

**SUSANVILLE CITY COUNCIL  
Special Meeting Minutes  
August 24, 2016 – 5:30 p.m.**

Meeting was called to order at 5:30 p.m. by Mayor Garnier.

Roll call of Councilmembers present: Kevin Stafford, Joe Franco, Rod De Boer, Brian Wilson and Kathie Garnier.

Staff present: Jared G. Hancock, City Administrator; Jessica Ryan, City Attorney; Dan Newton, Public Works Director; James Moore, Fire Chief; Deborah Savage, Finance Manager and Heidi Whitlock, Assistant to the City Administrator.

**1      APPROVAL OF AGENDA:**

Mr. Hancock stated that no changes were made to the agenda however, it was requested to move consideration of Item 3B to the beginning of the meeting.

Motion by Mayor pro tem Franco, second by Councilmember Stafford, to approve the agenda as submitted; motion carried unanimously. Ayes: Stafford, Franco, De Boer, Wilson and Garnier.

**2      PUBLIC COMMENT: None.**

**3      SCHEDULED MATTERS:**

**3B      Receive Correspondence Related to Possible Closure of Honey Lake Power (HLP)**

Mr. Hancock explained that the City has been supportive of Honey Lake Power, especially during power outages, and due to some changes in subsidized power contracts HLP's contract with PG&E has expired and has not yet been approved. He stated that having the power generation source available is a positive for Lassen County and suggested sending letters of support for Honey Lake Power.

Mayor pro tem Franco responded that he supports that direction and with other plants already closing he would like to see HLP remain open. He added that he would like to see the dead wood being generated being used for power versus being burned in the forests.

Motion by Mayor pro tem Franco, second by Councilmember Stafford, to draft and send letters of support for Honey Lake Power; motion carried unanimously. Ayes: Stafford, Franco, De Boer, Wilson and Garnier.

**3A      Water Rate Workshop**

Mayor Garnier requested Public Works Director, Dan Newton, to open the workshop.

Director Newton stated that he prepared a power point presentation but inquired as to the preference of the Council whether or not he should go through the entire presentation giving background information, or by reviewing the calculations and numbers.

Mayor pro tem Franco inquired as to whether or not what the City is doing now could come back and hurt the City later in terms of State-mandated regulations. Director Newton explained that he would respond to his question by starting at the beginning of his power point presentation.

Director Newton started with slide one, discussing the process as follows: 1) identifying need to modify rates 2) analyze system to determine cost to provide service 3) design rate structure to generate revenue to cover cost to provide service. He added that the water fund was found to be operating at a deficit, and the State Water Board required the City to modify its rate structure following Prop 218 requirements which state that an analysis of costs to determine the amount to charge customers must be conducted.

Director Newton continued that, as noted on Slide 5, there is a rate stabilization fund but there is no reserve fund. He added that money can be borrowed from the rate stabilization fund, but it must be paid back within 120 days of the end of the fiscal year.

Slide 6 & 7 reflects numbers available in the City's Comprehensive Annual Financial Report (CAFR) which shows the decline in revenue and the increase in expenses.

Director Newton continued to Slide 8, discussing the State Water Resources Control Board's Conservation Order to Susanville. Mayor pro tem Franco stated that Susanville has been conserving if there is a reduction in revenues.

Director Newton continued to Slide 9 stating the Constitutional Rate Setting Requirements and that the City is only permitted to charge customers what is needed to operate the utility in order to be compliant with Prop 218, and is required to analyze the costs of providing the related service and no more. He added that the City also has to ensure that ample notice is given so customers will have ample time to comment regarding the increase.

**Kurt Bonham** discussed the public meeting notification requirements of imposing a rate change. He added that whether it is an increase or decrease did not make a difference, and that he did not attend the last meeting as there was no mention of possible action being taken.

Mr. Hancock responded that the City sought legal counsel on that subject and that imposing a "new" rate or increasing a rate requires notice but it was requested to rescind that last increase thus going back to the old rate.

