

**COTTAGE GROVE CITY COUNCIL
WORK SESSION MINUTES
May 17, 2010**

CALL TO ORDER

Mayor Gary Williams called the meeting to order at 10:00 a.m. in the Council Chambers at City Hall.

ROLL CALL

COUNCIL PRESENT: Mayor Gary Williams, City Councilors Thomas Munroe, Heather Murphy, Wayne Clark and Diane Conrad

COUNCIL ABSENT: City Councils Mike Fleck and Jeff Gowing

STAFF PRESENT: City Manager Richard Meyers, Finance Director Bert McClintock, Public Works Director Jan Wellman, City Engineer, Ron Bradsby, City Recorder Trudy Borrevik

CITY ATTORNEY: None

OTHERS PRESENT: Jon Stinnett, The Sentinel

City Manager, Richard Meyers, passed out a utility rate survey that staff conducted the week of May 11th-14th to get information from cities in Lane County and of similar size to Cottage Grove. He explained the information shown on the handout regarding rates, number of accounts, number of employees in each department and proposed increases for the FY 10/11.

Richard cautioned Council that the work session was to discuss rates and rate structure and that it wouldn't be appropriate to discuss budget and budget numbers without the entire Budget Committee, the budget meeting was scheduled for Tuesday, May 18th.

Richard said there were some questions at the previous meeting about looking at smaller rate increases and staff had talked with John from FCS about doing lesser increases over the next two years and the impact it would have on the systems. He referred to the colored handout provided to Council at the May 10, 2010 meeting and the proposed annual rate adjustment for water in 2010 of 8.5% and no increase in 2011 and 2012. He discussed how changing the 8.5% for 2010 would affect the fund and budget and the effect it would have on the budget over the next couple of years.

Councilor Clark asked why the 8.5% bump in 2010.

Richard said one reason was due to rates only being increased 1% in the last year. There was no

capital improvements done during that time and now it was being put in place.

Jan said there was also an audit error on the wastewater side which created a big problem.

Discussion was held on the 1% rate increase and the surcharge rates and why they were kept lower for FY09/10.

Councilor Conrad said she had a concern that Alternative #1 was eliminated in the updated version.

Richard said it wasn't eliminated, there just wasn't time to do all the calculations. Basically he said Alternative #1 was to take the maintenance and operation figure and add the surcharge to it so all the rates were one.

Councilor Conrad said from her point of view Alternative #1 for the water gave the consumer an opportunity to control their bill more with their conservation.

Councilor Murphy said it sounded like it was regressive so she wasn't sure how much more regressive Council wanted to be, meaning that the high end users were getting the bigger break because the surcharge was a set amount.

Councilor Conrad said with Alternative #1 it would eliminate that.

Richard said no, Alternative #1 had a higher consumption amount.

Ron explained the difference between the different alternatives.

Richard said several Councilors had mentioned that they wanted to keep the surcharge separate. He said Alternative #1 combined it all into one rate, it didn't separate it out. If Council wanted to take some of the pieces of #1 and apply them to #2 or the existing structure, that would be an area to look at. He gave an example using the existing structure.

Richard asked Ron to explain what parameters John used or what his model did to figure out the base rate and the consumption amount.

Ron said the base rate was based on what it took to get the water and the fees and operations associated with that. The consumption was the cost to produce the water and deliver the water.

Councilor Murphy said in looking at the survey provided to Council, the City's costs for delivering the water were fairly comparable even though the City had new systems.

Richard said even with adding in the new rates with the across the board amount, the City was still comparable and less than more than half without the debt surcharge on it.

Councilor Conrad said the survey was misleading due to there being so many variables.

Richard said it wasn't misleading, it was more that it had a lot of ifs and questions in it. He talked about some of the comparisons in the survey to Cottage Grove.

Councilor Clark asked if there was any way to refinance the debt.

Jan said it was a twenty year loan, the rates were already low and there was a prepayment penalty on it. One of the water plant loans would be paid off in 2011, which is currently \$5.95.

