

Call to Order. Meeting called to order by Co-Chair Charlie Averill at 5:30 pm.

Members Present: Wanda Schulze, Andy Maron, Sheina Hughes, Marton Pastusha, Svend Brandt-Ericksen, Council Liaison Jon Quitslund

Absent: Co-Chair Ted Jones

Also Present: Chris Wierzbicki, Public Works Director; DeWayne Pitts, Finance Director

**Agenda and Conflict of Interest:**

- Discussion about adding items to the agenda.
  - No conflicts of interest were disclosed.
2. **Council Study Session (December 3rd):**
    - First substantial opportunity to discuss the draft Environmental Impact Statement (EIS) for the Winslow Sub Area Plan and Comprehensive Plan.
    - A substantial agenda packet will be available, providing insights into council members' thoughts and the direction of the process.
    - The meeting aims to shape the process towards a preferred alternative among the options in the EIS.
    - No final decisions will be made; it's a study session to set up future decisions, possibly in the December 10th Council meeting.
  3. **Fort Ward Sewer District Meeting (December 7th):**
    - The Board of Commissioners of the Fort Ward Sewer District #7 is reassessing wastewater treatment services for the next 60 years.
    - An informational community meeting will be held at Fort Ward Community Hall from 10:30 AM to noon.
    - The meeting invites district sewer users and city representatives to participate in discussions affecting sewer services.
  4. **Last Council Meeting of the Year:**
    - Includes discussions on pavement management and public comments on the sub area plan, comprehensive plan, and EIS.
    - Extensive process of gathering and responding to public comments on the EIS.
  5. **Council Study and Upcoming Meetings:**
    - The council has not yet studied the extensive materials, which will be available online before the December 10th meeting.
    - Upcoming presentations include the draft storm water system plan and bids for the wastewater treatment plant capacity upgrades project.
    - Discussion on policy changes for Sewer District 7 connections is scheduled for February.
  6. **Utility Rate Study Introduction:**
    - Introduction to the current status of the utility rate study, focusing on water and sewer rates.
    - The study aims to evaluate necessary rate increases to fund the capital program.
    - Two major projects are driving the rate increases: the water tank project and capacity upgrades for the wastewater treatment plant.
  7. **Presentation by Chris Gonzalez:**
    - Chris Gonzalez from the FCS group, who has previously worked on rate studies, will present the current variables and impacts on rates.
    - The presentation will provide an overview of the rate study process and financial plans for water and sewer utilities.
    - Further discussions are planned for future meetings, with the goal of presenting to the council in February.

## 8. Overview of Rate Study Process:

- The rate study process has three major phases:
  1. **Revenue Requirement Forecast:** Determines how much revenue is needed to meet utility needs.
  2. **Cost of Service Analysis:** Decides how to recover the revenue requirement from various customer classes.
  3. **Rate Design:** Determines the method of recovery through fixed charges versus volume charges.
- Financial policy evaluation and education/outreach are also important components.

## 9. Revenue Requirement Analysis:

- Focuses on defining cost-based rates to cover operating costs, capital project expenditures, debt service payments, and reserve funding.
- Establishes a multi-year financial plan to minimize surprises, such as unexpected cost escalations in projects.

## 10. Key Assumptions:

- **Inflation Rates:** Assumed at 4% for the next year and 3.5% thereafter, higher than previous assumptions.
- **Salaries and Benefits:** Escalating at 6% for next year and 10% the following year, then 4.25% thereafter.
- **Annual Customer Growth:** Not detailed in this section but likely considered in the financial planning.

## 11. Rate Study Process:

- Discussion on water and sewer financial plans and revenue requirement analysis.
- Emphasis on covering operating costs, capital expenditures, debt service payments, and reserve funding.

## 12. Revenue Requirement Analysis:

- Ensures rates cover all financial obligations, including operating costs, capital projects, and debt service.
- Establishes a multi-year financial plan to minimize surprises.

## 13. Key Assumptions:

- Inflation rates: 4% for next year, 3.5% thereafter.
- Salaries and benefits: 6% increase next year, 10% the following year, then 4.25% annually.
- Customer growth: Not detailed in this section but considered in financial planning.

