

CITY COUNCIL WORK SESSION MEETING

FEBRUARY 13, 2023

A Work Session meeting of the Warrensburg City Council was held on February 13, 2023, beginning at 5:30 p.m., at the Police Department Training Room, 102B South Holden, with Mayor Jim Kushner presiding. Mayor Kushner called the meeting to order. Roll was called as follows, Present: Osborne, Bentley, Lund, Uhler, Kushner. Absent: none.

Also present were City Manager Dulin, Assistant City Manager/Public Works Director Villegas, Senior IT Technology Swanson, WPC Manager of Operations Adlich, Fire Chief Jennings, Police Chief Munsterman, Tourism Director Barnhart, Community Development Director Carroll, Finance Director McCoy, City Clerk Schneider and Candidate Jan Jones.

Assistant City Manager/Public Works Director Villegas said the city solicited a Request for Qualifications (RFQ) for assistance with a sewer utility rate study. An engineering firm was chosen and introduced Tom Beckley from Raftelis. John Huss from Anderson Engineering was also present. Villegas explained the City's wastewater treatment facilities fall under the umbrella of the Clean Water Act regulatory requirements of the Environmental Protection Agency (EPA). These requirements were driving approximately \$20.3 million dollars in capital expenditures at the City's two sewer treatment plants for Sequencing Batch Reactors (SBR) and associated upgrades. The sewer utility generates \$5.5 million in annual revenues for operations, maintenance and capital improvements.

The City is required to hold a National Pollutant Discharge Elimination System (NPDES) Permit through the Missouri Department of Natural Resources (DNR). DNR inspects and monitors our sewer plants and will enforce regulatory requirements on flows, capacity and quality of effluent. Villegas stated that the EPA could also step in at any time to enforce if the plants are in violation.

Villegas highlighted data on average rainfall from 2019-2022 and how it impacted capacity at both sewer plants. The West plant was near 80% capacity and the East plant in 2020 and 2021 was at 75%. An exception was noted that 2022 was relatively dry and the West plant capacity was at 97%. Villegas relayed that DNR dictates that if capacity is encroaching on 80% then it needs to be corrected, and if at 90% then a plan needs to be in place to handle additional flow.

Villegas said data for population projections and timeline showed the East plant flow capacity would be reached by 2028 assuming a 1% growth every year. The data showed East plant flow capacity by 2025 if 1-1/2% growth; and plant flow capacity by 2024 if 2% growth. According to census bureau statistics, the City's growth rate is 1% every year. Villegas said that permits and construction would take three years. It was recommended to upgrade both plants with design and construction at same time for economies of scale as reflected on the diagram.

Mr. Beckley of Raftelis summarized the City's current rate structure. Beckley said the rates were measured in cubic feet (ccf). The residential rate included a \$13.00 base charge together with \$2.72 for the first 2 ccf (1,500 gallons) and \$6.53 for each ccf (748 gallons) over 2 ccf with an established winter average from January, February and March usage. The commercial rate included a \$13.00 per month base charge for meters less than 1", \$65 for 1"-4" meters, and \$156 for meters greater than 4" together with \$5.73 for each ccf of metered water.

Beckley explained the City had some existing debt and capital improvement expenses on both plants and a lift station. Beckley referred to the graph showing that existing revenue at current rates paid for operations and maintenance (O&M) and debt service only but not any capital improvements. The shaded column on the graph showed the proposed debt service on the \$20.3 million dollars SBR capital improvement project. Beckley said the city could use a State Revolving Fund (SRF) loan (approved by voters) to issue debt.

Since the current sewer rates pay only for O&M and debt service, Beckley said there was an overall need to increase rates for capital improvement projects and recommended a 28% increase in rates over the next two and one-half years to include this SBR project. Beckley discussed Options A and B rate increases and, in general, recommended 3% inflationary rate increases every year. Beckley said that Options A and B rate increases break-even in 2025-2026 for revenues if the City borrowed money with 1.1% coverage use and 1.2% to reinvest in system.