Richard said when that was paid off it would more than likely be replaced by another surcharge fee starting in 2013.

Jan said most of the loans were rural utility services loans and by the time they were paid off it was generally time to do an expansion of the system.

Councilor Conrad asked about Councilor Clark's idea of pushing everything to thirty year rather than twenty year projects.

Richard said pushing the projects to thirty years could be done, it had been done for decades. Council was now looking at rate increases due to systems failing which created significant costs that need to be taken care of and adjusted for. He said projects get pushed back too far, things would start failing more and more.

Councilor Conrad said she understood that and it was a general good common sense way to approach any project, but in this time when things were in such financial straits Council needed to leave no stone unturned to get the figures down. She said if there could be priorities where some of the projects could be pushed out to thirty years, then it should be done.

Richard said the CIP had projects already ten to twenty years old. The Water Master Plan was a twenty year plan that was prepared in 1998 and none of the projects had been done. If projects were pushed out farther, the City would start experiencing failures that they would be liable for.

Councilor Conrad said the engineer could prioritize the probabilities of what project could be pushed out a little further.

Councilor Murphy said she was talking with Councilor Munroe and it seemed to her when reviewing all the information was what had been happening was Council just kept pushing everything off and now the current Council was stuck with the problem in an unfortunate time. She assumed the hope was that things would get better. She said she was against it, because there were two principles that she was working from and one was restructuring so it was fair and equitable and not putting things off anymore. She didn't want to pay more than anyone else for services but she was tired of seeing the trend. By pushing things back the only thing being done was making the percentage incrementally higher.

Councilor Munroe said the bottom line was that Council was passing the buck and it had been passed on to the current Council. He understood Councilor Conrad's concerns, there was a lot of

things on the list that had increased the rates such as the insurance companies and others that the City wasn't responsible for. What the City was responsible for was the delivery of a service that was needed. To keep stalling it out and saying the citizens can't afford a rate increase, when did you start it.

Councilor Conrad said she totally agreed and in most times she would say yes but said not in this particular time. She said in two years the economy would hopefully be better and the CIP could be reviewed and the numbers could change again. She said part of Councils' responsibility was to see not only the major projects that went into the future, but could the citizens afford the increases, that was a major decision for Council.

Councilor Munroe said the bottom line was to be up front about it in dollars and cents, what was the City looking at? It hadn't come out to say exactly what the increases would be. He said he couldn't imagine too many families that could afford an increase. He said what Council was lacking was a good explanation of how it had gotten this way.

Councilor Murphy said in two years she was afraid it would be an increase of \$18.40 per month and then citizens would really not be able to pay.

Councilor Munroe said the projection of going out thirty years, the cost of materials weren't going to go down.

Mayor Williams said he agreed with the assessment that had been provided and said these were difficult times. He had been through two up cycles and two down cycles during his tenure on Council and during the up times things were booming with development and activities and people were doing very well. He agreed that this wasn't the right time to increase rates but there was never a right time to increase rates. He said his elderly mother who lived by herself couldn't afford rate increases and she wasn't alone, there were probably thousands of citizens like her. He said if the City was to prioritize all City expenses and eliminate services, the first obligation to the citizens was public safety. He said safe water and its delivery were very important.

Councilor Murphy asked about the video Richard showed on infrastructure and if a lot of the work that needed to be done was built during the great depression. She thought it talked about a lot of the issues we were seeing today regarding repairs and replacement was done during that period.

Richard said it was during the 1950s and 1960s.

Mayor Williams said it had landed in every past Council's lap as well and for whatever reason they looked for better times. He provided some history regarding the City's infrastructure and said the challenge was to convey to the current citizens the instant gratification they received when they turned the water on or flushed their toilets.

Richard said the budget contained an age chart showing the age of the pipes in the water systems.