**Mike Folly** expressed his concern with the website documents not stating that the rates would double as well as his concern with two Council members.

Councilmember De Boer responded to Mr. Folly by stating that the City is working on resolving the issue with the infrastructure however, it was important to do so without causing an undue hardship on people.

Mr. Folly continued to express his concerns with employees not telling the City Council about the issues sooner.

Mayor pro tem Franco responded the Council has known about the failing infrastructure and are putting a plan together to take care of it. He requested the public work with the Council and staff to get this done.

Director Newton continued with his presentation discussing both the Industry Standard Rate and the 2011 Appellate Court decision stating that agencies must demonstrate that related fees and charges meet Section 6(3) requirements. He added that the Water Rate Analysis and Calculations Report provided the required

justification. He then discussed the Capital Improvement Project items and how only a portion of the projects were being funded by the water fund with staff also applying for additional grant funding.

Director Newton stated that most of the current water pipe is steel, which corrodes and the new pipe will be PVC. Mayor Garnier inquired as to the lifespan of the PVC and Director Newton responded it is 20 years but staff anticipates approximately 60 years given the water and soil in the area.

Mr. Bonham inquired about the depreciation expense, was it a new expense.

Director Newton explained that it should have been called infrastructure on the slide.

An unidentified member of the audience inquired about the Nathan property, and asked how much the City paid for the property and added that the cost of the well was included on the sheet.

Mr. Hancock provided background regarding the Nathan property, why it was purchased and how the City was looking at recouping the cost while getting the well hooked up to the City water system. A general discussion occurred on tying the well into the City system.

Director Newton continued with the presentation and explained the reasoning behind the decision to not raise the base water rate. He continued that the Council was presented with seven options at the August 17th Council meeting and also had the option of incorporating only a part of each option as well. Each option presents both positive and negative outcomes, for instance, raising the base rate does not promote meaningful conservation and the mandate imposed by the State was to develop a structure that promoted conservation.

Mayor pro tem Franco asked if the City could extend the CIP to seven years. Director Newton responded that it is an option. Mayor pro tem Franco inquired as to where the City ranked in water fees with the previous rates. Director Newton responded that the City was in the middle based on a 1500 cubic foot usage.

Mayor pro tem Franco asked how extending the CIP to seven years would affect the water bills. Mr. Hancock provided an explanation of how reducing the Capital Improvement Projects would reduce the cost to customers.

Mr. Bonham brought up the CIP fund, and Director Newton responded that the Capital Improvement Fund was created in 2008 and additional revenue generated went into the fund and the majority of the funds have been expended on new water meters and some main service lines.

An unidentified member of the audience inquired as to whether or not the analysis was based on the new 3-day watering schedule or when customers had still been permitted to water 7 days a week. Director Newton responded that they were not looking at the deficit but only looked at operating expenses, infrastructure, equipment repair and purchases for the next five years. The audience member asked if there would be a fund surplus once this new rate is implemented.

Mr. Hancock gave an explanation regarding the State Water Board Conservation requirements and how the City was required to reduce usage by 36 percent. The 3-day watering cycle was implemented to reach a 50 percent reduction in the summer and 35 percent over the year, but that did not occur as most people were

watering longer on the days they were permitted to water. He continued that only a 20 percent reduction was realized and that the City did not intend on making the 3-day watering schedule a permanent change.

An unidentified member of the audience inquired as to why her bill doubled, even if she conserved.

Mr. Hancock responded that over an entire year, 40 percent more revenue would be collected however most of the increase would be seen in the summer months but only a 15-20 percent increase was estimated during the winter months due to the implementation of two rates, irrigation and non-irrigation.

**Elaine Jacobs** requested information on the upcoming community swimming pool.

Mr. Hancock provided the requested information but added that the pool is not being paid for with water funds, but with general fund monies. He added that there are no transfers between utilities, water funds stay with water utility and natural gas funds stay with the natural gas utility. He added that natural gas rates actually decreased because the market rates went down for natural gas.

