



City Council

City Council Chambers ♦ 524 West Stephenson Street, 3rd Floor ♦ Freeport, IL 61032

**COMMITTEE OF THE WHOLE
MINUTES
REGULAR MEETING
MONDAY, JANUARY 9, 2017 AT 6:00 P.M.**

CALL TO ORDER

The regular meeting of the Freeport, Illinois, Committee of the Whole was called to order in council chambers by Mayor James L. Gitz with a quorum being present at 6:00 p.m. on January 9, 2017.

ROLL CALL

Present on roll call: Mayor Gitz and council members Tom Klemm, Peter McClanathan, Art Ross, Jodi Miller, Patrick Busker, Sally Brashaw, Mike Koester, and Andrew Chesney (8).

Present from the City: Contract Attorney Michael Phillips, Esq., Finance Director Guary Bernadelle, Community Development Director Alex Mills, Public Works Director Tom Dole, Fire Chief Miller, Police Chief Todd Barkalow, Water and Sewer Executive Director Glendenning, City Engineer Gallagher and City Clerk Zuravel.

PLEDGE OF ALLEGIANCE

The Pledge of Allegiance was led by Alderperson Ross. He then became the chairperson of the meeting.

INTRODUCTION OF POLICE OFFICERS

Two officers who joined the force in June 2016 were introduced. They graduated from extensive training at the Police Academy in Champaign on December 15, 2016. Another recruit recently began the Academy bringing the total number of officers to 46.

PUBLIC COMMENTS

There were no public comments on agenda items.

APPROVAL OF MINUTES

Alderperson Koester moved for approval of the minutes from the meeting held on December 12, 2016, seconded by Alderperson Chesney. Motion prevailed by voice vote without dissent.

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REVIEW DRAFT ORDINANCES AND PROVIDE A RECOMMENDATION TO CITY COUNCIL ON AMENDMENTS TO CHAPTER 290 FOR SICK LEAVE AND CHILD BEREAVEMENT LEAVE

Aldersperson Brashaw asked Attorney Phillips if anything stood out in the draft of the leaves of absence. Attorney Phillips stated it was mostly routine revisions to comply with wording of state statute and no substance has changed. He further explained that Human Resource Manager Debra Milliman proposed sick leave be taken in one-hour increments rather than current city practice of four hours. All other revisions were made to comply with newly revised state statute.

Aldersperson Koester asked if the word "day" in the bereavement section referred to only staff working 8-hour days or did it extend to staff working 12- and 24-hour shifts. Attorney Phillips explained that only the highlighted wording had been changed and the wording Aldersperson Koester questioned remained the same as the current policy. Attorney Phillips stated that the state statute would still apply.

Aldersperson Chesney asked if taking sick leave in one-hour increments would create a greater accounting strain on departments that are already short staffed and would this change be negotiated in the next contract. Mayor Gitz responded that if this is added to code, this becomes city policy and supersedes other policies that are not in conflict. In regard to advisability of changing this from half-day increments, general consensus of most employees is that this change would be favored. Because departments are short staffed, they do not want to take half a day away from work for something that could take an hour. Finance Director Bernadelle added that currently there is no procedure in place for keeping track of when staff is away from the office for short periods of time so something will need to be developed.

There being no further discussion on the matter of sick and bereavement leaves of absence, Aldersperson McClanathan moved and Aldersperson seconded that this draft ordinance be placed on the agenda for the next City Council meeting. Mayor Gitz noted that he will encourage Human Resources Manager Milliman to attend the next meeting to clarify accounting issues. Motion prevailed by voice vote without dissent.

PRESENTATION ON WATER AND SEWER RATE STRUCTURE BY THE WATER AND SEWER COMMISSION, EXECUTIVE DIRECTOR GLENDENNING AND CITY ENGINEER GALLAGHER

City Engineer Shaun Gallagher gave a PowerPoint presentation and pointed out the following key issues:

- The City has \$155 million in depreciated water and sewer assets in need of replacement.
- The current fees structure does not cover the personnel costs to perform shutoffs, calls for service, or cover non-pay liability.
- The current tiered water rate structure promotes consumption, which depreciates assets faster and disburses higher costs back to low volume users.
- The current Operations and Maintenance (O&M) rate structure has required borrowing from Capital Improvement Plan (CIP) to make payroll and pay bills due to losses to inflation and population.
- Future infrastructure replacement currently requires the borrowing of money with interest due to lack of available cash on hand.
- There are no emergency funds or reserves, only savings for debt service, while the City has \$3,572,330 in reserves to date.

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The Water & Sewer Commission met earlier tonight and their recommendations are included in this presentation. Previously, the Water & Sewer Commissioners and City Council felt that a 30-year CIP was too aggressive. In response, City Engineer Gallagher presented a 40-year plan for the water and sewer systems within the City of Freeport. Some changes from the 30-year plan include the addition of a new well. He reallocated some funds to that line item. He also noted that the following plan does not include inflation.

