

City of Wimberley
City Hall, 221 Stillwater
Wimberley, Texas
Minutes of Special Meeting of City Council
November 30, 2016 at 6:00 p.m.

City Council meeting called to order at 6:00 p.m. by Mayor Mac McCullough

Councilmembers Present: Mayor Mac McCullough; Councilmembers Bob Dussler, Craig Fore, Sally Gibson Trapp, Gary Barchfeld, and John White.

Staff Present: City Administrator Don Ferguson and City Secretary Cara McPartland

Workshop Session

Discuss and consider issues relating to potential service rates and fees for the Central Wimberley Wastewater System with Raftelis Financial Consultants, Inc.

City Administrator Ferguson advised that tonight's meeting is intended to provide updated information on potential rates and noted public meetings will be held before rates are finalized. He introduced Raftelis Financial Consultants, Inc. Manager Rocky Craley, who will present information on the financial plan and rate study and answer questions from Council and audience members.

Mayor McCullough and Council agreed on hearing Mr. Craley's presentation before entertaining questions from Council and/or the audience.

Mr. Craley's presentation included information on the following topics:

- Background information on previous feasibility studies, including historical timeline and study objectives
- Details on study assumptions used to develop a financial plan
- Number of LUEs calculated based on previous year's daily average consumption divided by 300 gallons per day (gpd)
- All connections assigned at least 1 LUE
- Additional fractional LUEs above 1 LUE for demand above 300 pgd
- Rates set for customers for a period of 3-5 years
- Minimum charge and Capital Recovery Fee to be billed based on the customer's number of LUEs
- Monthly minimum charges based on a total of 172 LUEs, calculated based on 300 gpd of flow and growth of 2 connections per year after initial connections
- Total of 133 LUEs assessed the Capital Recovery Fee, which will not be charged to the City's existing customer (Deer Creek of Wimberley)
- 3-year historical average used to estimate billed consumption, with winter averaging for residential customers and 100% usage for commercial customers

- Fiscal Year 2019 billed demand of 12.7 million gallons used to determine appropriate volume charge
- Projected implementation in Fiscal Year 2019 and 18-month construction period
- Operating and Maintenance expenses estimated at \$172,000, with conservative projection of 2% annual increase in operating costs
- Financial assumptions include \$5,255,000 TWDB loan debt service reduced by a \$1,000,000 U.S. EDA reimbursement grant; offsetting revenues of the City's \$200,000 annual contribution (includes reuse) and capital recovery fees from initial connections based on:
 - 133 LUEs
 - \$2,500 per LUE
 - Equal annual payments over 8 years
 - Approximately \$41,500 annually for 8 years
- Comparison of scenarios showing impact on rates if the City's annual contribution was reduced from \$200,000 to \$150,000 or \$100,000 per year
- Rate revenue requirements, with FY 2019 expected to be the first full year of implementation
- Typical monthly bill for customers assigned one (1) LUE
- Future recommendations, including updating of revenue requirements/rate assumptions prior to implementation; inclusion of billing process (LUE calculation and assignment and billed consumption) in rate ordinance; and developing a policy for utilizing surplus funds

Mayor McCullough thanked Mr. Craley and entertained questions from the public.

Judy Thompson said she is confused, as she felt the monthly rates would in no way add up to \$5-8 million "pay back." She said something is "haywire here." She referenced the aforementioned 8-year option and questioned whether users would have an extra tax. Mayor McCullough stated the 8-year option only applies to the LUEs assigned to individual users' homes. He provided an example based on a 1-LUE customer that would allow a customer to pay \$2,500 over a period of 8 years, interest-free. Mrs. Thompson questioned "hook-on" fees to customers and Mayor McCullough said the connection costs are included in the costs of the entire system. She asked "Where's the money?" and said maybe "they have to get a grinder pump." Mayor McCullough replied there is no grinder pump required. She said "this is a heck of a bargain" and asked again "how do we pay the money back?" City Administrator Ferguson noted that commercial customers will pay more than residential customers and the subject area is predominantly commercial. She liked the scenarios reflecting the City's contribution at reduced amounts.

Gail Pigg questioned whether the connection fee is from the main to the property line. City Administrator Ferguson stated it is from the main to the structure, which was an extensively debated issue. Mayor McCullough cited his understanding of Mrs. Pigg's concerns relating to easements. Mrs. Pigg stated that her work experience with the City of Austin is that the connection fee is waived, "but they meet you at the property line." She said Austin's legal department advised that public funds cannot be used to pay for improvements on private property. Mayor McCullough said our legal advice has stated the City does have that authority. City Administrator Ferguson said it is matter of securing the easements. In response to

Councilmember Trapp's inquiry as to whether such expenses are included in the loan, City Administrator Ferguson replied affirmatively. Mayor McCullough stated that this was driven by one or two prominent pieces of property that felt they would be overburdened by having "19 hook-ups within the property," and to be more specific, "we are talking about Rio Bonito." Mrs. Pigg said that is what the businesses on the other side of the creek have to do.