Beckley provided a monthly sewer utility bill comparison for Options A and B proposed rates with neighboring municipal systems. The proposed rates placed Warrensburg in the middle of the graph comparisons. Beckley explained that Kansas City and Odessa were under consent decrees as reflected in their high rates. Villegas said it was cheaper to fix and improve now than be mandated to fix and raise rates. Council Member Uhler asked what the average rate increase was for other cities. Beckley answered that Odessa's rate increase was a fixed dollar amount and Kansas City averaged 8% every year. In 2023, the City has \$1 million coming off of its debt service and there can be some capacity for lining projects every year.

City Manager Dulin said the City does an annual sewer rate study reviewed by city council and then a comprehensive review every five years. Dulin said the SBR upgrade in 2021 was estimated to cost \$12 million dollars but with the cost of inflation in 2023 is now estimated at \$20.3 million dollars. Mayor Kushner asked how a rate increase affects the Southeast Sewer District and any future development. Villegas said the current development would not be affected but future development may be affected without the SBR project.

Council Member Bentley pointed out the rates did not add up to 28% on the slide. Beckley said the compound rate differentiated for Options A and B and were close to 28%. Council Member Osborne asked if a sewer rate increase is approved by voters. Villegas said that a public hearing will be held for citizen input on a sewer rate increase but that the city council would vote on it. Mayor Kushner asked whether the voter approval for a bond issuance in November would be a no-cost bond issue or would citizens pay an extra cost. Dulin said if a proposed rate increase is approved by city council effective April 1st, the rate increase would cover the cost for the bond issue.

WPC Manager of Operations Adlich said that NEPDS permits renewed every five years. The City's current permits were expired but the systems were allowed to operate until DNR completed its review of the renewal applications. There was discussion on the regulatory requirements becoming more stringent setting cleaner effluent levels on PFAS plastics emergent contaminates.

Villegas said the recommendation by city staff was the Option B rate increase citing an initial rate hike with an eighteen-month period before a second-rate hike causing less impact on fund balance through 2025-2026.

Finance Director McCoy presented debt financing options. McCoy said the Water Pollution Control (WPC) is a proprietary fund supporting itself and debt service of \$1.6 million dollars primarily through user fees. Debt was issued in 2010 to expire in 2030 with debt service payments reduced to \$500,000 per year for the last three or four years.

McCoy said the three bond issue options are (1) State Revolving Fund Revenue Bonds (SRF), (2) Revenue Bonds and (3) Certificates of Participation (COP). Option 1 SRF costs the least with low interest rates backed by the federal government and required voter approval. Option 2 Revenue Bonds has no federal backing to reduce rates and required voter approval. Option 3 COP is certificate of participation (COP) with no voter approval and approved by city council paid by annual appropriation at a 6-8% interest rate.

McCoy described the processes listed on the slide presentation for SRF Bond Issuance or Revenue Bond Issuance ballot question to voters for the November 2023 election. McCoy described the COP process.

McCoy said the SRF loan process was competitive and recommended to have all plans designed for submission with the application process. Beckley said the Joint Infrastructure Act ensures more funding available for the next four or five years. Beckley said if voters do not approve an SRF bond issuance, then rates would have to go up as the proposed April rate increase would pay for existing expenses now and allow a start with design expenses. It was noted that design expenses can be reimbursed by SRF if awarded.

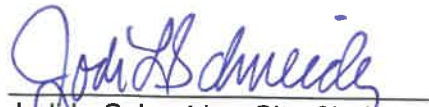
McCoy said city staff recommended the Option 1 SRF for financing capital improvements for the WPC fund. Buckley said if no voter approval, then the third option of COP would extend timelines but be more expensive. McCoy said if the City does not take action then EPA could issue a consent order with a fine or force a complete shutdown and no development would occur which happened in Odessa. Uhler asked why this issue had not been raised earlier. Dulin said it was a matter of timing due to the Covid pandemic, the need to get the SCADA upgraded and deferred maintenance to keep taxes and rates down.

Dulin explained that city council would consider the rate increase of 17.5% in March after publishing a public hearing notice for four weeks at the March 25th meeting. The City would educate voters on the no-rate-increase bond issue in November 2023 paid for by the rate increase adopted in March.

As there was no further business, the meeting adjourned at 6:56 p.m.


Jim Kushner, Mayor

Attest:


Jodi L. Schneider, City Clerk