Water & Sewer – 40-Year Plan

<u>CIP Revenue</u>	<u>\$ 155,750,000</u>	<u>% of Budget</u>
Replace 87 Miles of Watermain	\$ 75,000,000	48.2%
Line 25 Miles of Sanitary Sewer	\$ 25,000,000	16.1%
Replace 3000 Lead Services	\$ 4,000,000	2.6%
Replace 7 Water/Rail Crossings	\$ 1,000,000	0.6%
Replace 4.5 Miles of Forcemain	\$ 3,000,000	1.9%
Carroll Tank Rehab & New Well	\$ 1,850,000	1.2%
New Water Filtration Plant	\$ 10,000,000	6.4%
Upgrade Wastewater Plant	\$ 10,000,000	6.4%
Equipment/Tech Replacements	\$ 14,250,000	9.1%
Engineering	\$ 11,650,000	7.5%
Total CIP Cost	\$ 155,750,000	100%

*Estimate using current pricing with no inflation

Further recommendations of the Commission include:

- Increase the existing fee schedule to cover actual costs of services provided and new customer liability.
- Eliminate the Tiered Rate for water usage so everyone pays the same rate for water usage.
- Increase O&M rates 10% while maintaining the current inflation rate each year moving forward.
- Increase the Capital Improvement Fund across all users over a seven-year process to complete a 40-year plan.
- Invest in new technology and seek out grant opportunities to reduce operating costs in order to fight the impacts of inflation on CIP and O&M.
- Review funding annually and adjust each fiscal year as needed, while reviewing and approving inflationary increases.

City Engineer Gallagher went on to discuss the water and sewer fee schedule. The current fee schedule has been in effect since 1989. He first addressed security deposits which are based on the number of residents. He looked at what the average resident currently pays and the forecasted amount in 2024 at the end of eight years and averaged the two to ensure that the billed amount is covered for water and sewer payments for two months. The security deposit is intended to cover a two-month shutoff notice.

City Engineer Gallagher then covered turn on/shut off fees. The current \$15.00 does not sufficiently cover the costs of sending out a crew and truck and dispatching union plumbers and union technicians. The same is true for non-pay customers which will see a \$25.00 increase to \$50. An ordinance will need to be updated to reflect the above.

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Security Deposits and Fees		
Type	Existing Fee	Proposed Fee
1 - 2 Residents	\$75.00	\$150.00
3 - 4 Residents	\$100.00	\$200.00
5+ Residents	\$150.00	\$250.00
Residential -- Multi-Family	\$75.00 + for each unit	\$100.00 + for each unit
Turn on, Transfer Fee	\$15.00	\$35.00
Non-Payment Reconnection Fee; NSF Check Charge	\$25.00	\$50.00
NOTE: AFTER HOURS SERVICE RATES ARE DOUBLED.		

- Security Deposits to cover two months billing within proposed rate structure.
- Turn-on and Shut-off fees to be increased to cover the cost of a service crew member and a truck.
- Fees for water and sewer service connections shall be at cost or within the proposed fee structure (not shown).

Explanation of a tiered water rate versus a fixed sewer was given by City Engineer Gallagher. This became a significant issue when cubic feet was converted to gallons. There was an error in this that created quite a savings for the citizens of Freeport. It caused the tier to initiate at 748 gallons instead of the correct amount of 7,048 gallons. This simple error cost the city \$129,000 for two years until he found it. Tiered rates are set up in a format that promote consumption and depreciate assets sooner. It costs the same to pump each gallon of water. Compared to tiered rates in cities where there is a demand for water, rates do the exact opposite. As consumption increases, the tiered rates substantially increase.

Water Usage	Tiered Rate	No Tier
Volume Charge	FY 2016-2017	FY 2016-2017
First 7,480	0.0015692	0.0015692
Next 67,320	0.0014291	0.0015692
Next 149,600	0.0013170	0.0015692
Over 224,400	0.0011769	0.0015692

- Tiered Rate Structure promotes consumption, which depreciates our assets at a faster rate.
- Lower volume users pay more, which has a negative impact on the disadvantaged and the elderly.
- Tiered Rate systems implemented today are in reverse, escalating rates to limit consumption and waste.

City Engineer Gallagher addressed the O&M rate which has been overlooked for some time. The inflationary mark was recently substantially surpassed as we have been bleeding this from of the rate structure for many years. The first step is to remove the tiered water rate structure as previously proposed. Then implement a one-time increase of 10% (to make up for the lack of inflationary increases), round the rate to five decimal places, and incorporate an annual inflationary increase. These changes will be implemented May 1, 2017.

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Water Usage	Rate	No Tier	10% O&M	Rounded
Volume Charge	FY 2016-2017	FY 2016-2017	FY 2016-2017	FY 2016-2017
First 7,480	0.0015692	0.0015692	0.00172612	0.00173
Next 67,320	0.0014291	0.0015692	0.00172612	0.00173
Next 149,600	0.0013170	0.0015692	0.00172612	0.00173
Over 224,400	0.0011769	0.0015692	0.00172612	0.00173

Sewer Usage	Rate	No Tier	10% O&M	Rounded
Volume Charge	FY 2016-2017	FY 2016-2017	FY 2016-2017	FY 2016-2017
First 7,480	0.0036845	0.0036845	0.0040530	0.00405
Next 67,320	0.0036845	0.0036845	0.0040530	0.00405
Next 149,600	0.0036845	0.0036845	0.0040530	0.00405
Over 224,400	0.0036845	0.0036845	0.0040530	0.00405

- Remove the tiered water rate structure as previously proposed.
- Increase the initial O&M rate 10%, which dropped significantly over the last ten years due to the lack of inflationary increases.
- Round to five decimal places, not seven, to reduce the chance of clerical errors and unnecessary compounding.
- O&M funding to continue to receive annual inflationary increases as recently approved.