Mayor pro tem Franco requested staff break everything down to simplify such as, if the CIP is considered "x", how much does the City need to be able to come up with to pay for "x" over 5 years and then 7 years. He continued that 7 years would be beneficial and maintain the CIP list as necessary.

Mr. Hancock stated that the City has the ability today to pull up the information and show the public and Council the difference from 5 years to 7 years with both irrigation and non-irrigation season rates.

Director Newton responded that 10 random houses were chosen and an average was determined however, since it was a random selection, higher users were missed. He added that staff compared rates to Greenville and Quincy, Susanville's rates were still in the middle. Each utility charges differently but 74 percent of Susanville customer use less than 5,500 cubic feet of water each month.

**Nick Dominquez** provided a narrative to the Council and staff addressing concerns he had with the analysis.

**Al Vasquez** stated that he can see where personnel costs are projected to increase by 20 percent and inquired as to whether or not something can be done not to pass that off onto the rate payers. He continued that he understood that rates will increase but wondered how much is actually going towards CIP only.

Director Newton responded that on page 20 of the study it showed that the current rates do not cover the cost of providing the service. He continued that they have vehicles in need of replacement, infrastructure to replace, COLA increases and other department expenses. Staff is looking at and compiling all the calculations and needed to start somewhere. The analysis has to be able to stand on its own and support the rates that are charged.

**Ted Friedline** stated that he was aware that the Council approved a contract with each enterprise fund. That contract amount was money that did not go into the water account and, in doing this, it changes accounting method and confuses the budget.

**Tim Henry** addressed Director Newton and thanked him for the presentation. He asked about the Skyline project as that project seemed substantial compared to the others. He requested clarification.

Director Newton responded that the segment of pipe, ran from San Francisco Street to Skyline (a long section of pipeline), which affects the cost. It is a high capacity line and is located 10 feet underground and equipment needs to be brought in from Reno when a leak occurs and there have been a lot of leaks.

Mr. Henry stated that he would like to see a \$5 increase in the base rate, which would result in \$228,000 more a year. It's a guaranteed amount where the City is taking a chance on the higher users.

Mayor Garnier responded that the Council wanted to maintain the base rate due to those customers who are on a fixed income. Also, if the City only increased the base rate, it does not address the usage and would not meet State standards for the mandated conservation.

**David Teeter** stated that he wanted to applaud the City for raising rates and not taking out a loan. He suggested the City go with the 5 year CIP plan and increase the base rate.

Mr. Bonham added that there is no doubt that the projects need to be completed as everyone needs a safe, reliable system. He then requested to know if the water meters had all been replaced. Director Newton responded that they had.

Mr. Bonham continued that customers were told their bill would only increase by 25 percent but they realized a 50 percent increase last month. He continued that staff's actions may be perfect but if they are not seen as perfect by the public, they are not perfect.

Mr. Hancock interjected to address comments made by Ted Friedline and to ensure that everyone was aware that while the City did discuss the option of contracting out for administrative services and charging each of the enterprise funds, that was not implemented. He continued by explaining that when the budget was adopted, it fully recognized the revenues that would be coming in and the next step was going to be to fully develop the scoped costs for each project and prioritize the projects. However, it was rescinded prior to getting to that step.

Mr. Bonham continued that the Capital Improvement Fund 7114 that was set up should still have funds available. Ms. Savage confirmed that approximately \$200,000 remained in the fund.

Mr. Hancock continued that the next step would be to bring back consideration of Fund 7114 to prioritize which projects would be addressed first. He continued that the City is required, under GASB rules, to disclose depreciation. He continued that the City may not budget for it but the plan would include the funds going through depreciation before they are budgeted for a capital project for transparency.

Mr. Bonham also requested that staff bring back Fund 7114 to change the document from 2008. He continued that the City needs to be able to prove that it is spending what they said they were. Mr. Bonham also added that any information provided at the meeting should also be made available on the website prior to the meeting.