## 14. Presentation by Chris Gonzalez:

- Overview of the rate study process, including revenue requirement forecast, cost of service analysis, and rate design.
- Financial policy evaluation and education/outreach are also important components

## 15. Phasing Rate Increases:

- Rate increases are phased over several years to manage the reserve balance.
- Some rate funding capital is planned for 2028 and 2029 to replenish reserves and prepare for future capital needs.

## 16. Key Drivers for Rate Increases:

- The water utility needs to fund an additional \$4 million through rates by 2029 compared to the 2022 forecast.
- Discontinuation of the general fund payment for Fire Protection costs, reducing annual revenue by about \$100,000.
- Increased debt service payments by \$170,000 annually due to higher borrowing for capital costs.
- Infrastructure repair budget increased by \$150,000 per year.
- Insurance costs increased by \$50,000 per year, consistent with national trends and higher material costs.
- Higher inflation assumptions also contribute to the need for rate increases.

17. **Rate Increase Plan:**
  - A 25-26% rate increase is needed to cover the differences.
  - Incremental rate increases of 6% per year are planned from 2025 to 2028.
18. **Rate Plan Overview:**
  - The rate plan includes CPI inflation and additional increases from the 2022 study.
  - The 2024 update includes an additional 6% increase to cover various adjustments.
  - Rate increases are phased, with significant adjustments in 2028 to make up the difference.
19. **Impact on Customer Bills:**
  - Monthly bills will increase by approximately \$12 to \$15 over the next few years.
  - By 2029, the monthly bill for 7 CCF will increase from \$36.42 to \$111.03.
20. **Sewer Financial Plan:**
  - Projecting \$30.7 million in capital projects, including treatment plant upgrades, pumping improvements, collection system improvements, and SCADA upgrades.
  - Grants and cash resources will cover about 40% of the cost, with debt covering the remaining 60%.
  - Annual debt service for the sewer utility will increase by about \$1.3 million.
21. **Key Drivers for Rate Increases:**
  - Additional \$3.9 million in capital funding required from rates between 2025 and 2029.
  - Slower growth and reduced SPF revenues contribute to the need for higher rates.
  - Policy change in sewer billing, where the city billed for winter usage during summer months using the winter average.
22. **Sewer Billing Adjustments:**
  - Shift from billing October sewer usage directly to using the winter average to avoid unintended spikes in bills.
  - This change led to a revenue reduction of approximately \$170,000 per year.
23. **Infrastructure and Insurance Costs:**
  - Infrastructure repair costs increased by \$160,000 per year.
  - Insurance costs increased by \$77,000 per year.
  - Higher inflation assumptions also impact costs.
24. **Rate Increase Plan:**
  - Incremental rate increase of 2% per year on top of inflation.
  - Overall sewer rate plan now includes 10.5% annual increases, up from 2% previously.
  - The increase is due to higher inflation, infrastructure costs, and capital funding needs.
25. **Impact on Customer Bills:**
  - Monthly sewer bills will increase by \$12 to \$15 per year, rising from \$112.55 to \$185.45 by 2029 for a typical home using 7 CCF per month.
26. **Comparison with Other Communities:**
  - Current rates place the city in the middle range compared to similar communities.
  - Planned rate increases will push the city towards the upper middle part of the range.
  - Other communities like Port Townsend, Bonney Lake, and Sumner also have planned rate increases.
27. **Next Steps:**
  - Gather input on the proposed rate adjustments for water and sewer.
  - Clarify the difference between the blue (water) and green (sewer) rates in the presentation.
28. **Rate Comparison and Future Increases:**
  - The presentation compares 2024 rates for various communities, with the city's proposed 2025 rates highlighted.
  - Other communities are also expected to increase rates in 2025.
  - A suggestion was made to show adopted 2025 rates for comparison in the next meeting.
29. **Discussion on Rate Increases:**

