



## MURRAY CITY MUNICIPAL COUNCIL COMMITTEE OF THE WHOLE

The Murray City Municipal Council met as a Committee of the Whole on Tuesday, December 3, 2013, in the Murray City Center, Conference Room #107, 5025 South State Street, Murray Utah.

### Members in Attendance:

Brett Hales	Council Chair
Dave Nicponski	Council Member
Darren V. Stam	Council Member
Jim Brass	Council Member
Jared A. Shaver	Council Member

### Others in Attendance:

Dan Snarr	Mayor	Justin Zollinger	Finance
Janet M. Lopez	Council Office	Jan Wells	Mayor's COS
Frank Nakamura	City Attorney	Doug Hill	Public Service Director
Pam Roberts	WFWRD	Stuart Palmer	WFWRD
Jennifer Kennedy	Recorder	Diane Turner	Resident
Greg Bellon	Power	Tim Tingey	ADS
Ted Eyre	Resident	Kellie Challburg	Council Office
Jennifer Brass	Resident	Blair Camp	Resident
Janet Towers	Resident	Steve Meyer	Resident
Blaine Haacke	Power	Peri Kinder	Valley Journal

Chairman Hales called the Committee of the Whole meeting to order and welcomed those in attendance.

### Minutes

Mr. Hales asked for corrections or action on the minutes from the Committee of the Whole meetings held on October 15, 2013 and October 29, 2013. Mr. Shaver moved approval of both sets of minutes. Mr. Stam seconded the motion and the motion carried.

### Business Item #1

### Wasatch Front Waste & Recycling District (WFWRD) Fee Increase- Jim Brass

Mr. Brass welcomed Pam Roberts and Stuart Palmer from the Wasatch Front Waste and Recycling District (WFWRD).

Ms. Roberts explained that different options had been evaluated for WFWRD. The best option that kept WFWRD above the minimum reserve level was a \$2 increase. The first two pages of the handout give a breakdown of the increase.

When WFWRD was created and separated from the county, property owners were billed separately for service and began to see the cost of paying for garbage cans; therefore many returned the second can. That resulted in a projected revenue loss of 88 cents per household per month.

Ms. Roberts stated that TransJordan announced a fee increase from \$26 to \$28, effective January 1, 2014.

Mr. Brass stated that since two of the sites for dumping garbage have increased, it results in a 64 cent increase per household. The depreciation on new truck purchases resulted in a 44 cent increase.

WFWRD is continuing to shift trucks from diesel to natural gas, which will result in a fuel savings, as well as ecological improvement. There is a cost savings there, although, there is still diesel in the fleet.

Normal wear and tear equates to a 24 cent increase also.

WFWRD expects a \$2.80 expense increase per home, and the \$2.00 rate increase will go to offset that. The proposed increase will be \$2.00 this year, and \$2.00 next year.

Mr. Brass said it was announced in the Tribune. Expenses need to be evaluated long-term to keep the competitiveness. Everyone that works at WFWRD is aware of that.

Mr. Brass brought up the possibility of refurbishing trucks instead of purchasing new ones. Garbage trucks are expensive and he questioned if it is financially feasible to refurbish them, such as has been done with fire trucks.

At this point, the fee increase is needed to remain within the legal requirements, noted Mr. Brass.

Mr. Shaver asked if the proposal was number five on the handout. Mr. Brass replied that was correct, but reminded him that it was a vote for a one year solution. He noted that there would be a change in the resolution because the budget hasn't been formally passed.

Mr. Shaver asked if the intent was to do the \$2 increase now and then everything could be reevaluated in a years' time. Mr. Brass noted that with all things being equal, the best practices for unrestricted cash balance would be 5% of the annual budget. If nothing was done now, there would be violations in 2015.

The \$2/\$2 increase still leaves budget needs of \$2.7 million out to 2018. This is the best answer to keep WFWRD solvent until the expense issue can be worked out.

Mr. Shaver clarified that this fee increase would affect only the Murray residents that formerly were in the County and are now serviced by WFWRD. Mr. Brass said it is effectively those residents east of 9<sup>th</sup> East.

