

City of Kodiak Regular Council Meeting Agenda for May 26, 2016
7:30 p.m., at 710 Mill Bay Road, Assembly Chambers (Room 232)

I. Call to Order/Roll Call	
Invocation/Pledge of Allegiance	
II. Previous Minutes	
Approval of Minutes of the May 12, 2016, Regular Council Meeting.....	1
III. Persons to Be Heard	
a. Public Comments (limited to 3 minutes) (486-3231)	
IV. Unfinished Business	
a. Second Reading and Public Hearing, Ordinance No. 1348, Authorizing a Contract With the Kodiak Historical Society to Operate the Baranov Museum.....	10
b. Second Reading and Public Hearing, Ordinance No. 1350, Enacting Kodiak City Code Chapter 5.52 Prohibiting Marijuana Establishments in the City	20
c. Authorization of Cooperative Agreement Between the City, Sun’aq Tribe, and BIA for Improvements to Shelikof Street	24
V. New Business	
a. First Reading, Ordinance No. 1351, Levying Taxes and Appropriating Funds for the Expenses and Liabilities of the City of Kodiak for the Fiscal Year Commencing on the First Day of July 2016 and Ending on the Thirtieth Day of June 2017	34
b. First Reading, Ordinance No. 1352, Establishing Supplemental Appropriation No. 2 to the Budget for the Fiscal Year Commencing on the First Day of July 2015 and Ending on the Thirtieth Day of June 2016	44
c. First Reading, Ordinance No. 1353, Amending Schedules I, II, and III to the Personnel Rules and Regulations to Include a 2.38% Cost of Living Increase.....	60
d. Authorization of Extension of the Professional Services Contract With BIRCH, HORTON, BITTNER, and CHEROT for Legal Services.....	68
e. Approval of the 2016 Water Rate Final Report.....	76
VI. Staff Reports	
a. City Manager	
b. City Clerk	
VII. Mayor’s Comments	
VIII. Council Comments	
IX. Audience Comments (limited to 3 minutes) (486-3231)	
X. Adjournment	

(This page left intentionally blank.)

<p>DRAFT</p>

**MINUTES OF THE REGULAR COUNCIL MEETING
OF THE CITY OF KODIAK
HELD THURSDAY, MAY 12, 2016
IN THE BOROUGH ASSEMBLY CHAMBERS**

I. MEETING CALLED TO ORDER/INVOCATION/PLEDGE OF ALLEGIANCE

Mayor Pat Branson called the meeting to order at 7:30 p.m. Councilmembers Laura B. Arboleda, Randall C. Bishop, Charles E. Davidson, Gabriel T. Saravia, Richard H. Walker, and John B. Whiddon were present and constituted a quorum. Deputy City Manager Mike Tvenge, City Clerk Debra L. Marlar, and Assistant Clerk Nanci Sharratt were also present.

Salvation Army Sergeant Major Dave Blacketer gave the invocation and the Pledge of Allegiance was recited.

II. PREVIOUS MINUTES

Councilmember Whiddon MOVED to approve the minutes of the April 28, 2016, regular meeting as presented.

The roll call vote was Councilmembers Arboleda, Bishop, Davidson, Saravia, Walker, and Whiddon in favor. The motion passed.

III. PERSONS TO BE HEARD

a. Proclamation: Declaring Peace Officers Memorial Day and Police Week

Councilmember Whiddon read this proclamation, which urges all citizens and patriotic, civic, and educational organizations to recognize police officers, past and present.

Police Chief Rhonda Wallace accepted the proclamation and thanked the Mayor and Councilmembers for their support of the police department. She also recognized the men and women of the police department and thanked them for their dedication and service.

b. Proclamation: Declaring Emergency Medical Services Week

Councilmember Arboleda read this proclamation, which encourages the community to observe this week with appropriate programs, ceremonies, and activities, and recognizes this year's theme is "Called to Care".

Deputy Fire Chief Frank Dorner accepted the proclamation and thanked the Mayor and Councilmembers for their support. He stated he is proud of the staff for their efforts and service.

c. Proclamation: Declaring Older Americans Month

Councilmember Davidson read this proclamation, which recognizes this year's theme "Blaze a Trail," and encourages everyone to take time this month to recognize and celebrate older adults

and the people who serve and support them as powerful and vital citizens who greatly contribute to the community.

Salvation Army Sergeant Major Dave Blacketer accepted the proclamation. Mr. Blacketer thanked the Mayor and Councilmembers for the proclamation. He stated seniors have been Trailblazers for themselves and others and provide a great value to communities through volunteering.

d. Proclamation: Declaring Mental Health Month

Councilmember Walker read this proclamation, which calls upon the citizens, government agencies, public and private institutions, businesses, and schools in Kodiak, Alaska to recommit our community to increasing awareness and understanding of mental health, the steps our citizens can take to protect their mental health, and the need for appropriate and accessible services for all people with mental illnesses at all stages.

Mary Guilas-Hawver, Director of Providence Kodiak Island Counseling Center, accepted the proclamation. Mary stated that wellness and mental health are related, a stigma is still associated with mental disorders, and the goal is to increase awareness and to assist people in getting the help they need. She informed everyone that Providence is providing free mental health screenings on May 18 and 19.

e. Public Comments

Bob Bowhay thanked everyone for their efforts. He discussed the refrigeration technology advancements, which have allowed people to store and produce more. He advocated for the icehouse and cold storage facility in Kodiak, which has been discussed over the years and is a needed component in 2016 for Kodiak.

Tiffany Brunson, Executive Director of the Baranov Museum, stated that the Baranov Museum and the City have been working together for the past 44 years. She provided a summary of museum services and activities and spoke in favor of Ordinance No. 1348.

Clark Davis commented on marijuana legalization in the City. He said there is an ordinance in place right now that prohibits the sale of marijuana paraphernalia. He asked the Council to review and update the ordinance to allow marijuana paraphernalia in the City, since the State has legalized the use and sale of marijuana.

Darius Kasprzak advocated for a public crane and icehouse storage, noting that Kodiak is the second largest fishing port but lacks capabilities without a public crane and icehouse.

Jonathan Strong spoke regarding the Marijuana Advisory Special Committee. He stated he owns and operates an addiction counseling service in Kodiak. He informed the Council he has experience needed for this committee, and that he had submitted a letter of interest.

IV. UNFINISHED BUSINESS

None

V. NEW BUSINESS**a. First Reading, Ordinance No. 1348, Authorizing a Contract With the Kodiak Historical Society to Operate the Baranov Museum**

Mayor Branson read Ordinance No. 1348 by title. The City of Kodiak has partially funded the Kodiak Historical Society (KHS) to operate the Baranov Museum for many years. In 2014 KHS requested that the City enter into a multi-year operating agreement or contract for the services provided at the Baranov Museum. The most recent contract expires in June 2016, and the Historical Society requested a new two-year agreement. Based on City Charter requirements and legal advice, the approval for a two-year operating agreement is made by Council through the ordinance process.

Councilmember Davidson MOVED to pass Ordinance No. 1348 in the first reading and advance to second reading and public hearing at the next regular or special Council meeting.

The roll call vote was Councilmembers Arboleda, Bishop, Davidson, Saravia, Walker, and Whiddon in favor. The motion passed.

b. First Reading, Ordinance No. 1349, Authorizing a Lease Between the City of Kodiak and GCI Communication Corporation for Pillar Mountain Communication Lease Site No. 9, Described as a Portion of Tract B, U.S. Survey 2538-A

Mayor Branson read Ordinance No. 1349 by title. The existing lease with GCI Communication Corporation expires June 30, 2016. The new lease agreement has a five-year term and requires approval by ordinance.

Councilmember Bishop MOVED to pass Ordinance No. 1349 in the first reading and advance to second reading and public hearing at the next regular or special Council meeting.

Councilmember Whiddon MOVED to postpone Ordinance No. 1349 to allow staff to perform a market analysis on cell tower lease rates.

The roll call vote on the postponement was Councilmembers Arboleda, Bishop, Davidson, Saravia, Walker, and Whiddon in favor. The motion passed.

c. First Reading, Ordinance No. 1350 Enacting Kodiak City Code Chapter 5.52 Prohibiting Marijuana Establishments in the City

Mayor Branson read Ordinance No. 1350 by title. State Ballot Measure 2, An Act to Tax and Regulate the Production, Sale, and Use of Marijuana (AS 17.38), was approved by voters statewide on November 4, 2014. AS 17.38.210 provides that a local government may prohibit the operation of marijuana cultivation facilities, marijuana product manufacturing facilities, marijuana testing facilities, or retail marijuana stores through the enactment of an ordinance or by voter initiative. The City Council voiced a consensus at the April 26, 2016, work session to bring forth an ordinance that allows the City to opt out of allowing marijuana operations within the City limit for a period not to exceed six months. The City's attorney wrote Ordinance No. 1350 in re-

sponse to Council direction, which would enact KCC 5.52 Prohibiting Marijuana Establishments in the City and which would expire six months after the ordinance effective date.

Councilmember Arboleda MOVED to pass Ordinance No. 1350 in the first reading and advance to second reading and public hearing at the next regular or special Council meeting.

Councilmember Davidson MOVED to postpone. With Council consent, Councilmember Davidson withdrew his motion to postpone.

The roll call vote was Councilmembers Arboleda, Bishop, Davidson, Saravia, Walker, and Whiddon in favor. The motion passed.

d. Resolution No. 2016–16, Establishing a Marijuana Advisory Special Committee

Mayor Branson read Resolution No. 2016–16 by title. The City Council voiced a consensus at the April 26, 2016, work session to bring forth an ordinance that allows the City to opt out of allowing marijuana operations within City limits for a period not to exceed six months while a committee is established to act in an advisory capacity to the Council and City Manager on the regulation of marijuana and operation of marijuana facilities within Kodiak City limits.

Councilmember Whiddon MOVED to adopt Resolution No. 2016-16.

The roll call vote was Councilmembers Arboleda, Bishop, Davidson, Saravia, Walker, and Whiddon in favor. The motion passed.

e. Authorization of Bid Award for Pier III Anodes Installation, Project No. 16/06-8024

This project is outside the scope of work previously authorized by Council and performed by Pacific Pile & Marine (PPM). The additional work is needed to protect uncoated pilings that were installed for one dolphin at the new Pier III site. Bedrock at the dolphin was significantly shallower than design engineers estimated. Consequently, the pilings were unable to be driven to design depth, leaving un-galvanized piling within the water column. Engineers determined it was more cost effective to install protective wrap and additional anodes on the piling than to pay PPM to pull them and replace with modified piles.

Councilmember Walker MOVED to authorize the bid award for Pier III additional anodes and coating to Global Diving and Salvage Inc. in an amount not-to-exceed \$44,704.00 with funds coming from Pier III Replacement Project, Project No. 16/06-8024 and authorize the City Manager to execute the documents on behalf of the City.

The roll call vote was Councilmembers Arboleda, Bishop, Davidson, Saravia, Walker, and Whiddon in favor. The motion passed.

f. Authorization of License Agreement for Use of Gull Island Site

Marine Exchange of Alaska (MXAK), a non-profit corporation, has requested permission to install weather data collection equipment and vessel tracking equipment on an existing tower located on the south end of Gull Island. The information provided by the equipment is extremely

valuable and is available for use by Harbor staff and the maritime public. Staff recommends Council approve the license agreement for use of the Gull Island site.

Councilmember Bishop MOVED to authorize License Agreement No. 222381 for use of Gull Island with Marine Exchange of Alaska and authorize the City Manager to sign the agreement on behalf of the City.

The roll call vote was Councilmembers Arboleda, Bishop, Davidson, Saravia, Walker, and Whiddon in favor. The motion passed.

g. Appointments to Marijuana Advisory Special Committee

Earlier in the meeting the Council adopted Resolution No. 2016-16, establishing a Marijuana Advisory Special Committee, whose task is to review various elements of State marijuana laws and act in an advisory capacity to the Council and City Manager on the regulation of marijuana and operation of marijuana facilities within the City. Council reviewed letters of interest at the May 10 work session.

Councilmember Arboleda MOVED to appoint Councilmembers Arboleda and Bishop with Councilmember Bishop to serve as Chair and Councilmember Arboleda as Vice-chair and Janiese Stevens and Jonathan Strong as business owners within the City and Glenn Yngve as a City resident at-large member of the Marijuana Advisory Special Committee established by Resolution No. 2016-16.

Councilmember Davidson MOVED to postpone the appointment to a future meeting after more applications are received and to allow time to interview the applicants.

Councilmember Saravia voiced the committee is important and more time should be allowed for City residents to apply and interviews to occur.

Councilmember Whiddon stated he will not support this since the committee is only short one resident, and he does not want to drag it out any further.

Councilmember Walker voiced he understands where Councilmember Davidson is coming from, but the City has two Councilmembers who will be running this committee.

Councilmember Davidson stated that interviews are needed for this important committee.

Councilmember Saravia commented that the Council has always interviewed advisory applicants and more time is needed to interview for this committee.

The roll call vote on the postponement was Councilmembers Davidson and Saravia in favor. Councilmembers Arboleda, Bishop, Walker, and Whiddon opposed. The motion failed.

The roll call vote on the main motion was Councilmembers Arboleda, Bishop, Walker, and Whiddon in favor. Councilmembers Davidson and Saravia opposed. The motion passed.

h. Authorization of Cooperative Agreement Between the City, Sun'aq Tribe, and BIA for Improvements to Shelikof Street

The Sun'aq Tribe of Kodiak has approached the City to include Shelikof Street in the Tribe's existing road inventory to the Bureau of Indian Affairs (BIA) Tribal Transportation Program. A Memorandum of Agreement between the Sun'aq Tribe and the City would potentially bring Federal funding to Kodiak to make improvements to this street.

Councilmember Whiddon MOVED to authorize the Memorandum of Agreement between the City and Sun'aq Tribe and authorize the City Manager to sign the MOA for the City.

Councilmember Whiddon MOVED to postpone the vote on the Memorandum of Agreement between the City and Sun'aq Tribe to a future meeting after staff has obtained additional information.

Councilmember Whiddon spoke in favor of authorizing the agreement after more details are provided to the City.

The roll call vote on the postponement was Councilmembers Arboleda, Bishop, Davidson, Saravia, Walker, and Whiddon in favor. The motion passed.

VI. STAFF REPORTS

a. Deputy City Manager

Deputy City Manager Tvenge updated the Mayor and Councilmembers that a meeting with Kathy Drabek is scheduled for Monday to discuss the proposed Memorandum of Agreement between the City and Sun'aq Tribe.

b. City Clerk

City Clerk Marljar informed the public of the next scheduled Council work session and regular meeting. She also reminded everyone that one more City resident is needed for the marijuana committee.

VII. MAYOR'S COMMENTS

Mayor Branson thanked the staff for their hard work and being present for the budget work session on Saturday, May 7, 2016. She stated the budget was cut by 12 percent while maintaining services. She noted that Harbormaster White gave a great update at Tuesday's work session on the remodel of Harbor space that has just become available, which may include public showers. She also noted Harbormaster White's proposed improvements to the downtown public restrooms.

VIII. COUNCIL COMMENTS

Councilmember Walker thanked everyone for their hard work on next year’s budget, which was decreased by 12 percent. He stated that he is listening to comments supporting the crane and icehouse and believes it is time to move forward.

Councilmember Bishop thanked the department heads and City staff for creating a great budget. He also congratulated the 2016 graduates.

Councilmember Davidson congratulated the new graduates and wished them well. He stated he wished his postponement motion had passed but noted the City needs to move forward on the marijuana issue. He urged people to be careful outside since everyone is out and about.

Councilmember Saravia said he is happy to be back after being sick. He stated that it isn’t right not to interview the applicants for the Marijuana Advisory Special Committee, noting that interviews occur for every other City advisory board.

Councilmember Arboleda thanked the Kodiak Chamber of Commerce for the community clean up day last Saturday. She learned a great deal from the budget work session. She thanked Councilmember Davidson for suggesting the postponement motion and believes that the Marijuana Advisory Special Committee can bring a great report back to the Council. She congratulated the graduates.

Councilmember Whiddon commented on the Fisheries Work Group meetings and stated meetings will be held May 11, 25, and 27. He thanked everyone for commenting at the meetings and especially thanked Finance Director Kelly Mayes for her hard work in cutting the budget. He said the draft report about Economic Impact of the Seafood Industry in the Kodiak Island Borough is out and encouraged everyone to read it.

IX. AUDIENCE COMMENTS

None

X. ADJOURNMENT

Councilmember Whiddon MOVED to adjourn the meeting.

The roll call vote was Councilmembers Arboleda, Bishop, Davidson, Saravia, Walker, and Whiddon in favor. The motion passed.

The meeting adjourned at 8:42 p.m.

CITY OF KODIAK

MAYOR

ATTEST:

CITY CLERK

Minutes Approved:

UNFINISHED BUSINESS

MEMORANDUM TO COUNCIL

To: Mayor Branson and City Councilmembers
From: Aimée Kniazowski, City Manager
Thru: Mike Tvenge, Deputy City Manager *MT*
Date: May 26, 2016

Agenda Item: IV. a. Second Reading and Public Hearing, Ordinance No. 1348, Authorizing a Contract With the Kodiak Historical Society to Operate the Baranov Museum

SUMMARY: The City of Kodiak has partially funded the Kodiak Historical Society (KHS) to operate the Baranov Museum for many years. In 2014, KHS requested that the City enter into a multi-year operating agreement or contract with them for the services provided at the Baranov Museum. The most recent contract expires in June 2016, and the Historical Society requested a new two-year agreement. Based on City Charter requirements and legal advice, the approval for a two-year operating agreement is made by Council through the ordinance process. Staff recommends Council adopt Ordinance No. 1348.

PREVIOUS COUNCIL ACTION:

- Council has funded the Kodiak Historical Society to help cover operating costs of the Baranov Museum for many years through a line item in the Parks and Recreation portion of the City's operating budget.
- March 25, 2014, work session, KHS made a formal presentation to Council requesting a two-year agreement.
- May 10, 2014, Council supported a two-year agreement for FY2015-2016.
- May 10, 2016, Council reviewed a renewed contract proposal.

DISCUSSION: The City has provided funding to the Kodiak Historical Society to help cover operating costs of the Baranov Museum for many years. In the past KHS made an annual request for funding, and once approved, was added to the Parks and Recreation's operating budget.

Two years ago KHS asked that the City enter into a contract with them to operate the museum similar to the agreement the City has with the Kodiak Humane Society to operate the animal shelter. The agreement identified what each party was responsible for and included a 3% funding increase in the second year. The City paid the cost of the fire suppression system inspection and maintenance. That agreement expires at the end of June, and KHS requested another contract be issued.

Most of the terms in the agreement are the same as the FY2015-2016 contract, but the annual funding level would remain at the current rate of \$92,700 each year plus an amount not to exceed \$2,000 for the fire suppression system. The fire suppression system costs increased from \$950 to \$2,000, per their contract with Simplex Grinnell.

ALTERNATIVES: Council may adopt Ordinance No. 1348, which is staff's recommendation to ensure continued community access to the museum and its programs. Council may also amend the agreement to reflect a different funding allocation for FY2017-2018, which is not recommended.

FINANCIAL IMPLICATIONS: The current version of the draft FY2017 budget reflects an expenditure of \$93,650 including the \$950 for fire suppression costs. Staff did not realize KHS is requesting \$2,000 for fire suppression management, not \$950. If Council approves the agreement, staff will bring back the correct cost of \$94,700 at the second reading of the ordinance.

LEGAL: The City Attorney was consulted about the agreement and process and he prepared the ordinance. He explained that the agreement requires approval through the adoption of an ordinance, per City Charter §V-17 Contracts and Sales, because it is similar to a lease and deals with the disposal of interest in real property belonging to the City.

STAFF RECOMMENDATION: Staff recommends Council adopt Ordinance No. 1348. The two-year agreement ending on June 30, 2018, would formally recognize and permit the Kodiak Historical Society to provide museum services and collections to the community through the Baranov Museum with terms to be determined by Council for each of the two years, with funds coming from the General Fund, Parks and Recreation, Museum account.

CITY MANAGER'S COMMENTS: The City has provided annual funding amounts to the KHS for many years in order to help them operate the Baranov Museum. KHS requests another two-year agreement with the City. If Council agrees to the terms of the agreement, and wishes to accept the additional costs, they would move to adopt Ordinance No. 1348.

ATTACHMENTS:

Attachment A: Ordinance No. 1348

Attachment B: FY2017-2018 contract between the Historical Society of Kodiak and the City of Kodiak

PROPOSED MOTIONS:

1. Move to adopt Ordinance No. 1348.
2. Move to amend the lease authorized by Ordinance No. 1348 by inserting under Section 3.3(b), item "(7) Empty trash receptacle outside of building."

**CITY OF KODIAK
ORDINANCE NUMBER 1348**

**AN ORDINANCE OF THE COUNCIL OF THE CITY OF KODIAK
AUTHORIZING A CONTRACT WITH THE KODIAK HISTORICAL SOCIETY TO
OPERATE THE BARANOV MUSEUM**

WHEREAS, the City owns real property located at 101 E. Marine Way, Kodiak, Alaska, and the building located thereon known as the Baranov Museum (“Museum”); and

WHEREAS, the Kodiak Historical Society currently operates a historical museum at the Museum, consisting of a collection of artifacts, exhibits, photographs, documents and other items owned by the Kodiak Historical Society (“Collection”); and

WHEREAS, because of the Kodiak Historical Society’s experience operating the Museum and its ownership of the Collection, the Kodiak Historical Society is the only source for such services, and it is in the best interest of City and its residents that City contract with the Kodiak Historical Society for such services on a sole source basis under Kodiak City Code 3.12.070(d).

NOW, THEREFORE, BE IT ORDAINED by the Council of the City of Kodiak, Alaska, as follows:

Section 1: Notwithstanding anything to the contrary in Kodiak City Code Chapter 18.20, the Council of the City of Kodiak hereby authorizes the Contract for Museum Services with the Kodiak Historical Society for a term commencing July 1, 2016, and ending June 30, 2018, for the operation of the Museum.

Section 2: The form and content of the Contract for Museum Services hereby are in all respects authorized, approved and confirmed, and the City Manager hereby is authorized, empowered and directed to execute and deliver the Contract for Museum Services to the Kodiak Historical Society behalf of the City, in substantially the form and content now before this meeting but with such changes, modifications, additions and deletions therein as she shall deem necessary, desirable or appropriate, the execution thereof to constitute conclusive evidence of approval of any and all changes, modifications, additions or deletions therein from the form and content of said document now before this meeting, and from and after the execution and delivery of said document, the City Manager hereby is authorized, empowered and directed to do all acts and things and to execute all documents as may be necessary to carry out and comply with the provisions of the Contract for Museum Services as executed.

Section 3: The Contract for Museum Services authorized by this ordinance is subject to the requirements of City Charter Section V-17. Therefore, if one or more referendum petitions with signatures are properly filed within one month after the passage and publication of this ordinance, this ordinance shall not go into effect until the

petition or petitions are finally found to be illegal and/or insufficient, or, if any such petition is found legal and sufficient, until the ordinance is approved at an election by a majority of the qualified voters voting on the question. If no referendum petition with signatures is filed, this ordinance shall go into effect one month after its passage and publication.

CITY OF KODIAK

MAYOR

ATTEST:

CITY CLERK

First Reading: May 12, 2016

Second Reading:

Effective Date:

**CITY OF KODIAK
CONTRACT NO. 222379
MUSEUM SERVICES**

CONTRACT FOR MUSEUM SERVICES dated as of July 1, 2016, by and between the City of Kodiak, an Alaska municipal corporation (“City”), whose address is 710 Mill Bay Road, Kodiak Alaska, and the Kodiak Historical Society, an Alaska nonprofit corporation (“Contractor”), whose address is 101 E. Marine Way, Kodiak Alaska.

WHEREAS, City owns real property located at 101 E. Marine Way, Kodiak, Alaska, and the building located thereon known as the Baranov Museum (“Museum”); and

WHEREAS, Contractor currently operates a historical museum at the Museum, consisting of a collection of artifacts, exhibits, photographs, documents and other items owned by Contractor (“Collection”); and

WHEREAS, because of Contractor’s experience operating the Museum and its ownership of the Collection, Contractor is the only source for the services that it is to provide under this Contract, and it is in the best interest of City and its residents that City contract with Contractor for such services on a sole source basis under Kodiak City Code 3.12.070(d).

NOW, THEREFORE, for and in consideration of the premises, and the terms, covenants, conditions, and provisions contained herein, it is the parties agree as follows:

ARTICLE I

Provision of Services, Term, Compensation

Section 1.1. Agreement to Provide Services. Contractor shall operate the Museum and provide museum services for the City as described in Article II.

