

CITY COUNCIL STUDY SESSION

TO: Mayor and City Council
FROM: Mari E. Macomber, City Manager
SESSION DATE: December 2, 2013
TIME: 4:30 pm
PLACE: Second Floor Conference Room

AGENDA:

- AIRPORT FUEL POLICY
- MODOT DISTRICT ENGINEER MEETING
- WASTEWATER TREATMENT PLANT UPDATE
- UTILITY RATE REVIEW
- REVIEW CITY COUNCIL NEWSLETTER
- REVIEW CITY COUNCIL AGENDA

AIRPORT FUEL POLICY

Glenn Balliew has been tasked with identifying ways that we can improve upon the revenues received for services at the airport. The most significant revenue source for the airport is the sale of fuel. Council Policy 15 outlines what the Airport Director can do in terms of setting the price on the fuel that is sold. Mr. Balliew and I have reviewed this policy and wish to visit with the Council about a few changes that will give him the flexibility to adjust rates that will keep our fuel prices competitive but allow for the capture of more funds if possible.

At present, our policy allows for a mark-up of \$.75 for 100 and \$.85 for jet fuel per gallon and then gives a \$.25 discount for fuel during Oshkosh. We are seeking more flexibility to allow the Airport Director to increase the mark-up if the market warrants beyond the \$.75 and \$.70, along with the same on the discount allowing up to \$.25 instead of the automatic \$.25 regardless of the amount of fuel purchased.

There are a few other housekeeping changes that will be reviewed on Monday.

MODOT DISTRICT ENGINEER MEETING

In June 2011, the Missouri Highway and Transportation Commission voted to approve significant changes to the Missouri Department of Transportation operations. The plan that was adopted was called Bolder Five Year Direction. One of the components of the Plan was to downsize MoDOT's operations.

This meant a consolidation of district offices. Our district office had been in Macon, but this was one of three offices closed as a part of the Bolder Five Year Direction. This meant that our district office would be located in Hannibal, Missouri.

Since the implementation of this plan, we have worked more closely with our area engineer, Amy Crawford, and have had less direct contact with the District office. Maintaining good relations and staying abreast of what is going on in the area of transportation is important to the success of our community.

It has been over two years since the City Council met with our District Engineer, Paula Gough. Ms. Gough, along with Assistant District Engineer Kevin James and our Area Engineer Amy Crawford will be in attendance on Monday to visit with the Council about the future of MoDOT and the plans for our area.

Another item that would be good for the Council to understand is how and where the STP-Urban funds are determined and their possible use. We were able to use some of these funds to fund the balance of the Franklin Street Phase 2 project. One of the things that we can discuss with MoDOT is what the role of the City of Kirksville might be in pursuing the expansion of Highway 63 north to Iowa, now that the Transportation Corporation has dissolved.

WASTEWATER TREATMENT PLANT UPDATE

The City's wastewater treatment plant operating permit expired in 2011 and we have been working with DNR and HDR our consultant to come up with a plan to insure compliance with new state and federal standards. Last December, the City Council met with representatives from HDR to review the completed Wastewater Treatment Plant Facility Plan. Based on that presentation the Council gave direction to HDR to proceed.

The plant improvements have three major segments: Headworks and flow control, biological treatment, and solids handling. The bar screen, which is part of the headworks was authorized by the Council to proceed this year after it failed meeting expected limits to handle 12 million gallons per day (MGD) to allow for future growth in the community. The plant improvements include a major change in solids (sludge) handling. The closed digesters would be converted from anaerobic process to open aerobic digesters.

Since that meeting, HDR has been working on completing the facility design and working through requirements of the Department of Natural Resources. It was expected that we would be through DNR's review by the end of this year. On Monday the Council will be given an update on where we are with the plant design, permitting and future schedule for construction. Along with this HDR will update the Council on the rate increases necessary to cover the costs of these improvements, still estimated at around \$18 million.

The City of Kirksville's wastewater treatment plant was constructed in 1976, and was last upgraded in 1986. The plant utilizes Rotating Biological Contactors supplemented with a pack tower for secondary treatment. The plant was originally designed to treat 5 MGD, but has been de-rated by the Missouri Department of Natural Resources to its current permitted treatment capacity of 3.16 MGD. The Plant currently has a second, wet-weather outfall which is not permitted under Department of Natural Resources

rules. In order to permit future residential and industrial growth in Kirksville, the treatment facility's capacity must be increased.