Mr. Nicponski asked about the voting procedure. Mr. Brass said that every city has to pass it. There is a public hearing scheduled at the WFWRD boardroom. Mr. Nakamura stated that not all cities have to pass it, only a majority. The County set this up and stated in the resolution that in order for a fee increase to occur, it has to be by a majority vote from the cities.

Mr. Shaver clarified that it is the cities making the decision, not the County Council. Mr. Brass noted that WFWRD has three County Council Members on the board. Mr. Brass noted that the County Council recently voted on it, similar as to the vote the Murray City Council will do. The County is just one of the governing bodies.

Mr. Nicponski clarified that the fee increase will be paid by the user. Mr. Brass stated that was correct and the user will see a \$2 increase per month on their bill this year, and possibly another \$2 next year.

Mr. Brass said this discussion is informational and the vote will take place in the Council Meeting.

Mr. Nicponski noted that he supports the refurbishing of the trucks that Mr. Brass mentioned. Mr. Brass said it is an idea that was brought up by a fireman at a budget meeting.

## **Business Item #2**

## **Enterprise Fund Reserve Accounts- Darren Stam**

Mr. Stam noted that this was a continuation of a previous discussion. All of the emergency practices and preparedness situations lead to the Enterprise Fund reserves. At the recent APPA (American Public Power Association) conference, there was a great session on disasters and how to handle them.

Most of the reserve funds average 12.5% of the budget that is put away into reserves. Last year, the State raised the City allowed reserve fund from 18% to 25%.

Mr. Stam's concern is that if there is a natural disaster; water and sewer lines would break, and most likely power would go down. Those are three key elements to help people survive the disaster. He questioned what it would take for these three services to be up and running in a disaster, without needing to go to the General Fund for assistance. The money in the General Fund would be needed for Police, Fire and Public Services.

He has asked the Enterprise Fund Managers to evaluate and determine how much money would be needed to keep them in operation. Mr. Stam added that there is helpful information in the packet that Mr. Zollinger picked up at a conference detailing operations in Colorado. Mr. Stam believes it is a great formula to follow.

Mr. Zollinger stated that the Government of Financial Officers Association (GFOA) helped Colorado Springs assess their General Fund balance. It was called an AAA approach, with the three steps being Accept, Assess and Augment.

- The City needs to accept the fact of uncertainty. There is uncertainty in revenue and other things, but it still needs attention. There could be liquidity problems, even if the City is insured so that fact needs to be accepted.
- The City should assess its potential and the potential change in revenue, economy, aging infrastructure or disaster. He noted that Mr. Haacke and Mr. Hill have both attempted to do this.

- Augmentation should be done of a fixed number. It may need to be a little higher.

Mr. Zollinger noted that this would be a good system to evaluate the Enterprise Funds and to make recommendations.

Mr. Nakamura stated that the ordinances are out of date and a couple need changes. The reserve ordinances are written that the reserves would also cover the Capital Improvement projects. The City changed to a different process with the CIP plan. For example, the Power department has projects that should be done through the Capital Improvement Plan (CIP). This is an opportunity that the City has to update some of the ordinances. The City has a risk fund insurance plan covering most of the City's property. Many of the City facilities would be covered by insurance in the case of disaster. Although, liquidity may be an issue. The CIP amounts are known, whereas the other amounts needed are not known.

Mr. Zollinger said that this study in Colorado found that 25% was a good number for reserves. That is a good starting point, he added. He noted that all of the City funds are currently above the 25% level. He added that the minimum level should be recommended but can be reduced if funds are needed elsewhere.

Mr. Hales clarified that there was not a maximum amount allowed on the Enterprise Funds reserves, only on the General Fund reserve. Mr. Zollinger noted that it is cash funds being compared in this situation.

Mr. Zollinger stated that all of the funds, including the golf course are in the position of being higher than the 25% amount. He noted that amount was still inadequate, funds still need to be built up. He does recommend flexibility, with Council approval.

