At 6:00 p.m. Mayor Laurie Gere called to order the regular Anacortes City Council meeting of November 26, 2018. Councilmembers Eric Johnson, Ryan Walters, Anthony Young, Brad Adams, Liz Lovelett, Bruce McDougall and Matt Miller were present. The assembly joined in the Pledge of Allegiance.

Announcements and Committee Reports

Mr. Young thanked staff for shopping locally where possible within the law.

Mr. Walters announced that the Planning Committee meeting normally scheduled for earlier in the evening had been cancelled.

Public Comment

Chris MacKenzie, 1302 7th Street, alerted Council that the texturing on the new painted sidewalk ramps became very slippery when wet. Ms. MacKenzie said the black, unpainted ramps were not slippery and she suggested removing the paint from the tops of the texture dots. Ms. MacKenzie also thanked the Parks Department for taking such good care of Causland Memorial Park. She said the park felt much safer after the vegetation had been trimmed.

Consent Agenda

Mr. Johnson moved, seconded by Mr. Young, to approve the following Consent Agenda items. The motion carried unanimously by voice vote.

a. Approval of Claims in the amount of: $946,135.23
b. Contract Award: Library Generator Electrical 18-096-FAC-002
c. Contract Award: Library Boilers Replacement 18-173-FAC-001
d. Interlocal Agreement C20170106 Amendment 1 with Skagit County

The following vouchers/checks were approved for payment:
EFT numbers: 91334 through 91373, total $708,178.46
Check numbers: 91374 through 91420, total $234,140.73
Wire transfer numbers: 240938 through 241130, total $3,791.04

OTHER BUSINESS

Sewer Rate Discussion - FCS Group

Finance Director Steve Hoglund introduced the discussion by recalling that the 2015 wastewater comprehensive plan had predicted projected revenue and expenditure streams intersecting and that a wastewater rate increase would be needed. He advised that staff subsequently contracted with FCS Group to analyze the utility's revenue requirements and recommend rate structures. Mr. Hoglund introduced Gordon Wilson, Tage Aaker and Amanda Levine from FCS Group.

Gordon Wilson, Senior Project Manager, introduced his firm's analysis, referring to the detailed slide presentation included in the packet materials for the meeting. Mr. Wilson said that the first phase of the study addressed the capital spending plan and the revenue needed to complete that work. He said early in 2019 FCS would perform a second phase of their work to recommend means of equitably apportioning the rates between customer classes.

Tage Aaker, Project Manager, then proceeded with the presentation. He reviewed the tools used to forecast revenue requirements to meet the operating costs and capital project costs for the utility, then explained the assumptions behind the forecast including tax rates, overall economic conditions, the city's fiscal policies, and fund balance in the sewer fund. Mr. Johnson noted that the Utility Rate Stabilization Fund established as part of the city's fund balance policy could help smooth out a rate increase over time.

Mr. Aaker displayed the capital expenditure plan for the sewer utility as presented in the Capital Facilities Plan. He demonstrated that fund balance and projected General Facilities Charges would not be sufficient to meet the capital needs of the utility through 2024. Ms. Lovelett confirmed with Mr. Hoglund that the proposed 2019/2020 biennial budget included the sewer capital projects listed in the CFP for 2019 and 2020 and budgeted spending cash reserves and GFCs to fund that work, with no change in the rate structure. Mr. Hoglund noted that the budget document forecast higher GFC revenue than that assumed by the FCS study. Mr. Aaker displayed the annual GFC revenue for 2008 through 2018 and projected through 2024, noting that GFC revenue is responsive to national economic cycles and that the FCS analysis projected GFC's conservatively to avoid the possibility of a second round of upward rate adjustments during the six year period. Mr. Wilson added that FCS would be conducting further analysis of both water and sewer GFC rates in 2019 and that the sewer GFC rate could possibly decrease. Mr. McDougall inquired how the past several years of sewer capital expenditures had been funded if rate revenue was only covering the utility's operating costs. Mr. Hoglund explained that the utility had accumulated some cash reserves over the 20 years that the wastewater treatment plant bond was being paid down but that significant capital spending had been deferred during those years to build up that reserve. Ms. Lovelett asked if the potential Combined Sewer Overflow project was reflected in the CIP. Public Works Director Fred Buckenmeyer said the CSO project was not explicitly listed in the CIP but would likely be funded using the I&I Reduction line item as the CSO project served the same purpose as replacing existing pipe to reduce stormwater infiltration: reduction of peak event demand on the wastewater treatment plant. Mr. Walters confirmed with Mr. Buckenmeyer that there were no additional known sewer capital projects on the horizon other than those addressed in the CIP.