Section 1.2. Term of Contract. The term of this contract commences July 1, 2016, and expires June 30, 2018, provided that either party may terminate this contract upon thirty (30) days written notice to the other party.

Section 1.3. Compensation. City shall pay Contractor the following annual fees for the services that Contractor provides under this contract. The annual fee shall be payable to Contractor in advance in equal quarterly installments on the first days of July, October, January and April; provided that the first quarterly installment shall be due on the day following the effective date of City Council approval of this contract.

(a) For the period from July 1, 2016, through June 30, 2017: \$92,700, plus an amount not to exceed \$2,000.00 for fire suppression system costs.

(b) For the period from July 1, 2017 through June 30, 2018: \$92,700, plus an amount not to exceed \$2,000 for fire suppression system costs.

ARTICLE II

Scope of Services

Section 2.1. Scope of Work in General. Contractor shall provide museum operation services at the Museum, including without limitation collections care, management of Contractor's archives, exhibitions, educational programs, and building stewardship.

Section 2.2. Specific Museum Management Duties. Subject only to the limitations set forth in this Contract, Contractor shall have, and hereby agrees to undertake and assume, full and complete control and discretion in the management and operation of the Museum during the term of this contract, including without limitation the following:

(a) Employ, pay, supervise, and discharge all employees as deemed necessary by Contractor for the operation of the Museum;

(b) Adopt and implement all policies relating to the acquisition, accession, loan, care, storage, deaccession, and disposal of the Collection in accordance with the standards defined by the American Alliance of Museums;

(c) Adopt and implement the exhibition, interpretation, display and public access of the Collection in accordance with the standards defined by the American Alliance of Museums;

(d) Adopt and implement the historical, educational and research policies, programs and activities of the Museum;

(e) Properly maintain all Collection inventory records, accession records, condition assessment and conservation records, and exhibition records;

(f) Adopt and implement the budgetary and fiscal policies of the Museum, including the establishment of admission fees and other fees and charges for other program services;

(g) Keep and maintain the financial books and records of the Museum in accordance with generally accepted accounting principles;

(h) Adopt and implement the building and maintenance policies for the Museum;

(i) Adopt and implement the best practices for building stewardship of the Museum;

(j) Adopt and implement policies relating to the ancillary activities and services offered at the Museum; and

(k) Adopt and implement policies relating to the promotion and publicity of the Museum.

In performing its duties under this Section, Contractor shall exercise the same degree of care and skill exercised by nonprofit corporate owners and managers of similar local/regional history museums in the United States and shall comply in all material respects with all laws applicable to the conduct of its business and the use and operation of the Museum.

Section 2.3 Public Museum. Contractor shall operate the Museum as a facility open to the general public, subject to such reasonable rules and regulations as Contractor may promulgate in its discretion from time to time regarding matters that include without limitation admission fees; days and hours of operation; the safety of employees and the general public; the safety, protection and security of the Collection; the anonymity of donors who desire anonymity; and, to the extent required by law, the confidentiality of employee records and business records.

Section 2.4. Collection. Contractor shall have full responsibility for the maintenance, care, documentation and use of the Collection. The accession and deaccession of Collection items as

well as their management, care, documentation and use shall be governed by Contractor's Collection Management Policy and in accordance with standards defined by the American Alliance of Museums. The Collection will be used for exhibitions, research and public programs at the discretion of Contractor in accordance with its mission and in order to provide museum services to the City.

Section 2.5. Contractor Employment Responsibilities. All services required under this Contract shall be performed by Contractor or under its supervision. Contractor shall employ at its own expense all personnel required to perform Contractor's services under this Contract in a timely and proper manner. Such personnel shall not be considered contractors or employees of the City, and the City shall have no responsibility or liability whatsoever to any Contractor personnel, or for their acts or omissions.

Section 2.6. Alterations and Improvements to Museum. Contractor may make whatever nonstructural alterations or improvements to the Museum that it deems necessary or desirable in the best interests of the Museum. Contractor shall make no structural alterations or additions to the Museum or any associated City property without the written consent of the City. Unless otherwise provided in such written consent, any structural improvements or additions constructed by the Contractor shall become the City property upon substantial completion. All such nonstructural or structural alterations, improvements and additions, regardless of how funded, shall be part of the Museum real property and shall be subject to the terms of this Agreement.

Section 2.7. Personal Property. Contractor may furnish, install and maintain at the Museum any and all personal property which Contractor deems necessary or desirable in connection with the operation of the Museum. All tangible personal property acquired by City or Contractor and installed in or located at the Museum, regardless of how funded, shall be deemed to be subject to the terms of this Contract. All personal property installed in or located at the Museum shall be the property of Contractor. Contractor may alter, rehabilitate and improve such personal property in such manner, as it deems necessary or desirable in the best interests of the Museum.

Section 2.8. No Liens. In performing any work required or permitted under this contract, Contractor shall keep the Museum free of all liens, and hold the City harmless from liability for any such liens, including costs and attorney fees.

ARTICLE III Payment of Expenses

Section 3.1. In General. Except as this Article provides otherwise, Contractor shall bear all costs and pay all expenses incurred in providing the services required under this contract.

Section 3.2. Utilities. City shall pay the costs of the following utility services provided to the Museum: fuel oil, heat, electricity, water and sewer. Contractor shall pay the costs of telecommunications utility services and, except as provided in the preceding sentence, any and all other utilities provided to Contractor at the Museum.

Section 3.3. Repairs and Maintenance.

- (a) Contractor shall provide at its expense the following at the Museum:
 - (1) Interior janitorial services
 - (2) Replacement of light bulbs and receptacles as needed
 - (3) Exhibit construction and maintenance
 - (4) Flower beds and plant box plantings and maintenance
 - (5) Boiler system annual inspections
- (b) City shall provide at its expense the following at the Museum:
 - (1) Maintenance of electrical, water and sewer utility facilities
 - (2) Fire alarm and suppression system annual inspections
 - (3) Snow removal from the parking lot and pedestrian walkways
 - (4) Lawn mowing and general landscaping
 - (5) Maintenance or replacement of sidewalk and parking lot pavement
 - (6) Structural building maintenance or replacements when funds are available
 - (7) [Disposal of trash from receptacle outside of building](#)

ARTICLE IV Indemnification and Insurance

Section 4.1. Indemnification. To the fullest extent permitted by law, Contractor agrees to defend, indemnify, and hold harmless City, its elected and appointed officials, employees, and volunteers against any and all liabilities, claims, demands, lawsuits, or losses, including costs and attorney fees incurred in defense thereof, arising out of or in any way connected or associated with this contract.

Section 4.2. Insurance.

(a) Contractor, at its expense, shall provide the following insurance coverages for its performance under this contract, and shall provide to City certificates of insurance and/or policies acceptable to City therefore at the time this contract is executed:

(1) Commercial General Liability Insurance. Contractor shall maintain Commercial General Liability Insurance with a minimum of \$1,000,000 per occurrence and/or aggregate combined single limit, personal injury, bodily injury, and property damage.

(2) Workers' Compensation Insurance. Contractor shall provide and maintain, for all employees of Contractor engaged in work under this contract, Workers' Compensation Insurance as required by AS 23.30.045 or any other applicable statutes or regulations. Contractor shall be responsible for Workers' Compensation Insurance for any subcontractor who directly or indirectly provides services under this Contract.

(b) Additional Insurance Requirements. Each policy of insurance that Contractor provides under this section shall:

(1) List the as additional insureds City, including all elected and appointed City officials, all City employees and volunteers, all City boards, commissions and/or authorities and their board members, employees, and volunteers, and waive subrogation in favor of the foregoing;

(2) Provide coverage that is primary to City and not contributing with any other insurance or similar protection available to City, whether other available coverage be primary, contributing, or excess;

(3) Require sixty (60) days written notice of cancellation non-renewal, reduction and/or material change addressed to: City Clerk, 710 Mill Bay Road, Room 220, Kodiak, AK 99615.

(c) Continuation of Coverage. If the above coverage expires during the term of this Contract, Contractor shall deliver renewal certificates and/or policies to City at least ten (10) days prior to the expiration date. Contractor shall not commence operations under this Contract until it has obtained the coverage required under the terms of this Contract. All coverage shall be with insurance carriers licensed and admitted to do business in the State of Alaska and acceptable to City. If Contractor fails to comply with the insurance requirements of this contract, City may terminate this contract on ten (10) days written notice. Contractor covenants to maintain all insurance policies required in this Contract for the period of time in which a person may commence a civil action as prescribed by the applicable statute of limitations. The coverage required by this Contract shall cover all claims arising in connection with Contractor's performance under this contract, whether or not asserted during the term of this contract and even though judicial proceedings may not be commenced until after this contract expires.

ARTICLE V Miscellaneous

Section 5.1. Independent Contractor. Notwithstanding anything to the contrary contained herein, this contract shall not be deemed or construed to make the parties hereto partners or joint venturers, to render either party liable for any of the debts or obligations of the other, or to make either party the agent of the other or to bind or obligate the other in any manner to any third party. Without limiting the generality of the foregoing, the employees of Contractor are not City employees and are not entitled to any of the benefits City provides for its employees, including without limitation, health, life or disability insurance, sick or annual leave, or worker's compensation.

Section 5.2. Authority of Signers. Each individual executing this contract hereby represents and warrants that he or she has the capacity set forth on the signature pages hereof with full power and authority to bind the party on whose behalf he or she is executing this contract to the terms hereof.

Section 5.3. Entire Agreement; Amendment. This contract constitutes the entire agreement and understanding of the parties with respect to the subject matter hereof, and there are no other prior or contemporaneous written or oral agreements, undertakings, promises, warranties, or covenants with respect thereto not contained herein. This Agreement may be amended only by a written instrument executed by each of the parties hereto.

Section 5.4. No Waiver. No waiver of any condition or provision of this contract by any party shall be valid unless in writing signed by such party. No such waiver shall be deemed or construed as a waiver of any other or similar provision or of any future event, act, or default.

Section 5.5. Severability. If any provision of this contract is deemed unenforceable in whole or part, such provision shall be limited to the extent necessary to render the same valid or shall be deemed excised from this contract and replaced by a valid provision as close in meaning and intent as the excised provision as circumstances require, and this contract shall be construed as if said provision had been incorporated herein as so limited or as so replaced, as the case may be.

Section 5.6. Assignment or Delegation. Contractor may not assign its rights or delegate its duties under this contract, or any part of it, except with the prior written consent of City.

Section 5.7. Governing Law. This contract shall be governed by the laws of the State of Alaska and any suit or legal action hereunder shall be brought only in the courts of said State, in the Third Judicial District at Kodiak.

Section 5.8. Notice. Any notice required by this contract must be hand delivered or sent by first class mail to the appropriate party at the address set forth above the signatures below, or any other address which the party subsequently designates in writing.

IN WITNESS WHEREOF, the parties hereto have hereunder set their hands this ____ day of _____ 2016.

CITY OF KODIAK
710 Mill Bay Road
Kodiak, AK 99615

KODIAK HISTORICAL SOCIETY
101 E Marine Way
Kodiak, AK 99615

Aimée Kniazowski, City Manager

Mary Munk, President

Attest:

Witness:

Debra L. Marlar, City Clerk

MEMORANDUM TO COUNCIL

To: Mayor Branson and City Councilmembers
From: Aimée Kniazowski, City Manager
Thru: Mike Tvenge, Deputy City Manager *MT*
Date: May 26, 2016

Agenda Item: IV. b. **Second Reading and Public Hearing, Ordinance No. 1350, Enacting Kodiak City Code Chapter 5.52 Prohibiting Marijuana Establishments in the City**

SUMMARY: State Ballot Measure 2, An Act to Tax and Regulate the Production, Sale, and Use of Marijuana (AS 17.38), was approved by voters statewide on November 4, 2014. AS 17.38.210 provides that a local government may prohibit the operation of marijuana cultivation facilities, marijuana product manufacturing facilities, marijuana testing facilities, or retail marijuana stores through the enactment of an ordinance or by voter initiative. The City Council voiced a consensus at the April 26, 2016, work session to bring forth an ordinance that allows the City to opt out of allowing marijuana operations within the City limit for a period not to exceed six months. The City's attorney wrote Ordinance No. 1350 in response to Council direction, which would enact KCC 5.52 Prohibiting Marijuana Establishments in the City and which would expire six months after the ordinance effective date. Staff recommends that Council adopt the ordinance.

PREVIOUS COUNCIL ACTION:

- January 27, 2016, joint work session – Cynthia Franklin, Director of the Marijuana Control Board presented information about marijuana laws to the Council and Assembly.
- April 12, 2016, City work session – City attorney Holly Wells presented marijuana information to the Council.
- April 26, 2016, City work session – the Council voiced a consensus and directed staff to prepare an ordinance to opt out of marijuana establishments within the Kodiak City limit for not more than six months and directed that a resolution be brought forth to establish a marijuana advisory committee appointed by the Council to be comprised of two Councilmembers, two Kodiak retail business owners, and two City resident at-large members to review and recommend the best path forward.
- May 12, 2016, regular meeting – the Council passed Ordinance No. 1350 in the first reading and advanced to second reading and public hearing.

DISCUSSION: The Marijuana Control Board began to accept and process applications for marijuana establishments on February 24, 2016. AS 17.38.210 grants local government the authority to prohibit the operation of marijuana establishments through the enactment of an ordinance or by voter initiative. If the

City does not have an ordinance in place to opt out of allowing marijuana establishments within the Kodiak City limit, and the Marijuana Control Board determines the applicant has met the State standards for licensure, the State will notify the municipality of its intent to issue a license and will allow the municipality 60 days to object if there is cause to do so. The City Council has given direction that the City opt out of allowing marijuana establishments within the Kodiak City limit for a period not to exceed six months to enable a marijuana committee appointed by the Council to determine the best path forward. A resolution to establish the committee is scheduled later on the agenda.

ALTERNATIVES:

- 1) Adopt Ordinance No. 1350 in the second reading, which is staff's recommendation, as it is consistent with the direction given at the April 26, 2016, work session.
- 2) Do not adopt Ordinance No. 1350 in the second reading, which is not recommended, as it is contrary to Council direction.

FINANCIAL IMPLICATIONS: N/A

LEGAL: The City Attorney wrote Ordinance No. 1350

STAFF RECOMMENDATION: Staff recommends that Council adopt Ordinance No. 1350 in the second reading.

CITY MANAGER'S COMMENTS: Council provided consensus to pass an opt out ordinance for a period of six months, which will allow the City Council to form and appoint members to the committee to advise the Council of the best way to move forward. Therefore, I recommend Council adopt Ordinance 1350 in the second reading.

ATTACHMENTS:

Attachment A: Ordinance No. 1350

PROPOSED MOTION:

Move to adopt Ordinance No. 1350.

**CITY OF KODIAK
ORDINANCE NUMBER 1350**

**AN ORDINANCE OF THE COUNCIL OF THE CITY OF KODIAK ENACTING
KODIAK CITY CODE CHAPTER 5.52 PROHIBITING MARIJUANA ESTABLISH-
MENTS IN THE CITY**

BE IT ORDAINED by the Council of the City of Kodiak, Alaska, as follows:

Section 1: Kodiak City Code Chapter 5.52, Marijuana Establishments, is enacted to read as follows:

Chapter 5.52
MARIJUANA ESTABLISHMENTS

Sections:

- 5.52.010 Definitions.
- 5.52.020 Interpretation.
- 5.52.030 Marijuana establishments prohibited.
- 5.52.040 Violation—penalty.

5.52.010 Definitions.

In this chapter:

"marijuana" means all parts of the plant of the genus cannabis whether growing or not, the seeds thereof, the resin extracted from any part of the plant, and every compound, manufacture, salt, derivative, mixture, or preparation of the plant, its seeds, or its resin, including marijuana concentrate; "marijuana" does not include fiber produced from the stalks, oil, or cake made from the seeds of the plant, sterilized seed of the plant which is incapable of germination, or the weight of any other ingredient combined with marijuana to prepare topical or oral administrations, food, drink, or other products.

"marijuana cultivation facility" means an entity registered to cultivate, prepare, and package marijuana and to sell marijuana to retail marijuana stores, to marijuana product manufacturing facilities, and to other marijuana cultivation facilities, but not to consumers;

"marijuana establishment" means a marijuana cultivation facility, a marijuana testing facility, a marijuana product manufacturing facility, or a retail marijuana store.

"marijuana product manufacturing facility" means an entity registered to purchase marijuana; manufacture, prepare, and package marijuana products; and sell marijuana and marijuana products to other marijuana product manufacturing facilities and to retail marijuana stores, but not to consumers.

"marijuana products" means concentrated marijuana products and marijuana products that are comprised of marijuana and other ingredients and are intended for use or consumption, such as, but not limited to, edible products, ointments, and tinctures.

"marijuana testing facility" means an entity registered to analyze and certify the safety and potency of marijuana.

"retail marijuana store" means an entity registered to purchase marijuana from marijuana cultivation facilities, to purchase marijuana and marijuana products from marijuana product manufacturing facilities, and to sell marijuana and marijuana products to consumers.

5.52.020 Interpretation.

All terms used in this chapter that are defined in AS 17.38 or the regulations promulgated thereunder shall be interpreted in accordance with such definitions.

5.52.030 Marijuana establishments prohibited.

The operation of marijuana cultivation facilities, marijuana product manufacturing facilities, marijuana testing facilities, and retail marijuana stores in the city is prohibited.

5.52.040 Violation—penalty.

A violation of this chapter is an offense punishable by a fine not exceeding \$1,000, plus any surcharge required to be imposed by AS 12.55.039.

Section 2: This ordinance shall be effective one month following final passage and publication in accordance with Kodiak Charter Article II Section 13, and shall expire six months after its effective date.

CITY OF KODIAK

MAYOR

ATTEST:

CITY CLERK

First Reading: May 12, 2016
Second Reading:
Effective Date:

MEMORANDUM TO COUNCIL

To: Mayor Branson and City Councilmembers

From: Aimée Kniazowski, City Manager

Thru: Mike Tvenge, Deputy City Manager *MT*

Date: May 26, 2016

Agenda Item: IV. c. **Authorization of Cooperative Agreement Between the City, Sun'aq Tribe and BIA for Improvements to Shelikof Street**

SUMMARY: The Sun'aq Tribe of Kodiak has approached the City to include Shelikof Street in the Tribe's existing road inventory to the Bureau of Indian Affairs (BIA) Tribal Transportation Program. A Memorandum of Agreement between the Sun'aq Tribe and the City would potentially bring Federal funding to Kodiak to make improvements to this street. Staff recommends the City Council authorize the City Manager to enter into this Memorandum of Agreement.

PREVIOUS COUNCIL ACTION:

- Council heard discussion of this proposal during the May 10, 2016, City Council work session.
- May 12, 2016 during the regular meeting, Council moved to postpone the vote on the Memorandum of Agreement to a future meeting after staff has obtained additional information.

DISCUSSION: City Council has authorized DOWL to develop a plan for the Shelikof Street area including bulkhead parking. Kathy Drabek, Sun'aq Tribal Transportation Program Manager is aware of this project and sees the benefit in a collaborative plan as the Tribe recently purchased the old Ursin cannery property for future development.

Kathy Drabek met with the City Manager and Deputy City Manager to discuss the idea of including Shelikof Street in the BIA Transportation Program. As the program is explained, the City does not transfer any rights or ownership but rather benefits from any improvements BIA funding might provide the Sun'aq Tribe. With the recent purchase of Ursin Cannery property on Shelikof Street by the Sun'aq Tribe, they too have a vested interest in the area. City Council approval is required for any Tribal-Council approved projects.

ALTERNATIVES:

- 1) City Council could authorize the City Manager to bind an agreement with the Sun'aq Tribe of Kodiak to allow Shelikof Street to become part of their Transportation Program Inventory. This may be the first agreement of its kind with the City.
- 2) City Council could deny approval of the MOA with the Sun'aq Tribe of Kodiak, foregoing benefits of collaboration to the City.

FINANCIAL IMPLICATIONS: There are no matching funds or other financial obligations required of the City by this MOA. The City has been working on a phased project for the Shelikof Pedestrian Pathway project since 2010 and continues as state cruise ship excise taxes become available.

DEPUTY CITY MANAGER'S COMMENTS: We have had several meetings now with Ms. Drabek regarding this collaboration. It appears to be a clear benefit to the Community with an opportunity to fund improvements to Shelikof Street. As the City moves ahead with the bulkhead parking project design and other phases of the Shelikof Pedestrian Pathway project, the Sun'aq Tribe suggestions could fold into our master plan for this area of town. During our previously described meetings there was no clear understanding how details such as federal funding would be applied to any street improvements, but thoughts were it would likely pass to the Sun'aq Tribe directly and any City authorized improvements would be coordinated and contracted by the Tribe. This MOA includes the entire distance of Shelikof Street .82 miles. 25 CFR 170.120 states Indian Reservation roads must be open and available for public use. However, the public authority having jurisdiction over these roads may:

- (a) Restrict road use or close roads temporarily when required for public safety, fire prevention or suppression, fish or game protection, low load capacity bridges, prevention of damage to unstable roadbeds, or as contained in §§ 170.122 and 170.813;
- (b) Conduct engineering and traffic analysis to determine maximum speed limits, maximum vehicular size, and weight limits, and identify needed traffic control devices; and
- (c) Erect, maintain, and enforce compliance with signs and pavement markings.

ATTACHMENTS:

- A) Amended MOA Between the Sun'aq Tribe of Kodiak and the City of Kodiak
- B) Letter of Request From the Sun'aq Tribe of Kodiak
- C) Shelikof Street Section Maps
- D) Area Map

[Clerk's Note: the motion to authorize the Memorandum of Agreement between the City and Sun'aq Tribe and authorize the City Manager to sign the MOA for the City was made and postponed at the May 12 meeting. The following amendment is suggested:

PROPOSED AMENDMENT:

Move to amend the Memorandum of Agreement between the City and Sun'aq Tribe by inserting at the end of the first paragraph the following: "Any proposed improvements will be presented to the City for approval prior to implementation. This is a one-year agreement with option for renewal annually if both parties agree."



MEMORANDUM OF AGREEMENT

Between

Sun'aq Tribe of Kodiak

City of Kodiak

312 West Marine Way
Kodiak AK 99615
Phone: (907) 486-4449
Fax: (907) 486-3361

710 Mill Bay Road
Kodiak, AK 99615
Phone: (907) 486-8640
Fax: (907) 486-8600

This Memorandum of Agreement is by and between City of Kodiak, current OWNER and RESPONSIBLE AUTHORITY for Maintaining Routes in the City of Kodiak and Sun'aq Tribe of Kodiak. In Kodiak, Alaska, where Sun'aq Tribe of Kodiak Resides, the Tribe does not own the Route or maintain it. **Any proposed improvements will be presented to the City for approval prior to implementation. This is a one year agreement with option for renewal annually if both parties agree.**

A Separate Maintenance Agreement between the Public Authorities allows the Tribe to work with City to maintain route.

Route #	Section #	Route Name	Length	Route Location
1012	010	Shelikof Street	0.03	E01-850
1012	020	Shelikof Street	0.42	E01-850
1012	030	Shelikof Street	0.37	E01-850
Total Length			0.82 Miles	

If needed improvements to the OWNER routes are completed under cooperative agreements between the TRIBE and OWNER, and if Tribal Transportation Program (TTP) funds are available, the TRIBE can contribute based on its Long Range Transportation Plan (LRTP) and Council Approval. Moreover, these routes will be open to the public unless the roads meet the definition of 25 C.F.R. 170.120, 170.122 Requirement – 23 U.S.C. 116 (a) (b), Appendix C, Question 10 (3), 170.443 (d).

This agreement is binding upon signatories not as individuals, but solely in their capacity as officials of their respective organizations, and acknowledges proper action of OWNER and TRIBE to infer the same.

SUN' AQ TRIBE OF KODIAK

CITY OF KODIAK

Chief Executive Officer

City Manager

Date: _____

Date: _____

[Federally Recognized December, 2000



Sun'aq Tribe of Kodiak

May 3, 2016

Aimee Kniazowski, City Manager
710 Mill Bay Road, Room 114
Kodiak, AK 99615

Dear Ms. Kniazowski:

Thank you for your consideration of the Sun'aq Tribe of Kodiak's proposal to add Shelikof Street to the Sun'aq Tribal Transportation Program's Inventory.

