

City of Harrington
MINUTES
City Council Workshop
February 19, 2014

A workshop with the Harrington City Council was held at Harrington City Hall, 106 Dorman Street, on February 19, 2014 and was attended by the following: Mayor Anthony R. Moyer; Council Member Duane E. Bivans; Council Member Amy Minner; Council Member Charles W. Porter; Council Member Kenneth Stubbs; William Pepper, City Solicitor; Teresa Tieman, City Manager; Dean Gary, Accountant; and Kelly Blanchies, Clerk of Council.

Also present: Jean Holloway, Delaware Rural Water Association; Rebecca Greene; and Marie Cunningham.

Vice Mayor Cheryl Lahman and Council Member Fonda Coleman were absent.

Mayor Moyer called the meeting to order at 6:32 p.m.

The Pledge of Allegiance was given.

Water and sewer rate study

The City Manager stated that Carl Brown is an analyst that works with utilities; he stated that water and sewer utilities are a business regardless of who owns them, have a responsibility to customers for long term prosperity, an obligation to maintain strong reserves, and a need to recover costs from those using the service; the consequences of adjusting rates need to be considered carefully. Most rate payers want their service cheap and do not want to think about the utility at all.

The City Manager stated that Harrington's goal is to set and maintain utility rates and fees that are fair and adequate to sustain our system. Reserve funds are designed to fund future capital projects and contingency funds are designed to pay for unexpected operating expenses. Transfer to the general fund are to balance the general fund and are different than allocations which pay for services received from the general fund like billing, finance, and insurance. Council action is needed on the amount of reserves, contingencies, and transfers.

The City Manager stated that if the City taxed the asset value of the water and wastewater systems the same way individuals are taxed, the value of the transfer would be one hundred seven thousand three hundred fifty-two dollars (\$107,352) for wastewater and nineteen thousand eight hundred eighty dollars (\$19,880) for water. The current transfer is one hundred fifty-six thousand dollars (\$156,000) from wastewater and eighty thousand dollars (\$80,000) from water.

The City Manager stated that fifteen thousand gallons a quarter is the typical residential bill. The City Manager presented different rates based on several scenarios for amounts for reserves, contingencies, and transfers.

Council Member Porter asked if water and wastewater rates both have to be discussed at the same time. The City Manager stated that wastewater is the biggest thing to tackle; in water, the comparable rate or a lower rate can be used. Some of the decisions for the sewer rate will apply to the water rate as well.

Mayor Moyer asked about equivalent dwelling units (EDUs). The City Manager stated that the City's Code equates two hundred twenty-five gallons a day to one EDU or eighty-two thousand one hundred twenty-five gallons a year. A customer's annual usage can determine the number of EDUs for the minimum charge on the utility bills.

Mayor Moyer asked about how a bill for a customer with a water leak would be adjusted. The City Manager replied that if the leak is fixed in a reasonable amount of time then the cost would be minimized. The current minimum bill for twenty thousand gallons per quarter will no longer be used.

Mayor Moyer asked if a residential customer would ever be charged more than one base fee. Jean Holloway stated that every customer is charged the customer charged based on the demand they place on the system and that covers the fixed costs. The City Manager stated that the EDUs would be based on the usage from the year before. If there was an unusual occurrence than that could be looked at and adjusted. Council Member Porter stated that consideration should be made for someone with a leak.

Council Member Minner asked about the gallons of water used to flush rusty water from a customer's line. The City Manager stated that a reading would have to be taken before and after the line is flushed. It would be a billing adjustment; those issues will have to be addressed as they come up.

Ms. Holloway stated that the customer charge is like a membership fee to be a part of the system. The City Manager stated even if no water was sold, debt service, reserves, and contingency would still need to be paid for. Ms. Holloway stated that this methodology is an accepted practice in the industry.

Council Member Porter asked the City Manager for her recommendation regarding rates. The City Manager stated that there is financial, operational, and political accountability to consider. The City Manager recommended eliminating the transfer to the general fund. That would increase some rates in the general fund. There are towns that do transfer money from their utilities to the general fund though.

The City Manager stated that the water fund is really the revenue generator at this point. The wastewater utility is struggling because of increases in operational costs from the inflow and infiltration (I & I).

The City Manager stated that the transfer to the general fund can be reduced over a number of years. Ms. Holloway stated that from a rate setting standpoint, there should not be a transfer to the general fund. Property taxes can be deducted from income taxes. Mayor Moyer stated that he agrees with raising property taxes.

