



General Manager
334 Front Street
Ketchikan, AK 99901
Phone (907) 228-5603
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TRANSMITTAL MEMORANDUM

TO: The Honorable Mayor and City Council

FROM: Karl R. Amylon, General Manager

DATE: February 5, 2021

RE: **Ordinance No. 21-1923 – Increasing Water Rates By Five Percent (5.0%); Establishing A Date For A Public Hearing; And Providing For An Effective Date**

In adopting the 2021 Ketchikan Public Utilities Operating and Capital Budget, the City Council approved appropriations for the Water Division based on a five percent increase in water rates. The attached ordinance was approved in first reading at the City Council meeting of February 4, 2021. If adopted in second reading, Ordinance No. 21-1923 provides for increasing water rates by five percent effective April 1, 2021.

The net effect of the rate increase is detailed in the Finance Director's transmittal memorandum and requires little elaboration on the part of my office. Failure to enact the proposed increases will result either in a need to reduce authorized 2021 Water Division expenditures by \$157,000 or to decrease Appropriated Reserves of the KPU Enterprise Fund by an equivalent amount. I concur with Ms. Johansen's recommendation.

Also attached for City Council reference is a copy of my office's January 15, 2021 report regarding utility rate increases that was prepared at the request of Councilmember Flora. The City Council should note that the table reflecting Electric Division budgeted, existing and proposed staffing has been slightly revised to correct inadvertent errors in the original version.

Prior to consideration of Ordinance No. 21-1923 in second reading, a public hearing is required. The City Clerk's Office has scheduled the public hearing for the beginning of the City Council meeting of February 18, 2021. Following the public hearing, the City Council may consider the ordinance.

The Water Division Manager and Finance Director will attend the City Council meeting of February 18, 2021, in order to address any questions and/or concerns that Councilmembers may have.

A motion has been prepared for City Council consideration.

RECOMMENDATION

It is recommended that the City Council adopt the motion approving in second reading Ordinance No. 21-1923 increasing water rates by five percent (5.0%); establishing a date for a public hearing; and providing for an effective date.

Recommended Motion: I move the City Council approve in second reading Ordinance No. 21-1923 increasing water rates by five percent (5.0%); establishing a date for a public hearing; and providing for an effective date.

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Mayor Sivertsen reiterated the fact that Southeast Alaska Power Agency (SEAPA) is increasing the rate they charge us. He said as we heard from Representative Ortiz the State is working in a deficit spending, and this is a trend they cannot continue to do. He agrees this is a difficult decision the Council has to make, but we have a responsibility to operate a utility in a manner that in the long term benefits this community. He stated Ketchikan has one of the lowest rates in the State.

Councilmember Bergeron strongly disagreed that SEAPA needs to come to the ratepayers to deal with this. He felt SEAPA'S finances are well within their capabilities to be able to pay for this.

Councilmember Gass agreed this is incredibly unfortunate that our ratepayers have to pay for something out side of Petersburg. He stated that in the future, as our economic situation rebounds we need to be looking ahead where we can do more on our own and be less dependent on SEAPA.

Mayor Sivertsen said we don't generate enough power in KPU to power our needs. He said the reality is Swan Lake provides wholesale power to Ketchikan. He said when SEAPA was formed the four dam pool was created and all three communities signed an agreement to fund and buy power from SEAPA.

In answer to Councilmember Gass, Councilmember Flora said we can develop more hydro projects, but we will pay for them with current year dollars, and you can never build a project to run at the cost we have with SEAPA. He thanked the Manager and his staff for putting together 38 pages of data he had asked for. He encouraged folks to take the time to read this. He cited the data for the last ten years and the average rate increase is 1.23%. He stated we have almost \$14 million in revenue bonds on the electric division, and electric capital projects of almost \$29 million. He said he disagreed with Councilmember Bergeron's comments, as this not unethical as these are data driven decisions that needs to be made. He said everyone will vote on what they think is best, but we have to look at what is best for the community. He informed the average increase to the electric rate consumer is \$3.20 per month.

Motion passed with Gass, Kiffer, Gage, Zenge and Flora voting yea; Bergeron and Bradberry voting nay.

