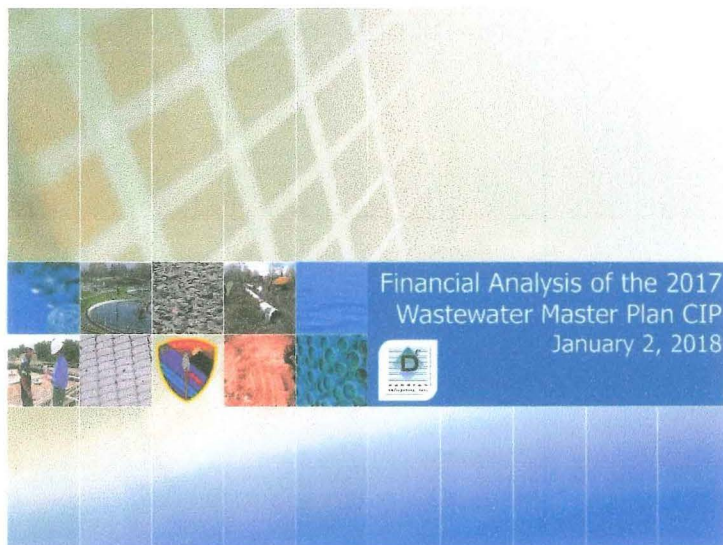


WORK SESSION TO DISCUSS WASTEWATER RATE OPTIONS, 6:30 PM

Mayor Burge called the Work Session to order at 6:30 p.m.

Also present in audience: Assistant to City Manager Alexandra Rains, Public Works Director Dave Sukau, City Planner Laurie Oliver, and Police Chief Norm Miller.

Consultant Steve Donovan explained last time we presented the draft funding plan for the master plan and the rate impact. He went over the power point presentation ~



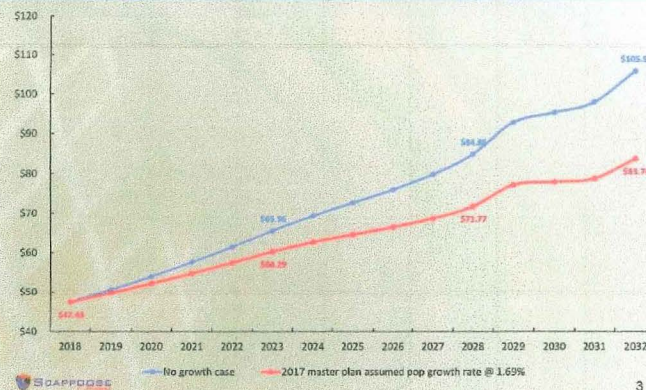
Agenda

- Review the base case rate profile:
 - ✓ 3.0%, 20 years, coverage at 1.20 times net revenue
- New rate profiles based on:
 - ✓ 2.5%, 15 years, coverage at 1.20 time net revenues
 - ✓ 3.5%, 30years coverage at 1.20 times net revenues
- Comparative Analysis
- Conclusions

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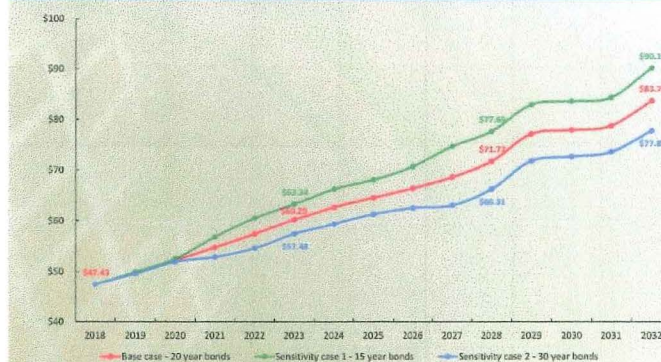
The Wastewater Rate Profile Base Case -20 Year Bonds/Loans-



