

CITY COUNCIL STUDY SESSION

TO: Mayor and City Council

FROM: Mari E. Macomber, City Manager

SESSION DATE: October 10, 2016

TIME: 4:00 pm

PLACE: WWTP followed by Airport

AGENDA:

- **TOUR WWTP**
- **TOUR AIPORT**
- **UTILITY RATE REVIEW**
- **INSURANCE REVIEW**
- **REVIEW CITY COUNCIL AGENDA**
- **REVIEW NEWSLETTERS**

On Monday, we will be traveling to the Wastewater Treatment Plant to tour the work that has been completed thus far and then travel to the Airport to get an update on the work completed to date on the apron. After that, we will stay at the Airport so the Council may receive two reports on proposed Utility Rates and overview of the City's insurances.

UTILITY RATE REVIEW

It is the responsibility of the City to review the rates charged for water and sewer, and a requirement as outlined by City Ordinance. When the Council hired HDR as its engineering firm to work toward the construction of a new wastewater treatment plant, it became HDR's responsibility to evaluate the costs of operations to treat the waste, recommend the necessary rate structure and meet Department of Natural Resources requirements. HDR established a seven year rate structure to insure we had sufficient funds to repay the \$18 million bonds. 2017 should be year four of the rate structure. Also, in 2015, the Council hired Carl Brown and Associated to review both the rate structure and the rates for water service. This work was completed in the fall of last year and presented to the City Council. A revised rate and structure for water was approved by the City Council and implemented this past year.

The proposed rates for 2017 were initially reviewed by the Council at the September 12 Planning Meeting. A public hearing is scheduled for Monday, October 17.

Included is a summary report from Finance Director Lacy King that outlines the history of the utility fund rates, and the proposed rates.

INSURANCE REPORT

The City is required by State Statute Section 376.696 and 67.150 to bid out for insurance. Bids for insurance, excluding health insurance must be submitted to competitive bidding at least every six years, and for health insurance the requirement is every three years. At the end of 2012, the City solicited bids for insurance, the first time in many years (since 1987) and as a result the Council selected Midwest Public Risk to be our insurance provider. In the early 2000s, the City entered into an agreement with Bukaty Company, who now serves as the City's health insurance broker, who assists in the administration of the insurance fund, solicits bids from the various providers, and keeps us compliant changes in the law, like the 2010 Affordable Care Act. City staff works with both of these entities to insure we receive the best coverage, at the best price, while insuring sufficient coverage and compliance with all state and Federal laws.

Through these efforts, the City obtains is general liability, workers compensation and property damage coverage through Midwest Public Risk (MPR). MPR is a not-for-profit, public entity risk pool representing the interests of 160+ public entities in both Missouri and Kansas. For our health insurance coverage we are somewhat self-insured in that we are not paying premiums, but budget the necessary funds to meet our expected health insurance claims. The City allocates funds to cover what we expect our health insurance claims (including prescription drugs) to be, in addition to these funds, we also purchase stop-loss coverage in two ways – aggregate coverage that basically sets the threshold for our total health insurance claims, and specific insurance that will reimburse the City for individual claims that exceed \$75,000.

The 2016 budget included \$720,589 in insurance premiums for general liability, workers compensation, deductibles, and attorney fees and \$1,896,858 for health insurance costs. These expenses represent almost 8% of the total budget in terms of dollars, and does not factor in lost time due to injuries, loss productivity due to investigating claims for damage, retraining employees, safety inspections, meetings and other aspects required to operate the City's risk management program. To minimize our costs and protect city assets, we are obligated to identify and control all threats to our community assets, and that includes obtaining coverage and defending the City when issues arise.

Because of the significant impact our insurance program has on all city operations, we would like to take some time on Monday to review the programs and explain what we do to minimize our costs. The things that we will discuss include a review of both our Wellness and our Risk Management Program.

REVIEW COUNCIL NEWSLETTER

Attachments

Utility Rate Summary Report – Lacy King, Finance Director

Insurance Summary Report – Pat Meredith, Human Resource Director

KIRKSVILLE CITY COUNCIL STUDY SESSION ATTACHMENT

SUBJECT: Utility Rate Review

STUDY SESSION MEETING DATE: October 10, 2016

CITY DEPARTMENT: Finance Department

PREPARED BY: Lacy A. King, Finance Director

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 categorized as enterprise funds, which means a fee is charged to external users for goods or services and 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 utility operation capital projects. 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. This approach did not work and in 2007 the City Council could see that this approach was still not acceptable as the five year plan did not allow for any adjustments or review.

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).

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. Increases have occurred since 2010 for components of both water and sewer to meet our requirements of the State Revolving Loan Program and to pay the costs of operating and capital improvements.