Ordinance No. 21-1923 – Increasing Water Rates by Five Percent (5.0%) – First Reading

Copies of Ordinance No. 21-1923 were available.

Moved by Flora, seconded by Zenge the City Council approve in first reading Ordinance No. 21-1923 increasing water rates by five percent (5.0%); establishing a date for a public hearing; and providing for an effective date.

Councilmember Flora said again let's look at the math from the report staff put together. He cited from the residential side over the last ten years the average increase was 6%. He informed Alaska inflation averaged 1.64%. He said he would like to hear from the Water Division to get a better understanding why this division cannot get to revenue neutral.

Manager Amylon indicated Council should look at the ten year operating profit and loss statement of the three divisions. In that ten-year period the Water Division hasn't turned a profit in one year. He said basically the rates haven't been raised to meet the cost to produce water and the federal mandates that are imposed. He indicated the ADEC low interest loans were taken out to cover the cost of many water mains that were replaced, and we have to pay those loans back. He said the

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residential ratepayers have been subsidizing the commercial ratepayers. He indicated we are trying to address that now relative to the meter installation project, and again we have incurred low interest loans for that project. He explained we haven't been able to get the rate structure in sync between residential and commercial to meet the cost it takes to produce water and distribute within City limits.

Councilmember Flora thanked staff for their explanation. He said from this report the five to fifteen year outlook for capital projects on water is \$89 million. He said he just wants to make sure we can keep lights on and water flowing. He informed if both of these rate increases go through based on the budget information provided earlier for the typical consumer the rate increase is \$75 per year or \$6.25 per month.

Manager Amylon stated it is not getting any better, because now we are looking at the multi million project for the replacement of the failing Schoenbar water mains that are decades old. He stated the matching grants programs have all but disappeared.

Mayor Sivertsen said since those programs are no long available the City has had to pick up the slack, and we have had to pay for these capital projects out of our own pocket. He informed we still have miles of old corroded water mains that need to be replaced. He cited the Schoenbar area, and the City has not secured funding for that project.

Councilmember Kiffer said historically the Water Division has been left out for decades as far as infrastructure repairs and capital projects go. He said those decisions were made by previous councils, but now the systems are failing, and we don't have a choice but to fix them. He indicated there will never be a convenient time to raise rates.

Councilmember Bradberry indicated as stated before she will not support any rate increases at this time. She felt we are asking folks to make hard choices on what bills to pay or buy food. She referenced a report that came out today regarding the economic losses in Ketchikan, and said she would forward to Councilmembers and staff. She didn't have a problem looking at this at a later date if our economy improves, but would not support this ordinance at this time.

Councilmember Gass indicated as a Council we need to make sure the City can provide essential services, and water is one of them. He said he has received lots of negative comments on this, but at some point it comes down to responsibility. He didn't feel these increases were irrational, and would support this motion.

Motion passed with Gage, Kiffer, Gass, Flora and Zenge voting yea; Bergeron and Bradberry voting nay.

Budget Transfer – 2020 Whitman Lake Hydroelectric Project 2020 True-Up Payment to Southeast Alaska Power Agency (SEAPA)

Moved by Gage, seconded by Zenge the City Council authorize the General Manager to transfer from within the Electric Division's 2020 Operating and Capital Budget, \$18,405 from the Electric Division's Purchased Power Account No. 525.05 to the Whitman Lake – SEAPA True-up Account No. 525.10, in order to provide sufficient funds to make the 2020 Whitman true-up payment to the agency.

Councilmember Bergeron asked if staff could explain for the public exactly what the true-up payment is, and what this money is being spent for. He said he supported the Whitman Lake hydro development project. He felt this issue with SEAPA needs to be reviewed to see if our best interest is being served here.

MEMORANDUM
CITY OF KETCHIKAN, ALASKA
Finance Department
Office of the Finance Director

Michelle Johansen, Finance Director
Camille Nelson, Financial Analyst
Phone: (907) 228-5621
Facsimile: (907) 228-5617

TO: Karl R. Amylon, City Manager/KPU General Manager

FROM: Michelle Johansen, Finance Director

DATE: January 11, 2021

SUBJECT: **Ordinance No. 21-1923, Increasing Water Rates by Five Percent (5.0%); Establishing a Date for a Public Hearing; and Providing for an Effective Date.**

The adopted 2021 KPU Operating and Capital Budget included a proposal to raise water utility rates for all customers by 5.0%, effective April 1, 2021.

