

October 22, 2012

The Chehalis city council met in regular session on Monday, October 22, 2012, in the Chehalis city hall. Mayor Ketchum called the meeting to order at 6:00 p.m. with the following council members present: Dr. Isaac Pope, Bob Spahr, Daryl Lund, Chad Taylor, and Dennis Dawes. Councilor Harris participated telephonically. Staff present included Merlin MacReynold, City Manager; Bill Hillier, City Attorney; Judy Schave, City Clerk; Glenn Schaffer, Police Chief; Kelvin Johnson, Fire Chief; Bob Nacht, Community Development Director; Eva Lindgren, Finance Manager; and Herta Fairbanks, Public Works Director. Members of the media included Kyle Spurr and Stephanie Schendel from *The Chronicle*, and Christina Crea from *Business to Business*.

1. **Citizen Business**.

a. **Flood Authority**. Chehalis Flood Authority Representative Arnold Haberstroh reported on October 18 he attended his first flood authority meeting as the city's primary representative. He stated he thought they were at the point where they might start making some headway, adding the consensus of the members was that they want to get something done. Mr. Haberstroh thanked the council for the opportunity to serve as their representative.

City Manager MacReynold reported he was also in attendance at the Flood Authority meeting, adding Mr. Haberstroh jumped in with both feet and contributed to the conversation. He stated Mr. Haberstroh represented the city well.

b. **Chehalis Pool Renovation Fundraiser**. Lowell Wood stated it was good to be back again in his home town, and to be working with the Chehalis Foundation to help raise funds for the pool renovation project. He reported their initial goal was to raise \$500,000, adding, to date, they have received close to \$100,000 in gifts.

Mr. Wood reported, like with the library campaign, he was being paid by Orin Smith and his private foundation.

2. **Briefing on PacMtn. Targeted Industry Cluster Work**. Lewis County Economic Development Council (EDC) Executive Director Dick Larman briefed the council on the PacMtn. targeted industry cluster work, noting it was a cooperative effort paid for by the Pacific Mountain Workforce Development Council. He noted the PacMtn. region included the counties of Lewis, Thurston, Pacific, Grays Harbor, and Mason.

Mr. Larman reported the work outlined what the current top six industries are in the region, how many jobs they represent, and the dollars it takes to make them work. The number one industry in the five-county region was food manufacturing/ production, which provides 35,500 jobs, and a little over \$4 billion in sales. The total imports for this industry are nearly \$700 million, which he believed is where we have opportunity. The second largest industry was wood products, which provides 21,000 jobs, \$3.7 billion in sales, and about \$750 million in imports. The other four industries include: life sciences; chemical plastics and glass production; internet technologies and telecommunications; and entertainment and recreation.

Mr. Larman talked briefly about how machinery and computerization of large manufacturing facilities had changed dramatically over the years, requiring fewer workers. He also talked about wages, what's next with regard to the data they collected, and their educational outreach program.

Mr. Larman reported the larger counties, such as King, Pierce, Snohomish, and Kitsap pretty much set the policy statewide for what we do in regard to community and economic development. He reported money for doing community and economic development was no longer in the work force, but in education and training.

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

- a. Minutes of the regular meeting of October 8, 2012;
- b. Claim Vouchers No. 104340-104474 in the amount of \$593,924.31 dated October 15, 2012; and
- c. Set dates and time of November 13, 2012, and November 26, 2012, at 6:05 p.m. for public hearings on the 2013 budget.

The motion was seconded by Councilor Pope and carried unanimously.

October 22, 2012

4. Administration Reports.

a. **Third Quarter/September Financial Reports, and Third Quarter Sales and Use Tax Report.** Councilor Spahr inquired about the most recent sales and use tax report, noting the notes indicated it was attributable to construction and retail sales. He asked where the city was seeing an increase in construction, or was it just countywide. Ms. Lindgren reported she couldn't say, adding she had a call into the Department of Revenue because one of the largest construction contributors traditionally gets all of their sales tax correct-coded out of the city's account. She stated she wasn't sure if it was even the city's revenue.

Councilor Spahr stated there was one business in town that usually makes very large purchases once or twice a year and asked Ms. Lindgren if she knew whether or not those purchases had been made. Ms. Lindgren stated she hadn't noticed an anomaly that would make her take a closer look, so she suspected not.

b. **Report on Development of K-9 Program.** Police Chief Glenn Schaffer introduced Stephanie Schendel from *The Chronicle*, noting back in June she did a weekend addition piece on K-9 units around Lewis County. He also introduced Police Officer Warren Ayers, who has interest in the idea of a K-9 program for the city.

