
**MINUTES OF THE *SPECIAL* WORK SESSION
BOARD OF MAYOR AND ALDERMEN
FRANKLIN, TENNESSEE
CITY HALL BOARDROOM
TUESDAY, MAY 5, 2009 – 5:00 P.M.**

Board Members

Mayor John Schroer	P	Alderman Dana McLendon	P
Alderman Clyde Barnhill	P	Alderman Ken Moore	P
Alderman Pearl Bransford	P	Alderman Ann Petersen	P
Alderman Beverly Burger	P	Alderman Michael Skinner	P
Alderman Dan Klatt	P		

Department Directors/Staff

Eric Stuckey, City Administrator	P	Eric Gardner, Engineering Director	P
Vernon Gerth, ACA Community & Economic Development	P	Shirley Harmon, HR Director	
Russell Truell, ACA Finance & Administration	P	Mark Hilty, Water/Wastewater Director	P
David Parker, City Engineer	P	Gary Luffman, Planning Director	
Shauna Billingsley, Interim City Attorney		Tom Marsh, Interim Codes Director	
Rocky Garzarek, Fire Chief		Brad Wilson, Facilities Project Manager	
Jackie Moore, Police Chief		Joe York, Streets Director	
Fred Banner, MIT Director		Lanaii Benne, Assistant City Recorder	
Lisa Clayton, Parks Director		Steve Sims, Assistant City Recorder	P
Becky Caldwell, Interim Director Solid Waste		Linda Fulwider, Board Recording Secretary	P

1. Call to Order

The *Special* Work Session of the Board of Mayor and Aldermen of the City of Franklin, Tennessee, called to order by Mayor John Schroer Tuesday, May 5, 2009, 5:00 p.m. in the City Hall Boardroom.

Eric Stuckey explained since various water issues were on so many different agendas it was decided to schedule a meeting to look at all water items together.

2. Review of Cost of Service Analysis – Rate Study

Mark Hilty, Water/Wastewater Director

Mr. Hilty noted there was a rate adjustment in March 2008. Previously the City had a declining rate structure for both Water and Sewer. Currently, water is on an inclining rate structure and sewer remains on a declining rate structure.

WATER

Burton Benkwith, Jackson Thornton Consultants, reviewed the analysis.

Basic Principles/Goals of Cost of Service and Rate Design:

- Rates that are Practical

- Meet Revenue Requirements
- Provide Revenue Stability and Sufficiency
- Provide Fairness and Equity (Fair is related to cross subsidies & Equity is related to Price=Cost)
- Avoidance of Undue Discrimination Within Classes
- Develop True Cost of Service
- Ability to Pay
- Legally Defendable

The ultimate goal is to have the water rates stand on their own and provide the necessary revenue for the water system meet its goals and to have the wastewater system operate on its own with its own rates.

Revenue Requirement:

Operations & maintenance Expense	\$ 7,038,946
Plus: Taxes & PILOT	\$ 64,093
Plus: Debt Service	\$ 139,050
Plus: Rate Funded Capital	\$ 1,100,000
Total Revenue Requirement	<u>\$ 8,342,089</u>
Less: Other Revenue	<u>\$ 534,382</u>
Rate Requirement	<u>\$ 7,807,707</u>

- O&M Expense requirement 84% of revenue required
- Rate Funded Capital 13% of revenue required
- Debt Service 2% of revenue required
- Taxes & PILOT 1% of revenue required

Alderman Klatt pointed out this is the Franklin Water System and most new development opportunities exist in outlying areas; therefore not much new infrastructure is required. A lot of it will be improving and maintaining.

Revenue Requirement by Class

- Residential Inside City Limits - is the largest contributor
- Residential Outside City Limits - is the third largest contributor
- Commercial Inside City Limits - is the second largest contributor
- Commercial Outside City Limits - is the fourth largest contributor

The Study calculated that 70% of revenues should come from Residential-Inside City Limits. Actual revenues are at 63%

Revenue Requirement/Thousand Gallon

- Residential Inside City Limits and Residential Outside City Limits are almost equal. Typically, it costs more to serve a residential customer than a commercial customer.

Recovery comparison 2006 & 2008:

2006 total recovery at 86% of total revenues.

2008 total recovery at 88% of total revenues.