Ordinance No. 21-1923 has been prepared to amend Chapter 11.16 of the Ketchikan Municipal Code (KMC) to incorporate the proposed rate increases. If approved by the City Council, the rate increase will:

- Increase water utility revenues by \$157,000 for the nine months ending December 31, 2021 and \$209,000 annually thereafter.
- Increase the monthly residential water utility rate from \$57.93 to \$60.83 per month and the business and miscellaneous service from \$60.39 to \$63.41 per month.
- Reduce the water utility's current annual deficit from \$407,188 to approximately \$250,188 in 2021 and \$198,188 in 2022, assuming no increase in operating costs.

Section 8-1 of the City Charter requires a public hearing on water rate increases. A public hearing will be scheduled for February 18, 2021.

Recommended Motion:

I move that the City Council pass Ordinance No. 21-1923 in first reading, increasing water rates by five percent (5.0%); establishing a date for a public hearing; and providing for an effective date.

THE CITY OF KETCHIKAN, ALASKA

ORDINANCE NO. 21-1923

AN ORDINANCE OF THE COUNCIL OF THE CITY OF KETCHIKAN, ALASKA; INCREASING WATER RATES BY FIVE PERCENT (5%); ESTABLISHING A DATE FOR PUBLIC HEARING; AND PROVIDING AN EFFECTIVE DATE

BE IT ORDAINED BY THE COUNCIL OF THE CITY OF KETCHIKAN, ALASKA, AS FOLLOWS:

Section 1: Amendment. Subsection (b) of Section 11.16.020 of the Ketchikan Municipal Code, entitled "General domestic water service—Schedule A," is hereby amended to read as follows:

“(b) Rates.

Residence, per unit	\$57.93 <u>60.83</u>
Trailer or mobile home, per unit	57.93 <u>60.83</u> ”

Section 2: Amendment. Subsection (b) of Section 11.16.030 of the Ketchikan Municipal Code, entitled "Apartment service—Schedule A-1," is hereby amended to read as follows:

“(b) Rates.

1 to 4 apartments incl. full service/apartment/month	\$57.93 <u>60.83</u>
5 to 24 apartments incl. full service/apartment/month	52.79 <u>55.43</u>
25 and over apartments incl. full service/apartment/month”	45.29 <u>47.55</u>

Section 3: Amendment. Subsections (b) and (d) of Section 11.16.050 of the Ketchikan Municipal Code, entitled "Business and miscellaneous service—Schedule B," is hereby amended to read as follows:

“(b) Rates.

Base rate per month per customer	\$60.39 <u>63.41</u>
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In addition to the above base rate the following demand charges shall be made where the service is one inch or larger:

<u>Size of Service Line</u>	<u>Monthly Charge</u>
1 inch	\$40.25 <u>42.26</u>
1-¼ inch	\$120.77 <u>126.81</u>
1-½ inch	\$231.49 <u>243.06</u>
2 inch	\$420.58 <u>441.61</u>

2-½ inch	\$651,676 <u>84.25</u>
3 inch	\$986,241 <u>035.55</u>
4 inch	\$1,675,621 <u>759.40</u>

In addition to the above base rate and size of service line charge, the following shall be added for the classes of service enumerated:

