CITY OF BURTON

BURTON CITY COUNCIL MEETING

AUGUST 19, 2019

MINUTES

Council Chambers	**Workshop**	**5:30 PM**

4303 S. CENTER ROAD
BURTON, MI 48519

This meeting was opened by President Steven Heffner at 5:30 PM.

A. CALL TO ORDER

Attendee Name	Title	Status	Arrived
Tom Martinbianco	Councilman	Present	
Duane Haskins	Vice President	Late	5:50 PM
Dennis O'Keefe	Councilman	Present	
Steven Heffner	President	Present	
Danny Wells	Councilman	Present	
Vaughn Smith	Councilman	Present	
Christina Conley	Councilwoman	Present	

B. STAFF PRESENT

Paula Zelenko, Mayor
Bette Bigsby, Acting Clerk
Charles Abbey, Deputy DPW Director

C. ADMINISTRATIVE REPORT

Mayor Zelenko stated there were still some questions regarding the resolutions on our 7:00 meeting agenda. We need more clarification on the methodology and philosophies on how we need to recover our costs. We haven't been billing in the right categories. This is another opportunity to ask questions of the Wood Hill Group and gain a better understanding of what we need to do.

D. PRESENTATION

1. Meeting purpose is discussion on water/sewer resolutions, philosophies and methodologies.

   Keith Sawdon and Michael Lesich of the Wood Hill Group provided a presentation of water and sewer rate options. The following was issues discussed:

- Rates not covering system costs including debt service
- The city’s water system: unrestricted retained earnings deficit of over $1 million in 2018
- Lack of unrestricted reserves required the issuing of debt to finance capital improvements/major repairs
- Current billing practices is confusing to customers
- Water and sewer systems use different methods of cost recovery
- Invoice is difficult to read

- Out of compliance with Michigan standards- DEQ: there is currently no capital improvement financing plan

  Recommendations include changes to billing structure, improved billing practices and accounting for reserves:

- Add debt service charge based on capacity
- Separate debt service collections and capital improvement reserves from operational reserves and account for them separately
- All net tap-in fees placed in capital improvement reserve
- Separate funds equal to system depreciation expense into capital improvement reserve each year
- Utilize same rate methodology for water and sewer including capacity charge to recover fixed expenses, debt service charge to cover upcoming debts and commodity charge to cover costs related to usage
- Revise billing to improve readability
- Redesign billing program so various components are tracked separately on financial statements
- Review identified meters to ensure proper recording of usage
- Residential Equivalent Unit (REU) factoring

  The Wood Hill Group also provided several rate options over a 5-year period with the goal of equalizing rate adjustments each year for the council to consider. The bottom line is we are not bringing in enough money to cover our costs. The water fund is in trouble and you are borrowing money to pay the bills. At some point, no one is going to loan you money.

E. COUNCIL DISCUSSION

Mr. Haskins expressed concerns about how we got to this deficit when we have passed along increases that the county has imposed on us.

Mr. Abbey stated we have historically sat on these things for a long time. We have not passed county fees along to the residents.

Mr. Martinbianco stated part of his issue over the years is this has been a non-operating expenditure. For instance, the work we did on the south end, we can depreciate it at 2018 dollars and years and years from now it will cost five times that to replace it. So, we depreciate it up to a value but it's depreciated in the 2018 dollar value. Future City Council's 50 years from now aren't going to be left with anything.

Mr. Sawdon stated he suggests leaving depreciation in the rate setting structure so you have funds to set aside and don't have to borrow.

Mr. Heffner stated in a household if you are $1,000 short for your bills do you go to your boss and ask for more money or do you cut costs?

Mr. Sawdon stated I think you do both of those. You look for additional income as well as looking for what is essential and what is not. Generally, this should be done when you set the budget. Going forward, I recommend doing rate setting and the budget at the same time because they are dependent upon one another.

Mr. Abbey stated it has been almost two years when we started this exercise. We have some unique things in this city. The south end was failing and it had to be done. It was the right move and these were good decisions. Going forward, we need to continue to look at cost cutting measures. We have to maintain the system at a safe level as well.

Mr. Lesich stated cost savings is one thing but cost recovery is another. We have recommended adjustments to fees to cover the cost of providing a service. For instance, currently if a restaurant in the city fails a Fat Oil and Grease (FOG) inspection, the fee schedule you have does not cover the cost of the inspection. Instead, it is subsidized by other users on the system. By following our recommendation, this will no longer be the case. The restaurant will pay the fee. Raising fees is not a fun or popular thing to do but they should align with the cost of providing that particular service. Fees for shut-off, turn-on and inspections it should cover the cost of sending the employee out in a vehicle and taking care of that particular instance. Also, your current billing has created confusion. The statement has a capacity and commodity cost buried into one line called water. So, a customer could not figure out how much they were paying. A couple months ago, we split those out into capacity (fixed cost) and commodity cost. The rate is the same as what they were paying before but now you can understand it better. Whatever you decide to do, it will be implemented clearly and provide clarity to your customers.

Mrs. Conley asked if the $22 million project in the south end will only increase the bills of the water users. Will that show up on the bill?

Mr. Sawdon said, yes. The users on the water system will pay that debt.

Mr. Smith stated when we did the work in the south end, it had an impact on depreciation. What I like about using depreciation as a non-monetary is that it is allowing us to get the cost down. We are saving on man hours because we have a lot less breaks in that area. We are realizing benefits from it.

Mr. Wells asked what the yearly amount is on the bond?

Mr. Sawdon stated the most recent statement was $1.7 million per year.

Mr. Heffner stated you guys have been at this for two years and we are trying to absorb it all in one night to make a vote on it. It's a lot to take in.

Mr. Abbey stated we have brought you stuff about this periodically. It is a several pronged approach. We had to change some ordinances first. We were trying to get the costs to be equitable and fair. In the future, we will do this by resolution on a regular basis.

Mr. Heffner stated right now we are being asked to increase the rates and cut costs later.

Mr. Abbey stated that is incorrect. We are always looking at ways to contain costs.

Mr. Smith stated we have a structural deficit that is larger than what can be done with labor.

Mayor Zelenko stated we budgeted for 93 employees and we currently have 87. We purposely didn't hire in the water and sewer department in order to cut costs. We are running at the bare minimum right now and I believe we are actually risking safety at this point. We have to balance having enough employees to provide the service and providing the service safely. The fewer employees we have, the slower our response time and level of service.

Mr. Wells stated we may have to rely on contractors and that is not going to be cheaper.

Meeting was adjourned at 6:55 PM.

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