

September 24, 2012

The Chehalis city council met in regular session on Monday, September 24, 2012, in the Chehalis city hall. Mayor Ketchum called the meeting to order at 5:00 p.m. with the following council members present: Terry Harris, Dr. Isaac Pope, Bob Spahr, Chad Taylor, and Dennis Dawes. Councilor Lund was absent (excused). Staff present included Merlin MacReynold, City Manager; Bill Hillier, City Attorney; Judy Schave, City Clerk; Bob Nacht, Community Development Director; Peggy Hammer, Human Resources Administrator; Herta Fairbanks, Public Works Director; Rick Sahlin, Street Superintendent; Dave Vasilauskas, Water Superintendent; and Patrick Wiltzius, Wastewater Superintendent. Members of the media included Kyle Spurr from *The Chronicle*.

1. **Executive Session.** Mayor Ketchum announced the council would be in executive session pursuant to RCW 42.30.110(1)(ii) – potential litigation for approximately 15 minutes and there would be no decision following conclusion of the executive session.

Mayor Ketchum closed the executive session at 5:12 p.m. and announced the council would take a three minute recess before opening the work session at 5:15 p.m.

2. **Work Session - Discussion on Utility Rates.** City Manager MacReynold reported the utility rates were something they have talked about off and on for the last two years. He felt, based on the information at the time, council made the right decision when they decided to discontinue the rate increases five years ago. City Manager MacReynold stated over the last couple of years the administration and the budget committee have cautioned that they were going to have to come back to the council with recommendations of rate increases at some point.

Public Works Director Herta Fairbanks provided the council with a copy of the presentation materials that included information on utility rates for water, wastewater and stormwater. Ms. Fairbanks noted the last rate adjustment enacted by the city was in 2007. She added the codified adjustments would have taken the city into 2010, but because of the economic situation, the council opted to freeze the rates. Ms. Fairbanks stated the city was at the point where tough decisions were going to have to be made, or something significant would have to change about the way service is provided for the citizens of Chehalis.

Ms. Fairbanks reported there were two things driving the need to adjust the rates. The first, even though the council froze the rates, expenses continue to increase just by virtue of the market; and the second had to do with the debt service requirements to maintain a reserve of one year's worth of debt service.

Ms. Fairbanks reported on the financial issues as follows:

- Rates have not been adjusted since 2007 due to current economic conditions in the community
- Utilities have used reserves to offset inflationary impacts to expenditures
- Reserves are at critically low levels and we can no longer put off rate adjustments
- Wastewater will be in violation of debt reserve covenant by the end of the year if something is not done differently
- A rate adjustment is necessary for the utilities to remain financially viable

Councilor Harris brought up the zero percent interest loan, noting if they did not keep a certain amount of money in reserves the Washington State Department of Ecology (DOE) could start charging interest, and the last thing he wants to do is start paying interest on \$32 million.

Ms. Fairbanks reported if the city is not able to sustain some financial viability on our utilities we will run into issues when trying to seek future funding. She stated if the city can't prove we have revenue to even maintain our operations and maintenance, nobody was going to be lending the city any money to do further projects.

Ms. Fairbanks presented a summary on each of the utilities to include information on current revenues, expenditures, reserve levels, and notes on future capital improvement projects.

Councilor Spahr inquired about the street sweeping program being funded out of the stormwater fund. Ms. Fairbanks reported they were moving it from the street program to stormwater because by cleaning the streets they were keeping garbage, leaves, and dirt out of the stormwater system.

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Mayor Ketchum stated he thought when they built the new wastewater treatment plant that DOE gave the city a certain amount of time to complete inflow and infiltration (I&I) projects. Ms. Fairbanks reported she had been through the documentation and could not find anywhere where the city is obligated to start doing I&I projects by a certain time period.

City Manager MacReynold stated he was under the same belief as the mayor, but Ms. Fairbanks did the research and found that it was not true. City Attorney Bill Hillier reported there was a provision in the consent decree that the city signed with DOE a number of years ago that required a certain amount of I&I, or mediation over a period of years, but that may have been taken away with the agreement to build a new treatment plant.