Mr. Zollinger emphasized the difference between one-time expenses versus ongoing expenses and commitments. Those two expenses should not be mixed. The budget needs to be structurally balanced, otherwise it causes personnel changes, service decreases and tax rate increases.

Mr. Brass inquired about the Colorado Springs story and if the reserves proved to be enough. He mentioned that the article was written before the floods hit. Mr. Stam added that there is also a lapse in time before the funds are available. Mr. Brass noted that there are items insured and there are items that are not insured. He noted that at Operation Shakeout, with the earthquake simulations, both scenarios caused losses in revenue sources. If any part of the mall or retail establishments is lost, sales tax revenue is lost. Some of those businesses may not make it back in business at all. Mr. Shaver compared it to New Jersey and how FEMA stepped in, but everything takes so much time to rebuild.

Mr. Nicponski said first and foremost of importance would be to maintain government operations. Mr. Brass added that health safety and welfare services must be maintained. He added the importance of maintaining power, for all systems involved.

Mr. Nicponski added that the numbers needed may seem so high and unattainable. Mr. Shaver said that if the desired goal is 25%, the water fund for example has 93.65%. That would be almost enough to meet the needs for a year.

Mr. Zollinger added that it was nice to have the reserves available to fund the Winchester project that was unexpected.

Mr. Shaver noted that of the three funds: Water, Waste Water and Power all have above 25% in reserves.

Mr. Brass noted that in a Wasatch Front earthquake, if transmission lines were lost, the only generation available is in Murray Power's backyard. There is a maintenance cost to run those generators that could be depleted quickly. Mr. Shaver asked if there was a year supply of gas available. Mr. Haacke noted that there was not sufficient storage anywhere to store that amount of gas.

Mr. Zollinger referred to an article by Standard & Poor, and quoted that "a budget is balanced if recurring revenues match recurring expenses." Revenue projections can't be too optimistic, and recurring expenditures are expenses that recur year after year, including salaries, debt service pension payments, and others. It is important that reserves are not being used to pay higher wages, or long term debt service.

Mr. Stam noted that he had asked the various department heads to come and explain the reserves and the necessary amounts needed.

***Power Department- Blaine Haacke***

Mr. Haacke noted that these discussions include catastrophes that cannot be controlled. He feels comfortable with the 25% recommended reserve amount. The Power Department currently has 30% of revenue in a reserve fund.

Some items that Mr. Haacke is concerned with having to replace are:

- The Sub-Station Transformer is in the \$1.5 million range. There is some redundancy in the system that would allow power to be re-routed temporarily. He noted that several years ago, Provo City had a wind squall come in and knocked transmission lines down like toothpicks. Several neighboring cities helped to put those lines back together. In 2011 there were east winds in Bountiful that caused \$663,000 to rebuild the transmission distribution, and the total damage was around \$900,000. FEMA did cover part of the costs, but the liquidity was a problem. Mr. Stam asked if that figure included wages, or just equipment cost. Mr. Haacke replied that it was just the cost of replacing the equipment. He estimated it was around another \$1 million in costs to Bountiful City. Mr. Haacke is primarily concerned with the damage from an earthquake. He has 5,000 wooden poles, 1,100 steel poles, 45 miles of overhead transmission systems, 42 miles of overhead primary, and 36 miles of underground wires. He also has 2400 transformers and is concerned about earthquake damage to all of the above. He noted that Murray City has agreement with the UAMPS group that other cities would help in the event of a catastrophe.
- Another concern is the volatility of the wholesale market. The reserves were needed when the Enron situation occurred. The City was spending \$1,000 per megawatt compared to the average cost of \$40 per megawatt. The City quickly went through \$8-\$9 million dollars that summer season and reserves were needed. Mr. Haacke explained the City currently has the SCA (Supply Cost Adjustment) program and that could help. It was added to the utility bills about seven years ago. If the cost for production greatly exceeds the amount allowed the City can recoup some of the costs from the citizens. Mr. Shaver added that there was a cap on both ends of the cost for the citizens.