We currently have an inventory of roads that are mostly state-owned; such as, Rezanof Drive and Anton Larsen Bay Road. With our newly purchased Ursin cannery property on Shelikof Street, we have a vested interest in the neighborhood. By adding Shelikof Street in our inventory, we will be able to access Bureau of Indian Affairs (BIA) funds for such things as lighting, signage and other road improvement expenses to benefit the City's road improvement efforts. Including a road in a Tribal inventory does not limit the owner of the road nor relinquish any ownership rights.

All federally-recognized tribes in Alaska have cooperative agreements with the owners of the roads in their inventories, which clearly outlines a collaboration to seek to improve roads of mutual benefit.

Given that we all live in this community together and as the BIA Tribal Transportation Program brings funds to Sun'aq, we would like to contribute support to City of Kodiak roads that benefit us all. These funds are made available to Sun'aq through BIA in support of design, construction or maintenance of Tribal Council approved projects. As we discussed in our meeting yesterday, we would adhere to existing plans like the DOWL Pedestrian Pathways project and keep open communications with your office.

I look forward to potentially developing this agreement.

Regards,


Kathy Drabek

Tribal Transportation
Program Manager

312 W. Marine Way, Kodiak, Alaska 99615 (907) 486-4449

Fax: (907) 486-3361 * E-mail: kddrabek@sunaq.org

Proudly representing the members of the Sun'aq Tribe of Kodiak Island, Alaska

STRIP MAP

Route Name:
Shelikof Street
Route Number:
1012

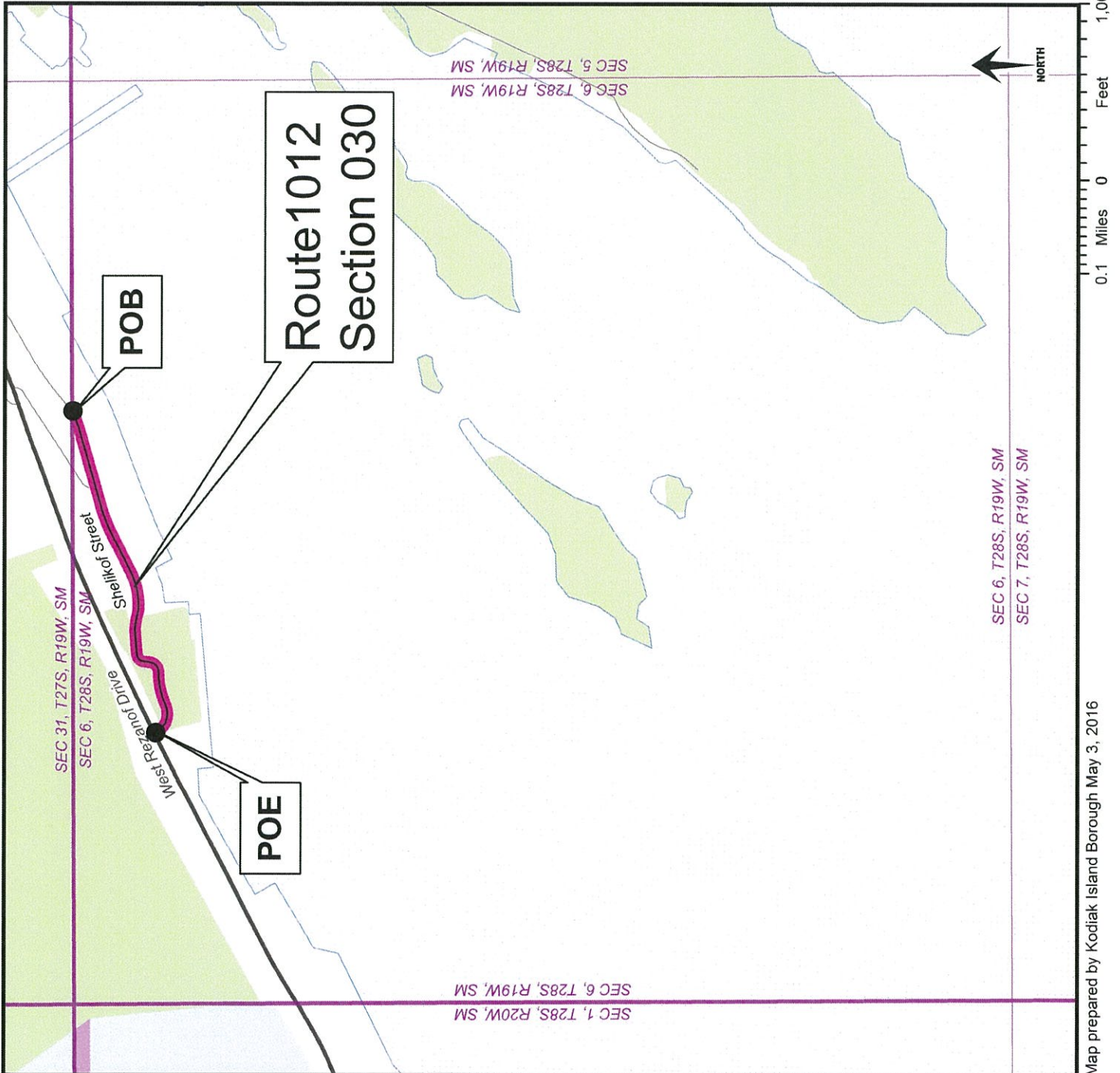
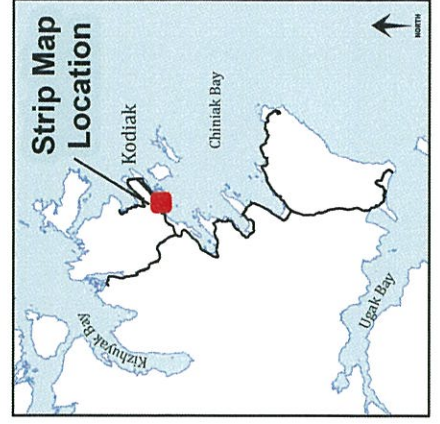
Section:
030

Ownership:
4

Length:
0.37 miles

Borough:
Kodiak Island Borough
Congressional District:
01

Land Ownership
PRIVATE/OTHER
CITY OF KODIAK
STATE OF ALASKA
US COAST GUARD



STRIP MAP

Route Name:
Shelikof Street

Route Number:
1012

Section:
020

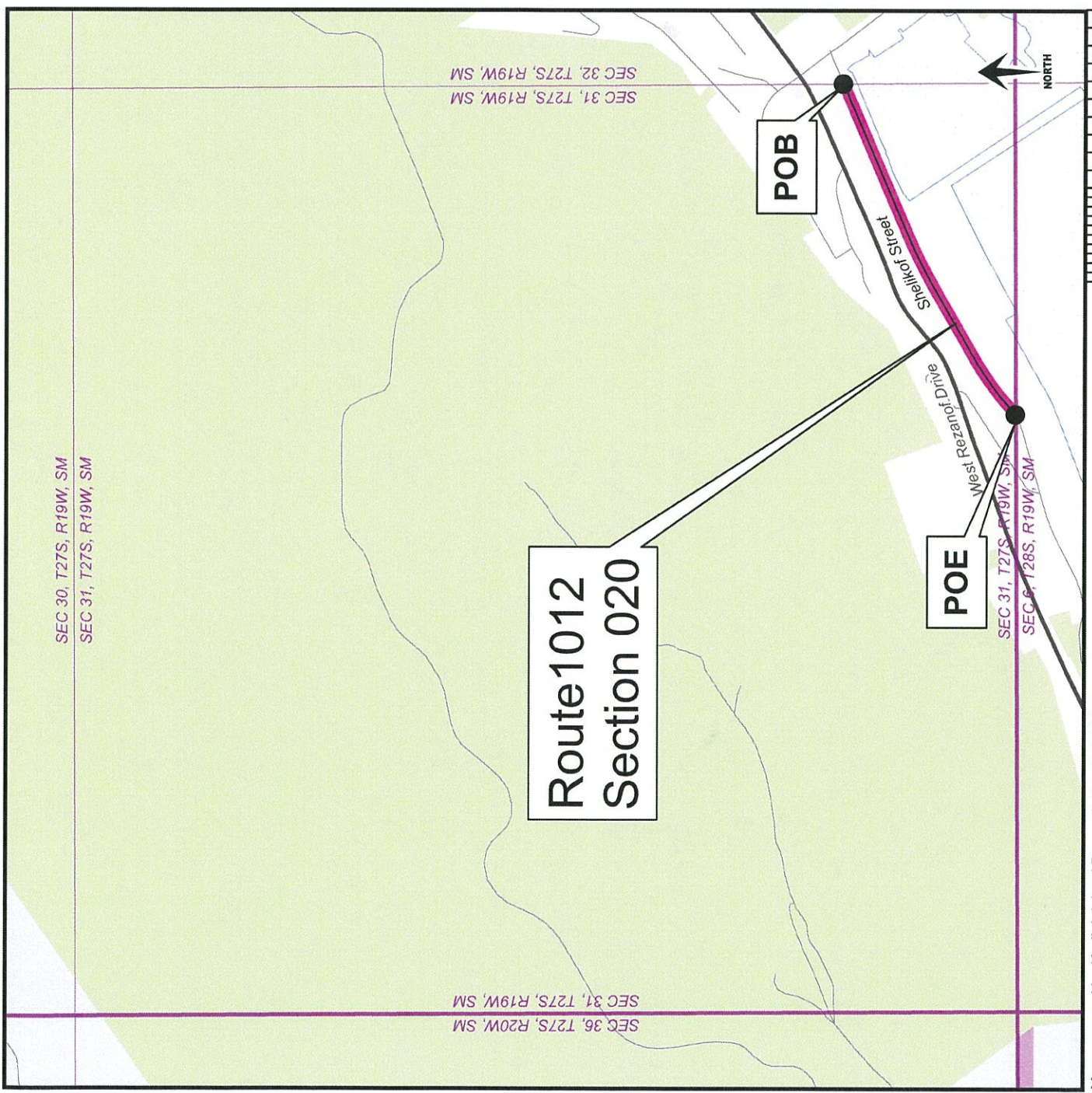
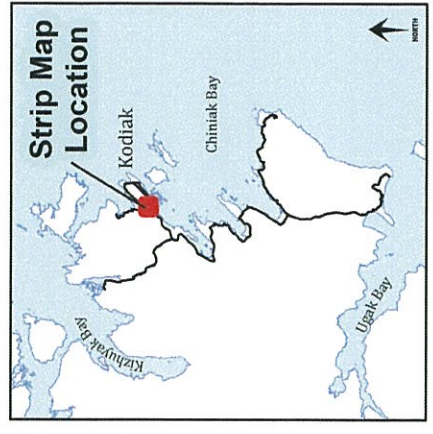
Ownership:
4

Length:
0.42 miles

Borough:
Kodiak Island Borough

Congressional District:
01

- Land Ownership**
- PRIVATE/OTHER
 - ALASKA DEPARTMENT OF FISH & GAME
 - CITY OF KODIAK
 - KODIAK ISLAND BOROUGH
 - STATE OF ALASKA
 - US COAST GUARD



**Route 1012
Section 020**

STRIP MAP

Route Name:
Sheikof Street
Route Number:
1012

Section:
010

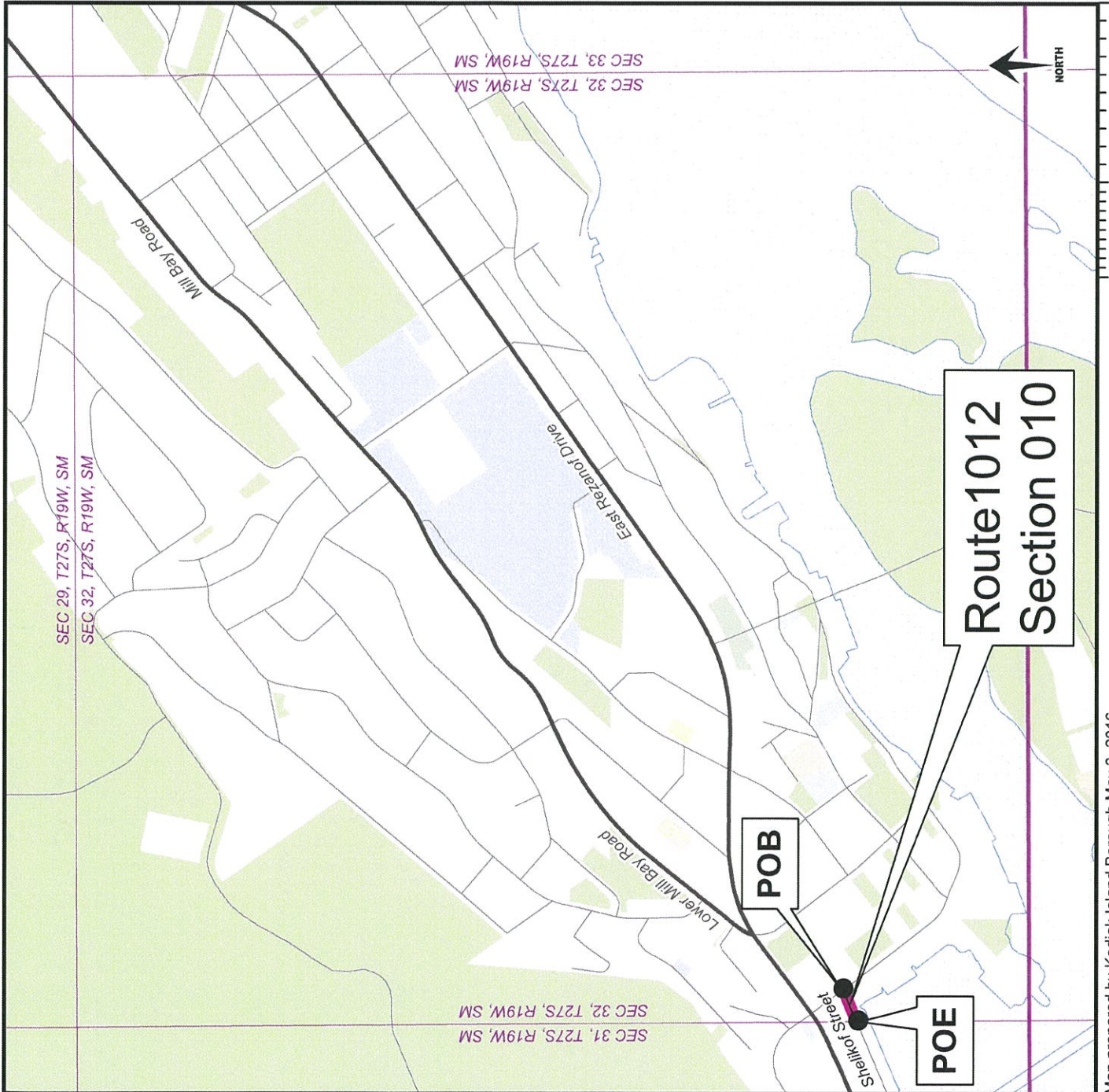
Ownership:
4

Length:
0.03 miles

Borough:
Kodiak Island Borough
Congressional District:
01

Land Ownership

- PRIVATE/OTHER
- BUREAU OF LAND MANAGEMENT
- CITY OF KODIAK
- KODIAK ISLAND BOROUGH
- NATIVE CORPORATION
- STATE OF ALASKA
- USFWS



(This page left intentionally blank.)

NEW BUSINESS

MEMORANDUM TO COUNCIL

To: Mayor Branson and City Councilmembers

From: Aimée Kniazowski, City Manager

Thru: Kelly Mayes, Finance Director and Mike Tvenge, Deputy City Manager *KMM* *MT*

Date: May 26, 2016

Agenda Item: V. a. **First Reading, Ordinance No. 1351, Levying Taxes and Appropriating Funds for the Expenses and Liabilities of the City of Kodiak for the Fiscal Year Commencing on the First Day of July 2016 and Ending on the Thirtieth Day of June 2017**

SUMMARY: Ordinance No. 1351 provides for the adoption of the City of Kodiak's FY 2017 budget. The budget document, which supports the ordinance, estimates all sources of revenue the City anticipates receiving between July 1, 2016, and June 30, 2017. The budget document also establishes an operating and capital expenditure plan for FY2017 that is based on staff's assessment of operational and community needs and the Council's FY2017 budget goals. Staff made the FY2017 budget presentation to Council a special budget work session on May 7, 2016. Staff recommends Council pass Ordinance No. 1351 in the first reading and advance the ordinance to second reading and public hearing at the next regular or special meeting.

PREVIOUS COUNCIL ACTION:

- Prior to the start of each fiscal year, the City Council adopts the City's operating and capital budget by ordinance.
- Council adopted Resolution No. 2016-07, establishing budget goals for fiscal year 2017, on February 11, 2016.
- Council reviewed projected FY2017 revenues and the FY2017 budget calendar on February 23, 2016.
- Staff presented the proposed FY2017 budget to the mayor and Council at a special work session on May 7, 2016.

DISCUSSION: The FY 2017 budget funds the services provided by the City of Kodiak to residents and visitors: law enforcement (including animal control and contract jail services), fire and emergency medical services (including ambulance services), public works (public water system, wastewater system, street and property maintenance), engineering, port and harbor facilities, parks and recreation facilities and programs, public library, and general administrative functions (municipal recordkeeping and financial management).

The proposed FY2017 budget was developed as a maintenance level budget and will attempt to provide the same level of services as the current year's budget with a reduction in overall expenses. This is a

prudent approach since revenues are expected to remain static in some areas and decrease in others while expenses continue to increase. The City Council adopted FY2017 budget goals by resolution in February of this year and staff used the goals to develop and evaluate the proposed operating budget. The proposed budget is consistent with the Council's FY2017 budget goals.

Combined Revenues and Expenses for All Funds

The FY2017 budget projects combined revenues from all funds, excluding capital projects, to be \$35,259,729, which is a decrease of 12.55 percent from FY2016's combined budgeted revenues of \$40,321,286. Revenues are forecasted based on the current fiscal year even though some sources may fluctuate slightly. Expenses for all City funds, excluding capital projects, is expected to also be \$35,259,729, an overall decrease of 12.55 percent from FY2016. Fewer transfers and capital equipment account for the largest decreases in expenses.

Operating Budget

The FY2017 operating budget is primarily a maintenance budget, as it has been for at least the past seven years. As directed, City staff developed a conservative budget. The City, like everyone in the community, continues to face rising costs, but the departments are careful to absorb cost increases whenever and wherever possible. As outlined in the City Council FY2017 goals, a review of all categories of General Fund expenditures was conducted to identify ways to decrease expenses. Even with all the budget cuts, unavoidable cost increases resulted in a 1.35 percent decrease in General Fund expenses before transfers from FY 2016.

General Fund

The General Fund provides funding for those City services that aren't required to be accounted for differently, like the enterprise funds. The General Fund uses revenues from sources such as sales and property taxes to fund the City's administrative functions, such as tax collection and audits, billing, emergency preparedness, information technology, and management of all City functions. It also funds services such as, municipal recordkeeping functions, law enforcement, fire and ambulance, library and recreational services and facilities, and public works and engineering services.

General Fund revenues for FY2017 are projected at \$19,578,224, a decrease of approximately 16.83 percent from FY2016 projections with the largest changes due to a decrease in the appropriation of the fund balance, which was required in FY2016 to fund necessary capital projects. The General Fund is projected to recognize a small surplus in the amount of \$72,702. These budget figures are consistent with Council's FY2017 goal that the General Fund would be budgeted without a deficit with appropriations from the fund balance when/if necessary, and that General Fund operating expenses (non-personnel) will be consistent with those of FY2016.

Fund Balance

The City's General Fund balance has been accumulated from various revenue sources, large and small. Even with conservative budgeting, this fund no longer takes in more revenues than it must spend for expenses to operate the General Fund departments and to provide the necessary services. The FY2016 budget is projected to have \$5.7 million remaining in the fund balance. The FY2017 budget is projected to have an estimated \$5.8 million remaining in the fund balance after the surplus of \$72,702 and transfers in the operating budget. The estimated FY2017 fund balance, if projections are correct, will be needed to offset expenses and provide the City with approximately 3.59 months of operating reserves. Of course, there are many budget variables so this is only a projection and cannot be guaranteed so early in the budgeting process. The proposed FY2017 budget anticipates less use of fund balance than the FY2016 budget because less transfers are being made to fund capital projects.

Personnel

Salaries, wages and benefits are the single largest expense in the City's annual budget, totaling 50 percent. Salaries and wages for FY2017 are estimated to total \$9.4 million or 27 percent of the City's overall expenses. This is less than 2 percent change from FY2016 Citywide salaries and wages and reflects scheduled salary increases. Employee benefit costs are projected at \$8.1 million, 23 percent of the City's overall expense budget, which is a 4.72 percent increase from FY2016.

The FY2016 budget reflects an increase of two full-time employees due to the City's new composting facility. This increases the number of City employees from 126.15 to 128.15 for both FY2016 and FY2017. The City's work force for FY2017 remains at 123 regular full-time employees and 5.15 regular part-time positions working from 20-30 hours per week for a total of 128.15 FTEs.

These changes to the FY2017 budget meet Council's personnel goals. The tracking of part-time personnel is a necessary step in meeting Council's goal to complete an analysis of the need, costs, and hiring process for the City's use of temporary or seasonal employees.

Enterprise Funds

The City has eight separate enterprise funds; the Harbor Department's Cargo Terminal, Boat Harbor, Harbor Electric Utility, and the Boat Yard/Vessel Lift funds; the Water, Sewer, and Trident Basin funds managed by Public Works; and the E911 Fund. The FY2017 budgets for these funds reflect a balance of revenues to expenses.

The E911 Fund was established in FY2010 in preparation for the transfer of E911 extraterritorial authority from the Borough to the City. This transfer has not yet taken place, but the Borough staff has agreed to work toward the transfer of authority or find another way to fairly share in the expenses and responsibilities of providing the service to Kodiak.

Enhancement Fund

The FY2017 budget proposes no use of Enhancement Fund monies. Enhancement Fund monies have not been used since FY2013, so the fund balance can build up, per Council's budget goals. The projected fund balance for the Enhancement Fund in FY2016 is estimated to be \$4.05 million, which is an increase of \$1.2 million from the FY2015 balance.

Capital Projects

The FY2017 budget recommends \$8.2 million in capital project expenditures. This includes seven new capital projects in FY2017 ranging in size from \$5,000 to \$4,369,000. It also includes additional funding for established or ongoing capital projects such as annual curb and sidewalk repairs, Mill Bay Road pavement repairs, Fisherman's Hall remodeling, Downtown Revitalization, Sewer Centrifuge, Aleutian Homes Phase VI, rate studies, and large maintenance projects. Costs for the projects will be covered through use of capital project fund balances. Staff presented the capital projects in detail at the budget work session on May 7, 2016.

ALTERNATIVES:

1. Adopt Ordinance No. 1351 in the first reading and move to second reading and public hearing at the next regular or special Council meeting. This is staff's recommendation.
2. Council may also amend Ordinance No. 1351.

FINANCIAL IMPLICATIONS: The City Council must make appropriations and adopt an annual budget. As presented, this budget retains ongoing service levels while meeting maintenance level budgetary criteria established by Council. The budget meets operational needs and estimates an adequate retention of fund balance in the General Fund.

LEGAL: The Kodiak City Charter and Kodiak City Code grant Council the authority to make appropriations and adopt and amend budgets as required. Article V, Section 2 of the City Charter states the City Manager will prepare and present a proposed budget to the City Council in advance of the fiscal year which begins on July 1st and ends on June 30th. Article V, Section 4 of the City Charter gives the City Council the authority to make appropriations for the next fiscal year and approve or amend the budget. Appropriations must be made and the budget approved by a majority vote of the City Council no later than the third day before the beginning of the new fiscal year, and if the Council fails to approve the budget by that date, the budget as submitted shall go into effect and be considered adopted by the Council.

STAFF RECOMMENDATION: Staff recommends Council pass Ordinance No. 1351 in the first reading with advancement to second reading and public hearing at the next regular or special Council meeting.

CITY MANAGER'S COMMENTS: We have managed to provide Council with another lean budget and minimal staffing without affecting service provision, per Council's FY2017 budget goals. The task

becomes more challenging as costs continue to rise and other sources of governmental funding become more limited. We do expect to have a modest amount of projected revenues for FY2017 for use on capital project needs, many of which are critical.

The preparation of this document and the presentations at the May 7, 2016, special work session reflect a great deal of work by the City staff, including an assessment of operational and community needs necessary to create this annual financial plan. I want to thank our management team for their serious commitment to meeting Council's goals and for their fiscal responsibility, not just in preparation of this draft budget, but on an ongoing basis.