- | | |
|---|--|
| 1. Bakery | \$90,589 <u>5.11</u> |
| 2. Barbershop – per barber chair | 33,193 <u>4.85</u> |
| 3. Bar, tavern, cocktail lounge –including a wash & rinse tank, or mechanical dishwasher, and the first 40 chairs, stools, or seats – see also Note 2 | \$60,396 <u>3.41</u> |
| | Note 2 if applicable |
| - per additional set of wash & rinse tanks or dishwasher | 42,264 <u>4.37</u> |
| - each additional chair, stool, or seat | 1,501 <u>.58</u> |
| 4. Beauty shop, hair styling salons – per basin | 33,193 <u>4.85</u> |
| 5. Bowling alleys – see also Note 2 | The rate plus Note 2 if applicable |
| - per bowling lane | 3,023 <u>3.17</u> |
| 6. Car wash | 90,589 <u>5.11</u> |
| 7. Church – without kitchen facilities | The rate |
| - with kitchen facilities | 81,538 <u>5.61</u> |
| 8. Club, lodge, labor or similar organization | |
| - without kitchen facilities | 81,538 <u>5.61</u> |
| - with kitchen facilities | 162,551 <u>70.68</u> |
| 9. Delicatessen, coffee shop or similar facility (i.e. using disposable dinnerware) and includes the first 5 chairs, stools, or seats | 19,927 <u>0.92</u> |
| - per seat occupancy greater than 5 | 1,241 <u>1.27</u> |
| 10. Docks harbors, marinas for small boats | The rate per service line |
| 11. Dormitory/bunkhouse (2 or more beds/room), includes the first 24 beds. See also Note 4 | 158,231 <u>66.14</u>
plus Note 4 if applicable |

- per additional bed ~~6.05~~6.35
 - kitchen and laundry facilities at the
appropriate
kitchen or
laundry rate
12. Drycleaner – without laundry facilities The rate
- with laundry facilities Per machine
at the
appropriate
laundry rate
13. Garage, service station, car lots or similar facility
- without wash facilities ~~60.39~~63.41
 - with wash facilities ~~90.58~~95.11
14. Supermarket, grocery store, convenience store or similar facility. See also Note 2. Plus note 2
if applicable
- without meat market or bakery The rate
 - with an in-store bakery, delicatessen, or meat market At the
appropriate
bakery,
delicatessen,
or meat
market rate
 - per full-time employee in excess of 5 ~~3.11~~3.27
15. Hospital, assisted living establishment, nursing home, or similar facility
- per patient, client, or resident bed ~~10.25~~10.76
 - per full-time employee in excess of 5 ~~3.11~~3.27
 - kitchen and laundry facilities at the
appropriate
kitchen or
laundry rate
16. Hotel, motel, inn, bed and breakfast or other similar facility. See also Notes 2 and 5 Plus Notes 2
and 5 if
applicable
- per room ~~15.07~~15.82
 - per full-time employee in excess of 5 ~~3.11~~3.27

- kitchen and laundry facilities	at the appropriate kitchen or laundry rate
17. Laundry, commercial or self-service (see also Note 2)	Plus Note 2 if applicable
- 18 lb. capacity or less, per machine	19.92 <u>20.92</u>
- 19 to 50 lb. capacity, per machine	42.26 <u>44.37</u>
- over 50 lb. capacity, per machine	60.39 <u>63.41</u>
- with dry cleaning facilities	at the dry cleaning rate
- with public showers	at the appropriate public shower rate
18. Mall or building with multiple retail Shops and offices (accessible from a Common, central passageway). See also Note 2.	Plus Note 2 if applicable
- per shop	19.92 <u>20.92</u>
19. Meat market	60.39 <u>63.41</u>
20. Medical, dental practice, or other similar facility	30.22 <u>31.73</u>
21. Business offices, professional, wholesale and retail buildings or other similar facility (accessible from a separate entrance opening onto public parking or right-of-way). See also Note 2	Plus Note 2 if applicable
- per full-time employee in excess of 5	3.11 <u>3.27</u>
22. Seasonal business (operates less than 6 months/year). See also Notes 2 and 5	Plus Notes 2 and 5 as applicable
- per employee (prorated on the basis of a 40 hour work week)	3.11 <u>3.27</u>
23. Park with restrooms	The rate
24. Public shower, per shower	19.92 <u>20.92</u>
25. Restaurant (using non-disposable dinnerware) and including the first 5 chairs, stools or seats	The rate
-per occupancy greater than 5	4.82 <u>5.06</u>
- per mechanized dishwasher	19.92 <u>20.92</u>

26. Schools, per student	
- elementary (K – 6 grades)	3.44 <u>3.27</u>
- secondary (7 – 12 grades)	3.45 <u>3.62</u>
- college	3.44 <u>3.27</u>
- per full-time employee in excess of 5	3.44 <u>3.27</u>
- gym showers	no additional charge
- per mechanized dishwasher	10.92 <u>20.92</u>
27. Swimming pool	The rate
28. Theater or cinema	60.39 <u>63.41</u>
29. Trailer court, RV park, or similar facility per individual trailer, mobile home, etc.	At the individual Schedule A rate
30. Water Haulers (refer to Note 3)	3.59 <u>3.77</u> per 1,000 gallons
31. Bulk rate metered water sales (other than Water Haulers)	6.28 <u>6.59</u> per 1,000 gallons

NOTE 1: "The Rate" term used in conjunction with the service classes listed above refers to the sum of the base monthly rate and the service line demand charge. There is no additional charge for the class of service.