Chief Schaffer reported he spoke in length with Lewis County Sheriff Steve Mansfield and Centralia Police Chief Bob Berg regarding the programs they have in place, to see how we could make it work for Chehalis. He noted the last K-9 dog the city had was from 1994 to 1998.

Chief Schaffer reported the city currently relies on the dogs from Centralia and Lewis County, noting both agencies had been very generous in allowing the city to use them. He noted they've utilized the dogs approximately 30 times in the last year. Chief Schaffer suggested if we had our own K-9 available, it would most likely be used every night, based on the work the officers are doing. He reported the K-9 would be used for: suspect tracking, missing persons tracking, evidence tracking, narcotics detection, and handler protection. Chief Schaffer suggested the dog would also be used as a public relations tool, noting they are very popular out in the community.

Chief Schaffer reported there would be a couple of criteria that would have to be met before he would allow a K-9 program. The first had to do with protocol for utilizing the dog. He noted the city would return the favor to the other agencies, adding the dog would be available for call-out both internally and to the Sheriff's Department and City of Centralia. Chief Schaffer stated he did not want the dog to be used as a 'use of force' on minor crimes, adding Officer Ayers was very much on par with that philosophy. The second criteria had to do with the state of the general fund, adding the program could not be a burden on the city's general fund. Chief Schaffer stated, notoriously, K-9 programs are operated and funded by public donation. He talked briefly about the law that requires municipalities to compensate K-9 handlers for the care of the K-9 dogs while off duty. Chief Schaffer reported the contract would state "19 hours at time and one-half of the state's minimum wage," noting the basic math would be about \$260 per month. He stated he was satisfied with the program itself, and after they get the go ahead they would look at where the funds would come from to pay for the program.

Councilor Pope inquired about the startup costs. Chief Schaffer reported they were looking to spend between \$6,000 and \$7,000 on a dog that is bred for police type work, and the equipment and outfitting the car would run between \$12,000 and \$15,000. He noted they've already had contact with local veterinary clinics who have offered to provide veterinary care services. Councilor Pope asked if Chief Schaffer could put some information together on the program and include all of the costs. Chief Schaffer stated he would.

Councilor Taylor stated he would like to work with Chief Schaffer on getting the program funded through private donations. Chief Schaffer stated he appreciated that.

Councilor Dawes inquired as to how much was left in the K-9 fund from years ago, that Tom Bradley oversaw. Chief Schaffer reported it was right around \$6,000.

Councilor Spahr stated he has always appreciated the K-9 unit, noting it was originally funded by Herman Adolphsen. He reported there were things that happened that created the downfall of our previous K-9 program and he wanted to make sure

October 22, 2012

those issues were corrected, so the city knows exactly what our responsibilities will be regarding costs. Chief Schaffer reported he read up on the history and was aware of the issues.

5. Council Reports.

a. **Update From Councilor Dawes.** Councilor Dawes reported the budget committee was done meeting with staff on the 2013 budget. He noted the process had changed a lot over the years, adding it used to start out with a “pie in the sky” look with a real long wish list, but over the last few of years, and the realization of what the city has been faced with, that list has been reduced to only include what needs to be done.

Councilor Dawes reported the North Lewis County Regional Fire Authority Planning Committee had put together their draft regional fire protection plan for the participating agencies to review. He noted information about the plan would be presented to the council at the next regular council meeting. Councilor Dawes stated they would be asking for some direction from the council on some of the issues, adding as they go through the process they want to make sure they don't come up with any “deal breakers” that no one has thought about.

Councilor Dawes reported he would be attending the Association of Washington Cities regional meeting in Longview, on Tuesday. He indicated he was going to give up on the sales tax mitigation issue, noting his hand was tired from pounding the table about it. Councilor Dawes stated he would be bringing up the issue of the lodging tax to hopefully get some legislation that would continue to allow agencies flexibility in how the funding can be used.

b. **Update From Councilor Spahr.** Councilor Spahr reported he put together a list of some of the things Chehalis was going to have to ponder with regard to the Regional Fire Protection Plan. He noted there are a lot of liability and taxing issues the city needs to take into consideration, such as: level of service, the city's liability to LEOFF 1 retirees and Pre-LEOFF retirees; asset transfers, taxation, and governance of the new entity.

c. **Update From Councilor Pope.** Councilor Pope reported the Chehalis Foundation held its first gala to celebrate the first ten years and the accomplishments they've achieved. He reported the next big project for the Foundation would be the Chehalis swimming pool renovation project.

