

## **City Council Minutes – October 15, 2018**

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At 6:00 p.m. Mayor Laurie Gere called to order the regular Anacortes City Council meeting of October 15, 2018. Councilmembers Eric Johnson, Anthony Young, Ryan Walters, Brad Adams, Liz Lovelett, Bruce McDougall and Matt Miller were present. The assembly joined in the Pledge of Allegiance.

### **Announcements and Committee Reports**

Mayor's Award of Merit Presentation to Terry Nemeth: Mayor Gere presented the Mayor's Award of Merit to Water Distribution Supervisor Terry Nemeth. The mayor read from her letter included in the Council packet for the meeting which cited Mr. Nemeth's longstanding exceptional service to the water utility and his recent leadership on installing fiber optics in the water system, remodeling the Operations shop and coordinating with WSDOT on the Sharpe's Corner roundabout project.

Finance Committee: Mr. Johnson reported from the committee meeting the prior Wednesday at which the committee members discussed the finance update that would be presented later on the agenda.

Public Works Committee: Mr. Adams reported from the committee meeting earlier in the evening. He said those present discussed the sewer storage equalization project to store stormwater and sewage during overflow events. Mr. Adams advised that a consultant would be engaged to compile a scope study budget for that project. Mr. Adams also reported that Phase 3 of the fiber telemetry project was progressing on schedule and that Public Works Director Fred Buckenmeyer would be providing councilmembers with a status report on current public works projects. Ms. Lovelett added that the stormwater program coordinator position had been posted.

### **Public Comment**

Bill Blake, District Manager, Skagit Conservation District (SCD), addressed the District's rates and charges proposal currently before the Skagit County Commissioners. Mr. Blake explained that RCW 89.08.405 allows counties to approve rates and charges for conservations districts and that many districts around the state have adopted the rates in response to diminishing state funding. He distributed a Rates and Charges Analysis for the proposal which was added to the packet materials for the meeting. Mr. Blake responded to questions from the mayor and councilmembers regarding SCD's historical funding sources, agricultural land, and the collection mechanisms for the proposed rates. Mr. Walters referenced the city's contract with SCD for stormwater outreach and education and encouraged more demonstration programs on Fidalgo Island with measurable impacts rather than classes in Mount Vernon. Mr. Walters asked the SCD to advocate to have conservation district elections moved onto the regular general election ballot and possibly allow for electronic voting.

Dennis Clark, 3805 M Avenue, commended the mayor and Council for committing to improving the condition of Anacortes streets for the past five years. Mr. Clark said that proposed Proposition 1 establishing a transportation sales tax had the potential to add to that momentum but that Anacortes needed to prepare for the possibility that the measure would not pass in the November election. He requested that the 2019/2020 budget include alternative funding sources to allow more than \$1.1M of annual spending on street maintenance in the event that the additional sales tax was not approved by the voters.

### **Consent Agenda**

Mr. Walters removed Items 5c and 5d from the Consent Agenda. Mr. Young removed Item 5b from the Consent Agenda. Ms. Lovelett moved, seconded by Mr. Adams, to approve the following Consent Agenda item. The motion carried unanimously by voice vote.

- a. Minutes of October 8, 2018

The following vouchers/checks were approved for payment:  
EFT numbers: 90915 through 90949, total \$173,050.58  
Check numbers: 90950 through 90978, total \$164,802.37  
Wire transfer numbers: 239021 through 239089, total \$1,719.31

b. Approval of Claims in the amount of: \$339,572.26

Mr. Young noted an absence of purchases from Amazon on the voucher list and commended staff for that. He requested that a column for the purchasing department be added to the voucher list. Ms. Lovelett suggested that the Finance Committee consider that request as part of its ongoing work to revise the purchasing policy for presentation and eventual adoption by the Council. Mr. Young repeated his suggestion that Anacortes implement a policy mirroring the City of Redmond which he said allows local purchases below a specified threshold. Mr. Johnson and City Attorney Darcy Swetnam reminded of the RCW provisions constraining such policies. Mr. Young moved, seconded by Ms. Lovelett, to approve Consent Agenda Item 5b. The motion carried unanimously by voice vote. Mr. Walters and Ms. Swetnam suggested that the purchasing policy would come back before Council for review later in the fall after the heavy budget meeting schedule at upcoming meetings.

c. Contract Award: 2018 Storm Pond Maintenance 18-084-STM-001

Mr. Walters questioned Public Works Director Fred Buckenmeyer about the work involved with storm pond maintenance, the functional, legal and financial impact of deferred pond maintenance, and the plans to increase pond maintenance now that new stormwater fees were in effect. Mr. Miller confirmed that stormwater fund cash reserves would be used for the subject contract

d. Contract Award: Operations Facility Remodel - Drywall 16-085-IDS-009

Mr. Walters and Mr. Adams asked Mr. Buckenmeyer why only one bid might have been received for the subject contract, what the city could do to encourage more bidders, and how staff ensured that pricing was competitive with only one bidder. Mr. Buckenmeyer explained how the active residential construction market affected contractor interest in relatively small scale drywall projects.