City Engineer Gallagher then covered Capital Improvement charges which were introduced in 2007 and set to \$4.00 per resident. This was originally taking O&M money and moving it to a Capital Improvement account to set up a debt service account for new capital. This would ensure that during times of conservation there were still funds available to cover new infrastructure projects. An inflationary increase was included until 2008 when the economy dropped and the rate was decreased to an older rate structure at that time. The proposed CIP increments will not increase with inflation and should be reviewed annually. There will be no Capital Improvement increases beyond year eight.

Customer Type	CIP Surcharge	CIP Surcharge	CIP Surcharge	CIP Surcharge	CIP Surcharge	CIP Surcharge	CIP Surcharge	CIP Surcharge
by Water Meter Size	FY 2016-2017	FY 2017-2018	FY 2018-2019	FY 2019-2020	FY 2020-2021	FY 2021-2022	FY 2022-2023	FY 2023-2024
5/8"	\$16.00	\$18.00	\$22.00	\$26.00	\$30.00	\$34.00	\$38.00	\$42.00
5/8" x 3/4"	\$16.00	\$18.00	\$22.00	\$26.00	\$30.00	\$34.00	\$38.00	\$42.00
3/4"	\$17.12	\$19.00	\$23.00	\$27.00	\$31.00	\$35.00	\$39.00	\$43.00
1"	\$18.88	\$21.00	\$25.00	\$29.00	\$33.00	\$37.00	\$41.00	\$45.00
1-1/2"	\$23.68	\$26.00	\$30.00	\$34.00	\$38.00	\$42.00	\$46.00	\$50.00
2"	\$29.12	\$31.00	\$35.00	\$39.00	\$43.00	\$47.00	\$51.00	\$55.00
3"	\$48.68	\$51.00	\$55.00	\$59.00	\$63.00	\$67.00	\$71.00	\$75.00
4"	\$73.12	\$75.00	\$79.00	\$83.00	\$87.00	\$91.00	\$95.00	\$99.00
6"	\$133.12	\$135.00	\$139.00	\$143.00	\$147.00	\$151.00	\$155.00	\$159.00

- Example - Increases \$2 in year one, and \$4 in years two to seven.
- Will generate an additional \$17,112,000 over eight years.
- Provide a gradual and steady increase to a sustainable rate structure.
- Cannot be bypassed by using less water.
- Will not increase with inflation and should be evaluated annually.
- Does limit front end buying power.

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According to City Engineer Gallagher, in this scenario, the Capital Improvement charges will generate \$21,416,000 which is broken down as follows:

CIP Revenue	\$ 21,416,000	% of Budget
Replace 12 Miles of Watermain	\$ 10,335,000	48.3%
Line 3 Miles of Sanitary Sewer	\$ 3,050,000	14.2%
Replace 400 Lead Services	\$ 550,000	2.6%
Replace 7 Water/Rail Crossings	\$ 1,000,000	4.7%
Carroll Tank Rehab & New Well	\$ 1,850,000	8.6%
Replace 2 Miles of Forcemain	\$ 1,350,000	6.3%
Equipment/Tech Replacements	\$ 1,675,000	7.8%
Engineering	\$ 1,606,000	7.5%
Total CIP Cost	\$ 21,416,000	100%

*Estimate using current pricing with no inflation

City Engineer Gallagher moved on to address the question of “how do we afford it?”. There are many indexes to look at but he used the IEPA Affordability Threshold. They use the rate of 1.5% of the median household income per utility which is applied as shown on the calculations below.

Current Rate		May 1st 2024	
Affordability Threshold		Affordability Threshold	
Median Household Income	\$ 36,250.00	Median Household Income	\$ 40,231.88
* 2015 Data		* 2015 Data	
Water Fee at 1.5%	\$ 543.75	Water Fee at 1.5%	\$ 603.48
Water Fee per month	\$ 45.31	Water Fee per month	\$ 50.29
Sewer Fee at 1.5%	\$ 543.75	Sewer Fee at 1.5%	\$ 603.48
Sewer Fee per month	\$ 45.31	Sewer Fee per month	\$ 50.29
Total Water/Sewer	\$ 90.63	Total Water/Sewer	\$ 100.58
Storm Sewer Fee	\$ 4.00	Storm Sewer Fee	\$ 4.00
Garbage	\$ 12.36	Garbage	\$ 13.72
Total Monthly Bill	\$ 106.99	Total Monthly Bill	\$ 118.30

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Current Mid User Water Sewer Billing	
Family Water Usage (GAL)	5,000
5/8" Meter Water	\$ 3.77
Water Fee	\$ 7.85
5/8" Meter Sewer	\$ 5.40
Sewer Fee	\$ 18.42
CIP Fund	\$ 16.00
Total Water/Sewer	\$ 51.44

Storm Sewer Fee	\$ 4.00
Garbage	\$ 12.36

Total Monthly Bill	\$ 67.80
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Difference	\$ 39.19
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Mid User Water Sewer Billing	
Family Water Usage (GAL)	5,000
5/8" Meter Water	\$ 6.10
Water Fee	\$ 12.60
5/8" Meter Sewer	\$ 8.74
Sewer Fee	\$ 29.80
CIP Fund	\$ 42.00
Total Water/Sewer	\$ 99.24

Storm Sewer Fee	\$ 4.00
Garbage	\$ 13.72

Total Monthly Bill	\$ 116.96
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Difference	\$ 1.34
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Eight Year Revenue Projections	
Total New CIP Revenue	\$ 17,112,000.00
Total Current CIP Revenue	\$ 4,304,000.00
Depreciated Assets Replacement Cost	\$ 155,750,000.00
Total Timeframe to Complete	40.6 Years

- Rate of 1.5% of the median household income per utility.
- Incomes shown to increase at 1.5% per year to 2024.
- Currently the average customer bill is \$39.19 below this threshold.
- Rate at the end of eight years for the average customer would be \$1.34 below this threshold.