UTILITY RATE REVIEW

In 2007, the City Council determined the need to evaluate utility rates on an annual basis. This was decided based on the City's previous past practice of not increasing the rates to cover costs and using other funds to subsidize the utility fund. For financial purposes, utility services are considered enterprise operations. This means that the cost of doing business should be covered by the fees for service.

Prior to this time, the City had not raised rates sufficiently to cover costs, and used funds from the Capital Improvement Sales tax to pay for capital projects that were needed. In an attempt to begin addressing the rate structure, the City implemented a five-year rate structure beginning in 2003, with the idea that there would be no additional review until the end of this five-year period.

The Council, in 2007, could see that this approach was still not acceptable. It developed arbitrary rates based on old data.

Now a required annual process, the City Council reviews the user charge system for utilities on an annual basis (Sec. 25-60.4 of the Municipal Code). This review is normally done at the same time as the annual budget preparation and review.

In order to participate in the State Revolving Loan Fund (SRF) the user charges must be set at a level which will:

- a. Pay the costs of the operation and maintenance of the systems.
- b. Pay the principal and interest on the SRF bonds as they become due
- c. Ensure that net operating revenues are equal to or greater than 110% of the annual debt service,
- d. Provide sufficient reserves to pay debt service and to ensure protection and integrity of the systems.

In 2008 both water and sewer user charges were divided into two components, a fixed service availability fee and a volume charge based on the amount of water used. In 2010 the monthly service availability fee was increased to meet required revenue. In 2011 the volume charge was increased by approximately 10% resulting in the current rate structure.

The current rates for both water and sewer are as follows:

Water:

Service Availability Fee:	\$8.50 per month
Tier 1 Volume fee:	\$2.85/hundred cubic feet (ccf)
Tier 2	\$2.50/ccf
Tier 3	\$2.31/ccf
Special Industrial	\$0.6595/ccf for use over 400,000 cf/month

Sewer:

Service Availability Fee:	\$8.50/Month
Volume fee	\$3.08/ccf

HDR will be reviewing the sewer rates with the Council, and John Buckwalter, consultant will complete the water rate review.

The City Council will be hosting a public hearing on the proposed rates for the utility operations on January with the expectation that the new rates will go into effect with the bill that is sent out at the end of February.

REVIEW COUNCIL NEWSLETTER – November 27, 2013

REVIEW COUNCIL AGENDA

Attachments

- Airport Fuel Policy Staff Report
- Airport Fuel Council Policy
- Water Rate Evaluation
- Utility Rate History

KIRKSVILLE CITY COUNCIL STUDY SESSION ATTACHMENT

STUDY SESSION MEETING DATE: 2 December 2013

CITY DEPARTMENT: Airport

PREPARED BY: Glenn Balliew, Airport Manager

SUBJECT: Airport Billing and Collection

The current city policy #15 outlines the various fuel price markups and volume fuel sales at the Kirksville Regional Airport. This policy firmly sets prices with no flexibility for the Airport Director to increase revenues while still staying competitive or below regional pricing.

The last Av Gas 100LL shipment of 8544 gallons delivered on 11/15/2013 dropped \$.23 Cents per gallon. The Kirksville Airport price at delivery was **\$5.21**, well below the Central Region average of \$5.97. Other airport prices are as follows: Columbia \$5.95, Quincy \$6.07, Ottumwa \$6.29, St. Louis \$8.44, Kansas City \$7.84 and Macon \$5.24.

The last Jet-A shipment of 7234 gallons delivered on 11/23/2013 dropped \$.30 cents per gallon. Current Kirksville airport price is **4.68** per gallon. Well below the Central Region average of \$5.38. Other airport prices are as follows: Columbia \$5.20, Quincy \$5.19, Ottumwa \$5.94, St. Louis \$8.71 and Kansas City \$8.18.

If Kirksville Regional Airport was able to remain at \$5.21 for Av Gas the additional revenues would equate to 8544 (gallons) X \$.23 = \$1965.00 for this shipment. If able to remain at \$4.68 per gallon for Jet-A it equates to 7238 gallons X \$.30 = \$2171.00 for this shipment. Added together it equals to over \$4000.00. This profit margin would not always remain the same and market prices would be constantly monitored to remain at or below local/regional prices. With some flexibility profit margins could increase significantly while closely monitoring and keeping volume sales steady. Kirksville Regional Airport receives approximately 24-26 shipments of Av Gas and 12-14 shipments of Jet-A annually.