Mr. Aaker then addressed the projected revenue needs to fund the $17.3M of planned capital expenditures through 2024. He explained the proposed capital funding strategy based on approximately $4.1M of fund balance, $4.4M of GFC revenue, $7.6M of rate revenue and $1.25M of debt towards the end of the 6-year planning period. Mr. Aaker discussed the rate scenario included in the strategy, involving increasing sewer rates by 7% per year across the board for six years (with no additional CPI increase during that time) to put the utility on a healthy footing for capital expenditures after than time with only CPI increases to the annual rates. Mr. Wilson added that an alternative scenario of 8% annual rate increases through 2024 would allow the utility to avoid debt altogether. However, FCS advised it would be prudent to re-evaluate the model and the rates every two years and adjust them if necessary in response to economic conditions, actual GFC revenue, relative interest rates and other factors. Several councilmembers expressed concern about unknown capital projects, including potential plant expansion, beyond 2024. Councilmembers requested that Mr. Buckenmeyer provide a categorization of the capital projects, including which are annual ongoing M&R and which are repeated on longer, even significantly longer, cycles.

Mr. Aaker displayed a slide demonstrating the impact of an annual 7% rate increase on a typical single family residential customer, projecting an additional $3-$5 monthly cost each year. He reminded that FCS would be continuing its study in 2019 to analyze alternative rate structures for customer classes, not necessarily flat increases across all customer classes. Mr. Walters urged a simpler rate structure, one easier for the public to understand, as the current winter averaging often confused customers. Mr. Aaker agreed, noting that some sort of winter averaging calculation was common among sewer utilities but that a variety of means were possible. He displayed a slide comparing Anacortes current sewer rates and a 7% higher rate to 2018 rates in effect at neighboring jurisdictions. Mr. Aaker concluded that Anacortes rates would not be out of line with other utilities in the region. Mr. Miller noted that Oak Harbor's significantly higher rates were related to the new treatment plant it had just constructed.

Mr. Aaker finally presented a slide comparing three rate increase scenarios ranging from 6% to 8% annually for 2019-2024. He explained the effect of rates on debt load, fund balance and customer bills. He concluded by summarizing the revenue requirements to fund planned sewer capital expenditures, the recommended next steps for rate adoption including a 7% increase effective January 1, 2019, and the next phase of the study to establish rate equity, rate design and appropriate GFCs. Mr. Hoglund reiterated that the proposed 2019/2020 biennial budget did not assume a sewer rate increase so Council was not required to adopt a rate scenario before the end of the year. Mr. Miller noted that the budgeted funding strategy would spend down cash reserves in the sewer utility. He recommended against further deferring needed maintenance. Mr. Adams observed that the GFC revenue projected by FCS was very conservative. Mr. Aaker acknowledged that, but noted that even at its highest (2016) annual GFC revenue would be insufficient to fund the entire capital program so some sort of rate adjustment would be necessary. Mr. Adams suggested not adopting a specific rate increase until staff was able to provide a better estimate of the cost of the CSO project. Mr. McDougall suggested that perhaps if GFC revenue exceeded FCS projections a 7% rate increase could be invoke for fewer than six years to achieve the same financial stability for the utility. Mr. Wilson advised that his recommendation of a 7% rate increase was partly predicated on the knowledge that the GFC revenue could likely come in higher than projected for at least some portion of the next six years. Mr. Johnson observed that the growth rate assumed by FCS's projected GFC revenue did not match Comprehensive Plan growth projections. Mr. Aaker agreed, explaining that comprehensive planning errs on the side of assuming higher growth rates in order to ensure adequate capacity, whereas rate planning errs on the side of assuming lower growth rates in order to ensure adequate funding. Ms. Lovelett asked what the debt service cost would be for $1.25M of borrowing. Mr. Hoglund estimated a few hundred thousand in debt service depending on the payback schedule. Ms. Lovelett urged considering debt as part of the equation to provide some relief for ratepayers who have faced a number of sizable increases in recent years. Mr. Miller suggested that borrowing makes sense for large, irregular CIP projects rather than routine M&R. Mr. Young suggested that current low interest rates might make borrowing a better option in the near term rather than four years out as suggested in the FCS recommendation. Mr. Walters reminded that the utility could possibly borrow from another enterprise fund for relatively small, short duration needs.

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

There being no further business, at approximately 7:18 p.m. the Anacortes City Council meeting of November 26, 2018 was adjourned.