NOTE 2: Additional for other facilities such as restaurant, delicatessen, kitchen, bar, beverage dispenser, etc. at the applicable charge for each facility shall apply.

NOTE 3: This rate applies to bulk water haulers who take delivery of water at designated, metered Ketchikan Public Utility facilities and deliver it for direct resale to the ultimate consumer. The base monthly rate and service line monthly charge are not added to this rate.

NOTE 4: The dormitories, laundries and restaurant facilities provided by the fish processors to their employees on a seasonal basis shall be prorated on the basis of the number of months that these facilities are in use and the number of employees using them and shall hereafter apply to all such dormitories and restaurant facilities regardless of past practices.

NOTE 5: "Inactive Commercial Account" This class of account is available to all seasonal business owners who submit a written request to close their account at the end of the season and also request that their water service be turned off at the water main. This "Inactive Commercial Account" status may only be requested once per calendar year. The amount that will be charged for disconnection or reconnection of the utility water service is \$~~12.00~~44.00."

“(d) Conditions. All rates are for service only and do not cover any charge which will be made for installing, disconnecting or reconnecting any service furnished under this schedule. The right is reserved by the utilities to refuse service to anyone who is indebted to the utilities. The amount that the utility will charge for the disconnection or reconnection of anyone who is indebted to the utilities is ~~\$42.00~~44.00. The utility will not discontinue water service for the purpose of resolving a dispute or enforcing an agreement between landlord and tenant, lender or borrower, or other legal relationship unless one party to the relationship is a government agency.”

Section 4: Amendment. Subsection (b) of Section 11.16.060 of the Ketchikan Municipal Code, entitled "Industrial except for processing—Schedule C." is hereby amended to read as follows:

“(b) Rate.

<u>Size of Tap</u>	<u>Monthly Charge</u>
5/8 & 3/4 inch	\$80.51 <u>84.54</u>
1 inch	120.77 <u>126.81</u>
1 1/4 inch	201.29 <u>211.35</u>
1 1/2 inch	314.46 <u>330.18</u>
2 inch	480.55 <u>504.58</u>
2 1/2 inch	729.91 <u>766.41</u>
3 inch	1,103.19 <u>1,158.35</u>
4 inch	1,803.88 <u>1,894.07</u>
6 inch	3,006.53 <u>3,156.86</u>
8 inch	3,333.59 <u>3,500.27</u>
Over 8 inch	By special contract”

Section 5: Amendment. Subsection (b) of Section 11.16.070 of the Ketchikan Municipal Code, entitled "Canneries and allied industries—Schedule D." is hereby amended to read as follows:

“(b) Fish processors and allied industries.

(1) A minimum annual charge of ~~\$56.98~~59,833.81 for all service sizes 3 inches or greater.

(2) An additional charge for additional services sized as follows:

<u>Size of Service</u>	<u>Charge per Season</u>
5/8 – 1 inch	\$1,981.18 <u>2,080.24</u>
1 1/4 inch	3,557.57 <u>3,735.45</u>
1 1/2 inch	4,750.52 <u>4,988.05</u>
2 inch	14,208.89 <u>14,919.33</u>

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Section 6: Amendment. Subsection (b) of Section 11.16.080 of the Ketchikan

Municipal Code, entitled "Fire hydrants (privately owned)—Schedule F." is hereby amended to read as follows:

“(b) Rates.

Each 1 or 2 port fire hydrant (each outlet not more than 2½ inches).	\$100.64 <u>105.67</u>
Each 3 port fire hydrant having two 2½-inch outlets and one outlet not more than 4 inches	201.29 <u>211.35</u>
Each 3 port fire hydrant having two 2½-inch outlets and one outlet not more than 6 inches”	239.02 <u>250.97</u>

Section 7: Amendment. Subsection (b) of Section 11.16.090 of the Ketchikan Municipal Code, entitled "Fire hydrants—Schedule F-1." is hereby amended to read as follows:

“(b) Rates.