Requested Changes to City Policy #15:

- **II. Pricing**

Add the following language "Minimum pump price markups for fuel at Kirksville Regional Airport shall be established below. The Airport Director has the authority to adjust pricing beyond the mark ups established. Additional mark ups must be competitive with regional and local markets and will be monitored closely as to not affect volume sales." (Keep the minimum \$.75 and \$.85 markup language in the policy.)

- Remove the Self-Service pricing language.

- **IV. Special Event Discounts**

Change “discount all fuels \$.25 per gallon” to “discount all fuels up to \$.25 per gallon”

- **Section 1 and Section 2**

In both sections change language for IRK EAS Provider to read “minus \$.50” instead of “cost plus \$. 25” This change will keep all sections consistent.

AIRPORT BILLING & COLLECTION

It is the policy of the City of Kirksville to make available for sale, aviation fuels and oil at the Kirksville Regional Airport. Such fuels and oil shall be sold at a reasonable markup to provide for a portion of the operations costs with incentive for volume sales at the Kirksville Regional Airport. This Airport Billing and Collection Policy outlines the various fuel price markups and volume fuel price discounts at the Kirksville Regional Airport.

I. BILLING AND COLLECTIONS

Invoices shall be issued to all charge customers with approved credit by the 5th of each month. Payment in full is due by the 20th of each month. City charge customers are subject to approval by the Airport Director and are allowed to charge fuel on a monthly basis only.

If payment has not been received by the 20th of the month, discounted fuel will be adjusted to reflect posted retail price, plus a \$.10 surcharge per gallon, which will be reflected on the next monthly billing statement.

All accounts that are unpaid by the 30th of the month will be assessed an interest charge of 1.5% per month (18% per year).

The City will accept a variety of credit cards. Acceptable credit cards will include, but not be limited to Mastercard, Visa, Multi-Service, Discover, Phillips 66 and American Express.

II. PRICING

Pump price for fuel at the Kirksville Regional Airport shall be established as follows:

100LL (Avgas) - Full Service

100 LL will be marked up \$.75 cents per gallon over the price per gallon charged to the City of Kirksville by the bulk fuel provider.

100 LL (Avgas) - Self Service

100LL from the Self Service pump shall be marked up \$.70 cents per gallon over the price per gallon charged to the City of Kirksville by the bulk fuel provider.

Jet A - Full Service

Jet A will be marked up \$.85 cents per gallon over the price per gallon charged to the City of Kirksville by the bulk fuel provider.

III. FUEL DISCOUNTS

Discounts shall be allowed for large volume users as follows:

DISCOUNTS. Appendix A of this policy defines the fuel discount structure for Kirksville Regional Airport. The discounts shall apply to purchase of fuel from the Kirksville Regional Airport.

Jet A. The discount structure shown in Appendix A shall apply to all JET A fuel sales as a reduction off of the then current standard retail posted price prior to the application of State sales taxes.

100LL. The discount structure shown in Appendix B shall apply to all 100LL fuel sales as a reduction off of the then current standard retail posted price prior to the application of State sales tax.

Based Customers. Based customer is defined for purpose of this policy as those aircraft legally stored in hangers and tie-downs of the Kirksville Regional Airport or its tenants, paying legal tenants of licensed FBO's, and aircraft owned and/or operated by licensed FBO's located on the Kirksville Regional Airport.

Angel Flight Customers. Angel Flight customer is defined for the purpose of this chapter as those customers providing benevolent, not for profit medical transportation.

Discount prices will be determined on an annual basis before the start of each fiscal year. Volume is determined using the customer's past 12-month usage at the Kirksville Regional Airport.

New high volume users may be considered for the above described discount prices by providing documentation that large volumes of fuel will be required for their operation(s) which will be based at the Kirksville Regional Airport.

KIRKSVILLE REGIONAL AIRPORT EAS PROVIDER

Discount prices for any commercial air carrier will be per Appendix A or B

IV. SPECIAL EVENT DISCOUNTS

During the week of the Oshkosh Fly-In, the Airport Director shall have the authorization to discount all fuels \$.25 per gallon from the current pump price.

During the Kirksville Regional Air Festival, the Airport Director shall have the authorization and discretion to provide fuel at cost to the performers, ride giving aircraft, skydiving aircraft, or any associated operation for the benefit of the Kirksville Regional Air Festival.

1/1/2010

Water Rate Evaluation, for 2014 Budget year

I have done a preliminary review of the Water Fund requirements for 2014 as well as a projection thru 2019 in order to prepare a rate schedule for discussion with Council. This analysis looks at the water fund, and must be considered in conjunction with a parallel study of the wastewater rates being prepared by HDR before conclusions on the overall fund balance can be made.

