

Finance Committee

Meeting Minutes

Meeting Information

Date: June 14, 2022

Time: 6:00 P.M.

Location: 31 Wakefield Street

Committee members present: Mayor Callaghan, Deputy Mayor Lachapelle, Councilor Beaudoin, Councilor Gray, Councilor Hainey, Councilor Larochelle, and Councilor Hamann.

City staff present: Deputy City Manager Katie Ambrose, Deputy Finance Director Mark Sullivan. CIO, Sonja Gonzalez. Director of City Services, Peter Nourse

Others present: Tom Kaczynski, resident. Susan Rice, resident. Ray Barnett, resident. Joe Boudreau, Utility Advisory Board. Shawn Libby, Utility Advisory Board.

Agenda & Minutes

1. Call to Order

Mayor Callaghan called the Finance Committee meeting to order at 6:00 PM. Deputy City Clerk Cassie Givara took a silent roll call attendance. All Committee members were present.

2. Acceptance of Minutes: May 10, 2022

Councilor Lachapelle **MOVED** to **ACCEPT** the May 10, 2022 Finance Committee meeting minutes as amended based on the minor revision to the minutes in the packet which the Deputy City Clerk had distributed to the Committee. Councilor Hamann seconded the motion. The **MOTION CARRIED** by a unanimous voice vote.

3. Public Input

Tom Kaczynski, resident, addressed the Committee in regards to the potential amendment to the Granite Ridge TIF district to allow residential development.

Susan Rice, resident, spoke to the Committee regarding the Granite Ridge TIF district amendment and proposed further budget reductions.

Ray Barnett, resident, addressed the Committee regarding the elderly tax exemption and the comparison between Rochester and other communities. He also spoke about the veteran's,

disabled, and blind exemptions.

4. Unfinished Business:

No Discussion.

5. New Business-

5.1.1 Dispatch Software Upgrade Project

Sonja Gonzalez, City of Rochester CIO, explained that this is a joint project between IT, the Police Department Communications, and the Fire Department that was funded as CIP in FY22. She stated they are looking to use CSI technologies as a sole source vendor for this software; this is due to multiple other local agencies using this same software, which would allow Rochester to collaborate with these other entities, do cross agency checks, and support mutual aid for the Fire Department.

Finance Director Ambrose clarified that this allocation would need a recommendation from the Finance Committee, but would not need to be sent to full Council for approval. Councilor Lachapelle **MOVED to APPROVE** the dispatch software upgrade project. Councilor Hamann seconded the motion. The **MOTION CARRIED** by a unanimous voice vote.

5.1.2 Water System Development Fee

5.1.3 Sewer System Development Fee

Peter Nourse, Director of City Services, reported that the City of Rochester has had a reserve capacity assessment for sewer since 1995, which equates to \$2 per gallon and is assessed for all new development. This assessment has remained the same since at least 2004 and possibly all the way back to its inception in 1995. Director Nourse indicated that the City wanted to reevaluate the sewer assessment fee as well as looking into the concept of establishing a similar fee for water service, which the City has not previously done. He stated that the purpose of the system development fee is for new development to pay into a system that has been maintained and funded by ratepayers in the long term. Director Nourse reported that there are over \$20 million dollars in water capital improvements needed within the upcoming five years, and while user rates and external funding sources such as grants can be utilized for these improvements, having these system development fees would help offset these costs.

Mark Sullivan, Deputy Finance Director, gave an overview of the calculation on the draft model distributed to the committee; based on the asset base of each fund (water and sewer). He explained that the draft sample contained is a model based on Dover's system and that this is developed using net numbers of the assets pending to be depreciated along with the capacity of the plant. He gave further detail on the model that Rochester is proposing. The funds generated should go to a reserve account, so when there is a need to draw from said funds, it would mitigate

impact to user rates. Deputy Director Sullivan said the sewer development fee has been collected since the early 2000s and averages between \$30,000-\$50,000 per year. However, this money has been placed directly into the operating account where it is not allowed to accumulate or gain interest. He explained that it would be more beneficial to have this money placed into an account where it can accumulate so the funds can be drawn as needed for larger projects and upgrades.