Councilor Munroe said if Council didn't look to the future there were a lot of people, including Mr. Clark's neighborhood, where the streets had been torn up and patched by the gas company and they weren't really very suitable. He said it must also be understood that there was a lot of the infrastructure that had to be replaced in order to redo the streets. It didn't make sense to re-pave everything with the infrastructure underneath.

Councilor Clark said he was the biggest proponent of having people pay for what they received but he didn't see anything wrong with Council looking to see if there was a different way or other alternative to accomplish the goal without raising rates.

Councilor Conrad said a common business example was that if a company didn't have enough money for their operation or debt, they sold assets. She asked if the City could sell some assets to get the immediate money due down.

Councilor Clark said the City wasn't a business. The City operated for the public good, a business operated for their board of directors or their bank accounts.

Councilor Murphy asked what assets she was suggesting the City sell.

Councilor Conrad said the golf course was purchased to use effluent water so why not sell the golf course with the stipulation that the City used the effluent water, the City didn't have to own the City golf course. It was supposedly purchased at a bargain rate so if the City sold it, it should give the City a nice chunk of money to pour into the fund.

Richard said the reason he suggested not to sell the golf course, was if someone else bought it they could turn around and change the use, they didn't have to use it as a golf course.

Councilor Conrad said it was zoned as a park.

Richard said not all of it was zoned as a park. Part of it the City already owned and the golf course was on the City's property but couldn't be sold because it was acquired through a grant process with the State. The other holes on the other side of the freeway, were Middlefield Estates and could change use.

Councilor Conrad asked again if part of the golf course wasn't zoned as park.

Richard said on the North Regional Park it was but it was property that the City couldn't sell.

Community Development Director, Howard Schesser, said all of the golf course was zoned park and recreation.

Richard said if it was all park and recreation the use could still be changed, it didn't have to be a golf course.

Councilor Conrad said the purpose for the City was to use effluent water.

Richard said if the use were changed to a different kind of use that didn't need the water for irrigation, the City would lose the opportunity.

Councilor Conrad asked if it couldn't be put in the sale that whatever was done with the park land, the City would dispense effluent water on it.

Richard said if things were constructed that didn't use water, the City couldn't put water on it.

Councilor Murphy asked what the reality of the sale would do to the rates.

Richard said he didn't see it doing anything to the rates.

Councilor Conrad said it would be putting millions of dollars in the fund.

Richard said the City wouldn't make millions of dollars on the sale, the City still had debt on the property.

Finance Director, Bert McClintock, said the City was generating revenue that paid the debt owed on the property so it was an offset. She said even if an agreement was entered into with someone who purchased the property that ran it as a golf course, the City would still have costs involved to operate the effluent onto the property. Just because the City sold the property didn't mean that it was going to save any money.

Councilor Conrad said Council was exploring alternatives rather than just raising rates and she didn't recall the names of the cities, but she knew there were cities that had private golf courses and they paid the city to use their effluent water for the golf course. She said there was also the golf course property the city purchased with the houses on it and there was the possibility to split that into three lots and sell them independently which could make money.

Richard said that property couldn't be divided and sold, that was why the City had the property. He said there was one piece of property with the rental house on and the planning commission wouldn't allow it to be divided and that was why the City purchased it.

Councilor Conrad said the whole parcel could be sold.

Richard said he didn't think anyone would want to buy it because they couldn't divide it.

Councilor Conrad said she thought it would be prime, residential property surrounded by the golf course.

Councilor Munroe mentioned Councilor Conrad's comment about golf courses that paid to use the effluent and he recalled that when the City purchased the golf course, it also had a water right with it. He asked if that was still included within the golf course or if it was in the City's water system.

Richard said it was put into the City's water system as one of the City's rights. He said the City paid less for the golf course and water rights than what some other cities had paid for just the water rights.

Jan said there was one water right on the golf course, .75CFS and there was another water right that had never been developed.

Councilor Munroe said it wouldn't make good sense financially to sell the golf course.

Richard said looking at a water right and having the potential for water access that could be moved to the water treatment plant, the City had the capacity it needed for the future.

