

BUDGET WORKSHOP MEETING

Location: Senior Center

October 16, 2007

7:30 p.m.

Attending:

Mayor Barbara Larsen, and Councilmembers Julie Bean, Ed Smith, Khembar Yund, and Greg Marcil

Staff: David Vorse (Public Works Director), Ryana Covington (Clerk-Treasurer)

Public: Mike Mask, Earl Queen, Mr. and Mrs Jack Reilly

0042 Mayor Larsen opened the Workshop Meeting at the above time and location to discuss issues relating to the preparation of the budget for fiscal year, 2008 for utilities and stormwater funds.

0052 (Fund #400); Water And Sewer Fund

Covington stated if rates remain the same as in 2007, revenues projections for 2008 are \$537,900 for the Water Fund and \$601,000 for the Sewer Fund. The combined beginning fund balance for the Water/Sewer Fund is estimated to be \$254,616.

Expenditure: Water Fund -

Vorse described the problems with services on Carpenter Road, which do not meet the State minimum psi standards at the service meter. The engineer's estimated cost to address the problem would be \$450,000 - \$650,000 if done by a contractor. This cost could be reduced to around \$250,000 if public works personnel complete a portion of the work.

Vorse stated that he is continuing to seek funding for the project to avoid bearing the burden on existing customers. At any rate, the city will need to seek significant contributions from those customers already on that service line.

Water main replacement – 100 block of First Avenue; \$15,000

Water main replacement – 500 block of Hibbard Street; \$11,000

Water main replacement – Second Avenue, B Street, or Aden Street; \$55,000

Leaks in these mains were discovered through the city's leak detection program. Most of the mains were put in during the 1930's and 1940's. The cost estimates are based on using city labor forces. Two water main replacement projects were slated to be completed in this current fiscal year, however other priorities prevented staff from having the time to complete either project.

Utility billing system - \$10,000. Vorse stated this was included in the budget, however the purchase cannot be made this year. Covington stated that other cities are also seeking alternative from Harris billing system, which is creating favorable pricing from software providers.

Meter replacement - \$20,000. This would institute a meter replacement program to update old meters to help reduce the unaccounted water loss. Vorse stated that utility meters act as the city's cash registers and if they are not functioning correctly, the city loses revenue and cannot account for the loss in consumption. The replacement meters would include capabilities for radio read to allow for improved meter reading capabilities. These meters also show any backflow issues or problems with broken meters - and the public still will have the capability of verifying their own readings.

Leak Detection Survey - \$5,000. Federal regulations will be mandating cities to bring their unaccounted water to under 10%. Currently the city has an average of 39% unaccounted water for this year.

In answer to a question from Mask, Vorse stated that moving toward radio

readings will not affect the public works secretary position.

In answer to Smith's question, Covington stated that the phone system cost share has not been included in the proposed expenditure. Since the council decided to seek a lease option, the month cost will be minimal between all of the affected funds.

Yund cited the Carpenter Road pump station as the highest priority. In answer to Riley's question, Vorse stated that his personnel could possibly do the Carpenter Road project, plus one other main replacement project. However his personnel would not have enough man hours to do a second main replacement.

In answer to Smith's question, Vorse stated the Carpenter Road pump station will require two pumps and a generator. The pump station will cost \$220,000 and the public works cost will be an additional \$30,000.

Councilmembers discussed the possibility of a ULID agreement to help pay for the pump station costs.

In answer to Bean's question, Vorse stated that based on the unaccountable water percentage, he feels there may be other leaks in the system that have not been identified.

In answer to Smith's question, Vorse stated that he is working with the city engineer to develop specs for the equipment. Vorse stated that 20 to 25 meters need to be replaced each year. Smith stated then it would be prudent to begin this program.

In answer to Mask's question, Vorse stated the city would need to update the utility billing software to provide compatibility with the electronic meter reading.

Vorse recapped priorities identified by councilmembers as follows:
Carpenter Road, if funds are available.

Leak detection a higher priority over meter replacement

Purchase of a billing system a priority over meter replacement, but to have the city work toward identifying the type of meter to be used as replacements. Smith stated once meters begin to be replaced, the city will be able to check the unaccounted water percentage to ascertain if this malfunctioning meters contributed to the problem.

Vorse added that 40% of the city meters were originally installed in the 1970's. Typically the life span of a meter is 10 to 15 years.

Expenditure; Sewer Fund

3718 2/3 of the cost for a sewer system inspection plan - \$8,000.