In 2011, the City hired HDR Engineering to assist us with the development of a facility plan for our wastewater treatment plant, a requirement of the State Revolving Loan program, work with the Missouri Department of Natural Resources on our plant permit, design the facilities for our plant necessary to keep us in compliance and establish a sewer rate structure to pay the costs of these improvements. In 2015, Carl Brown, President of Getting Great Rates.com, LLC was hired to complete a comprehensive water rate analysis report which includes comparing City practices to industry-wide practices, revenues vs. expenses for both operating and capital improvements, service fees, and overall usage compared to required infrastructure. In 2016, per recommendation, the City adjusted the water service availability fee based on meter size and the wastewater fee based on users, in addition to rate increases for consumption.

After reviewing both rate structures and operating components with the prediction models, the City will need to follow the recommended rate increases for operations and capital infrastructure. The 2017 proposed rates and increases from 2016 for both water and sewer are as follows:

Water:

Service Availability Fee: \$10.24-\$238.65 based on meter size-no change
 Tier 1 Volume fee: \$3.73/hundred cubic feet (ccf)-\$0.14 increase
 Tier 2 \$3.27/ccf-\$0.13 increase
 Tier 3 \$3.02/ccf-\$0.12 increase
 Special Industrial \$0.8615/ccf over 400,000 cf/month-\$0.0331 increase

Sewer:

Service Availability Fee: \$12.50/Month-\$1.00 increase
 Volume fee \$4.83/ccf-\$0.37 increase

This chart shows the numbers for both years and assumes a meter size of 0.625 which is the most common residential size.

Year	Minimum	Water Fixed	Water by Tier			Sewer Fixed	Sewer
	Billing	Rate	1	2	3	Rate	
	cf	per month	per ccf			per month	per ccf
2015	200	\$10.24	\$3.59	\$3.14	\$2.90	\$11.50	\$4.46
2016	200	\$10.24	\$3.73	\$3.27	\$3.02	\$12.50	\$4.83

The fiscal impact to a minimum residential user before tax assessment for water, sewer, trash and recycling services would result in an increase from \$50.80 to \$52.82, or \$2.02 per month.

The City Council will be hosting a public hearing on the proposed rates for the utility operations on October 17th with the expectation that the new rates will go into effect January 1, 2017 and the customers will have an increase on their bill that is sent out at the end of February.

KIRKSVILLE CITY COUNCIL STUDY SESSION ATTACHMENT

SUBJECT: Insurance

STUDY SESSION MEETING DATE: October 10, 2016

CITY DEPARTMENT: Human Resources / Administration

PREPARED BY: Pat Meredith, Human Resource Director

Medical Insurance

In 2017, the City will be in the third year of a three year agreement with HealthScope Benefits, Third Party Administrator for our health and dental plans. We bid our reinsurance every year since that has the greatest impact on our insurance expense. The reinsurance provider sets our maximum claims liability and laser (if any). Through the month of September we have paid \$560,830.61 medical/dental claims and \$183,830.61 dental claims. This represents 46% of our maximum claims liability budget. To date no claim has exceeded the Specific Stop Loss or the Laser. We are projecting that we will not increase claims for 2017 although we will not hear from the reinsurance bids for a couple of weeks.

Life Insurance

We have been with Prudential for six years. Prudential typically gives us a two year rate guarantee which ends December 31. We have proposals out for our life insurance benefit and should know something in the next couple of weeks.

Property, Liability, Worker's Compensation Insurance

Sarah Halstead and I assumed the responsibility for all other insurance coverages in April 2016. We have attended some training provided by Midwest Public Risk. Sarah has been working on creating an excel document to track on vehicles and equipment purchases, sale of property and titles as well as a property listing to ensure all equipment is accounted for and covered. The City will pay approximately \$579,000 for insurance. Of that amount approximately \$350,000 represents worker's compensation claims.

We have been working on the creation of a Safety Management Manual and training for employees and supervisors to reduce worker's compensation claims. We have had five major claims out of 40 total claims (from July 2013 through July 2016) averaging \$117,000. ALL of these claims were preventable! We will be placing emphasis on safety consciousness including discipline for preventable accidents and accident investigation. Training including the safe not the fast way to perform a job, ensuring training is provided before an employee is given a task and that the proper safety equipment is used. We will be holding supervisors accountable. This emphasis should reduce auto accidents as well as worker's compensation claims. Our current experience MOD is 1.45 which drives the cost of our worker's compensation. It should be 1 or lower. Lastly, every position is assigned a WC Code. We have reallocated a number of position to the correct WC Code which in part led to a premium reimbursement of \$32,126.60.