Mr. Henry inquired as to whether or not any positions were deleted with the replacement of the water meters. Director Newton responded that yes, one meter reader position had been eliminated. Mr. Hancock also added that the radios on the new meters are used and they may be able to reduce the routes, billing cycles and those types of things to improve efficiency. Mr. Henry stated he was happy to see personnel costs going down by the reduction of the position.

Mayor Garnier asked Director Newton if he desired to continue with his presentation and Director Newton responded that he would like direction on what the Council would like to see.

Mr. Hancock interjected that staff should probably point out that 50 percent of City customers use less than 1953 cubic feet of water per month based on usage; 60% use less than 2438 cubic feet, 70% use less than 3014 cubic feet, 80% use less than 3747 cubic feet and 90% use less than 4784 cubic feet. He continued that he wanted the Council to see these numbers as it's important to supply context to give an accurate representation of usage. Those who had higher bills and protested the rate increase stated they are in the 8000 cubic foot range, or the top 10%. He suggested that perhaps the base rate should be raised and staff can also work on specifics and put a spreadsheet together.

Mayor pro tem Franco responded that Susanville is not a rich town and he is not comfortable raising the base rate. Councilmember De Boer agreed as did Councilmember Wilson and Councilmember Stafford.

Mr. Hancock, with the assistance of Director Newton, showed on the projector what the amount would be if the CIP was extended to 7 years. Seven years would be at \$84.36 and five years would be \$125.89.

Mayor Garnier expressed her concerns with extending it out to 7 years as she doesn't think the lines will last that long. Councilmember De Boer requested more time to review and requested bringing back the item on September 7<sup>th</sup>, Councilmember Stafford agreed.

Ms. Jacobs asked the Council what happens if rates go up and people start using less water or change landscaping to rocks. Mayor pro tem Franco stated that the City is hoping to go over all of the costs to be as accurate as possible. She stated that increasing the base rate seemed like the best option.

Mr. Dominguez stated that infrastructure is a "fixed" costs and, as the base rate is a "fixed" cost, it should be raised to cover it. He continued that either way, someone was going to be hurt by the increase but you should spread it out over everyone not just have the higher users paying for everyone.

Director Newton stated that the majority of the costs are for infrastructure so, looking at Option 5, staff could add an infrastructure surcharge.

Mayor pro tem Franco suggested establishing a low-income base rate.

Director Newton responded that there may be grant opportunities for those who are low income but the City has to watch that it does not violate the California constitution.

Mayor pro tem Franco stated that weather patterns may not change, and the City may have more restrictions next year than are already being required.

Director Newton stated that is all a risk, and while we cannot predict what will happen next year but we want to hit the rate that promotes conservation however, he likes the idea of the base rate increase or addition of the surcharge.

Mr. Teeter responded that the base rate does not meet the State Conservation effort. Even if the Council opted to extend the CIP to 7 years, they would not meet the State conservation requirements.

Mr. Dominguez inquired as to whether or not the current tiered rate promotes conservation. Director Newton responded yes, but it was not established with a rate study so it needs to be revisited.

Mayor Garnier asked if the State can come back and impose a 36 percent reduction again next year. Mr. Hancock responded yes, that is where the irrigation versus non-irrigation rate comes in.

Ms. Jacobs stated that those who have higher bills can afford to pay them and that she agrees with the surcharge.

Mr. Dominguez agreed with the surcharge as it keeps everything transparent.

Mr. Bonham stated that he would like to see a CIP surcharge as it's more transparent than the current bill.

Mayor pro tem Franco requested information on the surcharge and how much the rates would increase.

Mr. Hancock responded that if infrastructure was funded through a surcharge, the non-irrigation rate would go to \$1.12/cf and the irrigation rate would be \$1.53/cf. So, by adding an additional \$18 a month for a surcharge you would take approximately \$1 off each hundred cubic foot used.

Mayor Garnier stated to Mayor pro tem Franco that the City needed to do this for conservation and it is definable. She continued that she liked the option.