DEPUTY CITY MANAGER'S COMMENTS: I also wish to thank the City staff for their commitment to a reduced budget for FY2017. The goal with this budget not only aligns with Council goals but is meant to afford Council time to assess our overall fiscal health. We are prudent to maintain an operating reserve and yet we have infrastructure needs which must be addressed, such as roads, harbor upgrades, and facilities and equipment. Kodiak is not alone in this balance of funding services with limited revenues; however, I recommend we dedicate energy towards planning for a sustainable fiscal plan in the coming months.

ATTACHMENTS:

Attachment A: Ordinance No. 1351

PROPOSED MOTION:

Move to pass Ordinance No. 1351 in the first reading and advance to second reading and public hearing at the next regular or special Council meeting.

**CITY OF KODIAK
ORDINANCE NUMBER 1351**

AN ORDINANCE OF THE COUNCIL OF THE CITY OF KODIAK LEVYING TAXES AND APPROPRIATING FUNDS FOR THE EXPENSES AND LIABILITIES OF THE CITY OF KODIAK FOR THE FISCAL YEAR COMMENCING ON THE FIRST DAY OF JULY 2016 AND ENDING ON THE THIRTIETH DAY OF JUNE 2017

BE IT ORDAINED by the Council of the City of Kodiak as follows:

- Section 1:** A tax in the amount of 2.0 mills is hereby levied against all taxable real property within the City of Kodiak for the fiscal year commencing on the first day of July 2016 and ending on the thirtieth day of June 2017.
- Section 2:** The following sums of money are hereby appropriated for corporate purposes and objects of the City of Kodiak for the fiscal year commencing on the first day of July 2016 and ending on the thirtieth day of June 2017 to defray expenses and liabilities of the City during the fiscal year.

FY2017 BUDGET SUMMARY

GENERAL FUND

	Anticipated Revenues		Planned Expenditures
Taxes	\$ 13,281,000		
Licenses & Permits	52,300		
Intergovernmental Revenues	2,813,431		
Charges for Services	1,661,217		
Fines & Forfeitures	15,000		
Interest	10,000		
Rents & Royalties	230,000		
Miscellaneous	22,000		
Interfund Charges	1,565,978		
Appropriation to Fund Balance	(72,702)		
Total Anticipated Revenues	19,578,224		
Legislative		\$	288,404
Legal			100,000
Executive-Administration			704,353
Executive-Emergency Preparedness			38,000
City Clerk-Administration			350,890
City Clerk-Records Management			189,406

GENERAL FUND EXPENDITURES CONTINUED

Finance	1,421,001
Police	7,139,995
Fire	2,410,371
Public Works	2,228,043
Engineering	280,451
Parks & Recreation	1,513,707
Library	988,352
Non-Departmental	1,925,251
Total Planned Expenditures	19,578,224

SPECIAL REVENUE FUND

	Anticipated
	Revenues
Tourism Fund	\$ 189,500
City Enhancement Fund	-
Total Anticipated Revenues	189,500

	Planned
	Expenditures
Tourism Fund	\$ 189,500
City Enhancement Fund	-
Total Planned Expenditures	189,500

CAPITAL PROJECTS FUND

	Anticipated
	Revenues
General Capital	\$ 83,790
Street Improvements	1,500,000
Building Improvement Fund	-
Water Capital Fund	4,469,000
Sewer Capital Fund	1,515,000
Cargo Development Fund	-
Harbor Development Fund	250,000
Parks & Recreation Fund	134,000
Vehicle Replacement Fund	203,594
Total Anticipated Revenues	8,155,384

CAPITAL PROJECTS FUND CONTINUED

General Capital	\$ 83,790
Street Improvements	1,500,000
Building Improvement Fund	-
Water Capital Fund	4,469,000
Sewer Capital Fund	1,515,000
Cargo Development Fund	-
Harbor Development Fund	250,000
Parks & Recreation Fund	134,000
Vehicle Replacement Fund	203,594
Total Planned Expenditures	8,155,384

ENTERPRISE FUNDS

	Anticipated Revenues
Cargo Fund	\$ 1,066,194
Harbor Fund	3,791,619
Boat Yard Lift	1,283,398
Harbor Electric Fund	637,884
Water Utility Fund	3,365,988
Sewer Utility Fund	4,483,078
Trident Basin Fund	301,293
E-911 Services	13,611
Total Anticipated Revenues	14,943,065

	Planned Expenditures
Cargo Fund	\$ 1,066,194
Harbor Fund	3,791,619
Boat Yard Lift	1,283,398
Harbor Electric Fund	637,884
Water Utility Fund	3,365,988
Sewer Utility Fund	4,483,078
Trident Basin Fund	301,293
E-911 Services	13,611
Total Planned Expenditures	14,943,065

INTERNAL SERVICE FUNDS

	Anticipated	
	Revenues	
Self Insurance Fund	\$	548,940
Total Anticipated Revenues		548,940

		Planned
		Expenditures
Self Insurance Fund	\$	548,940
Total Planned Expenditures		548,940

Grand Total Anticipated Revenues	\$	43,415,113	
Grand Total Planned Expenditures			\$ 43,415,113

Non- Projects	35,259,729
Non- Projects	35,259,729

Projects	8,155,384
Projects	8,155,384

Total	43,415,113
Total	43,415,113

Section 3: All unexpended appropriation balances, with the exception of capital project fund appropriations, shall lapse to the appropriate fund as of June 30, 2017.

Section 4: This ordinance shall go into effect July 1, 2016.

CITY OF KODIAK

MAYOR

ATTEST:

CITY CLERK

First Reading:
Second Reading:
Effective Date:

(This page left intentionally blank.)

MEMORANDUM TO COUNCIL

To: Mayor Branson and City Council Members

From: Aimée Kniaziowski, City Manager

Thru: Kelly Mayes, Finance Director ^{KMM} and Mike Tvenge, Deputy City Manager ^{MT}

Date: May 26, 2016

Agenda Item: V. b. **First Reading Ordinance No. 1352, Establishing Supplemental Appropriation No. 2 to the Budget for the Fiscal Year Commencing on the First Day of July 2015 and Ending On the Thirtieth Day of June 2016**

SUMMARY: The Supplemental Appropriation No. 2 to the budget for the fiscal year commencing on the first day of July 2015 and ending on the thirtieth day of June 2016 is in the amount of \$3,767,357. It is customary for the City Council to approve at least one supplemental budget annually to authorize the adjustments of current revenues and expenses as detailed in the attachments provided. These adjustments are for the operating funds as well as additions to project funds for grant revenues received and additional expenditures needed that were not known at the time the original budget was adopted or Supplemental No. 1, Ordinance No. 1342 was presented and passed. This is the second and final budget amendment of FY2016. Staff recommends Council pass Ordinance No. 1352 in the first reading and advance to second reading and public hearing at the next regular or special Council meeting.

PREVIOUS COUNCIL ACTION:

- June 11, 2015, Council adopted Ordinance No. 1334 for the FY2016 budget in the amount of \$42,503,069 commencing on the first day of July 2015 and ending on the thirtieth day of June 2016.
- January 26, 2016, Council reviewed the budget amendment at the work session.
- February 11, 2016, Council adopted Ordinance No. 1342 for the FY2016 Supplemental Appropriation No. 1 to the budget for the fiscal year commencing on the first day of July 2015 and ending on the thirtieth day of June 2016 in the amount of \$2,886,917.

DISCUSSION: The adoption of the budget by the City Council puts the budget into effect for the budget year July 1 through June 30. Amendments to the budget can occur anytime during the fiscal year through a supplemental budget ordinance, which is introduced at one Council meeting and typically adopted at the next Council meeting.

All new appropriations are authorized by an ordinance that amends the annual budget ordinance. An ordinance is required to move amounts between funds, departments and projects. An ordinance is required to move funds, to add permanent personnel, or to grant unscheduled salary increases. The

Supplemental No. 2 Appropriation is requesting the addition of \$3,767,357 to the adopted budget bringing the total amended budget to \$50,467,343 for FY2016.

The Supplemental No. 2 Appropriation is requesting an increase in non-capital funds in the amount of \$1,870,092 and an increase in capital funds in the amount of \$1,897,265. Of the \$1,870,092 increase for non-capital funds, 1,878,492 is related to the State of Alaska loan funds that were received by the Water Utility fund and transferred to the Water Capital Improvement fund for the Monashka Pump House project. The remaining non-capital funds are to correct a typo for an account classification related to the transfer to the Enhancement fund during Supplemental No. 1, discounts recognized for health insurance, and necessary adjustments for unanticipated grant funds received, and additional funds for the new Compost Facility. Additions to capital projects included the transfer of the State of Alaska loan funds received related to the Monashka Pump House, grant funds received for the 2015 Federal Department of Justice grant, and adjustments for new vehicles to the vehicle replacement fund.

FINANCIAL IMPLICATIONS: All expense appropriations requested in Supplemental Appropriation No. 2 are funded by increased revenue sources, additional state and federal grant sources, and use of fund balances and transfers. The ordinance makes a number of changes in the FY2016 budget reflecting increased revenues and expenditures, new project and grant funding, and movement of funds to more accurately reflect current City operations. Details of funding sources and expenses have been submitted in the attachments.

LEGAL: The Kodiak City Charter and Kodiak City Code grant Council the authority to make appropriations and adopt and amend budgets as required.

STAFF RECOMMENDATION: Staff recommends Council pass Ordinance No. 1352 in the first reading and advance to second reading and public hearing at the next regular or special Council meeting.

CITY MANAGER'S and DEPUTY CITY MANAGER'S COMMENTS: The City traditionally adopts one or more major budget amendments each fiscal year to make necessary adjustments to cover changes or additions to projects, to account for the receipt of additional revenues, and increased operating expenses. The ordinance and attachments detail the sections of the City's operating and capital budget that require changes. I recommend Council pass Ordinance No. 1352 in the first reading and advance to second reading and public hearing at the next regular or special Council meeting

ATTACHMENTS:

Attachment A: Ordinance 1352

Attachment B: Detail of supplemental budget No. 2

PROPOSED MOTION:

Move to pass Ordinance No. 1352 in the first reading and advance to second reading and public hearing at the next regular or special Council meeting.

**CITY OF KODIAK
ORDINANCE NUMBER 1352**

**AN ORDINANCE OF THE COUNCIL OF THE CITY OF KODIAK ESTABLISHING
SUPPLEMENTAL APPROPRIATION NO. 2 TO THE BUDGET FOR THE FISCAL YEAR
COMMENCING ON THE FIRST DAY OF JULY 2015 AND ENDING ON THE THIRTIETH
DAY OF JUNE 2016**

BE IT ORDAINED by the Council of the City of Kodiak, Alaska, as follows:

Section 1: The following estimated revenues and expenditures are hereby appropriated for the corporate purposes and objects of the City of Kodiak for fiscal year 2016.

	GENERAL FUND				Final FY 2016 Budget
	Budget	Supplemental #1	Resolutions	Supplemental # 2	
Anticipated Revenues:					
Property Tax	\$ 1,003,500	\$ -	\$ -	\$ -	\$ 1,003,500
Sales Tax	12,027,500	-	-	-	12,027,500
Licenses and Permits	89,800	-	-	-	89,800
Intergovernmental	2,948,420	15,000	-	-	2,963,420
Charges for Services	1,660,317	-	-	-	1,660,317
Fines and Forfeitures	15,000	-	-	-	15,000
Interest Income	10,000	-	-	-	10,000
Rental Income	230,000	-	-	-	230,000
Other Revenues	22,000	-	-	322,384	344,384
Interfund Charges	1,198,832	-	-	11,577	1,210,409
Use of Fund Balance	3,346,341	973,880	-	(333,961)	3,986,260
Transfers In	-	-	-	-	-
Total Amended Revenues	\$ 22,551,710	\$ 988,880	\$ -	\$ -	\$ 23,540,590
Planned Expenditures:					
Legislative	\$ 296,454	\$ -	\$ -	\$ -	\$ 296,454
Legal	50,000	150,000	-	-	200,000
Executive	663,067	7,886	-	-	670,953
Emergency Preparedness	56,500	-	-	-	56,500
City Clerk	492,970	-	-	-	492,970
Finance	1,529,160	-	-	-	1,529,160
Police	6,868,059	57,738	-	-	6,925,797
Fire	2,208,736	8,475	-	-	2,217,211
Public Works	2,748,851	-	-	-	2,748,851
Engineering	294,070	-	-	-	294,070
Parks & Recreation	1,479,354	-	-	-	1,479,354
Library	1,044,680	-	-	-	1,044,680
Non-Departmental	658,790	24,267	-	-	683,057
Transfers	4,161,019	740,514	-	-	4,901,533
Total Amended Expenditures	\$ 22,551,710	\$ 988,880	\$ -	\$ -	\$ 23,540,590

SPECIAL REVENUE FUNDS

	Budget	Supplemental #1	Resolutions	Supplemental #2	Final FY 2016 Budget
Anticipated Revenues:					
Tourism Development	\$ 189,500	\$ -			\$ 189,500
Disaster Administration	-	10,356			\$ 10,356
City Enhancement	-	748,400		(748,400)	\$ -
Total Amended Revenues	\$ 189,500	\$ 758,756	\$ -	\$ (748,400)	\$ 199,856
Planned Expenditures:					
Tourism Development	\$ 189,500	\$ -			\$ 189,500
Disaster Administration	-	10,356			\$ 10,356
City Enhancement	-	748,400		(748,400)	\$ -
Total Amended Expenditures	\$ 189,500	\$ 758,756	\$ -	\$ (748,400)	\$ 199,856

CAPITAL PROJECTS

	Budget	Supplemental #1	Resolutions	Supplemental #2	Final FY 2016 Budget
Anticipated Revenues:					
300 General Capital Projects	\$ 20,000	\$ 289,281	\$ -	\$ 15,129	\$ 324,410
315 Vehicle Replacement Capital	171,019	-	-	3,644	174,663
301 Street Improvements	2,190,000	-	-	-	2,190,000
302 Building Improvements	1,000,000	-	-	-	1,000,000
305 Water Capital Fund	315,000	-	-	1,878,492	2,193,492
306 Sewer Capital Fund	235,000	250,000	-	-	485,000
307 Cargo Development Fund	-	-	655,000	-	655,000
308 Harbor Development	475,000	-	-	-	475,000
309 Parks & Recreation Fund	30,000	-	-	-	30,000
Total Amended Revenues	\$ 4,436,019	\$ 539,281	\$ 655,000	\$ 1,897,265	\$ 7,527,565
Planned Expenditures:					
300 General Capital Projects	\$ 20,000	\$ 289,281	\$ -	\$ 15,129	\$ 324,410
315 Vehicle Replacement Capital	171,019	-	-	3,644	174,663
301 Street Improvements	2,190,000	-	-	-	2,190,000
302 Building Improvements	1,000,000	-	-	-	1,000,000
305 Water Capital Fund	315,000	-	-	1,878,492	2,193,492
306 Sewer Capital Fund	235,000	250,000	-	-	485,000
307 Cargo Development Fund	-	-	655,000	-	655,000
308 Harbor Development	475,000	-	-	-	475,000
309 Parks & Recreation Fund	30,000	-	-	-	30,000
Total Amended Expenditures	\$ 4,436,019	\$ 539,281	\$ 655,000	\$ 1,897,265	\$ 7,527,565

ENTERPRISE FUNDS

	Budget	Supplemental #1	Resolutions	Supplemental # 2	Final FY 2016 Budget
Anticipated Revenues:					
Cargo Fund 500	\$ 1,051,529	\$ -	\$ 655,000	\$ -	\$ 1,706,529
Harbor Fund 510	3,605,033	-	-	-	3,605,033
Boat Yard/Lift 512	1,276,715	-	-	-	1,276,715
Electric Fund 515	616,590	-	-	-	616,590
Water Fund 550	3,338,046	-	-	2,193,492	5,531,538
Sewer Fund 570	4,570,353	350,000	-	425,000	5,345,353
Trident Basin Fund 580	305,454	-	-	-	305,454
E-911 Services	13,180	-	-	-	13,180
Total Amended Revenues	\$ 14,776,900	\$ 350,000	\$ 655,000	\$ 2,618,492	\$ 18,400,392

Planned Expenditures:					
Cargo Fund 500	\$ 1,051,529	\$ -	\$ 655,000	\$ -	\$ 1,706,529
Harbor Fund 510	3,605,033	-	-	-	3,605,033
Boat Yard/Lift 512	1,276,715	-	-	-	1,276,715
Electric Fund 515	616,590	-	-	-	616,590
Water Fund 550	3,338,046	-	-	2,193,492	5,531,538
Sewer Fund 570	4,570,353	350,000	-	425,000	5,345,353
Trident Basin Fund 580	305,454	-	-	-	305,454
E-911 Services	13,180	-	-	-	13,180
Total Amended Expenditures	\$ 14,776,900	\$ 350,000	\$ 655,000	\$ 2,618,492	\$ 18,400,392

INTERNAL SERVICE FUND

	Budget	Supplemental #1	Resolutions	Supplemental # 2	Final FY 2016 Budget
Anticipated Revenues:					
Self Insurance Fund	\$ 548,940	\$ -	\$ -	\$ -	\$ 548,940
Appropriation of Fund Balance	-	250,000	-	-	250,000
Total Amended Revenues	\$ 548,940	\$ 250,000	\$ -	\$ -	\$ 798,940

Planned Expenditures:					
Self Insurance Fund	\$ 548,940	\$ 250,000			\$ 798,940
Total Amended Expenditures	\$ 548,940	\$ 250,000	\$ -	\$ -	\$ 798,940

Total Revenues	\$ 42,503,069	\$ 2,886,917	\$ 1,310,000	\$ 3,767,357	\$ 50,467,343
Total Expenditures	\$ 42,503,069	\$ 2,886,917	\$ 1,310,000	\$ 3,767,357	\$ 50,467,343

Section 2: This ordinance shall be in full force and effect from and after its passage as required by law.

CITY OF KODIAK

MAYOR

ATTEST:

CITY CLERK

First Reading:
Second Reading:
Effective Date:

CITY OF KODIAK
FY 2016 Supplemental Budget

Attachment B

	Adopted Budget 2016	Capital Projects LTD	Resolutions FY 2016	Supplemental #1 2016	Supplemental # 2 2016	Total Budget 2016
Fund 100 General Fund						
REVENUES:						
310.100 Property Taxes	1,000,000					1,000,000
310.111 PILOT from KIHA	3,500					3,500
310.200 Sales Taxes	12,000,000					12,000,000
310.900 Penalty & Interest	27,500					27,500
320.000 License & Permits	89,800					89,800
330.100 PERS Relief	1,357,920					1,357,920
330.105 State Revenue Sharing	150,000					150,000
330.130 Fish Tax - Dept of Rev	1,283,000					1,283,000
330.131 Fish Tax - DCED (Shared Fish Tax)	75,000					75,000
330.140 Fuel Tax Sharing	7,500					7,500
330.150 Alcohol Beverage Sharing	20,000					20,000
330.160 Utility Revenue Sharing	45,000					45,000
330.300 State Grant Capital	10,000					10,000
330.325 Federal Grt - Operating	-			15,000		15,000
340.100 Boarding of Prisoners	991,552					991,552
340.110 State Trooper Comm Contract	78,750					78,750
340.120 Other Police Services	5,000					5,000
340.130 Police Protective Custody	2,000					2,000
340.210 Borough Animal Control Services	109,415					109,415
340.240 Borough Building Inspections	120,000					120,000
340.300 Ambulance Services	200,000					200,000
340.310 Fire Miscellaneous	5,000					5,000
340.405 School Lifeguard Services	15,000					15,000
340.405 Parks & Recreation Revenues	108,500					108,500
340.520 Library Revenue	15,900					15,900
340.545 Miscellaneous Service Charges	9,200					9,200
350.100 Fines & Forfeits	15,000					15,000
360.100 Interest on Investments	10,000					10,000
363.100 Rents & Royalties	230,000					230,000
375.600 Miscellaneous other	22,000					22,000
375.605 Insurance discounts received	-				322,384	322,384
380.100 Cargo Terminal Services	86,996					86,996
380.110 Boat Harbor Services	211,466					211,466
380.115 Boat Yard Service	59,651					59,651
380.118 Electric	38,864					38,864
380.120 Water Services	253,506					253,506
380.121 Sewer Services	268,048					268,048
380.125 Trident Basin	8,601					8,601
380.130 Tourism Services	45,150					45,150
380.150 Public Works	55,531				7,933	63,464
380.400 Vehicle Replacement	171,019				3,644	174,663
385.100 Approp. From Fund Balance	3,346,341			973,880	(333,961)	3,986,260
TOTAL REVENUES	22,551,710			988,880	-	23,540,590

EXPENDITURES:

Legislative	296,454					296,454
Legal	50,000			150,000		200,000
Executive	663,067			7,886		670,953
Emergency Preparedness	56,500					56,500
City Clerk - Clerk	324,210					324,210
City Clerk - Records	168,760					168,760
Finance	1,529,160					1,529,160
Police	6,868,059			57,738		6,925,797
Fire	2,208,736			8,475		2,217,211
Public Works	2,748,851					2,748,851
Engineering	294,070					294,070

CITY OF KODIAK
FY 2016 Supplemental Budget

	Adopted Budget 2016	Capital Projects LTD	Resolutions FY 2016	Supplemental #1 2016	Supplemental # 2 2016	Total Budget 2016
Parks & Recreation	1,479,354					1,479,354
Library	1,044,680					1,044,680
Non-Departmental	658,790			24,267		683,057
Transfers	4,161,019			740,514		4,901,533
TOTAL EXPENDITURES	22,551,710		-	988,880	-	23,540,590

Fund 251 Tourism Development

Revenues:						
Hotel/Motel Tax	170,500					170,500
Approp. From Fund Balance	19,000					19,000
Revenues:	189,500		-	-	-	189,500

Expenditures:	189,500			-		189,500
---------------	----------------	--	--	----------	--	----------------

Fund 298 Disaster Administration

Revenues:						
Revenues from AK Forestry Service	-			2,470		2,470
Transfer from General Fund	-			7,886		7,886
Revenues:	-		-	10,356	-	10,356

Expenditures:	-			10,356		10,356
---------------	----------	--	--	---------------	--	---------------

Fund 299 City Enhancement

Revenues:						
Interest on Investments	40,000					40,000
Rentals from others	66,800					66,800
Approp. From Fund Balance	(106,800)				(748,400)	(855,200)
Transfer from General Fund	-			748,400		748,400
Revenues:	-		-	748,400	(748,400)	-

Expenditures:	-			748,400	(748,400)	-
---------------	----------	--	--	----------------	------------------	----------

Fund 300 General Capital Projects

Revenue:						
State Grants	-	381,472				381,472
Federal Grants	-	327,684		64,281	15,129	407,094
Approp. From Fund Balance	-	50,000				50,000
Transfer from General Fund	20,000	2,379,500				2,399,500
Transfer from Tourism Fund	-	25,000				25,000
Transfer from Insurance Fund	-			225,000		225,000
Transfer from Enhancement Fund		100,000				100,000
Transfer from Harbor Fund		20,000				20,000
Transfer from Land Development		70,000				70,000
Revenues:	20,000	3,353,656	-	289,281	15,129	3,678,066

Expenditures:						
4002 City Land Development		170,000				170,000
4009 Compr Records Management Prog		275,000				275,000
4013 Museum Building - Phase I		250,000				250,000
4015 Fire Station Upgrades		550,000				550,000
4028 Financial Software Upgrade		530,000				530,000
4029 E-911 Upgrade System		656,472				656,472
4030 Classification & Compensation Study		100,000				100,000
4035 Demolition of Old KPD & 1118 Mission		545,500				545,500
4039 Downtown Revitalization Project		175,000				175,000
4040 Assistance to Firefighters Grant		81,684				81,684
4041 City Website Development Project		20,000				20,000

CITY OF KODIAK
FY 2016 Supplemental Budget

	Adopted Budget 2016	Capital Projects LTD	Resolutions FY 2016	Supplemental #1 2016	Supplemental # 2 2016	Total Budget 2016
4042 Long Term Records Storage	20,000					20,000
4043 2015 SHSP Grant				64,281		64,281
4044 Storm Damage				225,000		225,000
4045 KPD DOJ Grant					15,129	15,129
Expenditures:	20,000	3,353,656	-	289,281	15,129	3,678,066

Fund 315 Vehicle Replacement Capital Fund

Revenue:						
Transfer from General Fund	171,019	272,580			3,644	447,243
Revenues:	171,019	272,580	-	-	3,644	447,243

Expenditures:						
4900 Vehicle Replacement Capital	171,019	272,580			3,644	447,243
Expenditures:	171,019	272,580	-	-	3,644	447,243