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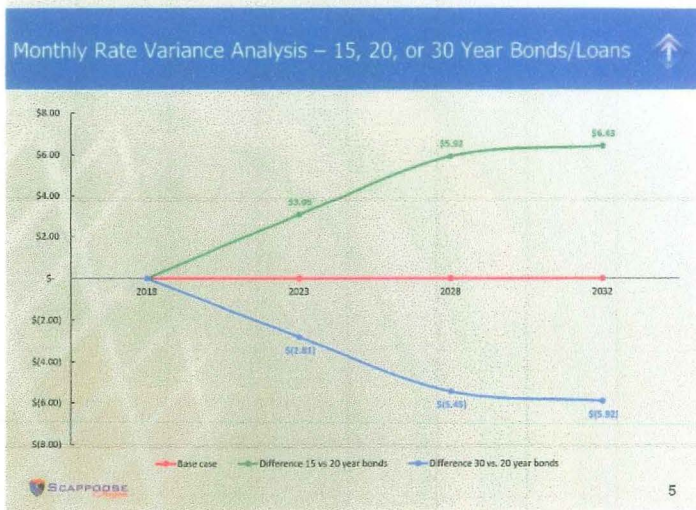
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The Wastewater Rate Profile – 15, 20, or 30 Year Bonds/Loans



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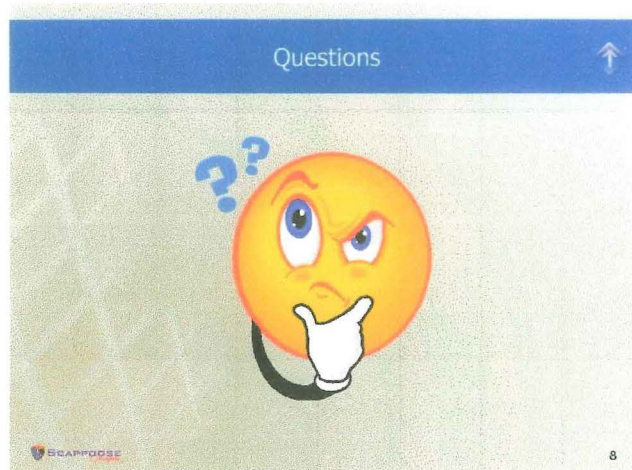
Comparative Cost Analysis – 15, 20, and 30 Year Bonds

	Life of the Bonds/Loans in Years		
	15	20	30
Total amount borrowed:			
Issuance costs (legal, underwriting, etc.)	\$ 204,765	\$ 201,758	\$ 198,988
Debt service reserve account funding	1,653,811	1,356,129	1,081,924
Funds for capital projects	18,617,885	18,617,885	18,617,885
Total amount borrowed	\$ 20,476,461	\$ 20,175,771	\$ 19,898,797
Increase/(decrease) from base case assumptions	\$ 300,689	\$ -	(276,974) ✓
Total interest expense over the life of the bonds/loans	\$ 5,038,549	\$ 7,783,742	\$ 12,117,544
Increase/(decrease) from base case assumptions	\$ (2,745,192)	\$ -	4,333,803 ✓

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Conclusions			
Policy Issue	Life of Bonds/Loans in Years		
	15	20	30
Cost of issuance (fees, reserves, etc.)	Adds ~\$300k vs base case		Reduce by ~\$280k vs base case
Interest expense over the life of the bonds	Saves ~\$2.7m vs base case		Adds ~\$4.3m vs base case
Future annual rate increases:			
• FY 2019-2023	~6%	~5%	~4%
• FY 2024-2028	~4%	~4%	~3%
• FY 2029-2032	~4%	~4%	~4%
Conclusions	Higher rates, lower interest expense		Lower rates, higher interest expense