Ms. Fairbanks reported the average residential customer used 7 units a month (5,000 gallons of water) making the average monthly bill \$100.85 for water, sewer and storm, and the average commercial customer paid \$109.81 per month.

Ms. Fairbanks reported on where the city would have been if we had continued with rate adjustments through the end of 2010. She noted, if implemented, the average residential customer would currently be paying \$130.21.

Ms. Fairbanks reported on two potential rate strategies to mitigate the impact. The options include:

- Stormwater – no capital projects
- Water:
 - Option 1 - Adjust water system plan CIP timing and assume below-standard reserve balances, or
 - Option 2 - Adjust water system plan CIP timing and adequate, low-end reserve balances
- Wastewater:
 - Option 1 – One I&I project over the next six-year period, draw down reserve and rebuild over five years, or
 - Option 2 – Two I&I projects over the next six-year period, draw down reserve and rebuild over five years

Ms. Fairbanks reported on the rate increases from 2012 to 2016 for both residential and commercial. She noted \$20 would be the largest of the adjustments over the five year period, which was driven by the debt service covenant. Ms. Fairbanks reported the first I&I project wasn't scheduled until 2016 and didn't have any bearing on what they decide today.

Councilor Harris asked when they planned to implement the new rates. Ms. Fairbanks reported, ideally, the start date would be as soon as legislatively possible, which would be November 1, 2012. She noted each of the scheduled increases would be implemented each year in November. Ms. Fairbanks noted the budget would also need to be adjusted to reflect the additional revenue.

City Manager MacReynold suggested the council give direction, so ordinances could be put together and brought back for their consideration.

Mayor Ketchum stated he had concerns regarding the recommended monthly increases, noting the impact would be much bigger since customers receive their bills every two months.

Councilor Dawes also wondered why they were using an example of one month versus two months. He asked if residents have the option to pay on a monthly cycle. Ms. Fairbanks reported they provided the information on a monthly basis because most people think of their budgets on a monthly basis. She noted customers do have an option to pay monthly, noting the city has the ability to carry credit balances on customer accounts.

Councilor Dawes reported Lewis County PUD offers an operation of doing equal monthly payments, and suggested the city might want to look at something like that to make it easier for people to budget for.

Councilor Harris stated what he was hearing from residents was, it's difficult to remember to pay monthly because they don't receive a bill every month. He noted a monthly billing cycle would only increase the city's costs of doing business.

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Councilor Pope stated he was in favor of Option 1.

Councilor Dawes also supported Option 1, noting they needed to do something to take care of the short-term problem and plan ahead for at least one project, so they don't get too far behind the curve.

Councilor Harris stated he wouldn't mind going with Option 1, as long as they don't have to come back in a year or two because something comes up and they have to bump it up again.

Councilor Spahr stated if they were looking for consensus, he would agree with Option 1. He noted if they hadn't messed with the rates back in 2007 they still might be facing some kind of decision, but it wouldn't be the decision they were having to make today.

City Manager MacReynold felt it was important to recognize that the actions of the council over the past five years in not raising rates actually saved the citizens money in difficult economic times. He noted the only reason they were before the council requesting an increase now was because it's necessary. City Manager MacReynold stated they respect that the council is a very conservative group, which also reflects the community.

Mayor Ketchum closed the work session and opened the regular meeting at 6:01 p.m.

3. **Chehalis River Basin Flood Authority Representative Selection.** Mayor Ketchum thanked the applicants, Pete Bezy, Lyle Hojem and Arnold Haberstroh, for offering their time to serve as the city's primary representative on the Chehalis River Basin Flood Authority.

Councilor Taylor moved that the council appoint Arnold Haberstroh as the city's primary representative on the Chehalis River Basin Flood Authority.

The motion was seconded by Councilor Spahr and carried unanimously.