Fund 301 Street Improvement

Revenue:						
Interest on Investments	-	120,000				120,000
Approp. From Fund Balance	(450,000)	653,000				203,000
Transfer from General Fund	2,420,000	1,961,000				4,381,000
Transfer from Cargo Fund	-	5,000				5,000
Transfer from Shipyard Fund	-	11,000				11,000
Transfer from Water Fund 550	110,000	684,032				794,032
Transfer from Sewer Fund 570	110,000	99,000				209,000
Revenues:	2,190,000	3,533,032	-	-	-	5,723,032

Expenditures:						
5003 Annual Sidewalk/Curb	30,000	720,032				750,032
5025 Pavement Repairs	-	1,600,000				1,600,000
5030 Preliminary Design of Snow Dump Storage Yard	500,000	570,000				1,070,000
5031 Storm Drainage Repair on Shelikof	-	-				-
5032 Storm Drainage Repair on Simeonof	450,000	465,000				915,000
5033 Pillar-Mountain Waste Material Dump Site	-	60,000				60,000
5034 Public Works Rock for Maintenance	-	60,000				60,000
5035 SPCC Spill Prevention	-	58,000				58,000
5036 Mill Bay Road Rebuild	1,200,000	-				1,200,000
5037 Underground Storage Tank Inspection, Testing & Maintenance	10,000	-				10,000
Expenditures:	2,190,000	3,533,032	-	-	-	5,723,032

Fund 302 Building Improvement Fund

Revenues:						
Interest on Investments	-	1,185				1,185
State Grants	-	6,900,000				6,900,000
Local Funding - Pledges	-	750,000				750,000
Local Funding Grant	-	500,000				500,000
Other Local Funding	-	46,763				46,763
In-Kind City Owned Land	-	650,000				650,000
In-Kind Pre Development	-	85,000				85,000
Transfer from General Fund	1,000,000	1,110,000				2,110,000
Transfer from New Library Fund 255	-	5,424				5,424
Transfer from Enhancement Fund	-	2,510,000				2,510,000
Revenues:	1,000,000	12,558,372	-	-	-	13,558,372

CITY OF KODIAK
FY 2016 Supplemental Budget

	Adopted Budget 2016	Capital Projects LTD	Resolutions FY 2016	Supplemental #1 2016	Supplemental # 2 2016	Total Budget 2016
Expenditures:						
6012 New Library	-	12,448,372				12,448,372
6015 New Fire Station	1,000,000	110,000				1,110,000
Expenditures:	1,000,000	12,558,372	-	-	-	13,558,372

Fund 305 Water Capital

Revenues:						
Interest on Investments						
State Grants	-	13,541,547				13,541,547
Federal Grants	-	768,000				768,000
Approp. From Fund Balance	-	464,106				464,106
ADEC Drinking Loans	-	7,284,890			1,878,492	9,163,382
Water Sales Fee	-	-				-
Transfer from Water Fund 550	315,000	4,427,712				4,742,712
ADEC Clean Water Loans		341,930				341,930
Transfer from Sewer Fund 570		2,447,712				2,447,712
Transfer from Street Improvement Fund		78,000				78,000
Revenues:	315,000	29,353,897	-	-	1,878,492	31,547,389

Expenditures:						
7023 UV Water Treatment Facility Construction	-	6,859,589				6,859,589
7024 Utility Rate Study	-	96,000				96,000
7026 Aleutian Homes Water & Sewer Replacement Proj Phase V	-	10,001,792				10,001,792
7029 Monashka Pump House Feasibility Study	-	11,530,986			1,878,492	13,409,478
7031 Monashka Watershed Survey	-	250,000				250,000
7033 Pillar Creek Dam Spillway Repair Work	-	100,000				100,000
7036 Annual Electric Maintenance	50,000	50,000				100,000
7037 Aleutian Homes Water & Sewer Replacement Project: Phase VI	-	465,530				465,530
7038 Monashka Transmission Line	205,000					205,000
7039 Dam Safety	60,000					60,000
Expenditures:	315,000	29,353,897	-	-	1,878,492	31,547,389

Fund 306 Sewer Capital Fund

Revenues:						
Interest on Investments						
Charges for Sewer Sales (10%)	-	26,000				26,000
Approp. From Fund Balance	235,000	1,610,000		250,000		2,095,000
Sewer Sales Fee						-
Transfer from Sewer fund 570	-	6,000,000				6,000,000
Transfer from Water fund 550	-	1,200,000				1,200,000
Transfer from Street Improvement Fund 301	-	15,000				15,000
Revenues:	235,000	8,851,000	-	250,000	-	9,336,000

Expenditures:						
7508 Lift Station Electric (5)	-	26,000				26,000
7509 Upgrade Lift Station #1	175,000	1,050,000		250,000		1,475,000
7512 Aeration Basin Air Control System	-	150,000				150,000
7513 Inflow & Infiltration Repair materials	-	25,000				25,000
7514 Rehabilitate Press pump Station	-	400,000				400,000
7517 Bio Solid Management Project	-	7,200,000				7,200,000
7518 APDES Permit Renewal	60,000	-				60,000
Expenditures:	235,000	8,851,000	-	250,000	-	9,336,000

CITY OF KODIAK
FY 2016 Supplemental Budget

	Adopted Budget 2016	Capital Projects LTD	Resolutions FY 2016	Supplemental #1 2016	Supplemental # 2 2016	Total Budget 2016
Fund 307 Cargo Development Fund						
Revenues:						
State Grants	-	35,784,000				35,784,000
Transfer from Cargo Fund	-	2,240,000	655,000			2,895,000
Transfer from General Fund	-	100,000				100,000
Approp. From Fund Balance	-	847,700				847,700
Revenues:	-	38,971,700	655,000	-	-	39,626,700

Expenditures:						
8016 Pedestrian Access from Pier II	-	2,400,000				2,400,000
8017 Inspection Pier II and Inner Harbor Docks	-	85,700				85,700
8018 Security Improvements	-	50,000				50,000
8023 Pedestrian Pathway	-	384,000				384,000
8024 Pier III Replacement	-	36,052,000	655,000			36,707,000
Expenditures:	-	38,971,700	655,000	-	-	39,626,700

Fund 308 Harbor Development

Revenues:						
Interest on Investments						
State Grant	-	1,500,000				1,500,000
Approp. From Fund Balance	(25,000)	885,000				860,000
Transfer from General Fund	500,000	780,000				1,280,000
Transfer from Boat Harbor	-	1,000,000				1,000,000
Revenues:	475,000	4,165,000	-	-	-	4,640,000

Expenditures:						
8516 Float, Boat Launch, SPH	-	150,000				150,000
8517 Restrooms, Fisherman's Hall	-	200,000				200,000
8520 SHH Repairs	-	745,000				745,000
8521 Channel Transient Float/ Bull Rails	-	25,000				25,000
8523 Oscar's Dock Fender Pilling Replacement	-	45,000				45,000
8525 Channel Transient Float Replacement	-	3,000,000				3,000,000
8526 Oscar's Dock Electric	150,000	-				150,000
8527 Decking for Dock 1	100,000	-				100,000
8528 Security Cameras	25,000	-				25,000
8529 St Herman's Harbor Parking Improvements	200,000	-				200,000
Expenditures:	475,000	4,165,000	-	-	-	4,640,000

Fund 309 Parks & Rec Capital

Revenue:						
Interest on Investments						
State Grants	-	5,850,000				5,850,000
Local Grants	-	500,000				500,000
Approp. From Fund Balance	(20,000)	331,000				311,000
Transfer from Enhancement Fund	-	500,000				500,000
Transfer from General Fund	50,000	278,094				328,094
Revenues:	30,000	7,459,094	-	-	-	7,489,094

Expenditures:						
9001 Baranof Park Improvements (E&D)	(16,001)	7,015,000				6,998,999
9004 Playground Equipment & Improve	-	-				-
9007 Storage Building - Baranof Park	-	115,000				115,000

CITY OF KODIAK
FY 2016 Supplemental Budget

	Adopted Budget 2016	Capital Projects LTD	Resolutions FY 2016	Supplemental #1 2016	Supplemental # 2 2016	Total Budget 2016
9012 Baranof Baseball Field Improvements	-	48,094				48,094
9013 Major Park Maintenance	-	121,000				121,000
9014 Building Improvement (Weatherization)	-	50,000				50,000
9015 Skate Park Improvements	16,001	110,000				126,001
9016 Teen Center Floor Replacement	30,000	-				30,000
Expenditures:	30,000	7,459,094	-	-	-	7,489,094

Fund 500 Cargo Terminal

Revenue:						
PERS Relief	33,570					33,570
Dockage Pier III	130,000					130,000
Cruise Ship Revenues	70,000					70,000
Pier III Lease	280,500					280,500
Wharf	475,000					475,000
Interest on Investments	7,000					7,000
Warehouse Rental	202,500					202,500
Van Storage Rental	20,000					20,000
Other Miscellaneous Revenues	-				12,070	12,070
Approp. From Retained Earnings	(167,041)		655,000		(12,070)	475,889
Revenues:	1,051,529		655,000	-	-	1,706,529

Expenditures:						
Cargo Terminal Administration	385,120					385,120
Cargo Terminal Interfund Charges	123,103					123,103
Cargo Terminal Warehouse	42,000					42,000
Cargo Terminal Pier II	482,306					482,306
Cargo Terminal Pier III	19,000					19,000
Transfer	-		655,000			655,000
Expenditures:	1,051,529		655,000	-	-	1,706,529

Fund 510 Boat Harbor Fund

Revenue:						
PERS Relief	144,670					144,670
Dockage AMHS	65,000					65,000
Exclusive Moorage	1,240,000					1,240,000
Transient Moorage	525,000					525,000
Harbormaster Service	10,000					10,000
Gridiron Fees	15,000					15,000
Pier/Dock Fees	175,000					175,000
Used Oil Fees	15,000					15,000
Waiting List Fees	3,000					3,000
Trailer Parking Fees	35,000					35,000
Bulk Oil Sales/Charges	20,000					20,000
Gear Storage	50,000					50,000
Parking Meters	7,500					7,500
Launch Ramp Fees	19,000					19,000
Interest on Investments	14,000					14,000
Office Rent AMHS	16,500					16,500
Other Revenues	7,300				38,964	46,264
Harbor Services to Cargo	70,435					70,435
Harbor Services to Boat Yard						-
Harbor Services to Electric						-
Approp from Retained Earnings	1,172,628				(38,964)	1,133,664
Revenues:	3,605,033		-	-	-	3,605,033

Expenditures:						
Boat Harbor Administration	3,385,634					3,385,634
Boat Harbor Interfund	219,399					219,399

CITY OF KODIAK
FY 2016 Supplemental Budget

	Adopted Budget 2016	Capital Projects LTD	Resolutions FY 2016	Supplemental #1 2016	Supplemental # 2 2016	Total Budget 2016
Transfer to Harbor Capital Expenditures:	-					-
	3,605,033		-	-	-	3,605,033
Fund 512 Shipyard						
Revenues:						
PERS Relief	22,220					22,220
Customer Fees	693,000					693,000
Interest on Investments	1,000					1,000
Other Revenue	2,000				5,352	7,352
Approp from Retained Earnings	558,495				(5,352)	553,143
Revenues:	1,276,715		-	-	-	1,276,715
Expenditures:						
Yard Administration	1,180,957					1,180,957
Boat Yard Interfund	95,758					95,758
Expenditures:	1,276,715		-	-	-	1,276,715
Fund 515 Harbor Electrical						
Revenues:						
Non-Meter Charge	15,000					15,000
Customer Charge recurring	115,000					115,000
Connect/Disconnect fee	7,000					7,000
Energy Charge	530,000					530,000
Record Fee	1,000					1,000
HM Service	5,000					5,000
Interest on Investments	1,000					1,000
Approp from Retained Earnings	(57,410)					(57,410)
Transfer	-					-
Revenues:	616,590		-	-	-	616,590
Expenditures:						
Electric Utility Administration	563,042					563,042
Electric Utility Interfund	53,548					53,548
Expenditures:	616,590		-	-	-	616,590
Fund 550 Water Utility						
Revenues:						
PERS Relief	80,280					80,280
Water Sales Metered	1,900,000					1,900,000
Water Sales City	1,500,000					1,500,000
Water Sales Borough	1,000,000					1,000,000
Water Service Connections	15,000					15,000
Interest on Investments	2,000					2,000
Other Revenues	32,000				23,548	55,548
Approp From Retained Earnings	(1,191,234)			-	2,169,944	978,710
Revenues:	3,338,046		-	-	2,193,492	5,531,538
Expenditures:						
Water Utility Transfers	110,000					110,000
Water Utility	2,813,771					2,813,771
Water Treatment Plant	414,275					414,275
Transfer	-				2,193,492	2,193,492
Expenditures:	3,338,046		-	-	2,193,492	5,531,538
Fund 570 Sewer Utility						
Revenues:						
PERS Relief	138,190					138,190
Sewer Service Charges - City	2,500,000					2,500,000

CITY OF KODIAK
FY 2016 Supplemental Budget

	Adopted Budget 2016	Capital Projects LTD	Resolutions FY 2016	Supplemental #1 2016	Supplemental # 2 2016	Total Budget 2016
Sewer Service Charges - Outside	1,400,000					1,400,000
Sewer Connections	9,800					9,800
Septic Truck Discharge	62,000					62,000
Lab Testing Fee	23,000					23,000
Interest on Investments	4,000					4,000
Other Revenues	-				42,950	42,950
Approp From Retained Earnings	433,363			350,000	382,050	1,165,413
Revenues:	4,570,353		-	350,000	425,000	5,345,353
Expenditures:						
Sewer Utility Transfers	110,000				175,000	285,000
Sewer Utility	827,918					827,918
Wastewater Treatment Plant	3,632,435					3,632,435
Compost Facility				350,000	250,000	600,000
Expenditures:	4,570,353		-	350,000	425,000	5,345,353
Fund 580 Trident Basin						
Revenues:						
Trident Basin - Charges	13,000					13,000
Rentals from Others	33,300					33,300
Approp From Retained Earnings	259,154					259,154
Transfer from Trident Basin Capital Fund	-					-
Revenues:	305,454		-	-	-	305,454
Expenditures:	305,454		-	-	-	305,454
Fund 585 E-911 Services						
Revenues:						
PERS Relief	1,070					1,070
Customer Charges	36,700					36,700
Other Revenues - Discounts received	-				300	
Approp From Retained Earnings	(24,590)				(300)	(24,890)
Revenues:	13,180		-	-	-	12,880
Expenditures:	13,180		-	-	-	12,880
Fund 780 Self-Insurance						
Revenue:						
Interest on Investments	500					500
Insurance Refund/Reserve	40,000					40,000
Charges to General Fund	234,840					234,840
Charges to Trident Basin	11,690					11,690
Charges to Cargo Terminal	25,140					25,140
Charges to Boat Harbor	114,720					114,720
Charges to Boat Yard	19,840					19,840
Charges to Boat Electric	140					140
Charges to Water Utility	49,040					49,040
Charges to Sewer Utility	52,920					52,920
Charges to E-911	110					110
Approp Fund	-			250,000		250,000
Revenues:	548,940		-	250,000	-	798,940
Expenditures:						
Insurance Expenses	548,940			250,000		798,940
Expenditures:	548,940		-	250,000	-	798,940
Totals						
Non Capital Projects Revenue	38,067,050		-	655,000	2,347,636	1,870,092

**CITY OF KODIAK
FY 2016 Supplemental Budget**

	Adopted Budget 2016	Capital Projects LTD	Resolutions FY 2016	Supplemental #1 2016	Supplemental # 2 2016	Total Budget 2016
Non Capital projects Expenses	38,067,050	-	655,000	2,347,636	1,870,092	42,939,478
Capital Projects Revenue	4,436,019	108,518,331	655,000	539,281	1,897,265	116,045,896
Capital Projects Expenses	4,436,019	108,518,331	655,000	539,281	1,897,265	116,045,896
Total Revenues	42,503,069	108,518,331	1,310,000	2,886,917	3,767,357	158,985,374
Total Expenses	42,503,069	108,518,331	1,310,000	2,886,917	3,767,357	158,985,374
Total Non-Capital Projects for FY	38,067,050	-	655,000	2,347,636	1,870,092	42,939,478
Total Capital Projects for FY	4,436,019	108,518,331	655,000	539,281	1,897,265	116,045,896
	<u>\$ 42,503,069</u>		<u>\$ 1,310,000</u>	<u>\$ 2,886,917</u>	<u>\$ 3,767,357</u>	<u>\$ 158,985,374</u>

(This page left intentionally blank.)

MEMORANDUM TO COUNCIL

To: Mayor Branson and City Councilmembers

From: Aimée Kniaziowski, City Manager

Thru: Kelly Mayes, Finance Director ^{KMM} and Mike Tvenge, Deputy City Manager ^{MT}

Date: May 26, 2016

Agenda Item: V. c. **First Reading, Ordinance No. 1353, Amending Schedules I, II, and III to the Personnel Rules and Regulations to Include a 2.38% Cost of Living Increase**

SUMMARY: Ordinance No. 1353 provides for the adoption of a cost of living adjustment for all City full-time, part-time, and temporary employees and adjusts the pay scale per the Personnel Rules and Regulations handbook accordingly. The cost of living adjustment was calculated using a recent five-year average of the Anchorage, Alaska CPI-U index. The Anchorage CPI-U index is located on the State of Alaska, Department of Labor website. The latest five-year average calculates to a 2.38% increase and has been incorporated into the Fiscal Year 2017 budget.

PREVIOUS COUNCIL ACTION:

- Council gave direction during a work session to investigate the cost of living adjustment for the City staff.
- Staff investigated the cost of living adjustment and presented the findings to Council during a work session on April 12, 2016. The calculations provided have been included in Attachment B.

DISCUSSION: The Finance Director investigated several alternatives to a cost of living adjustment for City staff. Based on the State of Alaska, Department of Labor website, the Finance Director calculated a five-year average based on the latest Anchorage CPI-U index to be 2.38% (Attachment B). The Finance Director then calculated the impact of the cost of living adjustment to the General Fund and to the Enterprise Funds, noting this would increase the General Fund by approximately \$293,568 and the Enterprise Funds by approximately \$97,438 for salaries and wages, including related benefits. These increases have been incorporated into the Fiscal Year 2017 budget.

ALTERNATIVES:

1. Adopt Ordinance No. 1353 in the first reading and move to second reading and public hearing at the next regular or special Council meeting. This is staff's recommendation.
2. Council may also amend Ordinance No. 1353.

FINANCIAL IMPLICATIONS:

Financial implications have been noted herein.

LEGAL:

The Kodiak City Charter and Kodiak City Code grant Council the authority to make appropriations and adopt and amend budgets as required.

STAFF RECOMMENDATION: Staff recommends Council pass Ordinance No. 1353 in the first reading and advance to second reading and public hearing at the next regular or special Council meeting.

ATTACHMENTS:

Attachment A: Ordinance No. 1353

Attachment B: Cost of Living Calculation and FY 2017 Budget Implications

PROPOSED MOTION:

Move to pass Ordinance No. 1353 in the first reading and advance to second reading and public hearing at the next regular or special Council meeting.

**CITY OF KODIAK
ORDINANCE NUMBER 1353**

**AN ORDINANCE OF THE COUNCIL OF THE CITY OF KODIAK AMENDING
SCHEDULES I, II, AND III TO THE PERSONNEL RULES AND REGULATIONS TO
INCLUDE A 2.38% COST OF LIVING INCREASE**

WHEREAS, the City of Kodiak adopted Ordinance No. 1307 on June 1, 2013, to amend the Personnel Rules and Regulations based on the Classification and Compensation study performed by Fox Lawson & Associates, and this ordinance defines regular merit increases and special merit increases; and

WHEREAS, based on section 4.06.1 and 4.06.2 of the Personnel Rules and Regulations, as defined by Ordinance No. 1307, a cost-of-living adjustment for all City employees and the City pay scale would not constitute a regular merit increase or special merit increase; and

WHEREAS, a cost-of-living adjustment is calculated to be 2.38% based on the most recent five-year average for Anchorage, Alaska CPI-U index; and

WHEREAS, this increase has been incorporated into the Fiscal Year 2017 budget presented to the Mayor and members of the City Council on May 7, 2016.

NOW, THEREFORE, BE IT ORDAINED by the Council of the City of Kodiak, Alaska, as follows:

- Section 1:** A 2.38% cost-of-living adjustment will constitute an increase for all City full-time, part-time, and temporary positions who are actively employed on the first day of the pay period following the effective date of this ordinance, and
- Section 2:** The cost-of-living adjustment constitutes a one-time adjustment and will not be retroactively applied prior to the implementation date of this ordinance.
- Section 3:** A 2.38% increase to the salary structure and band, grade, and sub-grade placements shall be implemented on the first day of the pay period following the effective date of this ordinance for employees as follows:

Schedule I
General Annual Salary Structure

Regular Employees	Min to Max 50% Increase		
	Min to Mid 25% Increase		
	Mid to Max 20% Increase		
	DBM	Minimum	Midpoint
A11	\$ 32,159	\$ 40,198	\$ 48,237
A12	\$ 34,459	\$ 43,073	\$ 51,688
A13	\$ 36,759	\$ 45,948	\$ 55,138
B21	\$ 39,065	\$ 48,832	\$ 58,598
B22	\$ 41,366	\$ 51,707	\$ 62,048
B23	\$ 43,665	\$ 54,582	\$ 65,499
B24/B31	\$ 45,973	\$ 57,466	\$ 68,958
B25/B32	\$ 48,272	\$ 60,341	\$ 72,408
C41	\$ 52,879	\$ 66,099	\$ 79,319
C42	\$ 55,179	\$ 68,974	\$ 82,769
C43	\$ 57,479	\$ 71,849	\$ 86,219
C44/C51	\$ 59,786	\$ 74,732	\$ 89,679
C45/C52	\$ 62,086	\$ 77,608	\$ 93,129
D61	\$ 66,693	\$ 83,366	\$ 100,040
D62	\$ 68,993	\$ 86,241	\$ 103,490
D63	\$ 71,293	\$ 89,117	\$ 106,939
E81	\$ 80,507	\$ 100,633	\$ 120,760
E82	\$ 82,807	\$ 103,508	\$ 124,210
E83	\$ 85,106	\$ 106,383	\$ 127,660
E84	\$ 89,376	\$ 111,714	\$ 134,052

**Schedule II
General Per Hour Salary Structure**

2080 Hours Regular Employees	Min to Max 50% Increase		
	Min to Mid 25% Increase		
	Mid to Max 20% Increase		
	DBM	Minimum	Midpoint
A11	\$ 15.46	\$ 19.33	\$ 23.19
A12	\$ 16.57	\$ 20.71	\$ 24.85
A13	\$ 17.67	\$ 22.09	\$ 26.51
B21	\$ 18.78	\$ 23.48	\$ 28.17
B22	\$ 19.89	\$ 24.86	\$ 29.83
B23	\$ 20.99	\$ 26.24	\$ 31.49
B24/B31	\$ 22.10	\$ 27.63	\$ 33.15
B25/B32	\$ 23.21	\$ 29.01	\$ 34.81
C41	\$ 25.42	\$ 31.78	\$ 38.13
C42	\$ 26.53	\$ 33.16	\$ 39.79
C43	\$ 27.63	\$ 34.54	\$ 41.45
C44/C51	\$ 28.74	\$ 35.93	\$ 43.11
C45/C52	\$ 29.85	\$ 37.31	\$ 44.77
D61	\$ 32.06	\$ 40.08	\$ 48.10
D62	\$ 33.17	\$ 41.46	\$ 49.75
D63	\$ 34.28	\$ 42.84	\$ 51.41
E81	\$ 38.71	\$ 48.38	\$ 58.06
E82	\$ 39.81	\$ 49.76	\$ 59.72
E83	\$ 40.92	\$ 51.15	\$ 61.37
E84	\$ 42.97	\$ 53.71	\$ 64.45

Schedule III
Fire Department Employees on Platoon System Per Hour Salary Structure

2764 Hours Fire Department Employees	Min to Max 50% Increase		
	Min to Mid 25% Increase		
	Mid to Max 20% Increase		
	DBM	Minimum	Midpoint
A11	\$ 11.63	\$ 14.54	\$ 17.45
A12	\$ 12.47	\$ 15.58	\$ 18.70
A13	\$ 13.30	\$ 16.62	\$ 19.95
B21	\$ 14.13	\$ 17.67	\$ 21.20
B22	\$ 14.97	\$ 18.71	\$ 22.45
B23	\$ 15.80	\$ 19.75	\$ 23.70
B24/B31	\$ 16.63	\$ 20.79	\$ 24.95
B25/B32	\$ 17.46	\$ 21.83	\$ 26.20
C41	\$ 19.13	\$ 23.91	\$ 28.70
C42	\$ 19.96	\$ 24.95	\$ 29.95
C43	\$ 20.80	\$ 25.99	\$ 31.19
C44/C51	\$ 21.63	\$ 27.04	\$ 32.45
C45/C52	\$ 22.46	\$ 28.08	\$ 33.69
D61	\$ 24.13	\$ 30.16	\$ 36.19
D62	\$ 24.96	\$ 31.20	\$ 37.44
D63	\$ 25.79	\$ 32.24	\$ 38.69
E81	\$ 29.13	\$ 36.41	\$ 43.69
E82	\$ 29.96	\$ 37.45	\$ 44.94
E83	\$ 30.79	\$ 38.49	\$ 46.19

Section 4: A 2.38% cost of living increase shall be granted to the City Manager and City Clerk and shall be implemented on the first day of the pay period following the effective date of this ordinance.