Assumptions:

5% Inflation on all O&M each year
 Additional 10% initial increase to O&M on May 1st
 \$2 CIP Increase on May 1st
 \$4 CIP Increase each May through 2024
 1.5% Increase in the median income each year
 1.5% increase to garbage collection fees each year
 No increase to Storm Sewer fees
 Complete replacement of depreciated assets within 40 years

City Engineer Gallagher provided three examples of residential users (low, average, and high) as itemized below. The comparison shows current user rates and proposed increases from May 1, 2017 through May 1, 2024. (CLERK'S NOTE: A copy of these spreadsheets are available on the City's website at <http://www.cityoffreeport.org>.)

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Estimated Monthly Bill	\$ 60.01			Estimated Monthly Bill	\$ 75.11			Estimated Monthly Bill	\$ 90.21
May 1, 2018 Low User Billing			\$ Increase	% Increase	May 1, 2018 Average User Billing			\$ Increase	% Increase
Total Water/Sewer	\$ 48.92	\$ 5.28	12.1%	Total Water/Sewer	\$ 64.77	\$ 6.03	10.3%	Total Water/Sewer	\$ 80.62
Estimated Monthly Bill	\$ 65.47			Estimated Monthly Bill	\$ 81.32			Estimated Monthly Bill	\$ 97.17
May 1, 2019 Low User Billing			\$ Increase	% Increase	May 1, 2019 Average User Billing			\$ Increase	% Increase
Total Water/Sewer	\$ 54.25	\$ 5.33	10.9%	Total Water/Sewer	\$ 70.88	\$ 6.10	9.4%	Total Water/Sewer	\$ 87.50
Estimated Monthly Bill	\$ 70.98			Estimated Monthly Bill	\$ 87.61			Estimated Monthly Bill	\$ 104.23
May 1, 2020 Low User Billing			\$ Increase	% Increase	May 1, 2020 Average User Billing			\$ Increase	% Increase
Total Water/Sewer	\$ 59.66	\$ 5.41	10.0%	Total Water/Sewer	\$ 77.11	\$ 6.23	8.8%	Total Water/Sewer	\$ 94.56
Estimated Monthly Bill	\$ 76.58			Estimated Monthly Bill	\$ 94.03			Estimated Monthly Bill	\$ 111.48
May 1, 2021 Low User Billing			\$ Increase	% Increase	May 1, 2021 Average User Billing			\$ Increase	% Increase
Total Water/Sewer	\$ 65.14	\$ 5.49	9.2%	Total Water/Sewer	\$ 83.47	\$ 6.36	8.2%	Total Water/Sewer	\$ 101.79
Estimated Monthly Bill	\$ 82.26			Estimated Monthly Bill	\$ 100.59			Estimated Monthly Bill	\$ 118.91
May 1, 2022 Low User Billing			\$ Increase	% Increase	May 1, 2022 Average User Billing			\$ Increase	% Increase
Total Water/Sewer	\$ 70.71	\$ 5.57	8.5%	Total Water/Sewer	\$ 89.96	\$ 6.49	7.8%	Total Water/Sewer	\$ 109.21
Estimated Monthly Bill	\$ 88.02			Estimated Monthly Bill	\$ 107.27			Estimated Monthly Bill	\$ 126.52
May 1, 2023 Low User Billing			\$ Increase	% Increase	May 1, 2023 Average User Billing			\$ Increase	% Increase
Total Water/Sewer	\$ 76.33	\$ 5.62	8.0%	Total Water/Sewer	\$ 96.53	\$ 6.57	7.3%	Total Water/Sewer	\$ 116.73
Estimated Monthly Bill	\$ 93.85			Estimated Monthly Bill	\$ 114.05			Total Monthly Bill	\$ 134.25
May 1, 2024 Low User Billing			\$ Increase	% Increase	May 1, 2024 Average User Billing			\$ Increase	% Increase
Total Water/Sewer	\$ 78.04	\$ 1.71	2.2%	Total Water/Sewer	\$ 99.24	\$ 2.71	2.8%	Total Water/Sewer	\$ 120.44
Estimated Monthly Bill	\$ 95.76			Estimated Monthly Bill	\$ 116.96			Estimated Monthly Bill	\$ 138.16
Eight Year Summary					Eight Year Summary				
Initial O&M Increase	\$ 2.23	5.8%		Initial O&M Increase	\$ 3.55	6.9%		Initial O&M Increase	
CIP Increase	\$ 26.00	67.9%		CIP Increase	\$ 26.00	50.5%		CIP Increase	
Max O&M Inflation Increase	\$ 11.50	30.0%		Max O&M Inflation Increase	\$ 18.25	35.5%		Max O&M Inflation Increase	
Total \$ Increase and % Increase	\$ 39.73	103.7%		Total \$ Increase and % Increase	\$ 47.80	92.9%		Total \$ Increase and % Increase	
				Average Rate Under the Affordability Threshold	\$ 1.34				
Assumptions:				Eight Year Revenue Projections				Affordability Threshold at Year Eight	
5% Inflation on all O&M each year				Total New Revenue	\$ 17,112,000.00		Median Household Income	\$ 40,231.88	
Additional 10% initial increase to O&M on May 1st				Total Current Revenue	\$ 4,304,000.00		*2015 Data projected at 1.5% inflation		
\$2 CIP Increase on May 1st				Depreciated Assets Replacement Cost	\$ 155,750,000.00		Water Fee at 1.5%	\$ 603.48	
\$4 CIP Increase each May through 2024				Total Timeframe to Complete	40.6 Years		Water Fee per month	\$ 50.29	