Vorse stated that the city's insurance pool is requiring all cities to institute a sewer maintenance inspection plan, which included TV'ing and inspection of all sewer lines within a five-year period. This was included in the 2007 budget, however not completed because the insurance pool will be developing parameters to serve as an outline for the plan. The other 1/3 of the cost is included in the Regional Sewer Fund.

Billing system - \$10,000. This is the portion of the billing system attributed to the sewer services.

3954 (Fund #410); Regional Water Fund

Upgrade of the Regional Water Treatment Plant; funded by a \$200,000 Rural County Funds grant and a Drinking Water State Revolving Fund (DWSRF) low interest loan in the amount of \$1,812,950. The term of this loan is 20 years, interest rate of 1%. Vorse stated upgrades will address problems such as turbidity and low water pressure issues. Construction is expected to begin, summer of 2008. Vorse summarized some of the reasons for the treatment plant problems

and councilmembers discussed silt issues that have plagued other cities on the Cowlitz River.

Water main replacement – Woodard Avenue to Cowlitz View Court; \$20,000. This is the main line that ties in all of the city's wells. The line does not leak, however it is undersized.

Side - B

Lowering of water main at Powell Road and Buland Drive; \$5,000. This project will be required if Cowlitz County completes the road project in this area. Covington suggested Vorse could eliminate this expense from the Regional Water Fund and budget it through the Regional Water Capital Improvement Fund.

Request for additional employee – Treatment Plant Operator II. Cost of employee would be shared between the Regional Water Fund and the Regional Sewer Fund. This position will require a minimum of Class II certification in water treatment, Class II certification in sewer treatment and Class II in water distribution. The classification is already included in the collective bargaining agreement and there are existing employees who qualify. If the new position is filled 'in-house', then an additional person would be hired at entry level. Vorse cited additional testing and certification requirements at both plants, as the reason for the request. He described specific issues of those requirements.

Covington reviewed the updated Schedule of Long Term Debt outlining debt balances for the Regional Water System, as of December 31, 2007. Covington stated this does not include the new DWSRF loan.

6121 (Fund #415); Regional Sewer Fund

BOD Incubator - \$3,500. Because the testing requirements have doubled, the city will need to purchase an incubator to hold all of the testing bottles.

1/3 cost of the sewer inspection plan - \$4,000

½ cost for addition of a new employee for the Treatment Plant Operator II classification.

Councilmembers reviewed the updated Schedule of Long Term Debt outlining debt balances for the Regional Sewer System, as of December 31, 2007. Covington stated these loan debts were incurred because the city did not qualify for low income grants and that the city's sewer rates were not considered high enough. The State was in the process of imposing sanctions on the city's sewer system, making these improvements necessary.

6908 (Fund #430); Regional Water Capital Improvement Fund

Covington stated that revenues include a \$10,000 interfund transfer from the Regional Water Fund and revenues from a portion of all system development charges for new services located in both the county and city.

Mask asked why the city does not use these funds to pay off the long-term debt. Councilmembers answered that this Capital Improvement Fund is to be used for emergencies and to build a contingency fund for future capital needs. If this fund would be spent, the city would be in the same situation when capital improvement mandates are imposed by regulatory agencies. Marcil added that loan and grant funding is a competitive process and sometimes takes years to obtain.

7604 (Fund #440); Water Bond Reserve Fund

Covington stated this fund is a condition of the Rural Development loan funding. This must remain in reserve and can be used toward final payment of that debt.

7628 (Fund #450); Sewer Bond Reserve Fund

Councilmembers reviewed the 10-year build-up requirement from Rural

Development, which is a condition of the new \$2.4 million dollar loan and the \$655,000 loan for the sewer plant upgrade. It carries the same conditions as stated in Fund #440 above.

8249 (Fund #460); Sewer Loan Reserve Fund

This is a requirement of the Department of Ecology loan. No further contributions to this account is required and the balance can be used toward the final payment of the loan. Covington stated the balance of that loan is

approximately \$116,000, not including any additional interest accrual.

8347 (Fund #465); Emergency Repair and Replacement Reserve Fund

This is a second requirement of the Department of Ecology loan. No further contributions to this account is required and the balance can be used toward the final payment of the loan.

8409 (Fund #470); Regional Sewer Capital Improvement Fund

A \$5,000 transfer from the Regional Sewer Fund will be added in 2008. No expenditures are anticipated from this fund.

Smith and Vorse explained the function of the Regional Utility Board and how this relationship affects budget decisions for the Regional Water and Regional Sewer funds.

8503 (Fund #420); Stormwater Management Fund

Covington stated revenues come from the storm drain fees included on monthly utility bills. The average annual income is \$40,000. Covington projects a beginning fund balance of approximately \$7,500.