Section 5: This ordinance shall be effective one month after its final passage and publication in accordance with Kodiak Charter Section 2-13.

Section 6: The City Clerk is hereby authorized and directed to make all corresponding amendments to the Personnel Rules and Regulations necessitated by these changes.

CITY OF KODIAK

MAYOR

ATTEST:

CITY CLERK

First Reading:
Second Reading & Public Hearing:
Effective Date:

FY 2017 Budget

	<u>Total Wages</u>	<u>TOTAL Benefits</u>	<u>Total Wages & Benefits</u>	COLA 5-yr Average based on Anchorage CPI = 2.38% Increase \$	<u>Total Wages & Benefits including COLA</u>
General Fund	5,581,657.30	6,753,121.96	12,334,779.26	293,567.75	12,628,347.00
Enterprise Funds	1,816,551.25	2,277,456.57	4,094,007.82	97,437.39	4,191,445.21
Totals	7,398,208.55	9,030,578.53	16,428,787.08	391,005.13	16,819,792.21

**State of Alaska - Dept of Labor and Workforce
Development Analysis**

Anchorage CPI	Year 2014	1.60%
Anchorage CPI	Year 2013	3.10%
Anchorage CPI	Year 2012	2.20%
Anchorage CPI	Year 2011	3.20%
Anchorage CPI	Year 2010	1.80%
	Average	2.38%

MEMORANDUM TO COUNCIL

To: Mayor Branson and City Councilmembers

From: Aimée Kniazowski, City Manager

Thru: Mike Tvenge, Deputy City Manager *MT*

Date: May 26, 2016

Agenda Item: V. d. **Authorization of Extension of the Professional Services Contract With BIRCH, HORTON, BITTNER, and CHEROT for Legal Services**

SUMMARY: The firm of BIRCH, HORTON, BITTNER, and CHEROT was selected to provide legal services to the City in July 2000. The original contract was for a three-year period, with an option for three additional one-year extensions. The contract and ten extensions have been approved and renewed by Council since that time. The current contract extension is set to expire on June 30, 2016. The firm, and Tom Klinkner, the City's primary municipal attorney, wish to continue to serve the City of Kodiak and recommends a one-year contract extension. Staff recommends Council authorize this eleventh contract amendment with BIRCH, HORTON, BITTNER, and CHEROT.

PREVIOUS COUNCIL ACTION:

- August 2000: Council authorized a three-year professional legal services contract with BIRCH, HORTON, BITTNER, and CHEROT.
- July 2003-2006: One-year contract extensions were approved by Council each year.
- July 2006: Council authorized a fourth amendment for a three-year contract and three additional one-year terms at the Council's option.
- July 2010-2012: One-year contract extensions were approved by Council each year.
- July 2012: Council authorized a ninth amendment for a three-year contract.
- June 2015: Council authorized a tenth amendment for a one-year extension.

DISCUSSION: In July 2000 the Mayor and City Council members interviewed representatives of four firms under consideration as the City's primary legal counsel. As a result, a three-year professional services agreement for legal services was approved by the City Council with BIRCH, HORTON, BITTNER and CHEROT. The original contract was signed in 2000 and provided for a three-year term with three one-year extensions at the option of the City. This arrangement was renewed in 2006. Beginning in 2009, the contract was extended from year to year. In 2012 a three-year extension was authorized by Council and in 2015 a one-year extension was authorized. The current contract expires June 30, 2016.

ALTERNATIVES:

- 1) Authorize the extension and continue legal services with BIRCH, HORTON, BITTNER and CHEROT, which is staff's recommendation.
- 2) Do not authorize the extension, which would require issuance of a request for proposals for legal services.

FINANCIAL IMPLICATIONS: The approved FY2016 budget includes funds for legal services in the General Fund, Legislative, Legal, Professional Services account.

LEGAL: The services provided by legal counsel are identified in the Kodiak City Code. Legal services are critical to the City's day-to-day operation.

DEPUTY CITY MANAGER RECOMMENDATION: I recommend Council authorize the contract extension.

CITY MANAGER'S COMMENTS: The services provided by Tom Klinkner and other attorneys at Birch Horton Bittner and Cherot are very important to the City. I appreciate their legal diligence and support on behalf of the City and recommend Council authorize this contract amendment.

ATTACHMENTS:

- Attachment A: Eleventh Amendment to Contract for Professional Legal Services
- Attachment B: Contract for Professional Legal Services

PROPOSED MOTION:

Move to authorize the eleventh amendment to the contract dated August 22, 2000, with BIRCH, HORTON, BITTNER, and CHEROT for professional legal services.

**ELEVENTH AMENDMENT TO CONTRACT
FOR PROFESSIONAL LEGAL SERVICES**

ELEVENTH AMENDMENT (the "Amendment") to the Contract for Professional Legal Services (the "Contract") between the CITY OF KODIAK (the "City") and BIRCH HORTON BITTNER & CHEROT (the "Contractor"), dated August 1, 2000.

WHEREAS, the Contract was amended effective July 1, 2012, to provide for the Contractor to provide legal services to the City for a term of three years from the date of the amendment; and

WHEREAS, the Contract provides for renewal at the option of the City Council of the City for three additional one-year terms; and

WHEREAS, the City Council of the City desires to exercise the option to renew the Contract for an additional one-year term, and the Contractor has agreed to such an extension.

NOW, THEREFORE, in consideration of the premises and the mutual covenants herein, the parties agree as follows:

The term of the Contract shall be extended for a period of one year from its current date of expiration. All other terms and provisions of the Contract as previously amended shall remain unchanged.

DATED as of the 1st day of July, 2016.

CITY OF KODIAK

BIRCH HORTON BITTNER & CHEROT

By: _____
Aimée Kniazowski, City Manager

By: _____
Thomas F. Klinkner

CONTRACT FOR PROFESSIONAL LEGAL SERVICES

THIS CONTRACT ("Contract") is made this 1st day of August 2000, by and between the City of Kodiak, of P. O. Box 1397, Kodiak, Alaska 99615 ("City"), and Birch, Horton, Bittner, Inc., d/b/a Birch, Horton, Bittner and Cherot, an Alaska professional corporation, of 1127 West 7th Avenue, Anchorage, Alaska 99501 ("Contractor" or "City Attorney").

In consideration of the mutual promises herein, the parties agree as follows:

1. Scope of Services. The City Attorney shall act as legal advisor to the City Council, administration, and other officials of the City to include, without limitation, the following:

- a. To duly advise the Council, administration, and other officials at meetings of the Council and at other functions as may be designated;
- b. To draft opinion letters regarding, among other subjects, the interpretation of the City code, state and federal law, and policies;
- c. To draft municipal ordinances involving all municipal matters;
- d. To review and provide opinions on codes, contracts, resolutions, and other written instructions which are submitted to the attorney by the City;
- e. To call attention of the Council and/or City Manager, as may be appropriate, to or of changes or developments in legal matters that affect the City; and
- f. To perform other such duties as may be prescribed for the City Attorney by ordinance or by direction of the Council and/or City Manager or the Mayor.

2. Access to Municipal Personnel. The City Manager shall secure the cooperation of the City personnel as necessary to assist the Contractor's performance hereunder.

3. Contract Administrator. The City Manger shall administer the contract on behalf of the City.

4. Term. *SEE SUBSEQUENT AMENDMENTS* For purposes of case assignments, this contract becomes effective when signed on behalf of the City and shall continue for three (3) years from date executed. The contract may be renewed for three (3) additional years, with one-year extensions at the Council's option. For purposes of assigned case completion, this contract may be extended upon mutual consent.

5. Compensation.

a. Fees. The Contractor shall be compensated at the following hourly rates:

*Amended
7/1/04
See current
contract
July 2008*

Shareholder Partners/Members	\$150.00	\$165.00
Senior Associates	\$135.00	
Associates:	\$115.00	\$145.00
Paralegals and Law Clerks:	\$75.00	\$85.00

The attorneys' fee schedule is to remain fixed for the first year of the contract. After the first year of the contract, the fee schedule may be negotiated. The Contractor will not charge for travel time by attorneys performing work for the City except when the attorney actually is performing work for the City while en route. Attorneys will be made available on call for telephonic participation in City meetings without charge for "standby" time. The Contractor will bill at standard hourly rates for actual attendance at meetings.

b. Costs. The Contractor shall be entitled to reimbursement for out-of-pocket expenses incurred in the course of representation. Expenses, including long distance telephone charges, expedited mail or courier service, filing and recording fees, computerized research fees and travel expenses will be billed at actual cost. Certain in-house expenses, such as photocopying and messenger service, are billed at standard rates.

6. Payment and Reporting.

a. The Contractor shall submit itemized monthly billings to the City Clerk for payment of all fees and costs for which the Contractor seeks reimbursement under paragraph 5. Said monthly billings shall identify the subject of the work performed and the time, to the nearest one-tenth (1/10) of an hour, spent on each subject. Costs shall be itemized and described separately on each monthly invoice.

b. Upon approved billing, payment will be remitted to the Contractor within forty-five (45) days.

7. Termination of the Contractor's Services. The Contractor's services may be terminated:

- a.** for convenience by the City Council;
- b.** By mutual consent of the parties; or
- c.** For cause, by either party where the other party fails in any material way to perform its obligations under this contract. Termination under this subsection is subject to the condition that the terminating party notify the other party of its intent to terminate, stating with reasonable specificity the

grounds therefor, and the other party fails to cure the default within fifteen (15) days after receiving notice.

8. Duties Upon Termination. If the Contractor's services are terminated, the Contractor will be paid for services performed to the date of termination.

9. Case Management. Execution of the contract by the City shall act as full authority for the Contractor to proceed with representation of the City as provided herein. The City will have complete and total access to all material, information, and files worked on by the Contractor pursuant to this contract.

10. Assignments. Contractor shall not assign this contract, or any interest in this Contract without consent of the City.

11. Confidentiality. The Contractor agrees to discuss matters and reveal documents relating to this contract only with the City Council, City Manager, City Clerk, or any other person authorized by the aforementioned, and as required by court order.

12. Notices. Any notice required pertaining to the subject matter of this contract shall be either personally delivered, faxed, or mailed by prepaid first class registered or certified mail, return receipt requested, to the following addresses:

City: City of Kodiak
ATTN: City Manager
P. O. Box 1397
Kodiak, AK 99615
fax: (907) 486-8600

Contractor: Birch, Horton, Bittner and Cherot
ATTN: Thomas F. Klinkner
1127 West 7th Avenue
Anchorage, AK 99501
fax: (907) 276-3680

13. Conflicts of Interest. The Contractor may not represent or assist private or public clients in connection with other claims, litigation, or other legal matters where such representation would constitute or appear to constitute a conflict of interest. In particular, the Contractor shall comply with all relevant provisions of the Alaska Bar Rules and the Alaska Rules of Professional Conduct concerning the prohibition of conflicts of interest among clients. The Contractor shall not accept any employment and shall not render any professional services to other parties if such action might be inconsistent with the above-referenced standards unless the prior approval of the City Council has been first obtained.

14. Relationship of Parties. The Contractor shall perform its obligations hereunder as an independent contractor of the City. The City may administer the contract and monitor the Contractor's compliance with its obligations hereunder.

15. Nondiscrimination. The Contractor will not discriminate against any employee or applicant for employment because of race, color, religion, national origin, ancestry, age, sex, or marital status or mental or physical disability. The Contractor will take affirmative action to ensure that applicants are employed and that employees are treated during employment without regard to their race, color, religion, or mental or physical disability. Such action shall include, without limitation, employment, upgrading, demotion, or transfer, recruitment or recruiting advertising, layoff or termination, rates of pay or other forms of compensation, and selection for training including apprenticeship. The Contractor agrees to post in conspicuous places, available to employees and applicants for employment, notices setting forth the provisions of this nondiscrimination clause.

16. Permits, Laws, and Taxes. The Contractor shall acquire and maintain in good standing all permits, licenses, and other entitlements necessary to its performance under this contract. All actions taken by the Contractor under this contract shall comply with all applicable laws to include, without limitation, statutes, ordinances, rules, and regulations.

17. Nonwaiver. The failure of either party at any time to enforce a provision of this contract shall in no way constitute a waiver of the provision, nor in any way affect the validity of this contract or any part thereof, or the right of such party thereafter to enforce each and every provision hereof.

18. Amendment. This contract may be amended, modified, or changed only in writing executed by the City Manager and an authorized representative of the Contractor.

19. Governing Law. The laws of the State of Alaska shall govern the rights and obligations of the parties under this contract.

20. Severability. Any provision of this contract decreed invalid by a court of competent jurisdiction shall not invalidate the remaining provisions of the contract.

21. Integration. This instrument embodies the entire agreement of the parties. There are no promises, terms, conditions, or obligations other than those contained herein. This contract shall supersede all previous communications, representations, or agreements, either oral or written, between the parties hereto.

22. Insurance. The Contractor shall provide lawyers' professional liability insurance for all periods under the contract for claims up to a minimum amount of \$1,000,000 per claim.

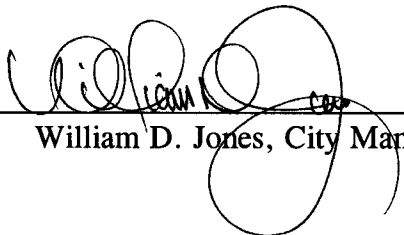
23. **Inspection and Retention of Records.** The Contractor shall at any time during normal business hours and as often as the City Manager or Council may deem necessary, make available to the City for examination all records with respect to all matters covered by this contract for a period ending three (3) years after the date the Contractor is to complete performance of this Contract. Upon request, and within a reasonable time, the Contractor shall submit such other information and reports relating to its activities under this contract to the City in such a form and at such times as the Council may reasonably require. The Contractor shall permit the Council or their designee to audit, examine, and make copies of such records, and to make audits of all research, materials, pleadings, records of personnel, and other data relating to all matters covered by this contract. The City may, at its option, permit the Contractor to submit its records to the City in lieu of the retention requirements of this section.

24. **Availability of Funds.** This contract is subject to the availability of funds lawfully appropriated for its performance.

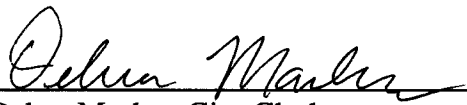
IN WITNESS WHEREOF, the parties have executed this contract.

CITY OF KODIAK

Dated: 8/22/00

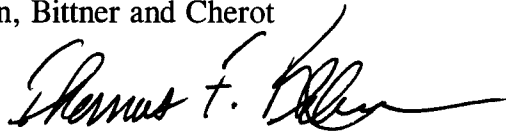
By: 
William D. Jones, City Manager

ATTEST:


Debra Marlar, City Clerk



BIRCH, HORTON, BITTNER, INC., d/b/a Birch,
Horton, Bittner and Cherot

By: 
Thomas F. Klinkner, Member

MEMORANDUM TO COUNCIL

To: Mayor Branson and City Councilmembers

From: Aimée Kniazowski, City Manager

Thru: Mark Kozak, Public Works Director and Mike Tvenge, Deputy City Manager *MT*

Date: May 26, 2016

Agenda Item: V. e. **Approval of the 2016 Water Rate Final Report**

SUMMARY: CH2MHILL has prepared several water and sewer rate studies for the City of Kodiak since 1982. In 2005 the Council adopted rate increases for both water and sewer based on a cost of service study completed by CH2MHILL. In 2011 Council adopted a five-year rate increase plan for water rates, with the last rate increase adopted in FY2016. In August 2015 Council authorized a water rate and cost of service study for the next five-year period in order to evaluate system and capital improvement costs and to develop rates to cover revenue needs. Staff recommends Council adopt the 2016 City of Kodiak Water Rate Final Report by motion with a future resolution coming forward in June 2016 to adopt new water rates beginning in FY2017.

PREVIOUS COUNCIL ACTION: The City has undertaken water and sewer rate studies at various times over the years and since 2005 has been on a five-year cycle in order to assess system and capital improvement costs as well as revenue requirements.

- CH2MHILL completed a water and sewer rate study for the City of Kodiak in 1982.
- The City Public Works Department did an in-house rate evaluation in 1993.
- CH2MHILL did a complete cost of service study for both a water and sewer rate and new rates were approved by the Council in 2005.
- CH2MHILL completed another rate study for water and a single year for sewer in 2011 and Council approved the adoption of a five-year rate plan for water and a single year rate increase for sewer in September 2011.
- CH2MHILL completed the sewer rate study and Council approved a five-year rate plan in May 2014. The completion of sewer rate study was delayed until the composting construction cost estimates and operation cost could be determined.
- Council approved a Water Rate and Cost of Service study with CH2M in August 2015.

DISCUSSION: The City of Kodiak's public water and sewer system serves roughly 9,500 people within the City of Kodiak and the nearby service district. The utility system varies in age from the early 1950s to recent times and requires continual maintenance, upgrading and replacement to meet continually changing regulations and good operating practices.

The system consists of 52.4 miles of water distribution and transmission lines and 46.3 miles of sewer collection system. The system also has 3 reservoirs made up of 9 dams and two pumphouses that pump water from the Monashka and Pillar creek reservoir systems. The water treatment plant includes a new UV Water Treatment plant, onsite chlorine generator facility and two 2.2 million gallon storage tanks for contact time of disinfectant.

The City of Kodiak's water system is unique in that we experience large flow changes depending on the time of the year and the seafood processing industry needs. In 2105 we saw daily flows in December as low as 2.3 million gallons a day (MGD) to a high in March of 9.6 MGD. Not many public water systems see these kinds of extreme flow ranges. Another way to look at it is December 2015 was our lowest flow average for the year of 2.66 MGD; in March 2015 we averaged 8.22 MGD.

Given the city's extensive infrastructure, regular rate studies are critical in keeping up with operation and maintenance costs and to have resources to plan for capital improvement of existing infrastructure.

In September 2004 the City Council authorized a cost of service and rate study for both water and sewer. Prior to that study the water and sewer rates had not changed in 11 years. With an aging infrastructure and new regulatory requirements it was necessary to evaluate revenue and expenses in relation to the needs of the both the water and sewer enterprise funds. The cost of service study showed the distribution of cost throughout the system and how the cost was distributed amongst the rate payers.

In 2011 the Council adopted the last set of rates for the water utility that takes us through FY2016. That rate study evaluated the operation and maintenance costs, including the capital improvement plan; comparing revenues to costs.

It has been ten years since the last cost of service study was conducted, and staff recommended the full cost of service study be completed again. The result of the cost of service study is a more detailed analysis that shows how customer use affects the cost of the system. The cost of service study adds another layer of modeling, data collection, and analysis to the process.

The completed cost of service study shows the allocation of cost is very similar to the results of the study completed ten years ago. At the time of the 2004 study it was estimated that the unmetered customers (mostly residential homes) represented approximately 40% of the total cost and industrial users represent nearly 59% of the cost, the remaining 1% was allocated to metered commercial accounts. The current study indicates that approximately 38% of the total cost is unmetered customers and 58% is industrial users with the remaining amount allocated to metered commercial users as explained in the 2016 City of Kodiak Water Rate Update: Financial Plan (section 4.4 pg. 4-18 Water System User Characteristic).

One of the key aspects of utility rates is to not only provide for the cost of operation and maintenance but also take care of an aging infrastructure, which is just as important. As an example, within the downtown core, the water and sewer infrastructure was installed between 1964 and 1968. All of this underground system is well past its 30-year design life. We have finalized the downtown master plan to

begin the replacement of these utilities. The downtown rehabilitation of the water and sewer will take many years in order to coordinate funding with other capital needs, and keeping utility rates up-to-date is very important in taking care of our system.

In addition, it is very important that the financial plan be regularly reviewed to make sure revenues and expenses are tracking with the assumptions identified in the rate study. During the evaluation we looked at potential changes within the fishing industry that may have an impact to water consumption by the processing industry. With the issue of Gulf of Alaska Trawl Bycatch Management currently being addressed by the North Pacific Fishery Management Council, and the unknown outcome or timeline for the decision-making process, it is difficult to know the effect it may have on the local processing industry.

We also contacted Alaska Groundfish Data Bank (AGDB) seeking information on what we may see for the biological forecasts for the Pollock fisheries, which require a large amount of water consumption while processing. Julie Bonney owner of AGDB provided an extremely informational short paper on the fisheries outlook for the next several years. The Pollock quota is extremely high at the present time, but is expected to start dropping off gradually after year 2017. However, there is concern over the lack of positive signal years beyond the 2012 year class. This leaves a significant question mark about the strength of the Pollock fisheries beyond the next three years.

In general, the Pacific cod resource is expected to have a continual, gradual reduction in quota to 2019. Beyond that it is not known what to expect.

The data provided by AGDB is extremely helpful in trying to evaluate the next five years. The information included historical landing data in millions of pounds landed on an annual basis. Year 2008 was the lowest poundage year since 2004. I looked at the industrial usage for calendar year 2008 (lower pounds landed) and it was 995 million gallons. In FY2015 total industrial usage was 1.02 billion gallons with record landings of over 556 million pounds. As you see, the lower total landing poundage did not have a significant impact on total water consumption by the industrial users. This creates difficulty in projecting the impacts that reductions to catch limits or potential regulatory changes might have on future water consumption.

ALTERNATIVES: With the rate and cost of service study completed, staff has evaluated potential options to keep the water enterprise fund in a good position to deal with an aging infrastructure and increasing operation costs. The study indicates rate increases are needed in order to keep the current capital improvement schedule as well as meet expected increase in cost. Below are the four primary options included in the evaluation for adopting new rates over the next five-year period.

- 1) Option 1: Across-the-board increases
- 2) Option 2: Adopt a cost of service rate system.
- 3) Option 3: Phased cost of service rate system.
- 4) Option 4: Alternative phased cost of service rates

Staff believes the best option is Option 3 as recommended in the Executive Summary. Adopting rate increases presented in Option 3 (phased cost of service) beginning in FY2017 through FY2021.

FINANCIAL IMPLICATIONS: The adoption of the rate study and the recommended rate increases will assure the Water Enterprise fund is meeting system operating costs, debt service, and capital improvement plans over the next five years and into the future. It is very important that the financial plan be regularly reviewed to make sure revenues and expenses are tracking with the assumption identified in the rate study. As we looked at the next five years, there are potentially some significant changes that may occur within the fishing industry that could change the way our fisheries operate. This makes it very difficult to determine beyond about a three-year window what impact any changes within the industry may have on water demand and consumption. These changes could have potentially significant impact on water revenue.

LEGAL: N/A

STAFF RECOMMENDATION: Staff recommends Council approve the 2016 City of Kodiak Water Rate Update: Final Report Presented by CH2M during the April 26, 2016, City Council work session.

DEPUTY CITY MANAGER'S COMMENTS: The existing water rates have been determined to be insufficient to cover the projected system revenue requirements. A phased cost of service approach would eventually generate revenues to sustain the financial needs of the system.

CITY MANAGER'S COMMENTS: We have an exceptionally complex water infrastructure. The system has ongoing need of repairs, scheduled upgrades, and replacement of elements as we've seen over the past ten years. We have or are planning to replace key components of the water system, which cost money and have operational cost implications. The best way to run a public utility is to routinely review rates to ensure expenses and capital needs are covered by ratepayers, and Council agrees as this has been an ongoing budget goal.

ATTACHMENT:

Attachment A: 2016 Water Rate Final Report

PROPOSED MOTION:

Move to approve the 2016 Water Rate Final Report Prepared by CH2M and direct the City Manager to prepare a resolution for approval at a future meeting amending the City's Schedule of Fees and Charges to reflect rate Option 3.