Rate changes to inside residential customers were greater than the change to the outside residential customers to bring the rates a little more into parity.

In 2006 the total operations and maintenance expense for the City was \$5.9 million and it was up again to \$7 million. They saw a slight increase in costs.

Cost of Service Rates

Based on the Study when all the costs of operations are categorized as fixed and variable there is approximately \$9.91 for inside the city residential customers before they buy a gallon of water. The base amount is \$9.95 for residential outside, and for commercial customers about \$10.66. This information should help in determining rates. These amounts cover fixed costs. The 88% recovery amounts to a shortfall of about \$968,000. The residential class was about \$1.1 million.

The City improved its overall recovery by 2% while realizing an increase in operations and maintenance of 18% and an overall increase in the rate requirement of 10%.

Additional increases are warranted, and Jackson Thornton recommends the long-term approach to reaching full recovery.

Alderman Petersen asked how the 18% increase in operations and maintenance happened. Mark Hilty responded that one thing not done in the 2006 O&M budget was reimburse the General Fund a certain amount of money. After 2006 those numbers were reviewed more critically and the water fund is now reimbursing the general fund by about \$1.1 million. This includes services from Human Resources, Finance Department, MIT, and that type thing. Alderman Barnhill inquired where the Springs property fits in all this. Mr. Hilty said it is still on the books and mentioned the economic times in relation to these funds. All departments in the City provide services to the Water Department and the idea was to compensate the General Fund. Alderman Petersen requested the numbers paid previously be provided. Alderman McLendon said the increase in operations and maintenance was due to a policy change to charge back as they are a separate entity. Mr. Benkwith advised there is an account "Admin Services Provided to Water". In 2008 it was \$792,000 and that is more an accounting issue than true cost increase.

Update on Wastewater Rate Study

Total Revenue Required:

Operations & Maintenance Expense	\$ 5,645,894
Plus: Taxes & Pilot	\$ 139,180
Plus: Debt Service	\$ 1,894,551
Plus: Rate Funded Capital	<u>\$ 3,000,000</u>
Total Revenue Requirement	<u>\$10,679,624</u>
Less: Other Revenue	\$ 762,753
Rate Requirement	<u>\$ 9,916,871</u>

Alderman Petersen commented if this isn't paying for itself it should be looked at as well.

Revenue Requirement

- O & M Expense 53%
- Rate Funded Capital 28%
- Debt Service 18%
- Taxes & PILOT 1%

Revenue Requirement by Class

Almost entirely residential inside with some commercial inside. Residential outside and commercial outside are almost non-existent.

Revenue Requirement/Thousand Gallons

Stair-steps down from Residential Inside to Residential Outside to Commercial Inside to Commercial Outside.

Revenue Requirement by Class

Should be generating 87% of revenue from inside the City customers and 12% from the commercial inside. Currently is 85% and 13%.

Recovery Comparison 2006 & 2008

2006 total recovery at 86% of total revenues.

2008 total recovery at 85% of total revenues.

Cost of Service Rates

To be a sewer customer in Franklin costs \$16.60 before any services are used. The overall under-recovery about \$1.6 million for 2008.

Results – Wastewater

- Franklin’s recovery dropped by 1% while realizing an increase in operations and maintenance of 23% and an overall increase in the rate requirements of 16%
- Additional increases are warranted, and Jackson Thornton recommends the continued long-term approach to reaching full recovery

As with Water, the General Fund is being reimbursed.

Alderman Petersen asked if a lot of it is for retirement. Russ Truell said what we’re talking about is taking \$200,000 out of almost \$20 million. The cost of chemicals, electricity, labor, and retirement are a few of the many elements in the cost of water and sewer. Mr. Stuckey related as they bring forth the new budget they will be seeing if the independent funds are really paying their way. The total cost of service is still not recovered. One thing to consider is a multi-year rate structure that gets to the ultimate goal.

Mr. Benkwith reviewed charts and graphs depicting residential cost curves and proposed rates.

Note: the term “proposed” refers to numbers recommended by Jackson Thornton for their calculations. Staff has not recommended any rate changes to BOMA.

