we are looking at the public hearings, how do you want to manage that, because is this a public hearing if we are going or is this just a decision

Michael Fuss said that this adds to the rate, the rate is what we will be presenting in the public hearing. So given the information that we have. . .I think when staff look at the purpose of single month billing is at the end of the day, when all of the rates are in, can customers handle that every two months when it might be a couple of hundred dollar a month bill or would they rather get a hundred dollar every month instead of \$200 dollar every two months. Is it better for the customer to get it every other even though it may have more overall costs. We can bring this as an add on at the public hearing that is where we are at today

Mayor Kling asked if we were to go to monthly bill and no additional cost to the customers would we have to go to public hearing

In all cases we would have to go to a public hearing because of the 16.75%. For this if we took monthly billing and sewer and we said 16.75% you would add .6% so it would be 17.35%

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Mayor Kling if we decided we could move to monthly billing with no additional costs for example but we would not need a public hearing but we would just need the input of the citizens if they would like it

Councilmembers were in agreement of the bi-monthly billing

Mayor Kling presented a request to **authorize advertisement of public hearing on Monday July 16, 2018** to present recommended increase to various **wastewater and water rates, fees and charges**.

MOVED by Hogaboam and **SECONDED** by Rodriguez to **authorize advertisement of public hearing on Monday July 16, 2018** to present recommended increase to various **wastewater and water rates, fees and charges**. The Mayor asked for a roll call vote with all councilmembers present voting **YES**. Mayor Kling declared the

MOTION CARRIED

Mayor Kling presented a request for **fiscal year 2018 Idaho Department of Environmental Quality (IDEQ) State Revolving Fund (SRF) Loan (\$5M)** to pursue the loan at 2.75%.

MOVED by Bruner and **SECONDED** by Rodriguez to **do not pursue the SRF Loan** for \$5M at 2.75% and let it expire. The Mayor asked for a roll call vote with all councilmembers present voting **YES**. Mayor Kling declared the

MOTION CARRIED

MOVED by Haverfield and **SECONDED** by Rodriguez to **adjourn the meeting at 6:03 p.m.** The Mayor declared the

MOTION CARRIED

Passed this 18th day of June 2018.

MAYOR

ATTEST:

CITY CLERK