Steve Donovan explained this project is going to go twelve years, so we are going to be taking on debt throughout the course of this. He stated right now debt is your cheapest form of capital. He explained for the 15-year loans it will cost a little more to issue, but we would save a pile on interest. He stated the bottom line is 15-year ~ higher rates, saving on interest expense, or 30-year ~ lower rates, higher interest expense. He explained from staff's standpoint we recommend the 20-year loans. He explained we would like to take on the State Revolving Loan Program as our funding strategy for this and we would like to get going in 2018 on the UV disinfection plan. He explained based on the program, the State Revolving Loan Program is actually funded by the EPA, and there is something called the Intended Use Plan. He explained we have to apply to the DEQ and put the projects we want to do on the list, and then it goes onto a Statewide intended use plan, and then that plan gets prioritized by the DEQ staff for funding. He stated in theory we could get kicked out if there weren't money, but there is money available right now. He explained we would like to start the application process. He stated April is when we have to turn in our application to get on the new intended use plan. He would like to get guidance from Council this evening, so staff can at least bring things back to Council for their consideration. He

explained the City doesn't have a lot of debt, so you have bonding capacity. He stated even if the City went for straight revenue bonds they have good looking credit.

City Manager Sykes replied the same can't be said for the water department, we have a fair amount of debt with the water system.

Steve Donovan replied which is another reason he is really concerned about 15-year loans on the sewer and bumping up the sewer rates, because staff is going to come back to Council with some water rates in the next few years.

Councilor Kessi stated his big concern is we are in a great situation right now, we have great credit, and we are the type of institution that people want to lend money to, but it is because we haven't taken out loans that are long term and we are paying four million dollars more for, 30-years versus 20-years.

Steve Donovan replied he would push back on that and say the City is a good credit because we haven't done anything to the system, and now we are coming here with a 20-million-dollar capital plan. He stated we should have been making regular improvements over the last twenty years on the plant, and yes, we would have had debt, but now we are at the point where we are pretty much rebuilding the wastewater treatment system.

Councilor Greisen explained she wants to make sure the public knows that developments are contributing, and that it is not solely on the citizens.

City Manager Sykes explained at the Annual Town Meeting there will be handouts with information regarding water, wastewater, anything else that is going on in the City. He explained staff will also be in attendance to help educate and answer questions.

Mayor Burge stated he would like to see the 2% increase be put into ordinance in our rate part of the municipal code, because he wants something more difficult to remove. He wants to ensure that rates will go up where they need to. He wants some underlying protection in the municipal code. He explained that forces the Council and staff to communicate with the public when those rates have to go higher than that, he thinks that is really important. He explained he wants to see two things: the resolution necessary to do these projects, because we need to take care of the sewer system, but he also wants to see that underlying protection built into the code. He explained that forces the Council to have that conversation every year, that way the public is informed.

City Manager Sykes explained in a nutshell what you are saying is that if we adopt this plan we can have a 2% cap, but at the end of the day we are going to need to raise our rates 5% a year for the next five years, then 4% thereafter.

Mayor Burge replied the Council will need to continually pass those resolutions every year anyway. He stated for whatever reason if it gets let off, there would still be that 2% protection in there.

Steve Donovan explained what we would recommend to do is, with Councils direction, is get the ball rolling now, talk to DEQ, start looking at all the paperwork that needs to get done, and then come back to Council with a staff report. He explained even if we issue the loan application to get on the intended use planning to get approved, that does not lock you into having to take out the loan. He explained if you get approved, you have one year to write a loan and there is no loan commitment fee.


Treatment Plant Supervisor Kevin Turner gave an update on future projects.

Steve Donovan asked Council if staff can go forth and apply?

General consensus of Council is yes, apply.

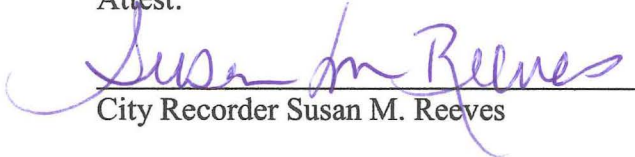
Mayor Burge suggested at the next meeting the Council should be able to finalize whether they want 15-years or 20-years. He would also like to see some language on the agenda to discuss his concept.

Mayor Burge adjourned the Work Session at 7:12 pm.



Mayor Scott Burge

Attest:



City Recorder Susan M. Reeves