- Emphasis on the importance of putting rate increases in perspective by comparing them with other communities.
  - The need to discuss stormwater rates and water and sewer system participation fees in future meetings.
- 30. Historical Context of Rate Increases:**
- Rates had not been raised for over 10 years, leading to a need for significant increases now.
  - Discussion on the impact of reserve tests and different systems having different rates.
- 31. Fire Hydrant Costs:**
- The city manager decided to have the water fund cover fire hydrant costs to meet budget targets.
  - Clarification on the impact of this decision on rates, with an estimated cost of \$100,000 per year.
  - Discussion on whether fire hydrant costs should be covered by water users or the general population through the general fund.
- 32. Fire Protection Costs:**
- Discussion on whether fire protection costs should be covered by the general fund or by utility ratepayers.
  - Historical context: A 2008 court decision required fire protection to be funded by the general fund, not utilities.
  - A 2013 law allowed jurisdictions to reverse this decision.
- 33. Committee's Past Deliberations:**
- The committee previously debated whether Winslow ratepayers should bear the cost of fire protection, given that the entire island benefits from it.
  - The city manager decided to have the water fund cover fire hydrant costs to help meet budget targets, leading to a revenue loss of about \$100,000 per year.
- 34. Impact on Rates:**
- The revenue loss contributes to less than 2% of the rate increase.
  - Discussion on whether the general fund or Winslow ratepayers should cover the cost, with some skepticism about the city manager's decision.
- 35. Utility Tax Considerations:**
- An alternative to discontinuing the transfer is to raise the utility tax, which could still result in the utility covering the cost indirectly.
  - Historical trade-off: The city utility started paying the utility tax, and the general fund began covering fire hydrant costs.
- 36. Utility Tax Revenue Cap:**
- Discussion on potentially capping utility tax revenue due to significant rate increases.
  - This topic is related to the broader conversation about funding and budget impacts.
- 37. Fire Protection Costs:**
- Clarification on the \$100,000 per year cost for fire protection, which includes maintaining and replacing fire hydrants.
  - Historical context: A 2008 court decision required fire protection to be funded by the general fund, but a 2013 law allowed jurisdictions to reverse this decision.
- 38. Cost Allocation:**
- Costs are allocated based on assets, staff operations, and maintenance related to fire protection.
  - The \$100,000 figure might be outdated and has not been adjusted to reflect increasing costs.
- 39. Common Practices in Other Jurisdictions:**
- Most jurisdictions did not change their funding model after the 2013 law change, maintaining a hybrid funding model.
  - Some jurisdictions, like Redmond, adopted and then removed a utility tax.
- 40. Policy Considerations:**

- As general funds become stretched, utilities may reconsider their funding policies for fire protection.
- 41. **Utility Tax and Coverage:**
  - Discussion on whether the general fund should continue to support fire protection costs or if it should revert to the utility.
  - Clarification that utility taxes are applied to other utilities like Sewer District 7 and KPB, which pass these costs on to their customers.
- 42. **Contribution to Expenses:**
  - Highlighting that people with their own systems are not contributing to the general expenses, which is unusual compared to other cities.
- 43. **Rate Increase Strategy:**
  - Suggestion to consider a higher initial rate increase (10-12%) to build capital, followed by lower increases in subsequent years.
  - Discussion on funding large capital projects with low-interest state funds and borrowing the balance.
- 44. **Balancing Rate Increases:**
  - Emphasis on spreading out rate increases to avoid major spikes and ensure a balanced approach to funding.
- 45. **Capital Improvement Plan (CIP) Adjustments:**
  - Several projects were shifted out by one year to reduce rate increases:
    1. Head of the Bay well rehabilitation
    2. Wind Point water line project
    3. Supply well
    4. Fletcher Bay rehab
  - These adjustments were made to bring down costs as much as possible.
- 46. **Council-Approved CIP:**
  - The council approved a fully funded CIP as part of the budget.
  - Some projects were initially unfunded but have now been moved into the funded plan due to their critical importance.
- 47. **Upcoming Bid Openings:**
  - Bid opening for the Hostile Improvements project (\$7 million) is scheduled for December 12.
  - Bid opening for the Plan Capacity project (\$4-5 million) is scheduled for late January.
- 48. **Regulatory Projects:**
  - The outfall project was pushed out to 2029, as the regulatory agency agreed to the delay.
  - SCADA system replacements were included in the plan.
- 49. **Project Prioritization:** The team has already prioritized critical projects to the best of their ability, acknowledging that everything eventually becomes critical.
- 50. **Funding and Loans:** They have applied for low-interest loans for capacity upgrades and outfall projects, with results expected in the first quarter.
- 51. **Environmental Considerations:** Discussions with the Department of Natural Resources (DNR) and Ecology about environmentally beneficial alternatives like tertiary treatment have taken place, but they are currently extending the outfall.
- 52. **Future Meetings:** A meeting in December is planned to discuss SWIM and SPF, aiming to make recommendations to the council.
- 53. **Housing-Related Projects:** Only the treatment plans are directly related to housing.
- 54. **System Development Charges:** There is some recovery of system development charges, but limited growth means they can't fully rely on this to pay for projects.
- 55. **Capacity Needs:** There is a discussion about the capacity needed and the importance of addressing this question.
- 56. **Late Chamber Radius:** They are considering the late chamber radius and its implications.