Vorse stated this fund supports maintenance of the storm drains, the dike, pump stations, catch basins and the stormwater collection systems. The city does not have a diking district.

In answer to Smith's question, the city does contract out some of the work to clean catch basins. The city also has a truck to maintain the system.

Proposed projects:

Levee certification - \$20,000 estimated cost if contracted through Army Corps of Engineer. As a result of Hurricane Katrina's damage in New Orleans, Vorse stated FEMA is now requiring all levees to be certified. This means the city will need to hire a firm to ascertain that the levee is stable. The city's levee was originally built by the Army Corps of Engineer and this agency conducts an annual inspection of the city's levee and maintenance program. The city has consistently received passing reviews for these inspections. Unfortunately FEMA is imposing more requirements before they will insure any losses. Vorse stated he will be meeting with the county's diking districts to see if a regional contract can be negotiated with the Army Corps of Engineer (ACOE) to effect a more cost efficient plan for all agencies.

Tree removal on the levee - \$10,000. Vorse explained how policies for tree growth on the levee have evolved. Now FEMA is requiring all trees to be removed down to the toe of the levee. This year ACOE have adopted the new regulations and will be incorporating it into the annual inspection criteria.

Mask suggested using the county jail crew to remove the trees. Vorse stated the city still needs to pay the county for that service.

Lions Pride Park erosion - \$25,000. This project will repair the damage incurred by the November 2006 storm when the high water from the Cowlitz River eroded part of the south end of the parking facility. The city submitted a claim to FEMA,

which was denied. Vorse noted that the city's appeal on the original denial also was not successful. Queen noted that the Corps of Engineer originally put in the riprap and asked why the city could not appeal to them for financial assistance.

Vorse summarized the reason for the river eroding at that section of the park. He added that ACOE does not have any funding for such projects and the addition of riprap would only worsen the problem. Vorse stated the city can fill in the hole up to the normal high water mark. By using city work force, Vorse hopes the project can be completed for less than the estimated \$25,000.

Vorse stated that the levee certification, tree removal and repair of Lion's Pride Park will be mandatory in 2008.

A final proposed project, North Street Phase 4 – Northwood Court – estimated to cost \$106,000 has been included for council consideration. Vorse summarized the problems with water runoff which is located on private property. He added that no easements exist to permit the city to work in that area. Vorse read a letter submitted by Eric Hansen, resident at 703 Woodard Avenue NE, advising that his basement continues to flood each winter as a result of culvert problems. He is requesting that the city intervene to achieve a long-term mitigation plan with residents.

The project would need to be completed by a contractor because the depth is more than city personnel can manage. Vorse stated the city has already expended funds in an effort to reduce or eliminate the impact of water drainage from adjacent city streets.

Yund noted that the city does not have adequate fund to complete the projects that are required. Vorse stated he may be requesting a small increase (possibly 50¢ for residential customers) in the Storm Drain fee so that federal requirements can be met. The rate has not been increase in over eight years. In answer to Mayor Larsen's question, Vorse stated that Kelso residents pay a storm drain fee in addition to a diking district fee.

Mask voiced concern over the need for increasing fees to the residents, citing that many are on fixed incomes and cannot afford these increases. Vorse stated that the proposed rate increase does not include the North Street project, but would only fund the mandated projects to protect city property.

In answer to Mask's concerns, Councilmembers explained that costs associated with engineering and permitting are in addition to staff time and materials to repair Lions Pride Park. Marcil noted that this project is also important to protect the integrity of Huntington Avenue South.

Councilmembers discussed the impacts of increasing rates and fees and the need to balance this with the responsibility to protect health and safety of the community.

Queen described the work done by the Corps of Engineer which contributed to the river's eddying problems near the park.

Covington stated that the impact directly associated with repayment of the new DWSRF loan will amount to a need to increase water rates by 14%. Payment on the principal and interest will not be required until 2009, so staff recommends an increase of 7% in water rates in 2008, with an additional 7% increase in 2009. Covington stated payment on interest only will be due in 2008.

Mask noted that the public associated 2007 staff salary increases with the increases in utility rates. He is concerned that the public will again associate the projected 4% COLA increases with the utility rate increase proposed in 2008.

Covington noted that utility rates are tied to the cost of maintaining the utility plants and utility systems.

Councilmembers discussed limited funding sources and the need to balance provision of mandated services to the community. Yund agreed that waste within a budget must be cut, however there have not been any frivolous budgetary requests – they are legitimate needs of the city.

2047 Meeting adjourned at 9:43 p.m.

Mayor Barbara Larsen

Clerk-Treasurer