4. **Proclamation Presentation.** Mayor Ketchum presented Fire Chief Kelvin Johnson a proclamation declaring October 7-13, 2012, as "Fire Prevention Week" throughout the city.

5. **Consent Calendar.** Councilor Dawes moved to approve the consent calendar comprised of the following:

- a. Minutes of the regular meeting of September 10, 2012;
- b. Claim Vouchers No. 104110-104231 and EFT No. 82012 in the amount of \$288,687.72 dated September 14, 2012;
and
- c. Suspend the rules requiring two readings of an ordinance and pass Ordinance No. 899-B on first and final reading – extending the moratorium on medical marijuana and dispensaries for an additional six months.

The motion was seconded by Councilor Pope and carried unanimously.

6. **Administration Reports.**

a. **August Financial Report.** Finance Manager Eva Lindgren reported, for the most part, the general fund was on track with the exception of the grant revenues and the operating transfers in. She noted Community Development was experiencing some overage due to unemployment benefits, temporary salaries, and some emergency repairs, and she and Community Development Director Bob Nacht would be looking at that a little more closely.

There were no questions or comments concerning the enterprise funds.

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b. **Annual Debt Compliance Update.** Ms. Lindgren reported the city's bond counsel strongly advised that the city expand its existing Debt Management Policy to address post issuance compliance issues. She noted, because our debt issuance is a "limited tax bond," the Internal Revenue Service (IRS) gets very involved. Ms. Lindgren stated, as a matter of compliance, the IRS looks more favorably upon government entities that have written policies in place to address compliance with federal requirements.

Ms. Lindgren reported the agenda report included a copy of the policy portion that addressed the post-issuance compliance, and notes for each relevant section. Also attached was the Municipal Securities Rulemaking Board filing. She noted one of the biggest areas that small local governments don't meet the requirements is by not doing their federal filing.

Ms. Lindgren briefly explained the process of uploading the city's financials and operating data, and the necessary steps to maintain the files for the life of the bond.

c. **Retirement Notification.** City Manager MacReynold reported he received notice from Bob Nacht stating his anticipated retirement date of January 18, 2013.

7. **Council Reports.**

a. **Update From Councilor Pope.** Councilor Pope reminded the council about the Chehalis Foundation's gala coming up on October 17. He noted the Foundation recently had their monthly meeting and were all in agreement with the continued support of the Chehalis pool renovation project.

b. **Update From Councilor Harris.** Councilor Harris reported earlier in the day he and a few of the holiday decoration committee members (Patty Kaija, Rich Trotter and David Hartz) went down to Crystal Valley in Oregon to look at decorations and supplies. He noted they came back with tons of information and were pretty excited about what they looked at. Councilor Harris reported the company did mostly steel work, and everything was made in the United States. He thanked the Chehalis Foundation for sponsoring the holiday decorations for the city.

Councilor Pope added, if anyone would like to make a tax-deductible donation towards the decorations, they could do it through the Foundation. He noted the Foundation would be putting \$20,000 towards the project. Councilor Pope indicated Lewis County PUD would be looking at the electrical outlets, adding the city may be able to do some lighting, as well.

8. **Resolution No. 13-2012, First and Final Reading – Adopting a Green House Gas Emissions Reduction Policy.** Ms. Fairbanks reported the green house gas emissions reduction policy was something that came about a few years back by virtue of the movement towards green power and sustainability amongst communities. She noted the state put a requirement, starting with the Public Works Trust Fund and the Public Works Board, to start requiring green house gas emission policies from agencies they provide funding to.

Ms. Fairbanks suggested this was a semi-proactive attempt at getting a policy in place without stressing or straining the city unnecessarily. She noted they didn't include anything in the policy that would further restrict the city; it was only stating on paper the things the city is already doing.

Councilor Spahr felt the policy included things the city should be doing anyway in the process of our daily business.

Councilor Spahr moved that the council adopt Resolution No. 13-2012 on first and final reading.

The motion was seconded by Councilor Dawes.

