

**Minutes of the Meeting of the Finance Committee of Council  
Held in the Caucus Room of the Municipal Building  
On Monday, July 1, 2019  
At 6:30 P.M.**

Committee Members Present:

Chairman, Ward 2 Councilman Dennis McBride

Ward 1 Councilman Bob Butkowski; Councilwoman-at-Large Tammy Holtzmeier

Others in Attendance:

Mayor Bryan Jensen; Asst. Supt. of Utilities Brian Bruce; Supt. of Utilities, Ed McCallie; Service Director Mike Farmer; Law Director John Gasior; Ward 3 Councilman Tony Moore; Council President Craig Witherspoon; Councilman-at-Large Brian Fischer; Finance Director Bill Logan; Ward 4 Councilman Scott Radcliffe; Resident, Larry Escalante

**Water and Sewer Rates and Tap Fees**

Mr. Logan stated that a couple weeks ago he met with Utilities Supt. Ed McCallie, Asst. Utilities Supt. Brian Bruce, and Asst. Finance Director Beth Raicevich to go over rates and he has updated some 10-year forecast schedules. We know what Avon Lake is doing with their water rates and their sewer rates for the next few years. We now know what North Ridgeville is doing with their sewer rates as well. They took them up 4% this year which was their first increase in quite a long time and they have planned 4% increases for each of the next three years. Avon Lake's rates went up today; their water rates by just a little under 4%, and their sanitary sewer by 15% and next year they are looking at about the same. So with that in mind, we have run some numbers. The funds that we are talking about, our Water Fund and our Sanitary Sewer Fund, are pretty healthy. The Sanitary Sewer Fund is now finished paying off any outstanding notes. As you recall, the Sanitary Sewer Fund and the Water Fund shared in the meter change-out notes for \$3 million dollars. We carried the notes for about three years and they are now completely paid off. At the moment, the Sanitary Sewer Fund has no more short-term debt that it is paying on. The Water Fund is still paying down on the Water Tower/Mills Road Transmission Line note and Mr. Logan said he is projecting that to go out to 2022.

Mr. Logan said, so we feel like we have decent reserves but we would like stronger reserves in both our Water and Sewer Funds. And with the water side of it, the standing Ordinance out there allows the City to just pass through that water increase. It is a little more convoluted than it used to be because we purchase water from Avon Lake in a number of different manners – through a couple of the pump stations, Route 83 and Miller Road, but then some of the water is purchased through the ETL (the Eastern Transmission Lines) and those rates are much higher. So the Avon Lake prices are based on where that water comes through. For 2018, the full year, we purchased about 67% of the water through the Miller Road and S.R. 83 pump stations and the rest of the water was purchased through those ETL lines. So if we purchase the water at those lower rates, our overall blended rate will be lower and that is what he is trying to show on the schedule. The blended rate for 2018 was about \$1.57; for 2019 we are projecting about \$1.63, and this is the price that we are paying Avon Lake. These percentages in 2019 are actually a little bit higher towards the S.R. 83 Pump Station but that could all change if we have a very dry summer. Mr. McCallie added that currently, he would say that we are pulling 65% - 70% off from the S.R. 83 and Miller Road pumps. Mr. Bruce said that he just did the June numbers today and we were almost 40 million gallons less than last June.

Mr. Butkowski asked what dictates where we get our supply from; why the different mix? He noted that the cost for S.R. 83 and Miller Road is about 20% less than for the ETL lines. Mr. Bruce said that the cost is simply based on the size of the lines and what it takes to pump through them which is why we try to pull as much as we can out of Miller Road and S.R. 83.

Mr. McBride stated that when there are longer dry periods and the demand goes up then we need to pump more and tap the ETL, so all we need is a long, hot, dry summer and it is going to skew the rates. Mr. Bruce said that we essentially get what we can out of it each fill cycle and we could run longer but then there are energy costs on the back end. The ETL taps run hydraulically; there are no motors and their pressure just feeds right in where S.R. 83 and Miller Road are both pumps so we are also powering those. Mr. Logan said that conceivably, if we had two of the three pumps go down, and we could not get as much water in through there, we would be getting a lot more water through the ETL lines and then paying for it. Mr. McCallie said that we could run the whole system off the ETL lines if we had to.