Councilor Pope stated the Foundation has helped to lighten the burden on the city on certain projects, and hopes to continue to do so. He noted they have a very good board of directors who are committed to working hard and have the best interest of the city in mind.

6. **Ordinance No. 900-B, Second and Final Reading - Adjusting the Water Utility Rates; Ordinance No. 901-B, Second and Final Reading – Adjusting the Wastewater Utility Rates; and Ordinance No. 902-B, Second and Final Reading – Adjusting the Storm Water Utility Rates.** City Manager MacReynold talked briefly about the workshop held in September, where the council looked at a couple of options regarding the utility rates. He felt the council had been very serious about saving the citizens the cost of raising rates over the last several years, but noted there comes a time when you have to begin to do the maintenance on your infrastructure and face the reality of any loan agreements you have.

City Manager MacReynold stated he understood the struggle the council was having, but didn't ever want to see the city in a position where we start having health department issues and/or have to start boiling our water like the City of Vader had to do. He believed that putting the city in that position would be very detrimental to any kind of economic development in the future.

Public Works Director Herta Fairbanks talked briefly about the changes the administration was proposing that were based on council direction given at the workshop on September 24. She provided the council with some additional information on residential customers who might use more or less than the average customer, as well as some information on what some of the higher commercial users might be looking at with regard to the increased rates.

Councilor Dawes inquired about patches done to the waterlines and asked if Ms. Fairbanks could provide a rough estimate on the number of temporary patches done within the city limits. Ms. Fairbanks stated she didn't have that number off the top of her head, but anytime a water main breaks they maintain that information for when they need to determine

October 22, 2012

where to focus their efforts on future water main replacement programs. Councilor Dawes asked what the cost would be for a major repair. Ms. Fairbanks noted it varied, depending on the type of break. She stated they can usually repair smaller breaks by putting a saddle over the top with the use of couplers, but for something larger like a lateral break, they may have to dig up a whole section. They also have to take into consideration the type of equipment needed to do the repair, and traffic control if necessary.

Councilor Lund inquired about the utility reserves, wanting to know if they were gone. Ms. Fairbanks indicated they were not completely gone, adding they were using them to mitigate the necessity of having to increase rates over the last five years. She reported the ordinances passed in 2006 established the rates through 2010, adding if they had continued to the 2010 level, the rates being proposed today are actually less than what the 2010 level would have been.

Councilor Pope felt the council thought they were doing the community a big favor by not raising the rates a little at time, and now they are finding themselves in a position where they have to pay the piper. He suggested if the city loses its zero percent interest loan status it would cost the citizens a tremendous amount of money.

Councilor Spahr moved to pass Ordinance Nos. 900-B, 901-B, and 902-B on second and final reading.

Councilor Pope seconded the motion.

Frank Mason (545 N. Market Boulevard) reported he understood what Councilor Pope was saying and agreed; however, he felt they needed to think it through just a little more. He noted the last time the council did a drastic measure like this they lost L & E Bottling Company, which provided good union wage jobs.

Mr. Mason stated, on a smaller scale, he and his wife rent out space to businesses in town, and if the rates increase they will have to raise their rents. He asked if anyone was watching the purse to see how the reserve money was being spent; suggesting some projects might be able to be held off until things get better with the economy. Mr. Mason reported he would like to see the council consider going at it a little bit slower.

Buck Hubbert (Tires, Inc.) reported he and others had discussed the potential increases and agreed that it probably would have been better to raise them a little at a time over the years. He stated they understood the council's heartfelt reasoning for keeping them down, but it comes at such a large increase at this time.

Mr. Hubbert reported he read an article in *The Chronicle* that suggested the city had a \$1.3 million increase in expenses. He asked if that was from this year and did the council approve those expenses, or was the department allowed to increase their expenses a little at a time over the years.

Ms. Lindgren reported almost \$600,000 of the \$3.96 million budgeted in revenues was a refund for an interfund loan, which left a balance of roughly \$3.4 million in revenues. She reported the budgeted expenditures were almost \$4.5 million, which included \$290,000 in capital outlay and roughly \$1.7 million in debt principal and interest expenses. City Manager MacReynold added, each year they do a budget and every month the council receives an update on what's being spent versus what's budgeted, and in most all cases, the utility departments underspend their budgets.