Mr. Walters moved, seconded by Mr. Johnson, to approve Consent Agenda Items 5c and 5d. The motion carried unanimously by voice vote.

## **OTHER BUSINESS**

### **Third Quarter Finance Update**

Finance Director Steve Heglund presented a series of charts summarizing the city's financial picture at the end of the third quarter. He reviewed tax revenue by type, sales tax by month (20% over prior year, 9.5% over budget, some of that increase due to the high school construction project but still 9% over prior year excluding that project), REET (9% over prior year), impact fees (154% over prior year, reflecting the new fees effective in 2018), and lodging tax (6.8% over prior year). Mr. Heglund then reviewed revenues and expenditures by fund compared to budget and reported no troubling discrepancies, noting funds for which second half property tax distribution and year end fund transfers were pending. He concluded that the city's overall financial position was healthy. Mr. Walters asked if Fund 335 could be renamed to identify it with REET. Mr. Heglund agreed that his charts could reflect that alias.

Mr. Heglund then presented a pie chart summarizing the city's investment portfolio for its \$58M of cash reserves. Following a suggestion from the Finance Committee, Mr. Heglund then shared a second pie chart identifying how the total portfolio divided among the various funds, purposes and restriction categories. After

explaining the different reserve funds, he noted the approximately \$3M of general fund unrestricted cash reserves available for allocation to operational expenses. In response to a question from Mr. Johnson, Mr. Hoglund reported that the relatively small IT equipment replacement reserve was included in that cash balance.

Mr. Young requested a list of the funds, their revenue sources and expenditure purposes. Mr. Hoglund said he could email such a summary to councilmembers. Ms. Lovelett inquired how much of the \$6.5M Equipment Rental reserve was earmarked for specific vehicles. Mr. Hoglund explained that virtually all of it was already allocated to existing equipment and that virtually all equipment was now accumulating adequate reserves other than the Fire Department ladder truck. Mr. Johnson confirmed that the \$4.8M identified on the chart as Restricted Emergency Reserve represented the Economic Stabilization Reserve Fund established by the adopted fund balance policy.

Mayor Gere invited members of the audience to comment on this agenda item. No one present wished to address the Council.

Mr. Johnson suggested that constituents would appreciate a graphical representation of how much of the sales and property tax collected in Anacortes residents was in fact distributed to the city and how much to the state, county and other taxing districts. Mr. Hoglund agreed to email that out and to add it future quarterly updates.

### **Fiber Update**

Administrative Services Director Emily Schuh and councilmember Bruce McDougall presented the fiber network business plan prepared in response to Council's direction in Resolution 2013. Their slide presentation was added to the packet materials for the meeting. Ms. Schuh thanked Mayor Gere, Public Works Director Fred Buckenmeyer, Ad Hoc Council Fiber Committee members Matt Miller, Ryan Walters and Bruce McDougall, and the 42 volunteers serving as fiber champions in the community for the extensive collective effort to develop the business plan. Ms. Schuh reiterated that the municipal fiber project had not yet been included in the proposed 2019/2020 biennial budget and that implementing the business plan would require budgeting \$3.2M in the upcoming biennium towards an overall five-year project budget of \$13.5M.

Ms. Schuh and Mr. McDougall proceeded sequentially through the slide presentation, soliciting councilmember input and responding to questions.

While reviewing the SWOT Analysis for the project, Mr. McDougall suggested adding as a strength that fiber is essentially futureproof technology for transporting data. Mr. Miller suggested adding as a strength the fact that fiber connection to a structure increases its property value. He also suggested adding as a threat that failure to maintain the initial customer base could leave the city with insufficient revenue to service the debt for the project.

Mr. Young requested more information about the potential to lease excess dark fiber capacity. Ms. Lovelett requested more information about bundling content services to meet the needs of potential customers who prefer one stop shopping. Mr. Johnson requested more information about the I5 fiber backbone to which the Anacortes network would connect and whether net neutrality was observed there. Mr. McDougall elaborated on the city's likely relationship with the Transit ISP and observed that Transit ISPs generally observe net neutrality. He responded to councilmember technical questions about serving multiple addresses with a single fiber strand and repairing physical damage to installed fiber.

