

MINUTES OF THE OPERATIONS COMMITTEE MEETING

4:00 P.M.

April 05, 2023

City Manager Anderson brought the meeting to order with the following committee members present: Berley Mears, Director of Public Works; Frank Raskauskas; and Chris Derbyshire, P.E. George, Miles, and Buhr.

Mr. Anderson asked if there was anyone present for public comment.

Mr. Dan Cannon of 411 Nylon Boulevard requested as much as an additional two minutes and fifteen seconds over the three minute threshold for his Public comment; Mr. Anderson granted the request. Mr. Cannon then shared the following:

FYI. Since 2018 combined water and sewer rates for citizens have been raised \$9.66/month from \$66.25 to \$75.91, up to 14.6% even after the building a \$MILLION solar farm providing “free” electricity to the Wastewater Treatment (WWT) system. Background. The 11/18/21 Star reported Councilman Dan Henderson stated that water/sewer rates needed to increase to cover costs and also to ensure the City did not lose out on favorable loan terms (interest rates and/or principal forgiveness) from state/federal revolving loan funds. Such loans could finance City plans to borrow and spend “\$9 MILLION” for planned WWT projects. Echoing Mr. Henderson’s opinions in November of 2021, consultant Chris Simms recommended that the water/sewer rates be increased. In early 2022 the water/sewer rates were increased by \$8.31/month or 12.3%. Mr. Simms cited current insufficient “effort” by the citizens of Seaford paying for water/sewer services. Today’s Easy Questions for Mr. Simms: Is his current recommendation to raise water/sewer rates in 2023 after the 12.3% increase in 2022? If so, how much and by what %? Would this increase meet the arbitrary level of “effort”/“required margins” for favorable loan treatment as cited in his 2021 remarks? If not, what further increases would be necessary to satisfy required “effort” levels? More Difficult Questions for Mr. Simms. 1. Where is the financial data from a credible COST:BENEFIT ANALYSIS comparing increased water/sewer rate costs over time (to achieve and maintain an arbitrary level of required citizen “effort”) to specific guaranteed decreased costs from favorable loan terms (to finance a \$10MILLION –for example – WWT project? 2. If a credible cost:benefit analysis showed favorable loan terms actually would save citizens more \$’s than the costs of years of higher water/sewer rates, how and when would the savings be returned to citizens? 3. Where is the data/reference that justifies and supports cited arbitrary level of required citizen “effort”/“required margins” for favorable loan treatment? When was this data vetted through demographic analysis? Has this requirement withstood legal scrutiny and/or challenge? From a Broader Perspective. The latter questions are not just “What if’s” as answers to them are crucial for citizens’ accurate understanding of plans already in motion to make use of state/federal revolving loan funds. “In motion” includes actions to grease the wheels for borrowing and spending from revolving loan funds. M”CC are now attempting to throw out currently required voter approval by REFERENDUM for such borrowing and spending from the Seaford Charter. Ultimately this proposed Charter change would take approval power

away from 5000+ eligible voters and give it to five (5) members of the City Council. Clearly there is a coordinated, multi prong effort to take significant power of the purse out of hands of voters and simultaneously increase water/sewer rates for customers, generate new revenue for the City and funnel those \$\$'s into Seaford's coffers without any stated intention to reimburse citizens for their "efforts". In Conclusion. Yea: Let's extol the virtues of borrowing MILLIONS with favorable APR's and substantial principal forgiveness!! However, without a credible cost:benefit financial analysis of the overall costs, the cheap (?) money spending plans are but a hollow shell of promise without the credible information needed to justify/evaluate doing so. I continue to strongly encourage all citizens to consider/evaluate this information and bring their positive and/or negative thoughts and opinions into the forum of Public Comment for the betterment of our community during meetings of M&CC held on the 2nd and 4th Tuesdays of every month (save December). Thank you.

With no further Public comment, Mr. Anderson presented New Business #1, Chris Simms of Smart Utility Management LLC to present Water & Sewer Rate Analysis results.

Mr. Simms noted that in December 2022 he made a presentation to Council in reference to looking at an increase for water/sewer rates for the upcoming fiscal year; he has spent some time compiling information and looking at the options. He explained that the City of Seaford has been working to increase water/sewer rates to meet the 2% threshold of Median Household Income put in place for favorable loan terms; since the December meeting that threshold has been raised to 3% which would mean a 75% increase to rates to meet that threshold. As a result, the City has abandoned this approach, instead going to the industry standard approach of working to achieve a 4% Return on Equity. He explained that the water and sewer budget line items are just barely covering current costs with less than \$100,000 profit annually between the two funds. He stated that in order to reach 4% ROE the City would need to put \$700,000 towards the Capital Reserve account annually; this would necessitate an overall increase of 17% in water/sewer rates. He expressed that a 17% increase in rates is too high for a one time increase and suggested breaking the increase down over a three to five year process, meaning it would take approximately a 6% increase each year over three years in order to reach the 17%.