Mr. Hubbert suggested the city look at surplussing some of its land to help reduce some of the costs it's holding.

Councilor Dawes reported the city faced a similar situation with the general fund a while back and sold a number of pieces of property. He noted a vast majority of property owned by the utilities is over in the flat land near the old sewer plant that was bought out through hazard mitigation grants and cannot be sold.

Mr. Hubbert asked that it be revisited, just to see if the city might have more to sell.

Councilor Spahr stated he appreciated what Mr. Hubbert had to say, noting most of the complaints he received had to do with the amount of the increase. He noted the council hadn't really taken a look at increases on anything for a number of years, and in his opinion they were way behind on a lot of their fees.

October 22, 2012

Mr. Hubbert suggested by implementing too big of an increase you start losing the larger businesses. He asked that the council consider smaller incremental increases.

Councilor Taylor stated he understood the obligation the city has on its debt service and asked if there was a way that the city might use a piece of land as collateral in lieu of carrying the large reserve on the loan. He stated he had never thought about the idea of collateralizing property to supplant what the obligation would be, but those were the types of ideas that come from the business community, which he thought were amazing.

Ms. Fairbanks stated she had never heard of an entity collateralizing land as a way to cover a debt service obligation. She noted loans given out for utilities typically require that entities pledge the revenue of the utility, which is how the Department of Ecology (DOE) and other agencies are able to establish the loan programs they offer. Ms. Fairbanks reported the city was now in a position where all of the loans are at least five years old and require that the debt service reserve be in place. She noted they are working with DOE to see if they will allow the city to dip the reserve below the \$1.8 million requirement.

Councilor Spahr asked if Ms. Fairbanks knew how much Lewis County Public Utility District's (PUD) latest rate increase affected the city. Ms. Fairbanks noted PUD increased their rates by two percent, but didn't know the actual impact to the city.

Pat Sauter (National Frozen Foods Corporation General Manager) reported their company had been in business for 100 years, 85 here in Chehalis. He stated their current annual water bill for both facilities was in the \$216,000 range. Mr. Sauter reported several years ago they looked at some options to do some things different and those were still on the table. He suggested the last water rate increase was pretty brutal, and the new proposal was just as brutal this time around.

Mr. Sauter reported National was one of the last professional frozen food processors in Western Washington. He stated they have one plant in Moses Lake and another in Quincy, Washington. Mr. Sauter reported by the end of 2016, they would be looking at an annual increase of \$95,000 at their State Street plant. He noted the last two rate increases by PUD increased their annual cost at the State Street plant by \$60,000.

Mr. Sauter stated he understood the city's plight with trying to deal with environmental concerns, but the increase would be detrimental to their business and they could not pass the increase onto their customers. He briefly brought up the issue of industrial water rates, noting that's what they had in Albany, Washington.

Mr. Sauter reported his first obligation was to his employees in Chehalis, but they need to stay competitive with their other plants. He stated they put roughly \$16 million a year into the community, just in employee wages, local grow receipts, and vendors. Mr. Sauter reported they were the biggest customer for both the city and PUD, and the rates were a big hit for them. He stated the city and Lewis County have been very supportive of National, but things are getting tougher in Western Washington, and business is business.

Councilor Taylor reported he was one that battled over the rate increases, noting when the time is right to raise taxes he'll vote to support raising taxes. He noted he had been on the council for 11 years and it just hasn't ever felt like the right time, and for him it may never feel like the right time. Councilor Taylor stated the economy was not getting any better and everyone he does business with is struggling just to make their payroll every month. He suggested an increase to any business would be detrimental, especially if the city starts losing those businesses and large water use customers.

Councilor Taylor stated he's never made a bid deal about using the reserves during the tough times because he believes it's a good thing to have less of the taxpayers' money, adding it keeps the city honest with the citizens.

Mr. Larman suggested what the city was proposing seemed to be a surprise to the business community. His advice to the council was to be cautious because, on a competitive basis, potential businesses were not going to want to locate here if that's how the city does business. Mr. Larman stated he didn't want to give a history lesson, but noted free money usually gets us in these conversations and you have to be very careful with how and who you borrow money from.

Councilor Dawes stated he had some concern with the statement made by Mr. Larman concerning the "element of surprise," adding this should not be a surprise.

October 22, 2012

Councilor Dawes reported he had been on the council for seven years and on the budget committee for five; and every year they've been asked to look at rate increases, and the council has said no. He stated it's been talked about in public meetings, and suggested it may be a surprise to some if they haven't been to the meetings.