Proposed Residential-Inside

	<u>Current</u>	<u>Proposed</u>	<u>Difference</u>	
Customer Charge (1,000 Gallons)	\$ 5.22	\$7.22	\$2.00	
Next 9,000 Gallons	\$3.54	\$3.72	0.18	5%
Next 15,000 Gallons	\$4.43	\$4.65	\$0.22	
All Additional (Inclining Block Rate)	\$5.31	\$5.58	\$0.27	

Many utilities are moving to a flat customer charge. This proposal has projected additional revenue of \$526,371. The current under-recovery is \$(1,163,118).

There was some discussion on the new leak detection program and initiating a repair/replacement schedule. Alderman Moore asked if a significant amount of money could be recovered with this program. The City lost 23% of its water through leaks. Other municipalities have higher percentages of loss.

Dorie Bolze, Harpeth River Watershed, commented that at some point it is a waste of money to get to a lower percentage.

Mr. Hilty said there is a point of diminishing return. They could spend a lot of time chasing leaks for zero return. There are a lot of different variables that go into the unaccounted for water. They look at fire flows, flushing programs, the Fire Department’s hydrant testing program, filling and testing new lines, and water line tests and breaks. A lot of the losses are unmetered and therefore estimated. Their goal is to take care of physical losses and make sure the customers are billed correctly. They started metering fire lines; there are a lot of line losses in the distribution system that goes undetected. The leak detection program with use different techniques to find leaks. Mr. Hilty said they expect to receive a list of priorities for repairs.

Proposed Residential-Outside – Customer Charge (1,000 Gallons) would increase by \$1.00 with small increases per increments as above. Projected additional revenue \$89,856.

Proposed Commercial-Inside – Customer Charge (1,000 Gallons) would increase by \$2.00 and all additional would increase by 18 cents. Projected additional customer revenue \$81,373. Current under-recovery \$(81,414).

Proposed Commercial-Outside – Customer Charge (1,000 Gallons) would increase by \$1.00 with all additional increasing by 28 cents. Projected additional customer revenue \$6,765

Projected additional revenue for all four classes based on 7,000 gallon use for residential and 25,000 gallon use by commercial - \$704,365 – 97%.

WASTEWATER

Proposed Residential-Inside

	<u>Current</u>	<u>Proposed</u>	<u>Difference</u>
Customer Charge (1,000 Gallons)	\$7.05	\$9.05	\$2.00
Next 14,000 Gallons	\$3.36	\$3.36	---
All Additional	\$2.52	\$3.36	\$0.84

Proposed increase in customer revenue \$439,300, proposed. increase in Block 1 Usage 0, proposed increase in Block 2 Usage \$350,152. Projected additional revenue \$789,452. Current under-recovery \$(1,548,379)

Proposed Residential-Outside

	<u>Current</u>	<u>Proposed</u>	<u>Difference</u>
Customer Charge (1,000 Gallons)	\$8.21	\$9.21	\$1.00
Next 14,000 Gallons	\$5.47	\$5.47	---
All Additional	\$4.22	\$5.47	\$1.25

Proposed increase in customer revenue \$205, proposed increase in Block 1 usage 0, proposed increase in Block 2 usage \$611. Projected additional revenue \$816.

Proposed Commercial-Inside

Customer Charge (1,000 Gallons) \$10.00 to \$12.00 (increase \$2.00). Next 14,000 gallons no change, remains at \$4.17. All additional \$3.13 to \$4.17 (increase \$1.04). Projected additional revenue \$322,159. Current under-recovery \$(87,334)

Proposed Commercial-Outside

Customer Charge (1,000 Gallons) \$12.00 to \$13.00, next 14,000 remains the same \$6.76, all additional \$4.77 to \$676 (increase \$1.99). Proposed increase in customer revenue \$116, Block 1 - 0, proposed increase in Block 2 usage \$34,561. Total projected additional revenue \$34,677.

Projected additional revenue for all four classes based on 7,000 gallon use for residential and 25,000 gallon use by commercial - \$1,147,104 – 96%.

Assistance for limited-income customers was discussed. The aldermen asked for additional information. Does the City want to continue in same way with a declining block rate structure or go to a flat charge? Mr. Benkwith said it is time to look at a rate increase to work on under-recovery. Set a goal to know where it needs to be in three years. Alderman Petersen asked to see the numbers from last year. Mr. Stuckey advised it would be more manageable to do smaller, regular increases over several years. The additional information will include comparisons to other utilities. The combined bill is the most important thing per Mr. Benkwith.