57. **Growth and Projections:** Growth anticipated 2.5 years ago has not materialized as expected, leading to adjustments.
58. **Rate Structure:** Previous studies on rate structures were extensive due to long periods without adjustments. Current efforts build on past work without major changes to the rate structure.
59. **Rate Increases:** There is a significant annual rate increase of 31%, attributed to many years without rate adjustments. Regular annual increases based on the Consumer Price Index (CPI) are suggested to avoid falling behind.
60. **Funding Challenges:** They faced a double challenge of not raising rates earlier and now needing to accumulate funds for projects. This has led to substantial cost projections in the Capital Improvement Plan (CIP).
61. **Positive Development:** Despite challenges, they are successfully building a weather tank, funded by rate dollars.
62. **Construction Progress:** The column for the tank is almost done, and steel for the tank will be brought in soon. Colors for the trees have been selected.
63. **Rate Increases and Stability:** After several years of large rate increases, the expectation is that rates will stabilize. This is important to communicate to the public to address concerns about continuous rate hikes.
64. **Utility Improvements:** Both utilities are facing significant improvements needed simultaneously, which should be clearly explained.
65. **Funding Strategy:** There is a discussion about balancing the use of fund balance and borrowing. Borrowing too much leads to extra debt, especially with current interest rates around 3.5-4%.
66. **Debt Management:** The strategy involves using a combination of low-interest state debt and potentially issuing bond debt. The goal is to balance debt to avoid high rate increases over a long period.
67. **Financial Planning:** The team is working with finance experts to manage the balance between borrowing and using fund balances effectively.
68. **Interest Rates on Loans:** The loans have interest rates ranging from 1.5% to 2.25%, which are considered good rates.
69. **Long-Term Benefits:** The infrastructure being built now will benefit future residents, who will also contribute to paying for it.
70. **Bond Issuance:** There is a discussion about the necessity of issuing bonds to spread the cost over time, ensuring that those who benefit from the infrastructure improvements also help pay for them.
71. **Loan Effectiveness:** Loans are seen as effective due to their low interest rates.
72. **Funding and Timing:** The opening for offsite improvements is scheduled for December 12, with a projected cost of about \$7 million. These improvements include traditional upgrades like main upgrades and pressure release valves.
73. **Rate Study:** The timing for the rate study is also discussed, indicating ongoing financial planning.
74. **Rate Study Revisions:** There is a plan to revisit the rate study, with the goal of adjusting rates down. The revised rate study will be presented to the council in February.
75. **SWIM Rates:** The SWIM (Stormwater Infrastructure Management) rates are currently collecting more than can be spent each year. There is a proposal to use this surplus to hire more staff and undertake more projects and maintenance.
76. **Public Comment and Approvals:** There was a mention of a public comment period for stormwater, but it seems there was no comment at this time. The next items on the agenda were approved.
77. **Comprehensive Plan Update:** The comprehensive plan, including policies related to stormwater, has not been discussed since July. An update on this is expected.
78. **Upcoming Meeting:** A meeting is scheduled for December 7th to discuss City District 7's plans for the future. The city and public utility district will present their services, with interest in running the sewer system and treatment plant.