Jenni Marino asked if there is enough revenue generated by users to pay back the loan. Mayor McCullough replied affirmatively. Ms. Marino asked "How fast?" Mayor McCullough replied "30 years."

Tom Keyser said by his calculations "looking at 172 LUEs" would generate revenue based on your typical residential bill, with a \$200,000 City contribution, of \$115,000 per year. He asked if \$315,000 would pay back this loan. Mayor McCullough asked if Mr. Keyser counted commercial customers. Mr. Keyser said "I'm going by his (Mr. Craley's) numbers." Mr. Craley detailed his revenue calculations from different sources (including the City's contribution) resulting in about \$400,000 of revenue, which offsets similar revenue requirements of the loan. City Administrator Ferguson cited past conversations with downtown property owners who indicated what their "comfort levels" would be regarding projected monthly bills. He noted that the scenario with the City contributing \$150,000 most closely matched those stated comfort levels.

Haidar Khazen asked for more details on what the aforementioned \$172,000 O & M costs would cover. City Administrator Ferguson noted specific plant operations-related costs and building of a fund balance to deal with repairs. Mr. Khazen questioned customer service and billing costs and City Administrator Ferguson stated that would not be a significant cost to the City. Based on the amount of revenue and expenses, Mr. Khazen said there is not much room for cost overruns, and asked "Who pays?" Mr. Craley explained non-profit utilities typically generate revenues to meet revenue requirements and encouraged allocating excess revenues to build a fund balance for unexpected expenses. Mayor McCullough anticipated that Council would make that policy decision regarding a possible fund balance once an operating history is established.

Judy Thompson said "the grant makes me nervous." She felt there are things in the grant that are hard for the City to perform to perfection "to get that grant." She said there are mistakes in the grant that seem problematic, "assuming we can get it." Mayor McCullough stated that we already have the grant, but whether we accept it or how we use it, remains a choice. Mrs. Thompson felt it would be very difficult to perform to the standards that are in the grant and said "you have to spend the money to get the grant." She said making it look like a bargain does not make sense. Mayor McCullough said the grant has been closely looked at and all those factors have been weighed. He stated his willingness to deal with the grant as it is written and trusted the EDA more than "us second guessing ourselves." Mrs. Thompson said "if we go haywire on this, it's a cloud on this city for 30 years and this could go hog wild when there are so many things in here that are unknowns." She wished people would read the grant. City Administrator Ferguson clarified how grant money can be spent and noted it cannot be spent on private property. He said it will be spent on public right-of-way owned and managed by the City in perpetuity and the City will work closely with the EDA on that. He noted we have accepted the

grant, but the City does not get money until we submit reimbursement and are in compliance. Mrs. Thompson said that regarding compliance, “there are some tricky things in there.”

Tom Keyser said he wanted to make sure he had “numbers from you that I can digest.” He stated his understanding that the City is looking at “a payoff annually of around \$400,000 counting O & M and debt service, total.” He said that the TWDB loan has to be covered by rate users and questioned government’s ability to come in under budget and on time. He referred to the current \$200,000 City commitment and said that in 5 or 10 years, a future Council could say we do not have this in our budget unless “we do an ad valorem” or raise rates. He said a future Council would have no choice because Council agreed to this back in 2016. Mr. Keyser said his discomfort comes from his figuring of a \$55.72 monthly rate that only pays \$115,000 per year. He stated that to cover \$400,000 an average homeowner would have to come up with \$220 per month, which he described as a “worst case scenario” if the “the City can’t come up with their obligations and if these prices don’t come in right.”

Haidar Khazen spoke on what other things the City may not be thinking about, such as easements and associated costs. He asked if a previously mentioned cost of \$40,000 is still accurate. City Administrator Ferguson noted the difference between service easements and previously discussed main easements owners are not anticipated to pay for. Mayor McCullough said easements have been negotiated and predominantly settled. Mr. Khazen noted estimates for the number of LUEs and gallons per day (gpd) and referred to the Ad Hoc Wastewater Review Committee’s estimate of about 25,000 gpd. Mayor McCullough noted that in the rate study residential LUEs were rounded up, with a minimum of 1 LUE; however, commercial LUEs allowed for fractions of LUEs. Discussion between Mr. Khazen and Mr. Craley clarified how LUEs were calculated and examples were provided to illustrate variables that affect LUE calculations. Mr. Craley noted that the 172 LUEs are based on the actual consumption of users (not the number of users) and the 300 gpd estimate reflected looking ahead to avoid reaching capacity in a couple of years.