2016 City of Kodiak Water Rate Update: Final Report

Prepared for

City of Kodiak

May 2016



1100 112th Avenue NE Suite 500
Bellevue, WA 98004
(425) 453-5000
(425) 468-3100

Executive Summary

Introduction

CH2M completed a financial analysis and rate study for the City of Kodiak (City) water utility. A 5-year financial model (fiscal year [FY] 2017 through FY 2021) was developed to analyze the impact that implementing the utility’s proposed capital improvement plan (CIP) and projected operating expenses will have on the City’s water rates. In addition, a cost of service analysis was conducted to determine the cost of providing service to each of the water system’s customer classes. As part of the analysis, CH2M reviewed historical expenses and revenues associated with the utility as well as water consumption records by customer class.

Revenue Requirements

Based on the City’s existing rate schedule, and including non-rate revenues (revenue from interest income, connection fees, miscellaneous charges, and intergovernmental sources), that are deducted from the utility revenue requirements, existing rate levels will not be sufficient to cover the projected system revenue requirements, and rate increases or adjustments to the projected costs will be necessary. For this analysis, it was assumed that rate adjustments would be used to generate the additional revenues needed to cover the projected system costs.

Figure ES-1 presents the total water utility revenue requirements projected for FY 2017 through FY 2021. Total projected revenue requirements are expected to increase from nearly \$4.6 million in FY 2017 to approximately \$5.5 million in FY 2021.

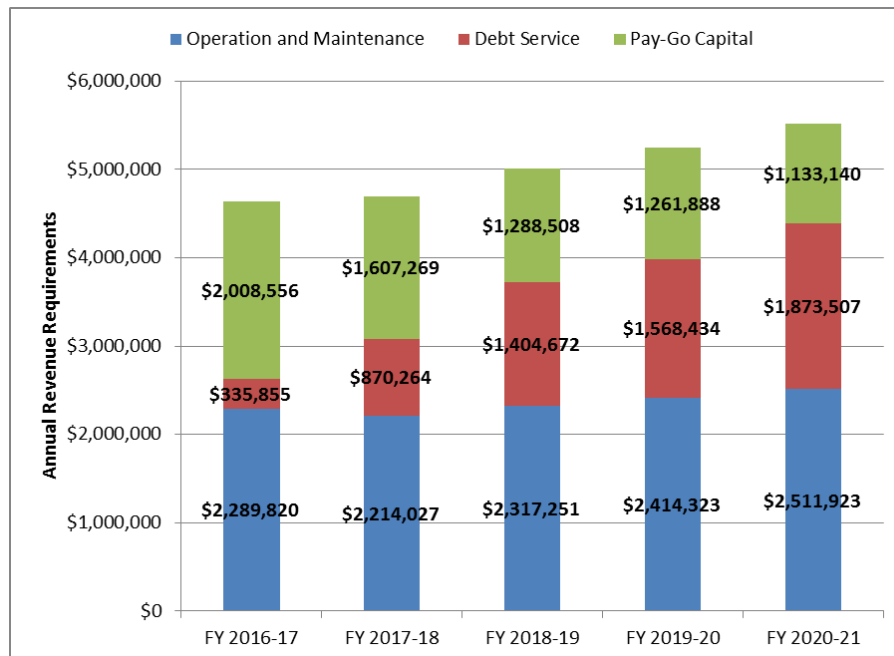


Figure ES-1. Total Revenue Requirements, FY 2017-FY 2021

For this analysis, rate increases are introduced every year beginning in FY 2017. The current rates generate sufficient revenue to fund current operations and maintenance (O&M) and debt service costs. However, because the proposed CIP over the 5 year analysis period totals approximately \$32.2 million (inflation-adjusted), rate increases are required to cover the projected debt service requirements on the anticipated bonds that would be issued to finance these improvements, and improvements that were assumed to be funded from current revenues or reserves. Table ES-1 presents the projected annual rate

revenue increases assuming the proposed increases were applied uniformly to all customer classes and rates.

Table ES-1. Projected Annual Rate Increases

Fiscal Year	Annual Water Increase
FY 2017	4.0%
FY 2018	4.0%
FY 2019	4.0%
FY 2020	5.0%
FY 2021	5.0%

Allocation of System Costs

A fundamental principle for developing an equitable system of user charges is to ensure that all users pay (through user charges or other fees) for their share of the total costs imposed on the system. A financial plan is used to determine annual costs and associated funding sources for a particular planning horizon (e.g., 5 to 10 years). The process of then allocating utility system costs to customer classes based on service demands is referred to as a cost of service analysis. This analysis generally includes the following steps:

- Allocate costs to system functions and service characteristics
- Analyze user characteristics
- Allocate costs to users in proportion to demands

The resulting total costs allocated to each customer class is their estimated cost of service. Rates can then be designed to generate revenues from the customers comprising each class approximately equal to their cost of service.

Table ES-2 presents the results of the cost of service analysis or projected cost of service by customer class over the 5-year projection period.

Table ES-2. Summary of Water System Cost by Customer Class

Customer Class	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21
Unmetered	\$1,813,325	\$1,841,108	\$1,971,397	\$2,068,614	\$2,182,139
Commercial-metered	\$129,251	\$131,476	\$140,907	\$147,907	\$156,114
Industrial-metered	\$2,689,305	\$2,716,556	\$2,895,529	\$3,025,408	\$3,177,456
VFW/Landfill	\$2,350	\$2,419	\$2,597	\$2,715	\$2,861
Total	\$4,634,231	\$4,691,559	\$5,010,430	\$5,244,645	\$5,518,570

Water Rate Design

Scenarios were developed using the City's existing rate structure which consists of a flat rate per equivalent service unit (ESU) for unmetered customers and fixed and variable charges for metered commercial and industrial customers. The scenarios presented in this section differ from the City's current rates in how they recover revenue from different customer classes and how much revenue is recovered from fixed vs. variable charges. Implementing changes to the City's rates that shift revenue

recovery among customer classes is always challenging. This is particularly true in the context of projected system-wide revenue increases, as the cumulative impacts may be significant for some customers.

The specific rate scenarios developed for this analysis are as follows:

- Option 1: Across-the-board rate increases
- Option 2: Cost of service rates
- Option 3: Phased cost of service rates
- Option 4: Alternative phased cost of service rates

All of the options are designed to generate the same amount of revenue for the water utility in each year – equal to the revenue requirements identified in the financial plan. The scenarios differ in how much revenue is recovered from each customer class and rate component. For each scenario, the charges per ESU for unmetered customers located inside and outside the City are presented (see Appendix C for ESU schedule), along with the ready to serve charge (i.e., the fixed charge per month that varies by meter size) and the volume charges for metered customers.

Figure ES-2 presents the monthly residential rate for inside city customers for each scenario. Option 1 would incorporate the system wide percentage increases presented previously in Table ES-1. Adopting Option 2 (Cost of Service) would result in an initial decrease in the monthly rate followed by steady increases each year. The phased approach (Option 3) would keep the residential monthly rate constant throughout the analysis period. Option 4 differs from Option 3 by introducing a 4.5 percent rate increase the last two year of the analysis.

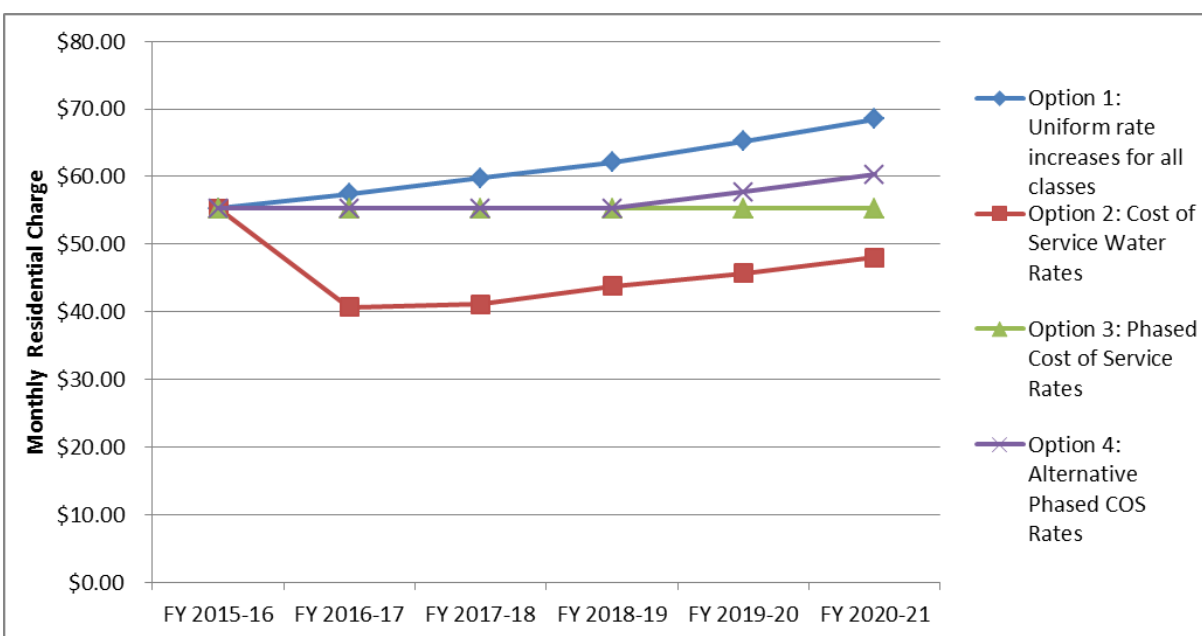


Figure ES-2. Monthly Residential Rate by Scenario

Figure ES-3 presents the industrial volume rate for each scenario. Option 1 would incorporate the system wide increases presented previously in Table ES-1. Adopting Option 2 (Cost of Service) would result in large increase in FY 2016/17 followed by steady increases each year. The phased approach (Option 3) would move the industrial rate closer to the cost of service rate more gradually over the analysis period, reducing the rate impact to the customers. Option 4 differs from Option 3 by lowering the rate increase the last two years of the analysis.

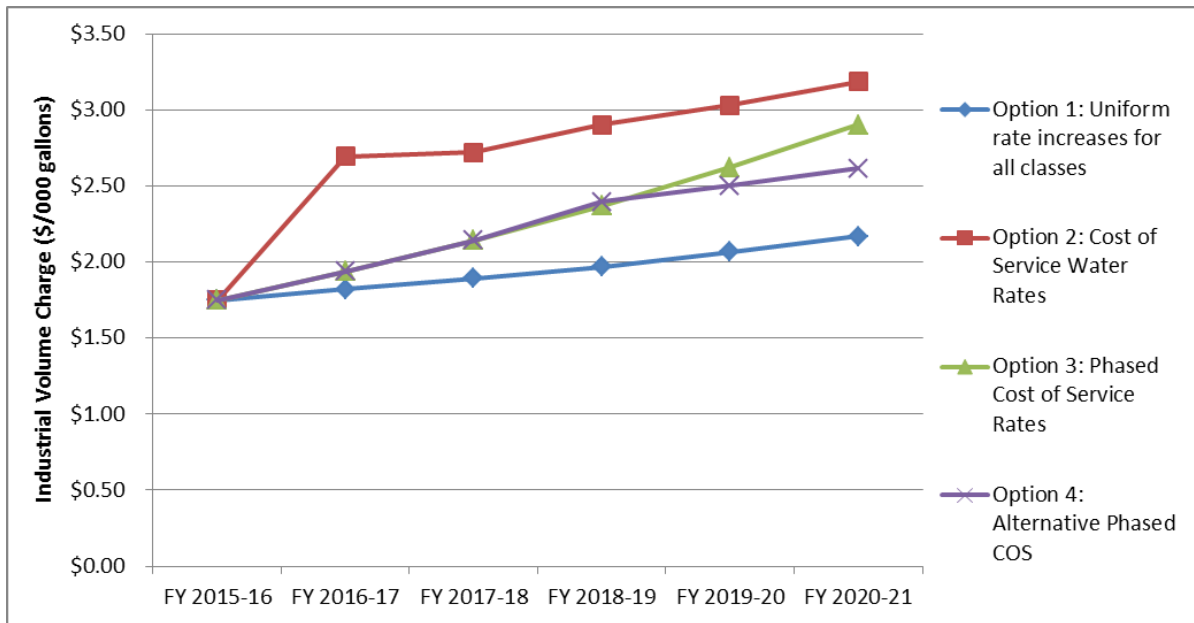


Figure ES-3. Industrial Volume Charge by Scenario

Figure ES-4 presents the revenue recovery by customer class for existing rates and for each of the rate options. The revenue recovery for the rate options is for FY2016/17. Revenue recovery for FY 2020/21 for Options 3 and 4 is also presented to illustrate the change in revenue recovery over time by implementing the phased cost of service approach. All of the rate options are designed to generate approximately \$4.6 million in rate revenue in FY 2016/17. Depending on the rate design option, revenue recovery shifts between the rate components and customer classes. For example, revenue recovered from unmetered customers’ ranges from about \$1.8 million under Option 2 to \$2.5 million under Option 1. For metered commercial and industrial customers, revenue recovery ranges from \$2.0 million under Option 1 to \$2.8 million under Option 2 (a 48% increase over existing rates).

It should be noted that the revenue recovery by customer class will vary from year to year as revenue requirements change.

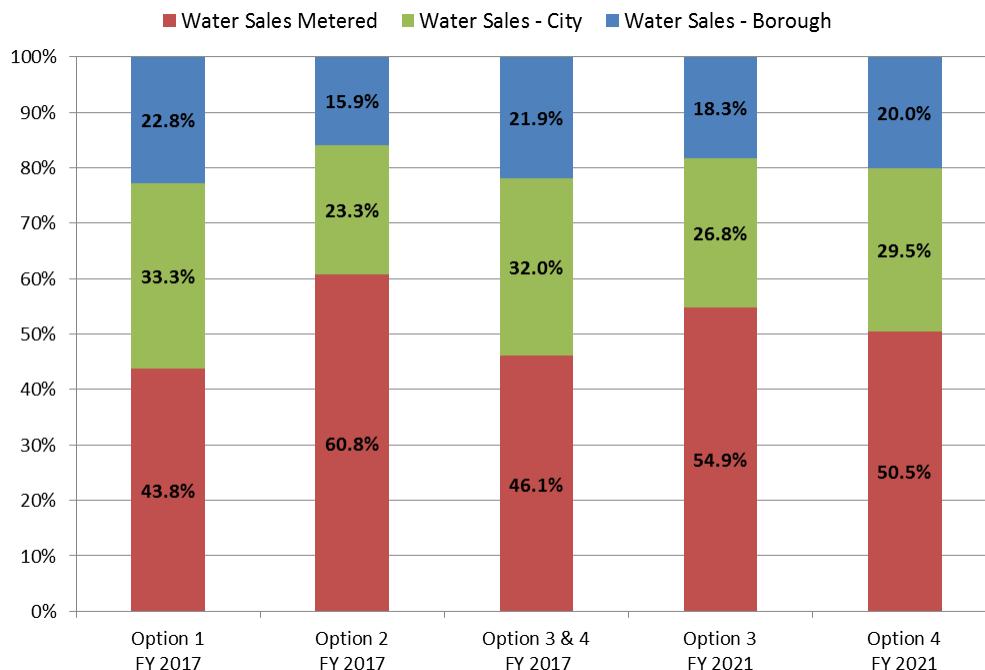


Figure ES-4. Revenue Recovery by Customer Class

Sample Monthly Water Bills

Sample bills under current rates and the three options are shown in Table ES-3 for FY 2016/17. The first rate increase is scheduled for FY 2016/17. Option 1 represents customer bills under a uniform rate increase scenario. Under the cost of service option (Option 2), bills for unmetered customers decrease dramatically while metered industrial customers experience very large increases. Bills for large users increase under each option because of the higher volume rates. Under the phased approach (Option 3 & 4), rates remain unchanged for unmetered customers and commercial metered accounts. Industrial customers would experience an increase of approximately 10 percent.

Table ES-3. Sample Water Bills

Customer Type	Monthly Water Consumption (000 gallons)	Existing Rate	Option 1	FY 2016/17 Option 2	Option 3 & 4
Sample Monthly Bill					
Residential-Inside City		\$55.23	\$57.44	\$40.67	\$55.23
Residential-Outside City		\$66.26	\$68.93	\$48.80	\$66.26
Commercial 2"	15	\$103.23	\$107.36	\$76.66	\$103.74
Commercial 4"	30	\$283.53	\$294.87	\$265.08	\$284.55
Industrial 6"	1,000	\$2,179.86	\$2,267.05	\$3,086.95	\$2,366.03
Industrial 8"	5,000	\$9,438.01	\$9,815.53	\$14,102.61	\$10,368.84
Percent Change from Existing					
Residential-Inside City			4%	-26%	0%
Residential-Outside City			4%	-26%	0%
Commercial 2"	15		4%	-26%	0%
Commercial 4"	30		4%	-7%	0%
Industrial 6"	1,000		4%	42%	9%
Industrial 8"	5,000		4%	49%	10%

Summary

Table ES-4 presents a summary of each option with the advantages/disadvantages of each rate option.

Table ES-4. Summary of Rate Design Options

Rate Design	Description	Advantage	Disadvantage
Option 1	Across the board increases	Easy to implement/explain; greater revenue stability	Equity; cost of service analysis supports a change in revenue recovery among customer classes
Option 2	Cost of service rates	Rate equity—recovers revenue in proportion to estimated system demands	Shifts revenue recovery to volume charge; less revenue stability; harder to explain; significant bill impacts to some users
Option 3	Phased cost of service rates	Phases in potentially significant impacts to some users; provides greater revenue stability than Option 2	Shifts more revenue recovery to volume change; unmetered customers continue to subsidize metered customers

Table ES-4. Summary of Rate Design Options

Option 4	Alternative Phased cost of service rates	Phases in potentially significant impacts to some users; provides greater revenue stability than Option 2 & 3	Shifts more revenue recovery to volume change; unmetered customers continue to subsidize industrial customers; does not provide as much rate equity as Option 3
----------	--	---	---

Recommendations

Based on the study findings summarized in previous sections, the following recommendations are presented for the City's consideration:

- Implement rate increases presented in Section 5, Option 3 (phased cost of service) in the current fiscal year (FY2016/17) and for the remainder of the forecast period, so that the rates in FY 2020/21 approach each classes' cost of service. Option 3 was the scenario selected by the City Council during the April 26, 2016 work session.
- A proposed rate structure and projected rate increases under Option 3 for Inside City customers and Outside City customers are presented in Appendix C.
- Increase rates as needed in future years to meet the financial needs of the systems. The projected rate increases shown in Section 4, Option 3, are based on the best available data and assumptions developed by the City and CH2M HILL as of April 2016. CH2M HILL has no control over market conditions or bidding procedures and cannot warrant that actual financial results for the water utility will not vary from projections presented herein.
- Review financial plan regularly to ensure actual revenues and expenditures are tracking with the projections developed in this analysis. The City should review the financial plan annually and adjust the rates as needed to reflect current construction schedules and costs, conditions and assumptions.

Contents

Section	Page
Executive Summary	ES-1
Acronyms and Abbreviations	v
1 Introduction	1-1
1.1 Report Organization.....	1-1
2 Background Information	2-1
2.1 Water Customers	2-1
2.2 Water Volumes	2-2
2.3 Largest Customers	2-3
2.4 Existing Rates	2-3
2.5 Historical Revenues –Water Utility Fund.....	2-4
2.6 Historical Operation and Maintenance Expenses –Water Utility Fund.....	2-6
2.7 Existing Debt Service Expenses.....	2-6
3 Financial Plan	3-1
3.1 Assumptions.....	3-1
3.2 Revenue Requirements.....	3-2
3.2.1 Operation and Maintenance Expenses.....	3-2
3.2.2 Debt Service Costs	3-3
3.2.3 Capital Costs.....	3-3
3.2.4 Total Revenue Requirements	3-5
3.3 Projected Rate Revenues	3-6
3.4 Financial Plan Results and Recommendations	3-7
3.5 Bill Comparison	3-8
4 Cost of Service Analysis	4-9
4.1 Introduction	4-9
4.2 Cost Allocation Methodology Overview	4-9
4.3 Water System Cost of Service Analysis.....	4-10
4.4 Water System User Characteristics.....	4-13
4.4.2 Water System Costs.....	4-16
5 Water Rate Design	5-19
5.1.1 Rate Design Options	5-19
5.1.2 Summary of Options	5-23
5.1.3 Sample Water Bills.....	5-24
5.1.4 Summary.....	5-25
6 Recommendations	6-1

Tables

ES-1	Projected Annual Rate Increases
ES-2	Summary of Water System Cost by Customer Class
ES-3	Sample Water Bills
ES-4	Summary of Rate Design Options
2-1	Number of Water Accounts

Section	Page
2-2	Historic Water Consumption (gallons), FY 2013–FY 2015
2-3	Largest Customers
2-4	Current City of Kodiak Non-Metered Water Rates
2-5	Current City of Kodiak Metered Water Rates
2-6	Water Revenues by Customer Class
3-1	Existing Debt Service Schedule
3-2	Proposed Capital Improvement Program, FY 2016–FY 2021
3-3	Projected System-Wide Annual Rate Increases
3-4	Sample Residential Water Monthly Bill
3-5	Estimated Residential Monthly Water Bill
4-1	Water System Revenue Requirements
4-2	Allocation of Capital Costs to System Functions
4-3	Allocation of Water System Costs to Functions
4-4	Water System User Characteristics (FY 2015/16)
4-5	Equivalent Meter Factors
4-6	Estimated Peaking Factors by Customer Class
4-7	Requirements by Service Characteristic
4-8	Water System Unit Cost, All Customers Excluding VFW & Landfill
4-9	Water System Unit Cost, All Customers Including VFW & Landfill
4-10	Water System Cost by Customer Class
4-11	Summary of Water System Cost by Customer Class
5-1	Option 1 Rates: Existing Rates with Across-the-Board Percentage Increase
5-2	Option 2: Cost of Service Rates
5-3	Option 3: Phased Cost of Service Rates
5-4	Option 4: Alternative Phased Cost of Service Rates
5-5	Summary of Water Rate Design Options
5-6	Sample Water Bills
5-7	Summary of Design Options

Figures

ES-1	Total Revenue Requirements, FY 2017-FY 2021
ES-2	Monthly Residential Rate by Scenario
ES-3	Industrial Volume Charge by Scenario
ES-4	Revenue Recovery by Customer Class
2-1	Historical Revenues, FY 2013-2015
2-2	Operation and Maintenance Expenses
3-1	Projected O&M Expenses, FY 2016–FY 2021
3-2	Estimated Debt Service Coverage, FY 2017-FY 2021
3-3	Total Revenue Requirements, FY 2017-FY 2021
3-4	Net Revenue Requirements and Projected Revenues, FY 2017-2021
4-1	Cost Allocation Process
4-2	Allocation of O&M Costs to System Functions
4-3	Historical Water Consumption by Customer Class
5-1	Revenue Recovery by Customer Class

Acronyms and Abbreviations

ADWF	Alaska Drinking Water Fund
AWWA	American Water Works Association
COS	Cost of service
DEC	Department of Environmental Conservation
ESU	Equivalent Service Unit
VFW	Veterans of Foreign Wars

Introduction

In October 2015, the City of Kodiak, AK (the City), authorized CH2M to proceed with a cost of service analysis and evaluation of the water rates for the City's water utility. The purpose of this study is to determine if projected operation and maintenance (O&M) and capital improvement costs will require rate increases in the future. The study also involved preparation of a cost of service analysis where the revenue requirements identified in the financial plan are allocated to utility functions and customer classes based on user characteristics. The resulting costs allocated to each customer class is their estimated cost of service. Rates can then be developed that recover the cost of providing service to each customer class from the users comprising that class. A number of rate structure scenarios have been developed for this study. The last rate study for the water utility was performed in 2010 by CH2M HILL and a five-year rate increase schedule was passed by the City council. The last of the planned rate increases was implemented at the beginning of FY 2016.

This Report summarizes the results of the cost of service study. A 5-year financial model (fiscal year [FY] 2017 through FY 2021) was developed to analyze the impact that implementing the proposed capital improvement plan (CIP) and projected operating expenses will have on the City's water rates. The Report includes a review of the historical expenses and revenues associated with the water utility and existing water rates; an analysis of the existing rates, including estimating projected water system revenue requirements and revenues; and recommendations for adjusting current rates to meet the projected revenue requirements of the system.

A cost allocation study was conducted to determine each customer classes share of the total costs imposed on the system. The process of allocating utility system costs to customer classes based on service demands is referred to as a cost of service analysis. Rates were developed that are designed to recover the costs of providing service to each customer class from the users comprising each class.