Deputy Director Sullivan suggested taking some of the funds that have already been collected from the sewer and evaluating the sewer fund's retained earnings to potentially use that balance as a starting point for the new fund. The money in said fund can then take the pressure off user rates for upgrades and improvements.

Councilor Lachapelle asked if the money coming in from the sewer is being used as a revenue source. Mr. Sullivan confirmed that it is a revenue source. Councilor Lachapelle stated that this money should be placed in a special reserve fund to collect over time and used as capital towards bond issues for future upgrades.

Councilor Hailey asked for clarification on what is considered a "development" and how this fee is assessed. Mr. Sullivan answered that this fee is for any new construction in the City that will connect to City sewer/water. He also briefly explained the process to collect this fee that takes place through the Department of Public Works and Building and Licensing Services. Director Nourse reported that currently, for a single-family, three-bedroom home, the fee assessed would be \$450, which is based on a table published by DES.

Councilor Gray stated that this development fee sounds similar to an impact fee. He cautioned that such a fee could be prohibitive to those building low-income housing and stated that he was not in favor of fees that could make it more difficult for residents to obtain housing. He said that he was not prepared to make a decision on the prospect until further review was conducted. Councilor Lachapelle reminded the Committee that the fee is already being collected on the sewer side. He also emphasized the impending EPA requirements and DES regulations to which the City will need to comply; assessing this fee will help in covering the cost for these required improvements.

Finance Director Ambrose stated that, moving forward, the establishment of the system development fee in the water fund would need to be recommended to full Council as well as a recommendation on the revision of the current structure/fee on the sewer side. Full Council would then refer the matter to the Codes and Ordinances Committee for the ordinance revision and the development of a new water ordinance. She stated that if the Committee was not yet prepared to recommend the item to full Council, it could be brought back at the next Finance Committee meeting for further discussion.

Councilor Hailey stated that it would be helpful to have an accounting of the number of new developments each year that would be subject to this fee, the amount which could be collected if the fee were assessed, and how the water and sewer rates would be affected. Mr. Sullivan stated that he would provide this information.

Councilor Lachapelle **MOVED** to recommend the establishment of the system development fee in the water fund and the revision of the current sewer system fee to full Council. Councilor Hamann seconded the motion. Councilor Beaudoin felt that the decision warranted further discussion; he said that this development fee is essentially an impact fee and the imposition of a new water fee would be doubling the “impact fee” already established for sewer. He recommended tabling the motion. Councilor Gray cautioned against the assessment of water development fees on top of already existing construction fees to connect into the City resources, as well as the sewer fees. Councilor Lachapelle stated that the sewer development fees are already within the City ordinances. Councilor Gray acknowledged that the sewer fee is collected by ordinance, but this proposal would more than double the fee from \$2.00 to \$4.33. The **MOTION CARRIED** by a 4 to 3 roll call vote with Councilors Hainey, Lachapelle, Hamann, and Laroche voting in favor and Councilors Beaudoin, Gray, and Mayor Callaghan voting opposed.

5.1.4 Water-Sewer User Rates Review

Deputy Finance Director Sullivan reported that he had gone to the Utility Advisory Board (UAB) to perform a review of their user rates. These fees had last been updated almost three years ago (although the last update did not go into effect until January of 2021 due to COVID).

Joe Boudreau, UAB member, gave an overview of the UAB and their role in the City, and detailed the history of water and sewer user rates from FY10 through the present. Mr. Boudreau explained the incremental increase in rates to take place over the course of three years, which had been proposed by the UAB in 2019. Due in large part to COVID, only one of these increases was carried out, so currently the water rate is substantially below this original proposal. Due to the absence of increases over the past several years, the City is looking at larger increases rather than gradual increases over time. Additionally, the projected revenues were far below what was anticipated due to this lack of rate increases. However, costs continued to rise, resulting in a deficit.

Mr. Boudreau stated that although sewer usage has remained consistent, the rate increases have been even more sporadic than on the water side, ranging from one year to 60-months between increases. Rates have increased a total of \$1.48 since FY10. He reported that if the rates had been increased an average of 5% annually, the current rate would be \$10.68 (current = \$7.43). He further explained what the current rates would be with average usage taken into consideration, had the rates been increased on a regular basis. Mr. Boudreau stated that due to the lack of regular annual increases as suggested in the 2019 UAB presentation, the current rate is now at the level of the proposed 2020 rate. He stated that this would necessitate larger increases in billing statements as opposed to small, gradual increases.

