

MINUTES OF THE FINANCE COMMITTEE
November 26, 2018
Auditorium

Present: Councilmembers Bullock, George, Litten, O’Leary, O’Malley, Rader

Also Present: Lou McMahon, legal advisor; Joe Crea of Raftelis, Finance Director Pae, Assistant Finance Director Shuster, Mayor Summers, Budget Manager Jessica Eddy

Call to Order: 7:12 p.m.

Water & Sewer Discussion of Rates and Capital Budget

Mr. Crea of Raftelis delivered a presentation to Council explaining the financial forecast justifying the proposed sewer and water rate increases

He explained that the goal of the forecast is to integrate operation of the water/sewer system with infrastructure investments, maintaining compliance with regulators all while maintaining a strong financial position for the City.

He highlighted that the water and sewer system is an enterprise fund funded exclusively through user rates, fees, and charges.

In presenting the financial forecast/plan, Mr. Crea highlighted the following guiding financial policies it contains:

- Exceed debt service coverage ratios requirements
- Maintain operating & capital reserves
- Maintain credit ratings
- Balanced capital financing
- Customer affordability

Mr. Crea and Director Pae discussed the downward trend in water consumption. Water consumption has decreased 38% over the last 20 years with an average 2.3% reduction per year. This is a common industry trend due to new low flow fixtures and greater awareness of water conservation. This presents a challenge because water is billed based on consumption but operating costs of the water system remain constant or are increasing.

Mr. Crea reviewed the anticipated 2019 capital improvements needed for the water system including an \$8 million watermain replacement project on Lake Ave. and Lakewood Height Blvd. Additional detail about this and other projects was discussed among councilmembers including financing.

Mr. Crea reviewed the anticipated 2019 capital improvements needed for the sewer system including the high-rate treatment plant construction, manhole rehabilitation, and digester and code upgrades. A breakdown of costs were provided.

Mr. Crea reviewed the anticipated capital improvement projects and costs for water and sewer from 2020-2023. About \$2.3 million annually is anticipated for the water system and \$12 million annually anticipated for the sewer system. Details of these projects were provided. These are all projects that the City has committed to doing in discussions with the EPA.

The Committee discussed affordability aspects of the financial forecast for individual households.

Mr. Crea reviewed and discussed the assumptions included in the financial forecast.

2019-2023 Rate Recommendations

Mr. Crea presented the proposed water and sewer rates for the next five years. Together the rate increases result in a 7.7% increase to residents monthly water bills each year.

Water rates are recommended to increase 5.5% in order to offset the reduction in consumption, reinvest in water mains, account for the cost of living and in anticipation of increases in Cleveland water prices.

The aforementioned capital projects are driving the recommended 10% increase in sewer rates.

Mr. Crea presented information showing the historical trends in Lakewood's water and sewer rates since 2010. He presented information about water and sewer rates in other communities. Lakewood falls in the middle. He pointed to other communities which have approved future rate increases. Additional discussion was held about the water and sewer rates in neighboring communities. It was noted that even with the proposed increases, Lakewood is expected to stay in the middle.

In response to a question by Council, Mayor Summers discussed why this is the first year that the City is proposing a five-year rate increase. In the past the City has only ever approved rates one year at a time. This year is the culmination of several years of planning and so the City is able to better know its commitments and their costs. Mayor Summers also stressed the importance of making a statement to the EPA regulators that the City has the commitment, will and discipline to regulate itself in this realm.

Director Pae provided historical perspective. She explained that for a 15 year period up until 2006, water and sewer rates had to be approved by voters before they could be increased. This resulted in a severe lack of investment in the infrastructure. That portion of the Charter was amended and the City began working with the EPA on a year by year basis to play catch up.

It was stressed that raising the water and sewer rates for five years now does not preclude Council from amending them any time during the next 5 years. Additional refinements to the financial plan will continue even if Council approves the increases. Additional community input will be gathered at upcoming community meetings.

In response to a Councilmember question, Mr. Crea stated that the rate increases are subject to the will of Council but that the City has developed these recommendations after many years of study and engineering and is asking for approval in order to send the right message to the EPA. Mr. McMahon added that predictable increases are preferable to a sudden drastic increase that could be mandated by the EPA if the City is ordered into a consent decree. It was mentioned that under a consent decree the EPA can order the City to pay for needed repairs by any means necessary, above and beyond raising rates.

In response to a Councilmember question, the administration briefly explained the homestead exemption and promised to provide additional information via email.

Councilmember George expressed concern about the affordability of rate increases for low and medium income rents. She expressed greater comfort approving 2-3 years of increases rather than 5.

Mr. McMahon and Mayor Summers remarked further on why they believe EPA would look favorably on a 5 year rate plan that has been vetted by the community and Council. Part of the goal is to tie the plan to the 5-year NDPES permit system.

Director Pae made the point that the rates are directly tied to the known expenses that have already been committed to.

The Committee discussed the potential risks to the City for failure to approve rate increases.

The Committee discussed the policies and enforcement behavior of the regulatory agencies and their different regional divisions and how they may have changed over time.

The Committee discussed how rate increases will affect renters and how landlords may or may not pass down these costs.

It was noted that the numbers provided for monthly increases are based on the average water usage of 6 ccf/month. Fifty percent of households consume less water than this. Mr. Crea presented information about monthly water usage.

While acknowledging the affordability concerns, Councilmember O'Leary expressed support for the rate increases noting that they are directly tied to known expenses and that we are duty bound to fund our commitments.

Councilmember Bullock made final thoughts and observation including proposing an affordability hearing on all aspects on living in Lakewood including water and sewer rates.

Finance Committee adjourned at 8:40 p.m.