Councilor Harris stated nothing concerned him more than assistance with strings attached. He stated he also did not like signing a blank check in the sense this could result in unfunded mandates by regulatory agencies down the road. Councilor Harris reported he didn't like being put in a box, and it seemed like municipalities always get hit with the highest costs, even more so than the private citizens. He stated he wanted to make sure the city is able to attach itself to future loans, but in theory, he couldn't support it.

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Councilor Taylor agreed, noting this was one of those building blocks that the state and regulators use to build tougher regulations in the future. He noted he would be voting against it, but hoped there would be enough support for it to pass, so the city could get future funding.

Councilor Dawes felt they had to support it, adding while he understood the frustration when it comes to bureaucrats, they needed to do it to help the rate payers.

The motion carried 4 to 2, with Councilors Harris and Taylor voting against the motion.

9. **Resolution No. 14-2012, First and Final Reading – Revising Appendix Chapter “A” (Schedule of Fees and Charges) of the Uniform Development Regulations.** City Manager MacReynold reported the city has been working on improving its compliance with the state’s leasehold excise tax since last year. He noted one of the sticking points has been our city owned parking lots, adding we are being required to charge a leasehold excise tax on the leased spaces based on state requirements.

Ms. Lindgren provided a color-coded map of one of the city’s parking lots, and explained how the leasehold excise tax requirements applied. She noted the tax would not apply to individual parking spaces, but rather to the businesses that purchase spaces that are contiguous, for their employees.

Ms. Lindgren reported they evaluated both residential and non-residential users and the consensus was that they leave the residential untouched at the low rate of \$7.50.

Councilor Taylor inquired as to how much money the parking lot leases brought in. Ms. Lindgren thought it was in the range of \$30,000. She reported the driver wasn’t to increase revenue, adding supply and demand would dictate what we receive.

Councilor Pope suggested the city have a private company run the program. City Attorney Hillier stated the leasehold excise tax would still need to be paid on what the private company pays the city.

After a lengthy discussion between the council and the administration, it was suggested that the matter be continued to allow the administration time to approach the businesses to see if they would be interested in having their employees purchase the spaces themselves to avoid having to pay the tax.

Councilor Spahr suggested \$7.50 for a parking spot downtown was dirt cheap, adding the city couldn’t maintain the lot for that price. He thought they should look at raising the fee a little bit, suggesting \$10 or \$15 per month.

Councilor Spahr reported the leasehold excise tax issue also affected the Veterans Memorial Museum and wanted to know if the council would be getting a report on that soon. City Attorney Hillier reported the museum hired an attorney to help them through that issue and the city was in contact with them to give assistance to determine a way they can resolve that issue.

Councilor Dawes stated the part that rubbed him wrong was that businesses have control over their property 24/7 for the term of the lease, and those who lease a parking space get to park in their space 8 hours a day, Monday through Friday, and have no control over it. City Attorney Hillier stated they were shocked that it was in the RCWs that parking lots were applicable.

Councilor Taylor suggested they not make it overly difficult for the businesses.

Councilor Dawes stated he was sure the businesses would probably do anything they can to save the folks some money, and that was the way he would like to see the city work.

Councilor Taylor requested, that in the future, the council be given more than one option to consider, noting it would have been nice to have seen an option on how not to do this to the taxpayers.

Councilor Spahr suggested it might be that the businesses just pay the tax and leave it at that.

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Councilor Harris suggested, since this is another state mandate, every person the city talks to should be given the phone number for the Consumer Service Department at the Department of Revenue, so they can spend all of their time on it.

Councilor Dawes brought up the issue of cat licenses listed in the Appendix Chapter "A," and wondered why they were listed when the city doesn't even charge for them. He suggested that it be removed from the list.

Ms. Lindgren reported it was already proposed to have it removed.

There being no further business to come before the council, the meeting adjourned at 6:56 p.m.

Mayor

Attest:

City Clerk

SUGGESTED MOTION

I move that the council approve the minutes of the regular city council meeting of September 24, 2012.