Jan said the water right had been transferred from the golf course so that the City had a second point of diversion that could be used at either the golf course or Row River Treatment Plant.

Councilor Clark said in general terms he was against having a garage sale. He said he appreciated the idea but in general he was looking for something that had a long term impact not something that the City could make a quick \$500,000 on and make a minimal impact. He said it was a popular issue for some politicians that people who hate government want to get elected and then get elected so they could shrink government down and then they complain that government wasn't affective. If there was something that could impact it over the twenty year period, he would be interested in that but didn't want to sell off City property for a one time shot that may save someone \$30 a year.

Discussion was held on selling City property.

Mayor Williams said the bigger picture specific to the golf course property was the magnetic draw it had from outside the community and the economic impact on the community as a whole.

Councilor Murphy said she appreciated Councilor Conrad thinking outside the box due to the calls the City had received regarding the purchase of the golf course and the armory and the City's involvement with the Village Green and said it was what the citizens saw when the Council was increasing their water rates. She said it was an impossible job but the City needed to start throwing out some bites to the community. She had a lengthy discussion with a citizen about several issues and said citizens do not understand the complexity of the city's infrastructure system, they haven't seen the conditions of the pipes like Council had. She said they needed to start seeing those types of conditions and the City needed to talk about how the upkeep of the systems had been put off for years and that Council had been considering the decisions far more than just rubber stamping everything that came before it. She said that was her recommendation.

Richard said it was a benefit having John from FCS as they had done studies for cities all around the northwest and if there was anything that was working for any of the cities they would have pointed it out to the City.

Discussion was held on FCS and information they had provided to Council.

Richard said staff had pushed some projects back, reducing the number of projects to be done the first years and spread them out over a longer period and that was what Council had seen in the last presentation which lowered the proposed increase percentages.

Councilor Munroe said in regards to the 10,000 population sequence, if the City didn't do something and get it started now we would be in dire straits.

Mayor Williams said there were other resources beyond the study. The League of Oregon Cities had a committee that examined statewide water issues and were looking at best practices for opportunities and constraints that were being faced by cities and communities.

Richard said one thing that John had pointed out that was the residences were paying seventy-one percent of the cost but were only using sixty some percent of the water and facilities. He also talked about the storm drain and ESUs and that big users would have a much bigger bill associated with their capacity needs. He asked where the balance was.

Councilor Murphy said it needed to be restructured in a way that was a bit more balanced.

Councilor Conrad asked about page 21 at the bottom where it said "City must replenish funds used for other purposes" and asked what other purposes was.

Richard said it had to do with the loan the City had with the State for wastewater. The City was supposed to set aside one year's debt service payment in the fund, however all but \$133,000 of the \$321,000 was spent so the City had three years to put that back into the reserves. One of the surcharge amounts going into wastewater was \$1.25 per month and was replenishing that reserve.

Councilor Conrad said on the same page of the older information, there was a box with big letters that said "increase needed to replenish fund balance" but on the new page it didn't say that and asked if there was leeway with it.

Ron said it was the same thing. If she looked at 2010 the second to the bottom line, it had "Net Cash Flow After Rate Increase" was a negative \$63,999. It was reduced but the way it got back into the positive was to raise the rates so you still had a negative fund balance if you spread it out.

Richard said it wouldn't be positive until the third year.

Ron said the cash flow wouldn't be positive until the rates were raised.

Councilor Munroe asked when the current City shop location was purchased, what fund it was taken out of.

Richard said the original purchase loan had been paid off but the remodel was paid from all the

funds, water, wastewater, stormwater, streets and general fund.

Councilor Munroe said he recalled that the loan would be paid off in the very near future.

Discussion was held on when the shop loan would be paid off and what it covered as far as the remodel.

Councilor Munroe asked if it was in the monthly billing.

Ron said the payments were \$26,915 per fund per year.

Bert said the City shop loan would be paid off in FY2013/2014.