Summary of Combined Water & Sewer Bill

		Current Rate	Proposed Rate	\$ Increase	% Increase	Additional Revenue
Residential Inside	7,000 Gal User	\$53.67	\$58.73	\$5.06	9.4%	\$1,315,823
Residential Outside	7,000 Gal User	\$82.37	\$86.03	\$3.66	4.4%	\$90,672
Commercial Inside	25,000 Gal User	\$194.09	\$212.81	\$18.72	9.6%	\$403,532
Commercial Outside	25,000 Gal User	\$298.55	\$327.17	\$28.62	9.6%	<u>\$41,442</u>
						<u>\$1,851,469</u>

Aldermen Petersen and Skinner want to see percentages on the lower usage customers as well. Alderman Skinner asked about the history of repairs and maintenance. David Parker explained what is spent on water and sewer typically goes in cycles between water repair and sewer repair. Alderman Petersen asked if the Depreciation Fund has been used for maintenance and replacement.

3. Status Report on CIP and System Improvements

Mark Hilty, Water/Wastewater Director

Alderman Petersen asked for an update on connections with Harpeth Valley and the water tank in the Goose Creek area. Mr. Parker referred to #39 on the CIP project list, Water Distribution, HVUD Water Meter Vault Upgrade. The design is complete; plans have been approved by the State. Working with HVUD on construction of remaining portion of improvements; anticipate completion in July 2009.

On Project #63 he plans to work with the State. Milcrofton will install it. It is in the conceptual stage. This should help with some of the pressure problems in Ladd Park. The temporary booster station should be on line in a couple of months.

Discussion ensued on filling the tanks, maximum storage time in tanks, and water pressure. Looking at temporary fixes as well as permanent fixes. Pressures will be monitored. Alderman Petersen requested information from other utility districts regarding sufficient water supplies. The raw water reservoir may be eligible for stimulus funds.

4. Update on Integrated Water Resources Plan RFQ Process

Mark Hilty, Water/Wastewater Director

Mr. Hilty said as the RFQ process was started they looked at how all the water systems are interrelated. The water resource most involved is the Harpeth River and its tributaries. What they are proposing in this project is to establish a technical baseline for what they can do in terms of operations and projects without having a negative impact on the resource. That is a key element in this plan. They want to incorporate operations, capital projects across the board. Master plans have been developed over the years but not tied together. They want to look at some policy issues to use as tools to look at long term projects. The RFQ was published April 12 with submittals due May 8.

Discussion ensued on reclaimed water usage. Reclaimed water users are limited in Franklin.

5. Water Budget Update

Mark Hilty, Water/Wastewater Director

Reviewed previously.

6. Discussion on Water Conservation Public Information Campaign

Mark Hilty, Water/Wastewater Director

Water Management Department Public Outreach Plan

- Comprehensive communications plan that establishes the means by which the WMD communicates with its customers. The plan will include the following:
 - Methodology
 - Message schedules
 - And content

Conservation Outreach Plan

- The Plan is consistent with ordinances, operations, and Draft Action Item 1 of the Water Committee's Strategies developed as part of the Sustainability Task Force
- The Goals include:
 - Reduction of potable water usage within the Franklin City Limits by 25 percent during the months of May through October, by the year 2014
 - Reduction of potable water usage within the Franklin City Limits by 10 percent during the remaining months by the year 2014

Strategies Outlined in Draft Action Item 1:

- Educate the public on water conservation inside the home and smart irrigation practices
- Reduce unaccounted for water
- Develop incentives for developers/builders and conserving appliances
- Develop incentives for users such as increase Rate Block Structure, and awards for “smart” consumers

Introduction of Water Hog/Water Hero Campaign

- Unveiling Hog/Water Hero Campaign at the City of Franklin Main Street Festival (April 25-26, 2009) and Touch-a-Truck Event (May 16, 2009)
 - Banner
 - Coloring Pages
 - Magnets
 - Stickers

ADJOURN

Work Session adjourned 6:40 p.m.

Mayor John C. Schroer

Minutes prepared by: Linda Fulwider, Board Recording Secretary, City Administrator’s Office - ~~6/4/2009 3:49 PM~~~~6/4/2009 3:36 PM~~