79. **Community Meeting:** The upcoming community meeting is open to the general public. The district is likely looking to dissolve and pass on their assets and liabilities.
80. **Questions and Information:** There are many questions about the future direction and management of the system. Some briefings have been given about plant conditions, but detailed documentation is lacking.
81. **Future Management:** Regardless of which entity takes over, they will need to assess the system's needs and revenue sufficiency for upgrades and repairs.
82. **Retirement of Current Operators:** The current operators, who have been running the system for a long time, are likely ready to retire.
83. **Volunteer Commissioners:** The district has volunteer commissioners who have been managing the system.
84. **Comprehensive Plan:** The comprehensive plan from 2016 supports cooperation and potential consolidation of sewer systems.
85. **Asset Transfer:** There is uncertainty about whether the district will ask for cash for their assets when transferring ownership.
86. **Special District:** The sewer system is managed by a special district, which would return proceeds to the users if the asset has value.
87. **Assessment Concerns:** There is concern about whether users will face additional assessments when the system is taken over.
88. **Community Contributions:** More customers outside the Fort Ward community contribute to the operation than those within it.
89. **Service Areas:** The Fort Ward service area has about 400 customers, while the city sewer service area includes places like the language center and Rockaway Beach, serviced under contract.
90. **Charges and Capacity:** The district charges for services, and there have been discussions about acquiring additional capacity.
91. **Impact on Repairs:** The focus is on understanding the impact on repairs and the costs that will benefit the people.
92. **Rate Impact:** The current rate for customers is around \$70. There is a discussion about the impact of rates and how they compare to other systems.
93. **Ferncliff Water Project:** The Ferncliff water meeting Santa project has been completed. There was no opening celebration, but it was a significant accomplishment.
94. **Recognition of Achievements:** There is a sentiment that the city should do more to recognize and communicate their accomplishments, especially for infrastructure projects.
95. **Public Perception:** Many people may not prioritize local government actions until they face issues like running out of water.
96. **Water Tank Project:** The water tank project is on schedule, highlighting ongoing infrastructure improvements.
97. **Madison Force Main Replacement:** The Madison Force main sewer replacement on 8th St. has been completed. The partnership agreement turned into a simple MOU for annual meetings and cooperation.
98. **Generator Replacement:** A generator at the 305 lift station was replaced after a fire last winter.
99. **Winter Water Tank:** The goal is to complete the winter water tank by September next year. The tank can be brought online even without the rest of the offline improvements.
100. **Old Tank:** The southernmost tank will be taken down, while the other tank will be partially reinforced and mothballed.
101. **Small Projects:** Several small projects were completed at the treatment plant, including rebuilding chemical rooms, replacing variable frequency drives, biosolids pumps, clarifier tube drives, and conducting inspections and replacements.
102. **Backflow Device Process:** The process for backflow devices, which prevent contamination in water connections, has been streamlined. Previously, individuals had to provide their own inspections, which was cumbersome.

103. **Backflow Device Management:** The process for managing backflow devices has been streamlined. Now, everyone pays a fee, and the inspections are managed annually through a software process.
104. **Pressure Reducing Valves:** There is a discussion about whether pressure reducing valves require annual inspections. These valves are installed to manage high water pressure and prevent damage to plumbing.
105. **Grinder Pumps:** Questions are raised about who is responsible for inspecting grinder pumps.
106. **Water Meter Replacement:** All water production system meters are being replaced this year. Over the next three years, individual meters will be replaced with remote-read meters, saving time and effort.
107. **Water System Business Plan:** A consultant is working on the water system business plan, with updates expected after the new year.
108. **GIS Structure Update:** The sewer system GIS structure has been updated in preparation for a new GIS technician to manage utility assets.
109. **New Equipment:** A new vacuum truck has been acquired.
110. **Upcoming Projects:** Three projects are expected to be awarded by the council:
- Lining the Ericsson sewer between Wyatt and Winslow.
  - Replacing grinder pumps in the Holy Odd Irene area.
  - Replacing the SCADA server at the treatment plant.
111. **Sewer Lining:** The Ericsson sewer lining project will not require tearing up the street, minimizing disturbance.
112. **Root Intrusion:** Root intrusion has been an issue, causing backups and claims.
113. **Rate Study:** The 2024-2025 utility rate study is ongoing, with discussions to continue next week.
114. **December Meeting:** The next meeting is scheduled for December 19th, which works for everyone.
115. **Comprehensive Plan:** The City Manager expects the comprehensive plan to be drafted and completed by the end of June next year. This will involve a lot of updating but not a complete transformation.
116. **Winslow Sub Area Plan:** There is concern about how the Winslow sub area plan will be written, as it involves various aspects beyond housing.
117. **Consultants:** Consultants are involved, but they haven't received specific instructions yet.
118. **Economic Plan and Utilities:** The comprehensive plan should include an economic plan or vision and address how basic utilities are being paid for.
119. **Closing Remarks:** The meeting concluded with well wishes for Thanksgiving