Councilor Conrad said on page 8, it had the "Use of SDC Fund Balance" and beginning in 2010 it was an even figure across the board and asked if it couldn't be changed so that balance could be used more or less when it was needed.

Richard said it was for when projects popped up that it could be used for. It was there for budget purposes to show the SDCs coming in and being used on SDC projects. It might not be used if there was no development but it was specifically projects that SDCs could be used for.

Councilor Murphy said she was comfortable with a multitude of things that had been looked at and she was comfortable moving forward with knowing rates would have to be raised.

Richard said one thought staff had, but hadn't done numbers on yet because they wanted to see what Council felt, was there was a little bit of leeway with the storm drainage. What John had recommended and staff had put together for water and wastewater was the bare bones in order to keep them operating and healthy. For the stormwater rate the residents were paying \$4 for the surcharge and \$3.69 and every account paid the same amount whether it was Safeway or a residence. He asked Council what option they wanted to take on the other rates. He said on the stormwater he thought the City could make the most significant difference on the residential side. He said the ESU rate would be \$3.94 per residence under a monthly ESU and that would be an amount that would be fixed for 2650 square feet. If the City took the storm drainage and instead of dropping it to \$3.94 for residences, dropped it to \$5 so it was higher than what John suggested for an ESU but then the City stepped in the ESUs or a tiered rate for commercial or industrial properties based on size, more of the stormwater cost would be put on to some of the commercial. He asked if that was something that Council would be interested in. It did raise the commercial and industrial rates but could be an impact on the residences where the \$8.09 or \$8.40 was down by \$2.

Councilor Murphy asked if John said that Wal-Marts were already used to paying far more for storm rates.

Richard said yes they were used to paying it but Cascade was not and Star Fire was not so an ordinance couldn't be created to say that the larger companies had to pay the bigger ESU and the local ones didn't, it had to be across the board. How we step it in to make it work and be

something that the local businesses could handle and not jeopardize them but also try and get some of the revenue from the other larger businesses. He said Star Fire may have the largest ESU in the City for one site.

Ron said he did a quick survey and Cascade Home Center on the north side of Washington Street, had 19,283 square feet of impervious surface which came out to 7.28 ESU increasing their bill \$28.67; Pink House was all impervious at 3.38 ESU or \$13.30; Siuslaw Bank 4.76 ESU at \$18.75 and Wal-Mart 131 ESU at \$516.

Mayor Williams asked what impervious surface covered, roof tops or roof tops, driveways and parking lots? On residential, was it talking about roof tops and driveways?

Ron said yes, roof tops and all paved hard surfaces.

Discussion was held on storm water rates and how different businesses and industrial would be affected.

Mayor Williams talked about the rate a residential property paid and that proportionately a commercial or industrial property should be paying more based on the square footage on their property of impervious surface.

Councilor Murphy asked about rates being stepped in for businesses.

Ron said the examples he gave were not stepping it in, it was implementing the ESU.

Councilor Clark asked if there was a non-profit exemption.

Richard said not for ESU on stormwater because it was based on the impact on the stormwater system. He said there could be credits given for those entities that developed onsite stormwater maintenance systems. He said it could be a project that the school worked with classes from the Kennedy School and decreased their bill from \$500 to \$150. They could also treat their own stormwater on their property and the City could work with them on that as well. These were things that could allow some credits.

Councilor Conrad said she thought the ESU was a more equitable system than what the City currently had. If the City looked at it as user fees it might be more palatable.

Richard said the way the system was created there was no separation for other non-profits. It didn't mean the Council couldn't create one but the larger businesses might challenge it if they were charged more than a non-profit business.

Mayor Williams talked about the option of larger businesses creating bio-swales to lower their ESUs.

Ron said Wal-Mart was proactive with their storm drain system and they were going to have a clean system but the City didn't have those conditions or a code section that dealt with that.

Councilor Conrad asked if staff could look into what other cities might be doing in lieu of raising rates.