Councilor Dawes reported the budget committee has been adamant that they only do the projects that absolutely have to be done. He suggested reserves were made for two things: to spend down in lean times if it makes financial sense; and to take care of the unforeseen catastrophes that you don't have immediate funds budgeted for. Councilor Dawes felt the city needed to keep healthy reserves should we ever have to go out for any kind of bonding capacity.

Councilor Dawes stated he hoped some of the things that attract people to this area are that we have the infrastructure in place to do what businesses need to do. He noted he didn't like rate increases any more than anybody else, but he didn't like being voted into a position at not doing his job either.

Councilor Spahr suggested National's diesel bill was probably tremendous compared to what they were paying in 2006. Mr. Sauter stated they spend \$160,000 per week to run the plant, which is quite a bit more than it was in 2006. Councilor Spahr reported the city was in the same position with their utilities and we have to find some way to approach it.

Mr. Sauter stated he didn't want to hurt the city or its residents, noting he's worried about everyone having to pay higher rates. He indicated he didn't want to pull out, but he had to consider all of his options.

City Manager MacReynold stated he completely empathized with what Mr. Sauter was saying about his costs going up, but the city has a business to run and our costs have gone up too.

Councilor Lund agreed with what Mr. Hubbert stated earlier, that the city is spending more money than what we're bringing in. He suggested perhaps there are some projects the city shouldn't be doing.

Councilor Spahr reported the utilities have experienced rising costs for years and the council has failed to take care of it. He stated the city is running a business and we have to keep our rates comparable to our expenses. Councilor Spahr noted you can bank all of the property tax you want to save it for a rainy day, but when that rainy day comes and you go use it, you're going to get pounded.

Councilor Taylor asked what the immediate needs of the city were, not including any projects. Ms. Fairbanks reported what was before the council did not include any projects for 2013. She stated they had taken a very conservative approach, and in her professional opinion, the proposal before the council was the barebones needed to keep the utilities operable and in good condition.

Councilor Taylor inquired about commercial rates and asked what that would look like and how it would work. Ms. Fairbanks reported the city already has commercial rates. She suggested they can be as complicated as they like, such as: targeting specific audiences; or having an industrial rate schedule where you have a high user during a short season, but you have to be able to justify how you calculate those rates, and it needs to be equitable from one class customer to another.

Ms. Fairbanks talked briefly about what a rate study would entail, noting it would take about one year to complete and cost between \$40,000 and \$50,000.

City Manager MacReynold stated one of the things that businesses are concerned about when looking at where to locate is the infrastructure; are the utilities in place and functional?

Councilor Harris stated this was not something new or enjoyed. He noted he was in Chattanooga, Tennessee, and there's a measure in front of the local jurisdiction to raise their rates 39 percent for the same programs.

Councilor Harris commented on the discussion earlier about helping out the businesses by offering commercial rates. He stated they have a dollar amount they have to raise and if they take that cost away from businesses, they put it on the backs of the residents and their rates go up even more.

October 22, 2012

Councilor Pope stated it was something they had to do, and it wasn't pleasant. He suggested they could take a look at what they can do to lessen the burden on businesses, but they still have to do it. Councilor Pope reported he was open to suggestions if anybody had any bright ideas.

Councilor Pope reminded the council that they were elected to make the tough decisions, and if they can't make them, or they don't like to raise taxes or rates, then perhaps they were in the wrong place.

Ms. Lindgren pointed out that if there was no action taken, there wouldn't be any fund balance left in the wastewater fund.

Councilor Spahr suggested, if the ordinances pass, we keep looking at it to see if there are ways to make some adjustments as time goes on. He also suggested the city look at what it costs to service a residential customer versus a commercial user, including infrastructure, adding he felt the costs would be somewhat similar.

Councilor Spahr asked Ms. Fairbanks if the city gives bigger users any kind of discount. Ms. Fairbanks indicated they did not.

Councilor Dawes stated if they had to do it all over again, they probably would have done it differently. He added, "If we don't take some kind of action to get back to where we need to be, where are they going to be in two to three years down the road?"

The motion carried 4-3 with Councilors Lund and Taylor and Mayor Ketchum voting against the motion.

There being no further business to come before the council, the meeting adjourned at 7:54 p.m.

Mayor

Attest:

City Clerk

SUGGESTED MOTION

I move that the council approve the minutes of the regular city council meeting of October 22, 2012.