Mr. Boudreau presented a proposed Water rate increase schedule, with an initial increase of 10% and subsequent rate increases of 5% annually in order to rectify the O&M deficit and to build the surplus back to the proposed levels of the 2019 presentation. He presented a similar rate increase schedule for the sewer side, with proposed increases of 10% annually through FY 2026.

Mr. Boudreau summarized the issues being faced due to the lack of rate increases and other factors that could exacerbate the problem in the upcoming years.

Councilor Lachapelle asked if it was possible to reduce the water rate increase in the first year from the proposed 10% to around 7% and increase the subsequent years from 5% to 6% in order to make the increases more gradual, but to achieve the same result in reducing the deficit and building a surplus. Deputy Finance Director Sullivan explained the importance of having a surplus in order to fund cash CIP projects and avoid bonding projects. He explained that the rates could be increased in the manner suggested by Councilor Lachapelle, but there would have to be other adjustments made.

Councilor Lachapelle **MOVED** to recommend the rate schedule as proposed by the UAB to full Council. Councilor Hamann seconded the motion. Councilor Hamann stated that in his years on the Council, this discussion has been delayed multiple times, and he emphasized the need for action instead of further delays which will make things more difficult in the future. He stated that inflation affects not only the residents, but the City's costs as well, and with increasing government regulations and requirements related to water systems and nitrogen limits, it is causing the City's costs to increase. Councilor Beaudoin agreed that it was unfortunate that prior Councils had not taken action on these rates because it was putting the City in a position where it would need to raise rates by 10%, which would be a hard hit for many residents. He said that unless there were cuts in other areas of this budget, this rate increase would be an unfortunate reality. Councilor Gray stated that unless this discussion were sent to a committee such as Public Works for further discussion and scrutiny, there would not be opportunity to explore other options or alternatives for cost reduction; at the Council level, the discussion will simply receive an up or down vote. Councilor Lachapelle stated that he felt the Utility Advisory Board did exactly what Councilor Gray was suggesting and had already done the calculations and explored the alternatives. The **MOTION CARRIED** by a 5 to 2 roll call vote with Councilors Lachapelle, Larochelle, Hamann, Hainey, and Mayor Callaghan voting in favor and Councilors Gray and Beaudoin voting opposed.

5.1.5 Assessing Memo Property Tax Exemptions

Finance Director Ambrose reported that the Chief Assessor had supplied a memo in the packet that gave an analysis of Rochester's exemptions and credits versus those of surrounding communities. Mayor Callaghan asked how many more residents would qualify if the income/asset limitation was increased from \$50,000 to \$55,000. Deputy Finance Director Sullivan stated that this information would need to come from the Assessing Department based on the prior years' applications. Councilor Lachapelle suggested the Committee submit their questions to the Chief Assessor ahead of the next Finance meeting so he would have opportunity to review and provide the relevant data. Mayor Callaghan requested that Committee members email questions for the Chief Assessor to Director Ambrose in anticipation of the next meeting. Councilor Gray spoke about the difficulty in determining numbers of those eligible and the numbers of residents who might apply due to the multiple factors, such as the unknown numbers of those arriving at the age of eligibility and those residents' income and whether they meet the limitations.

Mayor Callaghan referenced the passage of HB 1667, which will go into effect July 26, 2022, to expand the qualification for veterans. He suggested that this information be posted on the City website to inform residents. Councilor Gray clarified that even if this bill was adopted, there would still be Council action needed at the City level to enact the new verbiage and criteria.

Reports from Finance & Administration

5.2.1 Monthly Financial Report Summary-May 31, 2022

Deputy Finance Director Sullivan stated that revenues continue to trend strong, with expenses and enterprise funds trending to budget. Police and Fire Department overtime continue to trend over budget. Mr. Sullivan reported that there are no concerns on the General Fund revenue side.

6. Other

No discussion.

7. Adjournment

Mayor Callaghan **ADJOURNED** the Finance Committee meeting at 7:10 PM.

Respectfully Submitted,

Cassie Givara
Deputy City Clerk