Richard said he didn't think they would find anything, but staff would look into it.

Councilor Murphy asked how the rate increases would come out in the budget discussion as the other budget committee members were not privy to information the Council had.

Richard said the budget had a revenue increase for the enterprise funds. The water fund had a revenue increase of \$125,000. The City wasn't expecting to collect what it had budgeted for the current year and would be below what was budgeted. He said wastewater had \$138,000 and stormwater was \$33,000. He said it was the difference in money, the increase they would see in the budget. The budget message and the information in the budget said this was the amount of the increase, the Council had been looking at ways of raising that to make the amount of money. Council had been looking at the options and technically the budget committee's approval was for the revenue line item and expenditure.

Councilor Munroe asked what did the City do when they came to the budget meeting and sat down and said these were projected figures and they were all in agreement that they would not give a budget until they got the figures. And then after you put the increase in, what was going to happen if they said they couldn't accept the budget.

Richard said what they would have to do, in their authority, was to decide what the amount in the budget was, setting the rate was up to the Council and if the budget committee said no we want wastewater to be down by another \$250,000 then the budget committee would come up with where the cuts were going to come from and adopt the budget at \$250,000 less in wastewater. Then Council would set the rates to meet that amount.

Councilor Murphy asked if before tomorrow night Council needed to make a recommendation.

Richard said they didn't really need to recommend but needed to be thinking seriously about what they were going to do because it was put off from January and if the City needed to have \$125,000 and \$138,000 in water and wastewater, they needed to get the rates in place for July 1, to collect the money.

Councilor Clark said the amounts were already in there, Council just had to figure out how they were going to be collected. He said he was having knee surgery on June 24 and would be missing several meetings.

Councilor Munroe said he was going to be on vacation almost the entire month of June.

Richard said staff needed to know what options the Council was interested in staff applying to the rates for Council to look at.

Discussion was held on what options were available for Council to consider and how Council wanted to proceed.

Ron's recommendation was cost of services, Alternative #2 and ESU. He explained why he favored Alternative #2 over Alternative #1. He said from listening to Council's concerns, he thought Alternative #2 was more what Council had indicated they favored.

Councilor Conrad said she supported Alternative #1 for water, Alternative #2 for wastewater and ESU.

Councilor Clark, Murphy and Munroe supported Alternative #2 with ESU. Councilor Fleck wasn't in attendance at the meeting but had indicated before hand that he also supported Alternative #2 with ESU.

Ron and Richard explained the differences between the options and how they were shown on the bill.

Discussion was held on consumption rates and conservation. It was discussed how conservation could affect the budget and how Alternative #2 affected the cash flow.

The City's hardship program was explained. Bert said staff offered the program to individuals if it was recognized that they were having problems paying their bill if they may qualify. She said it had also been advertised on the monthly bill.

Richard said at the budget committee meeting tomorrow night and they review the numbers for the revenues for water, wastewater and stormwater and they say they don't want any increase in the revenues and they make appropriate cuts within the departments and funds to where it was the exact same revenue and expenditures as last year, would Council still want to look at Alternative #2 with ESU to adjust the rate structure to raise the revenue.

Councilor Munroe said absolutely.

Richard asked if Council was looking at the rate structure to adjust and take care of the equity issues or were they looking at it for revenue increases. Richard said staff could make it work but it would be difficult.

Councilor Munroe asked if the budget committee was fully understandable of what the alternatives were.

Richard said it would be discussed at the meeting tomorrow night.

Councilor Conrad said the two perspectives of the utility rates and the Village Green had been the highest due diligence that she had seen the Council work at and they had differences of

opinions but said the due diligence was at a very high level for both issues.

There being no further business, Mayor Williams adjourned the regular meeting of the City Council at 11:39 a.m.

The next regular City Council Meeting will be held May 24, 2010, at 7:30 p.m. in the Council Chambers at City Hall.

Trudy Borrevik, City Recorder

Gary Williams, Mayor