City Engineer Gallagher also provided two commercial/industrial examples (carwash and industrial) as follows (CLERK'S NOTE: also available on the website):

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Carwash Water Sewer Billing (241,997 GAL)				Industrial Water Sewer Billing (661,841 GAL)			
Total Water/Sewer	\$ 1,257.40			Total Water/Sewer	\$ 3,309.01		
Total Monthly Bill	\$ 1,277.40			Total Monthly Bill	\$ 3,349.01		
May 1, 2017 Carwash No Tier Billing				May 1, 2017 Industrial No Tier Billing			
	\$ Increase	% Increase			\$ Increase	% Increase	
Total Water/Sewer	\$ 1,311.46	\$ 54.06	4.3%	Total Water/Sewer	\$ 3,527.77	\$ 218.77	6.6%
Total Monthly Bill	\$ 1,331.46			Total Monthly Bill	\$ 3,567.77		
May 1, 2017 Carwash Billing				May 1, 2017 Industrial Billing			
	\$ Increase	% Increase			\$ Increase	% Increase	
Total Water/Sewer	\$ 1,506.20	\$ 194.74	14.8%	Total Water/Sewer	\$ 4,053.41	\$ 525.64	14.9%
Total Monthly Bill	\$ 1,526.20			Total Monthly Bill	\$ 4,093.41		
May 1, 2018 Carwash Billing				May 1, 2018 Industrial Billing			
	\$ Increase	% Increase			\$ Increase	% Increase	
Total Water/Sewer	\$ 1,583.74	\$ 77.54	5.1%	Total Water/Sewer	\$ 4,257.20	\$ 203.79	5.0%
Total Monthly Bill	\$ 1,603.74			Total Monthly Bill	\$ 4,297.20		
May 1, 2019 Carwash Billing				May 1, 2019 Industrial Billing			
	\$ Increase	% Increase			\$ Increase	% Increase	
Total Water/Sewer	\$ 1,663.75	\$ 80.01	5.1%	Total Water/Sewer	\$ 4,467.67	\$ 210.47	4.9%
Total Monthly Bill	\$ 1,683.75			Total Monthly Bill	\$ 4,507.67		
May 1, 2020 Carwash Billing				May 1, 2020 Industrial Billing			
	\$ Increase	% Increase			\$ Increase	% Increase	
Total Water/Sewer	\$ 1,748.65	\$ 84.90	5.1%	Total Water/Sewer	\$ 4,691.45	\$ 223.77	5.0%
Total Monthly Bill	\$ 1,768.65			Total Monthly Bill	\$ 4,731.45		
May 1, 2021 Carwash Billing				May 1, 2021 Industrial Billing			
	\$ Increase	% Increase			\$ Increase	% Increase	
Total Water/Sewer	\$ 1,838.44	\$ 89.79	5.1%	Total Water/Sewer	\$ 4,928.52	\$ 237.08	5.1%
Total Monthly Bill	\$ 1,858.44			Total Monthly Bill	\$ 4,968.52		
May 1, 2022 Carwash Billing				May 1, 2022 Industrial Billing			
	\$ Increase	% Increase			\$ Increase	% Increase	
Total Water/Sewer	\$ 1,933.13	\$ 94.69	5.2%	Total Water/Sewer	\$ 5,178.91	\$ 250.39	5.1%
Total Monthly Bill	\$ 1,953.13			Total Monthly Bill	\$ 5,218.91		
May 1, 2023 Carwash Billing				May 1, 2023 Industrial Billing			
	\$ Increase	% Increase			\$ Increase	% Increase	
Total Water/Sewer	\$ 2,030.29	\$ 97.16	5.0%	Total Water/Sewer	\$ 5,435.99	\$ 257.08	5.0%
Total Monthly Bill	\$ 2,050.29			Total Monthly Bill	\$ 5,475.99		
May 1, 2024 Carwash Billing				May 1, 2024 Industrial Billing			
	\$ Increase	% Increase			\$ Increase	% Increase	
Total Water/Sewer	\$ 2,128.35	\$ 98.06	4.8%	Total Water/Sewer	\$ 5,702.39	\$ 266.40	4.9%
Total Monthly Bill	\$ 2,148.35			Total Monthly Bill	\$ 5,742.39		
Eight Year Summary				Eight Year Summary			
Initial Tier Increase	\$ 54.06	6.2%		Initial Tier Increase	\$ 218.77	9.1%	
Initial O&M Increase	\$ 129.00	9.8%		Initial O&M Increase	\$ 350.48	9.9%	
CIP Increase	\$26.00	2.0%		CIP Increase	\$26.00	0.7%	
Max O&M Inflation Increase	\$ 661.89	50.5%		Max O&M Inflation Increase	\$ 1,798.13	51.0%	
Total \$ Increase and % Increase	\$ 870.96	66.4%		Total \$ Increase and % Increase	\$ 2,393.38	67.8%	

The above user examples were presented by City Engineer Gallagher to assist the Council in making a recommendation to approve the 40-year plan.