Council Member Minner stated that the payments for utilities should fund the utilities. Taxpayers will not like a tax increase, but at least the water and sewer payments will go only to those funds.

Mayor Moyer asked about how much the average tax bill would increase. The City Manager stated that making up one hundred fifty-six thousand dollars (\$156,000) in the general fund would be a fifteen cent (\$.15) increase on the tax rate, which would be approximately one hundred dollars (\$100) increase in taxes for a home assessed at fifty thousand dollars (\$50,000). Mayor Moyer stated that the tax increase would be smaller than the wastewater rate increase and is more fair, especially to seniors in smaller homes. Ms. Holloway stated that it is also more fair to the ratepayers such as renters that do not own the property.

Mayor Moyer asked about the different amounts between the water and sewer allocations to City Hall. The City Manager stated that the allocations include things like billing and accounting services; the percentage of the allocation is based on the fixed assets of the utility. The auditors approved the allocations.

The City Solicitor asked which portion of the bill funds the allocations. The City Manager replied that they are part of the operating costs and not included in the customer charge.

Mayor Moyer asked about a referendum to ask the public whether to increase taxes or sewer rates for the general fund. The City Manager stated that it would probably cost several thousand dollars to hold a referendum. The City Solicitor stated that phrasing the question would be difficult. The City Manager stated that it is difficult to understand all the information to make an informed decision. City Council can make an informed decision and explain the reasoning to the public.

Mayor Moyer asked about holding meetings to explain rates to the public. The City Manager stated that separate meetings for residents, businesses, and out of town customers would be beneficial. People will not like an increase, but hopefully they will understand.

Council Member Bivans stated that an increase and still having issues with brown water will be hard for residents to accept.

Mayor Moyer stated that after the first bill, customers will start conserving water and that will affect revenue.

The City Manager stated that out of town customers in particular may complain about subsidizing taxes through a transfer from utilities. Eliminating the transfer is cleaner.

The City Manager stated that conservation after the initial bill based on usage will probably decrease over a few quarters as people fall back into old habits. The impact should be looked at in six months and again in a year at budget time. The reserves and contingency may not be met the first year if there is a lot of conservation. The rate can be looked at and adjusted annual or a study done to project costs for five year and adjust rates to match the third year so that the first year the utility is over collected and the last year under collecting, so it averages out. The rates need to adequately cover costs though.

Council Member Porter asked if the all the debt service will be covered in sewer. The City Manager stated that the debt service is four hundred twenty-four thousand dollars (\$424,000). The USDA is looking at refinancing some of the City's debt at lower rates and correcting I & I would potentially reduce the bill from the County. Approximately one hundred eighty thousand dollars (\$180,000) is being spent treating I & I each year.

The City Manager clarified that the City Council is asking for wastewater bill scenarios with the reserves at two hundred thousand dollars (\$200,000), contingencies at fifty-four thousand three hundred dollars (\$54,300), and no transfer to the general fund and estimated tax bills with an increase.

Mayor Moyer stated that new houses with new fixtures use less water. The City Manager stated that usage rates will cause people to conserve water. Ms. Holloway stated that more houses mean spreading out fixed costs out over more customers, so there is less cost on each bill, provided there is no new debt.

Council Member Minner asked about listing debt service separately on the bill. The City Manager replied that could be done.

Discussion occurred regarding the necessity of connecting to Kent County for wastewater treatment and the long history of documented problems with I & I.

Additional workshops were scheduled for February 25, 2014 at 6:30 p.m. and February 26, 2014 at 7:30 p.m.

Ms. Holloway stated that the Delaware Rural Water Association conference starts on Tuesday, February 25, 2014, if anyone would like to attend.

Marie Cunningham asked if the City Council is considering raising both sewer rates and taxes. The City Manager stated that probably both will be raised. Ms. Cunningham recommended clearly stating the pros and cons of the rates during the public meetings. Mayor Moyer stated that the goal is to save the property owner as much as possible while maintaining the system. Ms. Cunningham stated that the cheapest solution now may not be the choice that saves the most money in the long term.

Rebecca Greene stated that the sewer system needs a lot of work and that she would rather an increase be on property taxes because it is deductible on income taxes.

There being no further business, the City Council Workshop adjourned at 7:47 p.m.

Respectfully Submitted,

Kelly Blanchies
Clerk of Council