Mr. Logan said that in the 11 years that he has been here, we would budget that cost of the water at whatever the highest rate was and five or six years ago, most all of it was coming through the S.R. 83 pump station. Now that we know that we are purchasing 20% of it through Miller Road and 50% or more of it through S.R. 83 and the rest of it through the ETL lines, we are blending those rates. When you take those blended rates, Avon Lake's rate is going up about 3.9% today and then a year from now, again based on what they are telling us now, those blended rates would go up by about 3%. So we are looking at a 4% increase just basically passing through that Avon Lake increase, and then next year we would look at about a 3% increase, and this is on the water rate side. With our new software system in place, we read basically all the meters via satellite now and we pay \$.81 a month per end point. Right now our monthly service charge is \$1.00 and if we were to raise that monthly service fee \$.50 on the water side and \$.50 on the sanitary sewer side, we would cover that \$.81 cents that we are paying Badger Meter. For 11,842 end points, by raising that service charge to \$1.50, it would generate another \$71,000. in revenue. To generate the \$71,000. In revenue by a percentage increase instead of the service charge increase, it would be another 3-1/2% increase on the water side.

Mr. McBride asked what the difference was between an end point and a meter and Mr. McCallie said that the meter is the actual device and the end point sends the signal out. Mr. Bruce said that it is a combination meter on some of the bigger meters; it is one meter but it may have two end points. There could also be two meters with one end point but that is rare. In general, it is one meter, one end point. Mr. McCallie added that basically the residential is one/one; when you get into commercial, that is where you have compound meters with the multiple end points.

Mr. Butkowski said, so the \$1.00 service charge today is covering the \$.81 and what else? Mr. Logan answered, well, it is really not covering the \$.81. The \$1.00 service charge really was not there intending to cover these additional fixed charges now that you have on the end points. The \$1.00 service charge was always considered an administrative type charge. So if you use no water at all in a month, you are still going to pay \$1.00 if you have an account. And on the sanitary sewer side, it is \$1.99.

Mayor Jensen stated that he knows that Mr. Logan looked at the 3-1/2% increase if you did it the other way. The Mayor said he would like to see something smaller than that and as a percentage because with some of our seniors, every dollar matters. So if you raised it, let's say 1-1/2% more, instead of doing the 3-1/2%, over the use of more and more water, you gain it all back. Someone on a fixed income does not have to pay the monthly charge increase, but we will more than make up for that on the volume of water as the number of people using the water increases and the new commercial users come in. As we grow, it will more than offset that.

Mr. Logan stated that with what the Mayor just said, if we went up 1-1/2% on top of the 4%, the \$4.93 rate becomes \$5.00. Mayor Jensen added, on a small volume, it is like \$.10 or \$.15 and is not going to be significant. Mr. Logan corrected something that he had said earlier: we were looking at next year at about a 4% increase, not the 3%. So next year if you do the 4% increase, you are at \$5.20.

Mr. Logan said again that we are in decent shape with the water funds. We would like to get the notes paid off no later than the end of 2022. Avon Lake's long-term forecast is to really start slowing down or reducing these increases on the water side but we also know that we have certain projects coming up: new water lines installed in certain areas as roads are redone, etc. We just want to make sure that between our Funds 611 and 303 (the Capital Improvement Fund for water), we have enough in reserve to handle these water projects. At the moment we do not anticipate any new debt coming on in the Water Fund.

Mr. Logan said, so if we did what the Mayor is suggesting, another 1-1/2% increase, we would take our rate up 5-1/2% but we would not change the fixed \$1.00 service charge then. Mr. Butkowski thought that if we take it up the 1-1/2% we are going to more than make up for the costs. Mayor Jensen said if a resident is not happy with that, they could just conserve a little bit on water. There are some people that just do not ever like to see an increase in a charge. To him it just seems easier to do the 1-1/2% increase and we will continue to reap the benefits of it as more people come on line and more businesses use more water.