To put the proposed rate increase into prospective as compared with purchasing water from a local merchant, City Engineer Gallagher presented a slide depicting a gallon jug of water from WalMart which would cost \$0.88 per gallon at today's prices compared to a gallon of city water at the highest 2024 rate costing \$0.02 per gallon.

In conclusion, City Engineer Gallagher's recommendation is to remove the current tiered fee structure, provide 40-year capital replacement at a rate yet to be determined by City Council, and increase the O&M rates 10% to minimize debt service and increase cash reserves. This would improve buying power

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when bidding projects and replace depreciated infrastructure which is evidenced by recent main breaks. He also recommends acting upon this sooner than later as current city crews retire and staff changes over time.

Aldersperson Klemm expressed his appreciate for the time and effort put into preparing presentations. He can see that the temporary shutoff costs are under what they should be in his opinion. Aldersperson Klemm is in favor of acting on this now and not "kicking it down the road". He feels the Council's input should be how to phase it in.

Aldersperson Chesney asked if the Water and Sewer Commission's vote was unanimous. City Engineer Gallagher responded that it was three in favor, one against, and one abstention. Aldersperson Chesney then inquired which projects would be targeted for years one through three. City Engineer Gallagher said the biggest project is finding a location for a new well, water mains crossing railroad tracks has been a liability as we approach the year anniversary of a large failed water main break, and implementation of the remainder of the Phase B water main project.

Aldersperson Chesney asked that, as rates start to elevate under this proposal, is there a one-, two-, and three-year plan to show exactly which projects are being proposed. He feels this current plan gives too much flexibility without any details. City Engineer Gallagher agreed the next step is to determine which rate increase is implemented over which time period so that it can be broken down into the annual allotments of which projects will be scheduled at every level.

Aldersperson Chesney inquired about the authority of transferring monies between accounts. City Engineer Gallagher stated that historically all funds were comingled in one account. Director Glendenning began separating monies between the Capital Improvement Fund and O&M Account a few years ago. Depending on what is happening, we see a roller coaster of our operations. We are actually recovering now during the winter when there is less construction and less cash going out for maintenance items and repay those funds. This keeps us from going in the red. Here is where moving those dollars, knowing that they are isolated, and knowing exactly what each transaction was each time so it can go back to its appropriate spot. Going in the hole with O&M and not paying bills is not an option. City Engineer and Director Glendenning have spent the last four years separating out each individual fund so that when we talk about cash on hand for debt service, taking out new loans, and having that first six-month payment on hand, a lot of this was merged together. They have been slowly able to pull out each piece of that. The problem was that they never knew what the actual O&M rate truly was. So now that they have pulled out the debt service funds, because those have to be paid back to anyone who has a paid a security deposit, before those debt service payments were included. They have begun over the past couple years to pull out what they can afford and set those aside so they are not comingled. The problem of the O&M fund not having what it was obligated to have is being resolved.

Aldersperson McClanathan requested clarification regarding the one-time 10% increase to O&M rates with an annual inflationary increase of 1.5%. It was stated that the water and sewer rates have been in place for 28 years. For about eight years, the CIP rate has remained flat. If there had been an inflationary increase of 5% (which is the worst case scenario) over that time frame, we currently would have rates that are 45% higher than eight years ago. In effect, even once the 10% rate increase is implemented, the Water and Sewer Commission is still in the hole approximately 35% from if we would

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have had this in place in the past. The one-time 10% O&M rate increase, the new fixed fee structure, and 1.5% adjustments for inflation could possibly stabilize the O&M budget for the foreseeable future. Other factors include the rate of our capital improvements to reduce water loss from inflow/infiltrations that have skyrocketed our O&M expenses. Another factor is removing the tiered rate structure.

Aldersperson McClathan asked for clarification on rates of inflation used in calculations. City Engineer Gallagher explained that 1.5% was used in all the examples for inflation and 1.5% on the median household income. On the O&M, 5% was used, which was the maximum or worst case scenario. It was shown on the chart (and available online), if a 40-year program is chosen with the \$26 rate increase example, we would be able to fight 1.34% inflation over 40 years when those debts are retired and that is injected back into the CIP. The rate of 1.34% is not a huge amount compared to the 4.8-5.0% increases used to calculate O&M shortages, but it is something. So that is a small inflation fighter in that existing debt service should it be funneled back into CIP for the next four years.

Aldersperson McClathan further inquired as to the Capital Improvement Plan (CIP) what percentage of the debt service on outstanding projects is interest and how much is principal. City Engineer Gallagher responded by giving an example. For instance, for Phase B, \$8.7 million was borrowed. There is \$7.3 million in debt with a 1.86% interest rate. Federal loans have substantially lower interest rates than the bond service we have in the table. Some of them are reaching 4-6%. We have refinanced some of those bonds in recent years to 4%. As far as total debt, some of those were comingled and we pay a percentage on a bond which would need the principal and interest calculated to give an exact answer. Aldersperson McClathan expressed that the idea is to get out from our current system of debt service and instead have the money making interest. This is a tangible benefit to the community. He felt it would be helpful just to see what we would be saving under this new plan. Director Glendenning added that if we finance new projects through loans or bonds, there is a lot of external engineering we will need to pay for in order to obtain those funds. Those costs need to be taken into consideration. If we do them in house, there is a cost savings.