Councilman James King joined the meeting at 4:12 p.m.

Mr. Simms continued and explained the various recommended changes and the options to achieve those rate increases. He explained that the best option across the board for rate increases includes three items: reducing an EDU from 300 gallons/day (9,000 gallons/month) down to 250 gallons/day (7,500 gallons/month); create separate commercial and residential rates; and introduce a second rate block for metered accounts which would limit the negative effect on large users (over 225,000 gallons).

City Manager Anderson noted that without meeting the 3% Federal standard threshold means that our rates are affordable, hence there are no incentives provided for loan funding for Capital projects. He further stated that based on Mr. Simms' study of our rates and our peers' rates, our rates are competitive with and/or lower than most of our peers. Mr. Simms stated that while the City is not currently operating at a deficit there is not much of a buffer between income and

expenses. Mr. Anderson agreed that with Market changes and changes in expenses there may need to be small increases in order to break even and not operate at a deficit. Mr. Simms confirmed.

Mr. Simms reviewed the three options he has put together for recommendation to Council. Option 1 includes a 6% increase to metered (commercial) accounts as well as a decrease in the EDU to 7,500 gallons/month and a 3% increase to unmetered (residential) accounts, resulting in approximately an additional \$120,000 annually. Option 2 includes a 6% increase to all customers as well as the decrease in the EDU to 7,500 gallons/month, resulting in approximately an additional \$240,000 annually. Option 3 is based on the most recent Cost of Living Adjustment for Social Security of 8.7% to all customers, resulting in approximately an additional \$350,000 annually.

Committee member Frank Raskauskas asked for clarification if the committee recommends increasing rates based on COLA would it be a floating increase over the next three years. Mr. Simms responded that there is a multitude of ways to spread the overall necessary increase over the next three years meaning that the increase does not need to follow the same parameters each year, it can change from one year to the next. City Manager Anderson explained that COLA is a data point that is used by the City of Seaford for a variety of items, for example, salary increases, hence why it is used as a recommendation option for rate increases also. Mr. Raskauskas asked if Council would be adopting a floating or fixed increase in rates. Mr. Anderson confirmed that Council must choose a fixed increase for the next fiscal year. Councilman King noted that the City needs to ensure that rates are continually adjusted so as not to fall behind and require a large increase all at one time. City Manager Anderson explained that the overall goal increase is 17.7% or a \$700,000 which equates down to approximately a 6% increase per year over the next three years. Councilman King inquired what the effect on future year increases would be if the decision was made to increase by less than 6%. Mr. Simms answered any increase less than 6% would increase any future needed increases above 6%. City Manager Anderson explained that a 6% increase each year over the next three years would cover the needed increase of 17.7% total. Mr. Simms explained that it is common practice to look at rate increases over a three to five year period, however the rate increase would only go into effect for the immediate next year as the numbers and necessity can change and be adjusted yearly. Mr. Raskauskas noted that planning for a modernization of rates is a good plan and he thinks this is a step in the right direction.

City Manager Anderson inquired if there was any feedback from the committee for recommendation to Council at the April 25th Council meeting when Mr. Simms presents the information to Council.

Councilman King asked for clarity that if the recommendation to go with option 1 would mean a larger increase at a later time. Mr. Simms confirmed that the City is in favor of working towards the 4% ROE which requires a total increase of \$700,000 annually, recommendations increases would depend on the length of time wanted to take to reach that overall increase.

Chris Derbyshire explained that he felt option 2 (6% increase to all customers) is the best option to recommend to Council. Mr. Raskauskas agreed. City Manager Anderson noted that while a 6% increase may sound like a lot it only equates to an approximate increase of \$5/month on a customer's bill. Mr. Simms explained that while the percentage increase seems high because the rates are so low the actual amount increases are low.

Councilman King asked why 4% is the recommended amount for ROE. Mr. Simms explained that most Bonds are based on 20 year Treasury bill and those numbers are put in place by the Public Service Commission.

City Manager Anderson again asked about the committee's recommendation for Council. Councilman King agreed that the recommendation should be to use option 2 or 3. City Manager Anderson asked if Mr. Simms' research included an analysis of past expenses. Mr. Simms explained that the recommendations were based on current fiscal year Budget forecasts.

Councilman King inquired if the numbers included any consideration for moving towards metering residential customers water usage. Mr. Simms explained that the numbers are based on total collection numbers, however metering all customers would eliminate the subsidy being paid by low use customers.

Frank Raskauskas made a motion to recommend option #2 rate increase to Council. He noted that he felt this option was a good half-way measure and the current estimated COLA for Social Security for this year is 6.5%. Chris Derbyshire seconded the motion. All voted in favor of the motion.

Mr. Anderson thanked Mr. Simms for the information and presentation he provided. Mr. Simms will come to the Council meeting on April 25th to present the same information to Council for their discussion and determination.

With no further questions or comments, Chair James King adjourned the Operations Committee Meeting at 4:57 p.m.

Jessica Johnson, Secretary