Mrs. Holtzmeier suggested going on to the discussion of sewer rates and then look at both of the numbers together.

Mr. Logan stated that he thought that most everybody here realizes we pay sanitary sewer charges to North Ridgeville for the French Creek Wastewater Treatment Plant. And we also pay sanitary sewer charges for a portion of the City to Avon Lake for the Avon Lake plant. We have been going off the assumption that it is about 80% to North Ridgeville and 20% to Avon Lake. Avon Lake's rate as of today is \$6.98 per 1,000 gallons of discharge. North Ridgeville's rate, and they bill in hundreds of CCFs and with the conversion, it makes it \$2.80 but North Ridgeville does charge infiltration and surcharges every month. The surcharges run about \$15,000/a month. The infiltration has been very minimal over the last couple years. Again, 20% of the volume is going to Avon Lake and 80% to North Ridgeville. We made an assumption that for 2024, it would be 75%/25% as more develops in the northeast section of the City and the 75% might even come down as more development happens in that area. The last few years, we have taken our rate up basically 5%. There is a \$1.99 minimum charge every month on sanitary sewer, so if you use no water you are still going to get a bill for \$1.00 for water and \$1.99 for sewer. If we take our rates up 5%, and again, Avon Lake is going up 15% and North Ridgeville is going up 4%, the blended rate is about \$4.18.

Mr. Logan stated that the one thing that the Sanitary Sewer Fund does every year is, we take in tap fees in that Fund, but by the end of the year per City Ordinance, we transfer 86.7% of those tap fees into Fund 406, which is Sanitary Sewer Capital Improvement Fund. So between those two funds we would like to maintain reserves at a decent balance to be able to pay for sewer projects. We do not have a pass-through Ordinance with the sewer side like we do on the water side so it is truly up to Council as to what we want to do with the rates but we felt that with Avon Lake really taking their rates up, and North Ridgeville at 4% increases for the next few years, we should probably look at another 5% increase here. Again, that would be before we looked at anything to do with the service charge. If we were to raise that by \$.50 that is about a 1.25% increase so if we looked at it the way the Mayor was looking at it on the water side, that 5% would be 6.25%.

Mr. Butkowski said that he would almost put that service charge fee just on the water and not on the sewer and then that way, the sewer is not augmenting the increased cost for water. Mrs. Holtzmeier noted that on the sewer side, Mr. Logan always tell them where we are considering other cities and their averages. Mr. Logan stated that with the last Ohio EPA Survey we are pretty much right on for sewer, and we are a lot lower on water. Mrs. Holtzmeier said, so we would have flexibility and the room to put those fees on the water side. Mr. Logan said, and if we were to do that 1.25% increase on top of the 5% here, that would be 6.25% and that rate would go from \$7.38 to \$7.47. So it sounds like the Committee does not want to do anything with the sewer side; you think the 5% is fair.

Mr. Bruce said that our sewer rate is much closer to the EPA average, where the water is much lower because we are really close to the lake; the farther away you get, the more expensive it gets. With the sewer, we are really close to the lake and they do not want the sewer going in to the lake so that is why Avon Lake's rates are going up for the projects that they have been mandated to do.

Mr. Logan stated that one of the goals is to see our fund balances get to a point where we are covering about six months' worth of expenses. Mr. McBride said, and that is a good goal to have. There are always going to be projects and issues and surprises so long-term, the goal has always been to build that reserve. The other thing we want to talk about, not necessarily tonight, is to see the sewer become a pass-through like the water so at a minimum level, Council does nothing. Ten years, from now if Council does nothing, those charges just get passed through no matter what and it does not become political, which has always been a fear.

Mr. Gasior stated that the Ordinances do have the base charges pass through but we are adding to that. If we did nothing and they raised their charges, the Ordinance calls for the pass through.

Mayor Jensen said that the sewer would be tough to pass through because it is kind of a weighted one. Mr. McCallie stated that it is a blended rate; he and Mr. Logan tried to balance the usage between Avon Lake and North Ridgeville. Mr. Logan explained that four or five years ago, we were billing our customers based on what system they were on. We passed an Ordinance to do away with that method and said we were going to have one sanitary sewer rate throughout the City regardless of what system a customer was one. Mr. Gasior said, so what you are saying is that there is no way to pass through the sanitary sewer charge.