Aldersperson McClathan then asked, under the scenario on a 40-year project, if we do three years at \$8-\$8-\$8, would that get us there? City Engineer Gallagher referenced two slides showing that \$8-\$8-\$8 would be reached at 41.3 years with an average water bill of \$97.24 showing \$3.34 below the Affordability Threshold in the year 2024. Aldersperson McClathan summarized by stating that he believes the time has arrived where all the information has been presented to Council in various ways. His philosophy, on 98% of the things, is to go ahead and look for different ways to conduct business, at first. But regarding a \$155 million project, that is in the 2% where you can not operate in this framework. Aldersperson McClathan would like to move forward on some plans to come to a number that the majority of the council feel comfortable with so this recommendation can pass and the plan can be implemented.

Aldersperson Chesney feels that town hall meetings and concrete plans are necessary before moving forward with this plan. In addition, the actual maintenance budget should be made available. Also, if funds are being transferred between O&M and CIP, he feels the Council should be made aware of it at the time it is necessitated. Director Glendenning stated that there were 43 water main breaks in 2016, which was 5 more than in 2015, and staffing numbers have remained unchanged from 2010 to 2016.

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Aldersperson Koester expressed his appreciation to City Engineer Gallagher and Director Glendenning for the informative presentation which shows a lot of forethought. He also supports having a more detailed plan available prior to making a recommendation. It was reported that there were four water mains broke within the last week averaging \$3,000 per break but Director Glendenning has seen breaks cost as much \$15,000. Moving forward, as sections of water main are replaced, common break areas will be targeted with a focus on mains near the hospital, schools, railroad facility, and any other area that would shut down a highly populated section of the City. City Engineer Gallagher and Director Glendenning will provide a detailed eight-year plan.

Aldersperson Koester asked if the Council were to give a tentative recommendation to the \$8-\$8-\$8 option of the 40-year plan, what is the next step? City Engineer Gallagher responded that upon Council's recommendation, he and Director Glendenning would draft the first eight years of a 40-year plan with a May 1 implementation date. Aldersperson Koester agrees with having a plan and looks forward to Director Glendenning and City Engineer Gallagher coming to the 7th Ward neighborhood watch meeting in March. Aldersperson Koester realizes that considering the number of breaks, the longer we wait to start programs, the more it will cost in repairs from old pipes. Aldersperson Koester supports a tentative adoption of the \$8-\$8-\$8 program in order for the development of plans to proceed.

Mayor Gitz gave some points of clarification. First, the reason there is no list of projects is because the list of projects depends upon the length of plan the Council adopts. A 30- versus 40-year plan will be very different. City staff will represent the needs and translate how this looks over time. If Council votes to stretch it to 41 years, then we can work backwards. Second, no one is suggesting Council adopt a set of proposals, especially for year one and not know the suggested projects. Many projects will be based on water mains due to issues with old lines but not exclusively. There is need for another well and a way to run water lines under the railway. Third, we will continue to look for other resources and grants. However, grants cannot be relied upon exclusively. They do provide an extra funding benefit but the downside is they come with so many costly requirements that they compromise our ability to do things effectively. We will continue to look for low cost, high return opportunities for additional resources. What we need from the Council is direction as to the revenue so we can specify which projects can address different areas of the city according to urgency. As to town meetings, Mayor Gitz believes the purpose needs to be defined. If polled, most people initially would not want to pay more for their water and sewer bills. But there is a difference between \$0.02 per gallon from water and sewer versus \$0.88 for gallon from WalMart. The difference is not always clear. Public meetings are both helpful in the budget process for water and sewer, but also as an educational tool, a way to communicate the nature and seriousness of problems in the infrastructure of the City of Freeport, and here is the solution. Mayor Gitz's request to the Council is for input as to the nature and quantity of town hall meetings. He would like feedback on what each councilperson would like to see especially as it pertains to their ward. Finally, no one is suggesting we ignore our ordinances on O&M, but here's the reality of our accounting system. There was a time when all of the funds were comingled. There were accounting entries but none of them were clear because they were comingled. With the help of auditors, we tried to straighten out and segregate them, because we agreed, we shouldn't be borrowing back and forth, and deposits should be segregated. So, there are reasons we got into the situation we are in. We have sorted some of those problems out. If further problems are solved through implementing the proposed changes in rate structure, we will not have emergencies where the choice is (1) take from another fund or (2) rescue a broken main problem immediately. Mayor Gitz invited comments to work towards

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solidarity on this. If this proposal is phased in over time, and we do a good job of communicating to the public what, where, why, and how we're doing it, and doing so cost effectively, he believes we will be surprised at the level of public support this generates.

Aldersperson McClanathan requested by next Tuesday's meeting, if that is not too early, two additional three-year plans under these scenarios: (1) 10% O&M, 5% Max Inflation, CIP Increase of \$7, \$7, \$7; and (2) 10% O&M, 5% Max Inflation, CIP Increase of \$8, \$8, \$8). Then, the Council can narrow down which option is presented to the public and set a series of meetings. A request that a maintenance budget be provided was also made.

City Engineer Gallagher provided follow up information regarding the 60/40 split on the Phase B project. He stated that 60% is the utility portion that goes in the ground and 40% is the infrastructure cost to put everything back that was dug up including the city streets and sidewalks. If Council approves an increase in transportation funding, that will also reduce overall costs by simultaneously installing sidewalks. There will be less overlap of work if we can merge a lot of this transportation work with capital projects.