Councilmembers discussed in some depth the slide presenting market comparisons of residential fiber services provided by Fort Collins, Colorado, Chattanooga, Tennessee, Sandy, Oregon, Cedar Falls, Iowa, Wilson, North Carolina, and Longmont, Colorado. Mr. Walters urged an installation fee of at least \$100 (or one month of subscription cost) and requiring a contract with subscribers. Mr. Miller supported an install fee of some amount and favored a loyalty incentive such as that offered by Longmont, Colorado. In response to a question from Ms.

Lovelett, Mr. McDougall observed that some of the comparison cities had fiber service competitors and others, those with the highest market share, generally had only cable and DSL competition. In response to a question from Mr. Adams, Mr. McDougall explained that the actual installation cost to each home would be far more than \$100 but would be recouped through rates paid by that home over time. Ms. Schuh and Mr. McDougall discussed options for working with partners to bundle content services which seemed to be important to maintain market share in the comparison cities.

Councilmembers then discussed the slide presenting market comparisons of business fiber services. Ms. Lovelett felt strongly that Anacortes should offer more affordable options if fiber was to be an economic development tool. Mr. McDougall said the price range charged by other cities seemed high to him as well. He added that the business plan pricing model assumed business subscriber fees double the residential fees.

Ms. Lovelett inquired about the useful life of fiber and reminded that the city would need to budget for replacement of that infrastructure after its 25-30 year expected life. She confirmed with Ms. Schuh that the business plan included the cost of office space for the proposed new staff members. Mr. Walters urged hiring the proposed fiber manager and having that person on board to influence the rest of the proposed organization chart for the fiber network within the Administrative Services Department.

Councilmembers discussed the financial model and potential funding for the first year with the mayor and staff. Mayor Gere proposed that the \$1.2M first year costs be funded out of general fund cash reserves, then depending on how the model performed, possibly issuing a councilmanic bond. She said the city generally avoided taking on additional debt but that if the first year network trial proved out the business plan, a bond might be prudent, particularly given that the last of the city's general obligation bonds would be paid off in 2020. Mr. Young noted that the financial model did not include any possible grant opportunities. Mr. McDougall emphasized that the business model was based on very conservative assumptions. Mr. Miller focused the discussion on the near term, noting that Council only needed to decide on whether and how to proceed for the first year or two and that it would then have to evaluate the longer term options based on results in the trial zones. He added that including potential dark fiber lease revenue into the financial model could improve the cash flow. Mr. Walters concurred, and spoke in favor of proceeding with the first year using General Fund cash reserves to cover the up front costs.

Ms. Schuh opened the discussion up to members of the audience.

Chris MacKenzie, 1302 7<sup>th</sup> Street, advocated that the city proceed as quickly as possible in the establishment of a city-wide fiberoptic infrastructure that would give all businesses and residential users economical access to fast, dependable, secure internet service. She supported developing this service developed as a new utility with the City financing immediate construction and establishing fees for service to homes, businesses and to commercial resellers to cover the debt service. Ms. MacKenzie read from her prepared remarks stating her reasons for supporting establishment of the fiber network and expressing concerns with several specific potential features that had been discussed at prior Council meetings. Ms. MacKenzie's comments were added to the packet materials for the meeting.

Art Shotwell, 1910 Cedar Springs Lane, observed that beginning with the neighborhoods that were least expensive to install might yield a lower subscriber rate than in neighborhoods with more expensive homes.

Mr. Johnson noted that many smaller businesses may need less bandwidth than some households. Ms. Schuh agreed that the commercial plan should look at options for different tiers.

Dennis Schafer, 2319 20<sup>th</sup> Street, agreed with councilmember observations that many small businesses and residences don't need 1Gb service. He said \$500 is a bargain for 1Gb service for customers that do need that service. He shared observations from Google's roll out in Kansas City. He also observed that fiber installation to

the premise will very likely turn out to be more expensive than estimated. Mr. Schafer added that customers are often dissatisfied by the infrastructure disruption involved with connection installation but that once fiber is installed to the home, that connection adds value to properties. He asked if the planned staffing for the Anacortes network was based on experience in other cities and said it seemed low to him.

In response to questioning by Mr. Walters, Mr. Hoglund explained the accounting mechanisms anticipated for the network for its first year of operation and the eventual establishment of an enterprise fund to run the utility, which would be funded by its ratepayers rather than by Anacortes taxpayers.

There being no further business, at approximately 8:40 p.m. the Anacortes City Council meeting of October 15, 2018 was adjourned.