Mr. Henry requested to see the current charges with the surcharge added. Director Newton responded that the City could, however the current 5 tier rate structure needs to be validated or changed as well. The City cannot prove that it costs more but we can justify it with the irrigation and non-irrigation rates. Director Newton also discussed the option of lowering the base rate and shifting the increase more towards the usage rate.

Mr. Hancock added that a special meter read may be required for all users on September 1<sup>st</sup> so everyone would be billed at the same time but, reprogramming the finance billing system would have to occur. He requested clarification on when the rescission would become effective. Mayor Garnier asked if he was requesting a special read. Mr. Hancock responded that it may be required in order to do what the Council was asking, to have the bills all go back to original rate as of September 1<sup>st</sup>.

Mayor pro tem Franco stated that more discussion and input was needed. He added that the City wants to supply water but at a reasonable rate, and he wanted to be able to defend it.

**Nick McBride** stated that, as he was on the prior Council, this was not something the Council adopted overnight, it took years. He added that, based on this conversation, we all know this is needed and he expressed his disappointment with the current Council that they are not backing up the rate increase. He continued that the other former Council member who was speaking previously about 2008 rates should have reviewed the rates at that time also but they did not. He motioned to the pipes in the room and stated that we are drinking water out of pipes that look like these and so are your children. We need to take care of this now and not later.

Mayor pro tem Franco stated that we keep talking about this but a point is being missed, what is going to happen to someone's bill. He added that the Council needed to agree on what to do.

Discussion occurred on the original vote and the vote to rescind that vote. Mr. Hancock stated that legal counsel stated it was both adopted and rescinded legally.

Mr. Hancock stated that staff is looking for direction to develop a different strategy that could be brought back for approval. The 45 day process would have to start again so staff would be looking at approximately 60 days.

Discussion between Council members to keep the CIP at 5 years and that \$900,000 is the amount of annual revenue needed.

Councilmember Wilson asked Director Newton if \$900,000 would be enough. Director Newton responded that it would not, but that they would do what they could with that amount.

Councilmember Stafford stated that the City is going into non-irrigation season and if he needed more time to review the information he would not be pressured to make a decision today.

Both Mayor pro tem Franco and Councilmember DeBoer agreed. Councilmember Wilson stated staff needed to be given direction.

Mayor Garnier requested a timeframe to know when to request staff to place the item on the agenda in the future.

Mr. Hancock stated that Main Street should be added. He suggested that staff bring back an option where the base rate stays the same, options for usage rates and then the same CIP remain in place but include a \$15 surcharge broken down to different times of the year and usage.

Mayor pro tem Franco asked if staff will randomly choose bills so that real numbers can be seen. Mr. Hancock responded that percentile may be used. Summer versus winter at the 70<sup>th</sup> percentile, 80<sup>th</sup> percentile and so on.

Mr. Hancock stated the City is looking at \$4.1 million in infrastructure, a reduced CIP to \$2.7 million and with anticipated grant funding CIP goes to \$3.4-3.5 million. Based on those numbers, staff can bring back two options: one with an added surcharge and one with just the variable rate, no base rate increase or surcharge, and this would include multiple scenarios. He added that the City needs to be transparent to the public that this is staying ahead of the worst areas but not fixing everything.

Motion by Councilmember DeBoer, second by Mayor pro tem Franco, to bring back the scenarios as discussed. Motion carried unanimously. Ayes: Wilson, Stafford, Franco, De Boer and Garnier.

**ADJOURNMENT:**

Motion by Councilmember DeBoer, second by Councilmember Stafford, to adjourn; motion carried. Ayes: Stafford, Franco, DeBoer, Wilson and Garnier. Ayes: Wilson, Stafford, Franco, De Boer and Garnier.

Meeting adjourned at 8:37 p.m.

Respectfully submitted by

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Kathie Garnier, Mayor

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Heidi Whitlock,  
Assistant to the City Administrator

*Approved on: September 21, 2016*