No further public comments were heard.

Council discussion included:

Councilmember Dussler stated he was generally comfortable with the analysis and rates, which he felt are affordable and cover the City’s debt service.

Councilmember Barchfeld questioned the results on page 13 of the financial plan/rate study titled *Results/Baseline-City Contributes \$200,000* and Mr. Craley clarified that the Typical Residential Monthly Bill amount of \$55.72 and Volume Charge of \$6.28 is “per 1,000 gallons.” Mr. Craley said the finalized version will reflect the “per 1,000 gallons” notation. Councilmember Barchfeld asked if Council will receive a spreadsheet in a pro forma format with 30 years of numbers on it. Mr. Craley stated he has copies and City Administrator Ferguson advised this information will also be posted online. Councilmember Barchfeld appreciated Mr. Craley’s inclusion of alternative scenarios that reflect City contributions of \$150,000 and \$100,000. Councilmember Barchfeld explained his analysis of TWDB figures, which he said showed 190 gpd (not 300 gpd), and changes the LUEs and volume. He asked why 300 gpd was used in study

methodology, rather than 190 gpd. Mr. Craley advised that the anticipated flow was developed based on flow per LUE and said that this study used actual consumption data over 3 years. Councilmember Barchfeld noted raised O & M expenses and Mr. Craley advised that 2013 analysis data was used, as opposed to 2012 analysis. Mayor McCullough stated that some of the cost increase was derived from the settlement agreement. Mr. Craley confirmed that a listing of user addresses (not user names) and associated information on LUEs, will be posted online. Councilmember Barchfeld and Mr. Craley discussed future adjustments that can be made to allow for items such as increased expenses or capital costs, should Council choose to approve such adjustments as a policy decision. Mr. Craley said building up a reserve level could be done gradually and re-evaluated on an annual basis. Discussion between Councilmember Barchfeld and Mr. Craley established that Fiscal Year 2017-2018 projections of \$41,000 in capital recovery can be amended, depending on the timing of connections to the system. Councilmember Barchfeld asked if there are any commercial rates included in the study and Mr. Craley replied the commercial rate is a system rate that is the same as the residential rate, however, residential customers pay on their winter averages and commercial rates are based on an actual month's usage.

Councilmember White felt Councilmember Barchfeld covered discussion topics well.

Councilmember Trapp asked whether Mr. Craley anticipated updating the study model with more recent costs versus the 2013 data. Mr. Craley advised that the numbers would be updated approximately six months out from implementation. City Administrator Ferguson spoke on variables such as Council's possible exclusion of "purple pipe," which would lessen system cost. Councilmember Trapp asked Mr. Craley if he could run a model without including the City's \$1,000,000 grant and Mr. Craley replied affirmatively. He said that the grant would effectively shave about \$50,000 off of the anticipated debt service, which is indicative of the rates estimated under the alternative scenario of a \$150,000 annual City contribution.

Councilmember Fore referenced the anticipated \$41,000 capital recovery for the system's first two years and asked how we could expect people to pay those fees when we do not have a system in place yet. Mr. Craley explained the hurdle in the financial plan is in 2017-2018, when the existing debt from the GBRA/Planning and Design (PAD) overlaps in 2018-2019 and was confident that if the PAD loan is not exhausted, there would be remaining funds to mitigate that last debt service. City Administrator Ferguson stated that Council may want to consider paying off the GBRA loan now rather than later. Mayor McCullough added that a number of users are ready to start paying for their LUEs in advance of hookup. City Administrator Ferguson told Councilmember Fore that he could provide the amount of remaining PAD loan funds and noted those funds could possibly be used to pay off the GBRA loan. Councilmember Fore asked Mr. Craley if he could run a scenario with a "0" contribution from the City and \$5,000,000 loan with no grant. Mr. Craley replied affirmatively.

Councilmember Trapp asked about the study's "Future Recommendations" and Mr. Craley replied that Council can consider its approach to those recommendations.

Councilmember Barchfeld felt Council needs to hold a workshop to move forward with establishing policy on the listed "Future Recommendations."

Adjourn

Mayor McCullough called the meeting adjourned at 7:17 p.m.

Recorded by:


Cara McPartland

These minutes approved on the 5th of January, 2017.

APPROVED:



Mac McCullough, Mayor