Aldersperson Klemm noted that he agrees with Aldersperson Chesney that the Council needs to have everything in front of them when making decisions. Aldersperson Klemm is also in favor of town hall meetings. He and Aldersperson Brashaw had City Engineer Gallagher and Director Glendenning do a presentation at a neighborhood watch meeting where constituents agreed with the need for updated infrastructure. There was general consensus that a prioritized listing of construction projects would suffice for the Council to make a decision as opposed to engineer drawings of projects.

Aldersperson Brashaw asked if the projects listed in the five-year plan would be tied to specific funding sources. City Engineer Gallagher responded that the scenarios could be presented in many different ways. The difficulty with any project is cash flow. If projects are extended out seven to nine years, the upfront cash funds are going to be expended in engineering. The more front-ended any project is, the more capital will be used to replace the actual main. Any design project probably requires a two-year scenario: one year of engineering and one year of construction. However, these upcoming projects would still have a year of needed revenues. He could do the design knowing the funds are coming, but it would take approximately two years to implement something like the Phase B project again. So he would look at smaller projects first. A million dollar rail project would probably be one of the first because the exact location is a known variable. The engineering would include a topographic survey, in-house plans, and construction start date of Spring 2018 or sooner.

Aldersperson McClanathan stated that looking at the 40-year plan, he feels it is as specific as possible considering the time parameters. If a three- or five-year plan focuses on some of these projects, such as the railroad project, Carroll tank, five miles of this and three miles of that, is that what the Council is generally looking for in a short-term plan? Aldersperson Chesney partly agreed. He feels specifics should be included such as a bike path, curb and gutter, and sidewalk, similar to what was provided for the Phase B plan. Aldersperson McClanathan pointed out that Director Glendenning put together the Phase B project based upon a survey that identified city-wide problem areas, which dictated the specific line items of Phase B. This three- or five-year plan will be more ambiguous because we are doing a city system and there is going to be some fluctuation as needs arise. Director Glendenning pointed out that this current proposal will address a lot of areas at the same time. The original estimate was 2-1/2 miles

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per year of water main based upon the hydraulic model, but it may be influenced by a separate street project. Director Glendenning stated he knows force mains and sanitary sewer need to be addressed a little at a time. They can not wait for three to five years until they get there. For example, if using the \$7-\$7-\$7 model, that is going to be about \$1 million. That will not provide sufficient revenue in the first year and not much more in the second year because those funds will be depleted very quickly. Until the full amount of \$3.5 to \$4 million is reached, all of the projects cannot be addressed equally or as fully as necessary. But once a dollar amount is established and how fast those dollars are coming in, then he can provide accurate annual estimates. It was 2 to 2-1/2 miles of water main per year and 1 to 1-1/2 miles of sanitary lining per year on a regular basis. It was constantly methodical in getting up to where it needs to. The lead services also need to be considered. There will be little bits and pieces of each of them. Some of the more specific projects are going to create a chain reaction. Once the well is put in, then the water plant can be taken down and evaluated. That will create a larger number. So, all the projects are interconnected in how they get planned as they go. But they have to address a little bit of each of them at the same time as soon as they get the cash flow coming. But, they also need to know how fast it is front loaded and end loaded and the time period before they do that.

Aldersperson McClanathan moved and Aldersperson Klemm seconded that the three scenarios (referring to documents in front of council members, including: (1) 10% O&M, 5% Max Inflation, CIP Increase of \$2, \$4, \$4, \$4, \$4, \$4, \$4; (2) 10% O&M, 5% Max Inflation, CIP Increase of \$7, \$7, \$7; and (3) 10% O&M, 5% Max Inflation, CIP Increase of \$8, \$8, \$8) and a maintenance budget be provided by next Tuesday's Committee of the Whole meeting. Motion prevailed by voice vote without dissent.

REVIEW DRAFT ORDINANCE AND PROVIDE RECOMMENDATION TO THE CITY COUNCIL FOR AN AMENDMENT TO CHAPTER 658 AND 638 REGARDING NUISANCE ABATEMENT OF TARPS AND BRUSH

Community Development Director Mills directed attention to a document passed out before the meeting (and available on the City's website). Director Mills noted that Contract Attorney Phillips made technical changes highlighted in green. This ordinance is basically about developing a few more tools to deal with problems that not only have been encountered in the past but also in the future quickly and effectively. Aldersperson Koester moved to approve and Aldersperson Chesney seconded that the draft ordinance be approved as written and moved to the next committee meeting. Aldersperson Klemm asked if the ordinance should address the location of abandoned semi trailers--front yard, side yard. Director Mills stated that could be covered at the next Committee of the Whole. Aldersperson Klemm referenced phone calls he has received regarding unsightly temporary tarp garages. Director Mills responded that a permit could be developed, or they could fall under this tarp ordinance. Aldersperson Miller relayed concern by constituents that the number of days, 3 or 14, required to clean up brush piles is secondary. Most importantly, she feels citizens would like to see it enforced regardless of the time period requirement. Chairperson Ross asked for a voice vote which passed unanimously to move the draft ordinance to the council floor.

PUBLIC COMMENTS – AGENDA OR NON-AGENDA ITEMS

There were no public comments this evening.

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ADJOURNMENT

Upon a motion duly made by Alderperson Koester and seconded by Alderperson Brashaw, the Committee of the Whole meeting adjourned at 8:00 p.m.

s/ Dovie L. Anderson

Dovie L. Anderson
Deputy City Clerk