Mr. Shaver asked about cash and cash equivalents and if the poles, for example, were considered cash equivalents. Mr. Zollinger stated that cash equivalents would be the PTIF (Public Treasury Investment Fund). Poles would be considered inventory, but could be considered a cash equivalent also. Mr. Brass added that there wasn't enough material on the ground in Utah to put the system back together, if all the power systems in the Wasatch Front failed simultaneously.

Mr. Haacke mentioned the Hunter Resource, and the chance that Hunter would go down. Murray has 22 megawatts in the Hunter Power Plant. If that plant were to be destroyed, UAMPS has already allocated a rebuild fund that Murray City has contributed to. Short-term power would also be available for call back. Mr. Brass asked how quickly IPP would be available if Hunter was lost. Mr. Haacke explained that depending on the time of year, there is a three to six month wait. Mr. Shaver said the decisions being made now would help in the future if there is a need. Mr. Stam recommended a minimum amount of reserves also. Mr. Zollinger noted that there needs to be a plan to rebuild the reserves if they are needed. Mr. Zollinger stated that the minimum amount for the State General Fund is 5%. Mr. Shaver noted that every dollar allocated affects the citizens. It doesn't work to raise the rates to increase the reserve fund, he added. Mr. Haacke said a 2% to 3% rate increase equates to \$1 million in either direction.

Mr. Stam said another concern is that the citizens may not have additional money in a disaster either.

### ***Public Services- Doug Hill***

Mr. Hill mentioned that some may remember when the sewer fund had zero reserves in it. The decision for that was a choice made by the elected officials, rather than have a rate increase. It put the City in an awkward situation because eventually rates needed to be increased and caused a 125% rate increase to make up for it. He emphasized the fact that reserve funds should only be used for emergencies. Good budgeting will balance the operating budget with the revenue. He appreciates the fact that this discussion is taking place.

Mr. Hill emphasized that many of the things discussed would be items covered by insurance. Mr. Nakamura has reviewed the insurance policies and many of the disasters would be covered by insurance. Obviously, there may be bridge money needed. There are also Federal FEMA funds available over time.

Mr. Hill noted that he likes the 25% figure that Mr. Zollinger recommended. He agreed that some of the ordinances are out of date and likes the fact that 25% seems like a realistic number. He believes that 25% would be sufficient to cover any anticipated emergency and allow to City to recover.

He also believes the worst disaster would be the earthquake, and the severity and damage from that is unknown. He would like to plan for a more realistic emergency. In the Water Fund, that could be a damaged or corroded water tank, or a collapsed well. A sustained drought could shut down the wells, and require water to be purchased. Those are all realistic emergencies that would require a substantial amount of money. He believes that \$3 million in reserves would cover any of the mentioned emergencies.

He believes that the 25% recommended reserve would cover any emergencies in any of the funds.

Mr. Nicponski asked if the definition of drought is so many days without water. Mr. Hill said it could be a sustained period of time, including years. In the late 1990's, the State went through about a six year period of drought. The water levels in the wells dropped, but the City never ran out of water.

The Golf Course could run out of water in a short period of time. He is aware that the Golf Course is not an essential service. If the Golf Course lost its source of water, then water would have to be purchased from the City, and that is ground water, not well water.

Mr. Hill said the City has 18 wells. Mr. Brass noted the Canal breach and the multiple flood events from run-off. Mr. Brass mentioned the flooding in Santa Clara and the house that went in the river was not in the flood plain of the river. The falling boulders changed the course of the river. The flood caused infrastructure damage also. Mr. Hill said that flooding would primarily affect the General Fund.

Mr. Stam stated that the ordinances should be rewritten to require a 25% minimum reserve fund, and a plan to rebuild it. Mr. Zollinger agreed that if the money is needed for a one-time event, a plan to rebuild needs to be in place.

Mr. Hales thanked those for their comments.

### **Announcements**

Ms. Lopez noted that there would no RDA, or Committee of the Whole the following week. The Council Meeting should be brief, followed by a retirement party for Mr. Stam and Mr. Shaver.

Mr. Hales adjourned the meeting.

Kellie Challburg  
Council Office Administrator II