Each 1 or 2 port fire hydrant (each outlet not more than 2½ inches)	\$27.68 <u>29.06</u>
Each 3 port fire hydrant having two 2½ inch outlets and 1 outlet not more than 4 inches”	37.75 <u>39.64</u>

Section 8: Amendment. Subsection (b) of Section 11.16.110 of the Ketchikan Municipal Code, entitled "Temporary miscellaneous water service—Schedule G." is hereby amended to read as follows:

“(b) Rate.

<u>Size of Tap</u>	<u>Charge per Month or Part Thereof</u>
¾ inch	\$104.13 <u>109.34</u>
1 inch	141.39 <u>148.46</u>
1¼ inch	235.37 <u>247.14</u>
1½ inch	377.89 <u>396.78</u>
2 inch	758.80 <u>796.74</u>
Over 2 inch	By special contract”

Section 9: Public Hearing. Pursuant to §8-1 of the City Charter, a public hearing on this ordinance will be held at 7 o'clock p.m. on _____, in the City Council Chambers, 334 Front Street, Ketchikan, Alaska.

Section 10: Effective Date. This ordinance shall become effective on April 1, 2021.

PASSED ON FIRST READING _____.

FINAL PASSAGE _____.

Robert Sivertsen, Mayor

ATTEST:

Kim Stanker
City Clerk

February 18, 2021

Ordinance No. 21-1923 – Increasing Water Rates by Five Percent (5.0%) – Second Reading

Copies of Ordinance No. 21-1923 were available.

Moved by Gage, seconded by Gass the City Council approve in second reading Ordinance No. 21-1923 increasing water rates by five percent (5.0%); establishing a date for a public hearing; and providing for an effective date.

Councilmember Bergeron expressed his concerns regarding commercial ratepayers paying less than what we know it cost the City to produce it. He said as long as there is this inequity, we are asking residential ratepayers to continue to subsidize the commercial payers. He felt it was wrong and would not support this motion.

Councilmember Flora informed the commercial seafood processors have paid an annual increase of 35% based on a study from a consultant. He felt over the last three years their rates have been brought more in line to what they actually use, and the meters will solve the rest of that issue.

Councilmember Bradberry indicated our businesses have gone sixteen months without revenue, and with no end in sight. She urged the Council to wait until the pandemic is over before we add another burden onto our community members, and would not support this motion.

Councilmember Gage asked the Manager to explain the cost to provide water to the community. She stated as a disabled person herself the cost of disability wages haven't increased in twenty-five years. She stated those wages were never enough, and it is a problem that needs to be solved at the federal level. She said she didn't like to see a rate increase either, but we can't continue to kick the can down road.

In answer to Councilmember Gage, Manager Amylon informed in addition the cost of living goes up on an annual basis. He referenced the cost of shipping that everyone in the community incurs. He said wages increase and we are heading into negotiations with the unions for a new collective bargaining agreement, and felt the unions will be looking for some sort of concessions. He informed over the last fifteen years the City has been mandated to make improvements to our water treatment process by the federal government, and the regulations that come out of EPA. He said the City has incurred debt to be in compliance with these federal mandates, as is the aging infrastructure. He felt that in itself should be enough justification for rate increases, and then add to the fact for the last ten years the Water Division has never broke even. He went on to say this community also could be facing a mandate to spend in excess of \$70 million to build a water filtration plant, and add two to three million dollars a year in annual increased operating costs. He said we may be looking at similar mandates in the Wastewater Division.

Councilmember Gass said he has put a lot of thought into this and when we approved the budget we basically agreed on these rate increases, and would be in support of this motion.

Councilmember Bergeron didn't feel our rate structure is going to be enough to address our infrastructure needs, because our need is far in excess of this rate increase. He felt staff has done an exemplary job financing these unfunded mandates, and is grateful for the work that has been done.

Motion passed with Flora, Zenge, Kiffer, Gass and Gage voting yea; Bergeron and Bradberry voting nay.