The first step taken was to determine the number of services: Past budgets have listed the number of services as 7200. This is not an accurate number for estimating purposes. The total number of services in the City is currently estimated as 7480, based on Schneider Electric/Pedal Valve count of 256 meters already in place and 7225 meters installed in 2013. The number of active meters is much smaller, and is the number which should be used for billing and revenue estimates. In 2013 the number of meters active in any given billing period (month) ranged from 6538 to 6946 with the average being 6760. For budget revenue estimates I recommend using 6800.

Determine water billed: The amount of water billed for the past 10 years ranged from 726,984,671 gallons to 873,462,377 per year, with the average over the 10 years from 2004-2013 estimated to be 794,092,196 gallons. A conservative estimate for budget purposes would be 800,000,000 million gallons/year. The production rate has ranged from 846,780,000 to 1,135,512,075 with an average of 963,454,726. In 2013 the projection is 9254,952,537, or 925,000,000 for estimating purposes. If we assume that water production in 2014 is equal to production in 2013, but water loss is reduced by 25% due to the meter replacement, then the estimated water sold in 2014 will be 820,000,000 gallons, or 1,096,250 ccf.

Estimate Revenues: Revenues could be estimated as:

Fixed fee: $\$8.50/\text{mo} * 12 \text{ mo} * 6800 \text{ active meters} = \$693,600.$

Revenue from volume charges would be equal to the volume multiplied by the weighted average of the user fees. With the 2013 fee structure of \$2.85 for tier I, the weighted average was calculated to be \$2.47/ccf

$1,096,250 * \$2.47 = \$2,707,738.$

Estimated revenue from water sales would be: \$3,401,338

Other revenue from budget working documents includes:

Rental Income (communication assets on towers)	\$146,960
Investment income	\$135,407
Other income (penalty fee, misc fee, tap fees, etc)	\$154,575

Total Revenue, without transfers from Capital or other funds: \$3,838,280.

Expenses in 2014 from the proposed budget total \$4,069,942.

Shortfall with no rate increase: \$231,662

It is recommended that in 2014 the volume fee be increased by 10%:

Impact of increase in volume fee by 10%

Weighted average \$2.47/ccf * .1 = \$.247/ccf or weighted average=\$2.72

1,096,250 *\$ 2.72 = \$2,981,800 for volume charges

Fixed fee unchanged = \$693,600

Total Estimated Revenue \$4,112,072

The net impact on the fund would be a surplus of \$42,130.

John R. Buckwalter, PE

City of Kirksville Rate History							
Year	Water Fixed	Minimum	Water by Tier			Sewer Fixed	Sewer
	Rate	Billing	1	2	3	Rate	
	per month	cf	per ccf			per month	per ccf
1983	none	300	\$1.83	\$1.54	\$1.28	none	\$0.40
1989	none	300	\$1.83	\$1.54	\$1.28	none	\$1.30
1993	none	300	\$1.83	\$1.54	\$1.28	none	\$1.30
1997	none	300	\$1.83	\$1.54	\$1.28	none	\$1.63
1998	none	300	\$1.83	\$1.54	\$1.28	none	\$1.79
2003	none	300	\$1.83	\$1.54	\$1.28	none	\$1.98
2004	none	300	\$1.99	\$1.70	\$1.43	none	\$2.11
2005	none	300	\$2.10	\$1.81	\$1.54	none	\$2.24
2006	none	300	\$2.21	\$1.92	\$1.65	none	\$2.37
2007	none	300	\$2.32	\$2.03	\$1.76	none	\$2.50
2008	\$5.00	100	\$2.32	\$2.03	\$1.87	\$5.00	\$2.50
2009	\$5.00	100	\$2.32	\$2.03	\$1.87	\$5.00	\$2.50
2010	\$7.50	100	\$2.32	\$2.03	\$1.87	\$7.50	\$2.50
2011	\$7.50	200	\$2.55	\$2.23	\$2.06	\$7.50	\$2.75
2012	\$8.50	200	\$2.85	\$2.50	\$2.31	\$8.50	\$3.08
2013	\$8.50	200	\$2.85	\$2.50	\$2.31	\$8.50	\$3.08
Minimum billing applies to both water and sewer for customers with both services.							
Tier structure does not apply to sewer billing.							
Water rates did not change from 1982 until 2003.							
Sewer rates did not change from 1989 until 1997							