Mr. McCallie said that what you would have to do is adopt a formula. Mr. Logan added, and the vast bulk of the Avon Lake volume is commercial, not residential. Mayor Jensen stated that if you sent everything to North Ridgeville, it would be cheaper but we had to look at all the pumps, etc. The reason we are going to Avon Lake is because it is so much simpler to bring it that way and that was our argument. He said he thought there is a give and a take and the way it has been done with the blended rate, it works and we have covered all the costs. He added that our funds are not exactly where we want to be, but if you look three years out, it is just going to continue to get better because we are paying off debt. Our funds are healthy and as long as we keep watching them every year we are going to be fine.

Mr. Logan said that, in regard to tap fees, in general, our tap fees will change based on the Cleveland Construction Cost Index that is published in July. So maybe by the end of this week, we will know what that Cost Index is doing and then we will adjust our tap rates off from that. The Ordinance that we passed a few years ago, authorizes those changes. Mr. McCallie asked if last year, we only increased the smaller taps, the ¾-inch and the 1-inch; he did not think that we increased the 2-inch and on up. Mr. Logan said, yes, he thought Mr. McCallie was right; it is only the smaller taps that are governed by the Ordinance. We

look at the taps that are 2-inch and larger and we have not done that. We need to sit down and go through those and maybe come up with some sort of a proposal. We do not have to take those tap fees up at the same time we do the water and sewer.

Mr. McBride asked where the Committee wanted to go with this and everyone agreed to stay at the 5% increase on sewer and add the fee over on the water side. Mr. Butkowski added that we are paying for costs associated with the water so it should be paid for by the water, and the more we use, the more we pay it off and more than make up for it. Mr. Logan said, so we are looking at a 5.5% increase on water (1.5% on top of the 4%) which takes that rate to \$5.00.

A motion was made by Mr. McBride and seconded by Mr. Butkowski for a 5% increase on sewer rates and a 5.5% increase on water rates and the vote was all ayes.

Mr. Logan stated that he would like to have an Ordinance on the agenda for the Council meeting next week. These rates would become effective August 1, 2019.

Mr. Logan asked Mr. McCallie if he wanted to talk about the Avon Road waterline. Mr. McCallie stated that they have about 1100 ft. of water main that they would like to replace, and hopefully, bid it this fall. They have had three breaks already this year and two or three last year but it is mainly one section, about 1100 ft. just west of Pine and just before the culvert and it goes across Avon Road. They have an engineer's estimate on it and it is going to be right around \$320,000. They talked to Mr. Logan and he said they should be fine if they want to proceed with it. Mayor Jensen said, and we do not have a loop in there; if we ever get in a problem there, there is not another loop. If we get development on the south side up there at some point, we would like to connect that to Detroit Road so there could be a loop but at this point, you are taking a lot of chances. Three breaks in one year is way too many.

Mr. Butkowski said that, before they adjourn, he wanted to bring up something he would like the Finance Committee to discuss. Back in 1996, the City of Avon put in impact fees with regard to the Parks and Recreation and those change every year with the Cleveland Construction Index and those fees get passed through to the new residents. One of the things that he would like to look at is the potential of putting out an impact fee with regard to using that money towards the infrastructure within Avon. We all know that the infrastructure within Avon needs work and he would like to talk about other ways in which we can help fund some of that work through an impact fee process. He said he just wanted to get that on the agenda and talk about that shortly. Mr. McBride asked if he was talking about additional impact fees and Mr. Butkowski said, yes, additional impact fees that are specifically dedicated towards infrastructure build-out. We all know that as these developments come in how much impact that has on the overall system and he wants to look at the City as a whole, not just an intersection that is coming into that new development. He wants to look at how we can use that money to help offset some of the build-out that we need within the City for infrastructure.

Mr. McBride adjourned the meeting at 7:22 P.M.

Transcribed by Gail Hayden, Assistant Clerk of Council