1.1 Report Organization

In addition to this introduction, the following sections are included in this report:

- Section 2, Background Information, provides historical information on the water system's customers, water usage, the utility's largest customers, current rates, revenues, and system costs.
- Section 3, Financial Plan, presents the 5-year water system revenue requirements and financial plan, including projected costs, revenues, and proposed rate revenue increases.
- Section 4, Cost of Service Analysis, describes the allocation of costs to system functions, service characteristics, and customer classes.
- Section 5, Rate Design, presents the existing water rates, and the proposed rate options.
- Section 6, Conclusions

Background Information

The City of Kodiak maintains and operates a water utility serving residential, commercial, and industrial customers on Kodiak Island, AK. The utility operates as an enterprise fund and is expected to cover its operating and capital costs through user charges. The city council requires enterprise funds to review user fees every 5 years to ensure the fund is generating sufficient revenues. The utility operates two funds: the Water Utility Fund (Fund 550) and the Water Capital Projects Fund (Fund 305). The Water Utility Fund tracks user revenues and operating expenses for the utility while the Capital Projects Fund is used to track capital expenditures. The Water Utility Fund transfers 10 percent of sales revenue each year to the Water Capital Projects Fund to help pay for capital expenditures. Available fund balances in the Water Utility Fund may also be transferred to the Capital Project Fund to help pay for capital projects.

Financial and customer data used in this analysis were provided by the City. The City's fiscal year runs from July 1st to June 30th (that is, "FY 2015" means the data are from July 1, 2014 through June 30, 2015).

A majority of the system is unmetered; only larger commercial and industrial customers are metered. The seafood processing industry is the major consumer of water and its operations during the fishing season drives the peak water usage for the utility. The City's potable water is supplied by a reservoir behind the Monashaka Dam. In September of 2015, the City experienced a water supply shortage requiring conservation notices from the City to its customers. The water supply issue was resolved after receiving seasonal precipitation in October 2015.

2.1 Water Customers

Table 2-1 presents the total number of customers for the water utility as of September 2015. The total number of accounts is approximately 2,660. Customers are summarized as being located within the city limits ("Inside City") or within the Borough ("Outside City"). Currently, outside city customer rates are 20 percent higher than inside city rates. All residential customers are unmetered, as are a majority of commercial accounts. The industrial accounts are all seafood processors.

Table 2-1. Number of Water Accounts

Customer Type	Accounts	
	Inside City	Outside City
Single Family Vacant	15	16
Single Family-Half	244	151
Single Family	762	707
Multi family vacant	25	22
Multi family	284	160
Business-vacant	7	1
Business 1	141	18
Business 2	39	2
Business 3	1	0
Commercial 1-2"	30	4

Table 2-1. Number of Water Accounts

Customer Type	Accounts	
	Inside City	Outside City
Commercial 3"	2	0
Commercial 4"	4	0
Commercial 6"	0	0
Commercial 8"	0	0
Industrial 1-2"	11	0
Industrial 3"	1	0
Industrial 4"	2	0
Industrial 6"	5	0
Industrial 8"	7	0
VFW	0	1
Total	1,580	1,082

Source: City of Kodiak, September 2015 Usage Charges Report

2.2 Water Volumes

Table 2-2 lists total water production from FY 2013 through FY 2015. In FY 2015, the utility produced approximately 1.9 billion gallons of water, which is an average daily production of approximately 5.2 million gallons per day (gpd). Estimated unaccounted for water is assumed to be 10 percent of total water production. Billed water consumption for each metered customer class was derived from billing records. The industrial class is the utility's largest water user, using over 50 percent of the utility's total billed water consumption in FY 2015. Total annual water production increased from approximately 1.7 billion gallons in FY 2013 to approximately 1.9 billion gallons in FY 2015, an increase of approximately four percent.

Table 2-2. Historic Water Consumption (gallons), FY 2013–FY 2015

Customer Class	FY 2013	FY 2014	FY 2015
Unmetered	631,911,800	622,260,421	634,131,779
Commercial	33,583,100	45,142,449	45,403,371
Industrial	895,565,200	1,140,835,430	1,020,717,550
VFW	374,000	751,000	1,382,000
Petro	1,158,900	1,062,300	983,300
Pool	837,500	745,700	759,400
Estimated Losses	173,714,500	201,199,700	189,264,156
Total Production	1,737,145,000	2,011,997,000	1,892,641,556

Source: City of Kodiak, Usage Report Oct. 2014–Sept. 2015.

2.3 Largest Customers

Table 2-3 presents the largest customers of the water utility. All ten of the largest customers are seafood processing plants. Customers are listed multiple times as some customers own multiple facilities or one facility may have multiple meters. For the 12-month period summarized, the ten largest customers used nearly 1 billion gallons of water.

Table 2-3. Largest Customers

Customer	Water Use
International Seafoods	143,274,100
Ocean Beauty Seafoods	136,138,300
Alaska Pacific Seafoods	133,921,000
Trident Seafoods	117,519,000
Global Seafoods	106,790,000
Ocean Beauty Seafoods	69,947,000
Trident Seafoods	46,365,000
Trident Seafoods	39,877,000
Pacific Seafoods	14,364,200
Total	958,125,100

Source: City of Kodiak, Usage Report Oct. 2014-Sept 2015.

2.4 Existing Rates

Tables 2-4 and 2-5 present the current rate schedules for the City's water system. Water rates for customers outside the city limits are twenty percent higher than for comparable inside city customers. Customers consist of unmetered and metered customers. The water rates for residential and most commercial customers are a flat rate monthly charge and are based on equivalent service units (ESU). An ESU is the the average water use of a typical residential unit. Multifamily rates are somewhat less than the comparable single family rates to reflect the perceived lower water usage per account. Commercial customers are billed a flat monthly fee per unit based on the type of business. One commercial unit is equal to one residential ESU. There are three subclassifications of unmetered business customers. The number of ESUs for these subclassifications are determined based on the following:

- B1: Healthcare (1 Unit) and Number of exam/chairs (1/2 unit); Beauty Parlor (1 Unit) and Number of chairs (1/2 unit); Hotel/Motel/Lodging Room per room (1/2 unit); School (1 unit per 20 people); Day Care (1/4 unit per 5 people)
- B2: Bars, Cafes, Auto Shop, Grocery, and Dry Cleaner
- B3: Laundry

Table 2-4. Current City of Kodiak Non-Metered Water Rates

Class	Description	Inside City	Outside City
Residential (\$/mo)			
	Single Family Residential	\$55.23	\$66.26

Table 2-4. Current City of Kodiak Non-Metered Water Rates

Class	Description	Inside City	Outside City
	Multi-Family Residential	49.78	59.83
	Single Family Residential, Vacant	27.62	33.14
	Multi-Family Residential, Vacant	24.89	29.92
Commercial (\$/month)			
	B1, per unit	55.23	66.26
	B2, per unit	200.41	240.36
	B3, per unit	345.38	414.47

Metered water rates include a meter charge based on the size of the meter and a volume charge. Volumetric charges are based on each customer's monthly water consumption. Outside City customers' rates are twenty percent higher than inside city rates. There are currently only 5 metered customers located outside the City, all of which are commercial customers with 1-2" meters.

Table 2-5. Current City of Kodiak Metered Water Rates

Class	Description	Inside City	Outside City
Meter Charge(\$/month)			
	1-2"	\$68.88	\$82.62
	3"	129.02	
	4"	214.83	
	6"	429.86	
	8"	688.01	
	VFW	181.76	
Consumption Charge (\$/000 gallons)			
	Commercial	2.29	2.85
	Industrial	1.75	
	VFW	1.95	

2.5 Historical Revenues –Water Utility Fund

Figure 2-1 shows historical revenues for the Water Utility Fund for FY 2013 through FY 2015. Total system revenues increased from \$3.7 million in FY 2013 to \$4.6 million in FY 2015. The increase in water consumption and increased water rates during this time period were the reasons for the additional revenue. In FY 2015, water rate revenues accounted for approximately \$4.4 million, or 96 percent, of total revenue. The remaining non-rate revenue was from interest income, taxes, hookup fees, and intergovernmental charges.

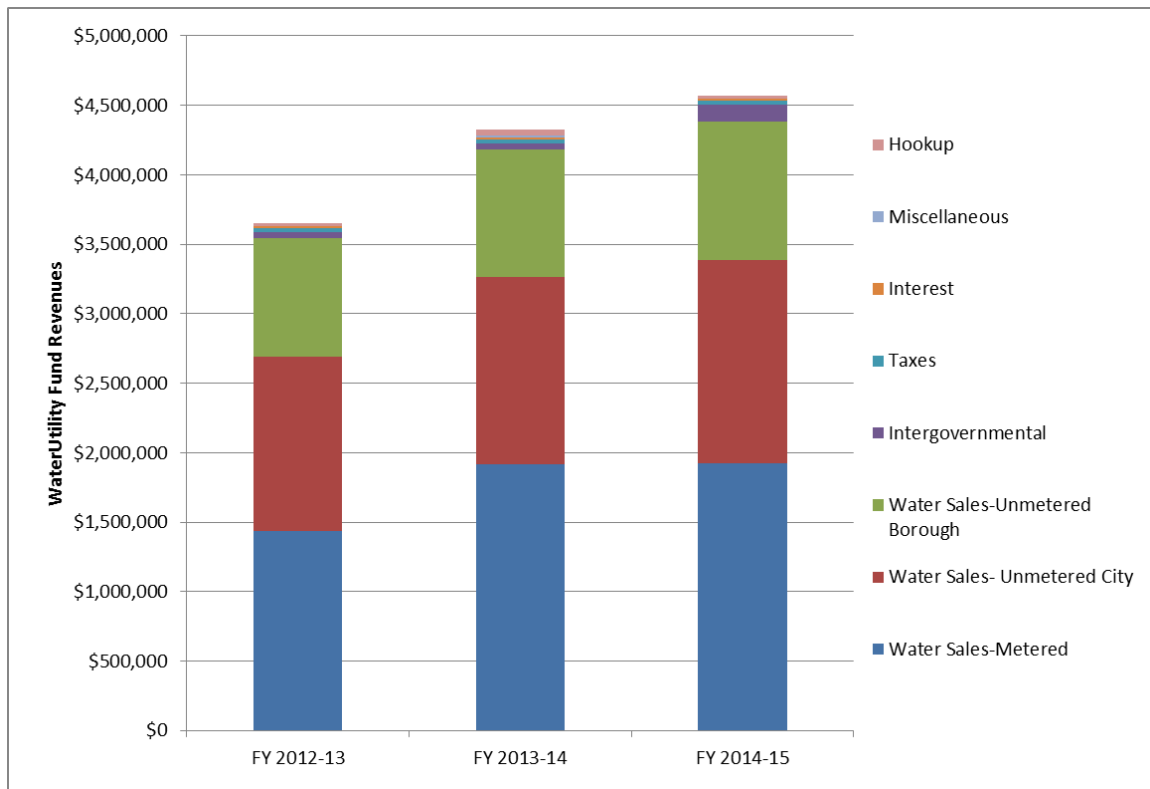


Figure 2-1. Historical Revenues, FY 2013-2015

Table 2-6 presents a breakdown of the City's water revenues by service type. Water revenue from metered accounts, which includes industrial users, represents the largest contributor of total sales revenue at 44 percent. Unmetered customers within the city accounted for 33 percent of sales revenue while unmetered customers outside the city represented 23 percent of sales revenue.

Table 2-6. Water Revenues by Customer Class

Service Description	FY 2013	FY 2014	FY 2015
Water			
Water Sales-Metered	\$1,434,137	\$1,915,934	\$1,921,671
Water Sales- Unmetered City	1,258,848	1,351,679	1,466,382
Water Sales-Unmetered Borough	850,210	917,991	993,073
Intergovernmental	42,937	40,054	123,975
Taxes	31,850	28,595	28,945
Interest	9,196	11,174	11,335
Miscellaneous	6,795	15,065	4,661
Hookup	15,837	42,684	18,017
Total Revenues	\$3,649,810	\$4,323,176	\$4,568,058

Source: City of Kodiak Budget Worksheet Report, Water Utility Fund

2.6 Historical Operation and Maintenance Expenses –Water Utility Fund

O&M expenses include all costs associated with operating and maintaining the water utility, including personnel, utilities, support goods and services, and professional services costs. Interfund charges include transfers to other City departments to cover administrative, financial, public works, and engineering services. Interfund charges also includes a transfer to the Water Capital Projects Fund to help pay for annual capital expenditures. Figure 2-2 summarizes actual operating expenses for FY 2013 through FY 2015. Cash operating expenses ranged from approximately \$1.7 million in FY 2013 to nearly \$2.0 million in FY 2015.

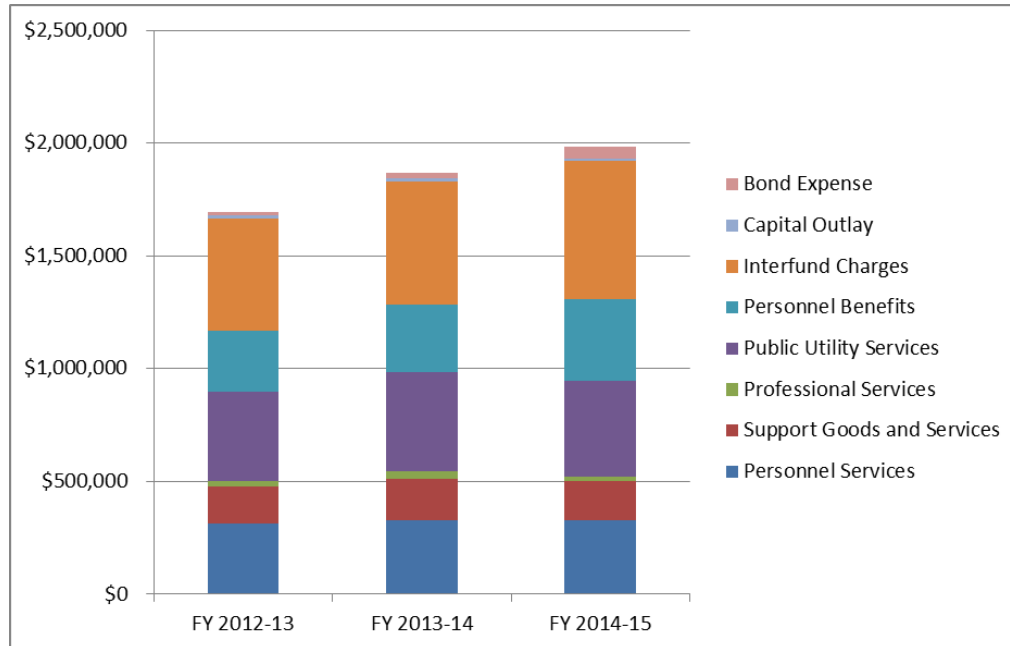


Figure 2-2. Operation and Maintenance Expenses

2.7 Existing Debt Service Expenses

Existing debt service costs are the annual principal and interest payments associated with three outstanding Department of Environmental Conservation Drinking Water Fund loans. For FY 2015, the principal and interest payments were as follows:

- 503071 DEC: PH II Downtown Comprehensive Design: \$75,558
- 503061 DEC: UV Water Treatment Facility: \$85,123
- 503091 DEC: Aleutian Homes Water Replacement Phase IV: \$50,208

The City recently retired an Alaskan Drinking Water Fund loan associated with the Aleutian Homes Water Replacement Phase II.

2.7.1.1 Water Capital Improvement Fund

The Water Capital Improvement Fund has historically received revenues from state matching grants, federal grants, and interfund transfers from the Water Utility Fund and the Sewer Utility Fund. The Water Utility Fund makes annual transfers of 10 percent of sales revenues as well as available fund balance for capital projects. Over the past three years, the water utility has completed some major capital improvement projects: the UV Water Treatment Plant, Aleutian Homes Phase V utility pipe replacement, and a portion of the Monashka pump house Project. The remainder of the pump house project will be completed in FY 2016.

Financial Plan

3.1 Assumptions

This financial analysis and rate study is based on projections of costs (both O&M and capital) that the City will incur during the 5-year planning period, FY 2017 through FY 2021, and the revenues that the City expects to generate during the same period. The financial plan is based on a set of overall assumptions related to customer growth, inflation, and other factors, as well as the specific phasing of the City's capital spending.

The following general assumptions were used in developing the plan:

- Customer growth will occur at the following annual rates:
 - Residential Growth: 0.5%
 - Commercial Growth: 0.5%
 - Industrial Growth: 0.0%
- Operation and maintenance costs – specific annual escalation factors used include:
 - Salaries and wages inflation: 3.0%
 - Group insurance inflation: 8.0%
 - Workmen's comp inflation: 3.0%
 - Public utility service inflation: 3.0%
 - Administrative, financial and public works services inflation: 3.0%
 - General inflation: 3.0%
- Personnel expenses were increased starting in FY 2017 by \$150,000 to account for additional personnel at the treatment plant. Position had previously been allocated to the Wastewater Utility.
- Capital costs will increase at an annual rate of 3.0% to account for inflation
- Future Debt Service:
 - Interest rate: 4.5%
 - Term: 20 years
 - Issuance cost: 2%
 - Bond reserve amount equal to one year of principal and interest. For this analysis, it was assumed the bond reserve will be funded through debt proceeds.
- It is assumed that the new debt that is issued will carry a coverage requirement. The assumed coverage requirement provides that net revenues (system gross revenue less O&M expenses) be at least 1.20 times the average annual principal and interest requirements of all outstanding bonds. While the City's existing ADEC loans do not have a debt service coverage requirement, this analysis assumes new debt issuance would be revenue bonds and would have a coverage requirement of at least 1.20. The required debt service coverage was included in the analysis for estimating future rate increases.
- Interest earned on investments: 0.5%
- Beginning balance in FY 2016:
 - Water Utility Fund: \$4,276,744
 - Water Capital Projects: \$3,470,331
- An annual operating contingency equal to 45 days of personnel and operating expenses was projected. It was assumed that any unspent contingency would be available the following year.

3.2 Revenue Requirements

The costs associated with providing water service that are to be funded from annual revenues are referred to as ‘revenue requirements’ for rate-making purposes. Total requirements are composed of:

- O&M costs
- Annual capital improvement projects funded by rates and reserves
- Debt service payments
- Transfers to other City funds for indirect and direct services provided to the utility

In addition, annual requirements include operating contingencies equal to 45 days of personnel and operating costs. However, 100 percent of annual contingencies are assumed to be unspent and roll forward to subsequent year beginning balances.

Revenue requirements were projected based on data provided by the City. The proposed budget for FY 2016 was used as the base year for the operating cost projections. The proposed CIP implementation schedule and costs from FY 2016 through FY 2021 was used for the projected capital outlays.

3.2.1 Operation and Maintenance Expenses

Operation and maintenance expenses include all costs associated with operating and maintaining the water utility, including personnel and materials and services costs. Figure 3-1 shows projected O&M costs for FY 2016 through FY 2021. For budget year FY 2016, O&M expenses are projected to increase to approximately \$2.7 million from \$2.0 million in FY 2015.

One reason for the increase in O&M expenses in FY 2016, from FY 2015 levels, is additional capital expenses, which increased from approximately \$8,500 in FY 2015 to approximately \$173,000 in FY 2016. Personnel, supplies, administrative and financial services, and PERS obligation expenses also experienced larger increases when compared to previous years. Personnel expenses include the estimated costs assuming the department fills all allowed full time equivalents. The City’s share of PERS obligation expenses has increased because of additional funding requirements placed on the City by the State of Alaska. Additional personnel services and benefit expenses occur in FY 2017 as an operator position was moved from the wastewater utility to the water utility. Finally, the budget for FY 2016 also includes a more conservative contingency of 45 days of operating expenses. O&M expenses are projected to increase from nearly \$2.8 million in FY 2016 to approximately \$3.5 million in FY 2021.

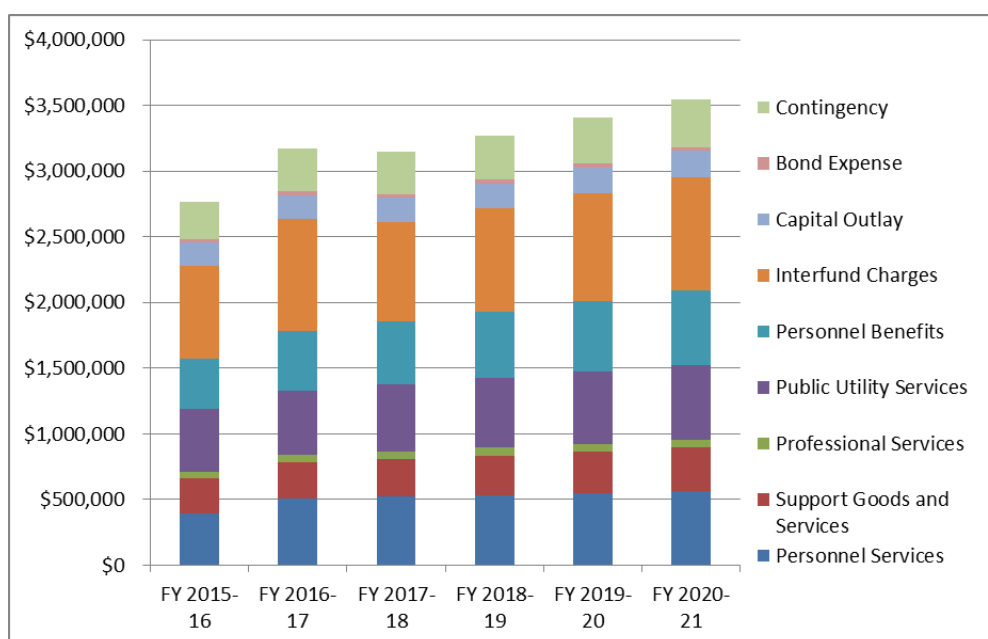


Figure 3-1. Projected O&M Expenses, FY 2016–FY 2021

3.2.2 Debt Service Costs

The City has existing ADWF loans that will have annual debt service payments over the analysis period. The annual debt service payment schedule (principal and interest) for existing debt is presented in Table 3-1. The outstanding debt were issued to pay for portions of the UV Treatment Facility, the comprehensive design of Downtown Phase II, and the Aleutian Homes Phase IV projects. The loan for the Aleutian Homes Phase IV project is expected to be retired in FY 2020. The City also has debt service payments associated with the recent completion of the Monashka pump house project. An ADWF loan with a principal amount totaling approximately \$2.4 million will have estimated annual debt service payments of approximately \$140,000. The first payment is anticipated in FY 2017. Annual debt service costs are included in the water utility's revenue requirements and will be recovered through its water rate revenues.

Table 3-1. Existing Debt Service Schedule

Year	503071 DEC: PH II Downtown Comprehensive Design	503061 DEC: UV Water Treatment Facility	503091 DEC: Aleutian Homes Water Replacement Phase IV	501161 DEC: Monashka Pump House ¹	Total
FY 2015-16	\$75,558	\$77,168	50,208	0	\$202,934
FY 2016-17	\$68,480	\$77,168	50,208	140,000	\$335,855
FY 2017-18	\$67,511	\$77,168	50,208	140,000	\$334,886
FY 2018-19	\$66,542	\$77,168	50,208	140,000	\$333,917
FY 2019-20	\$65,572	\$77,168	50,208	140,000	\$332,948
FY 2020-21	\$0	\$77,168	50,208	140,000	\$267,376
FY 2021-22	\$0	\$77,168	50,208	140,000	\$267,376
FY 2022-23	\$0	\$77,168	50,208	140,000	\$267,376
FY 2023-24	\$0	\$77,168	50,208	140,000	\$267,376
FY 2024-25	\$0	\$77,168	50,208	140,000	\$267,376
FY 2025-26	\$0	\$77,168	50,208	140,000	\$267,376

Note:

¹ Annual Debt Service payments have been estimated based on 20 year term and 1.5% interest rate

3.2.3 Capital Costs

Table 3-2 summarizes the capital improvement plan for the water system from FY 2016 through FY 2021 in 2015 dollars. The CIP identifies approximately \$30.3 million (in 2015 dollars) in capital improvements from FY 2016 through FY2021. The projects are necessary to maintain the current level of service provided by existing facilities, comply with state and federal regulations, and provide capacity to meet the needs of projected growth. The largest project in the CIP includes the construction of the Monashaka Transmission Line. The exact timing of this project will be determined after the condition analysis is completed in the spring of 2016. In order to be conservative and to plan for the immediate need to complete the project, it was scheduled earlier than may be necessary. Based on the anticipated project schedules and an estimated annual capital cost escalation rate of 3 percent, the total, inflation-adjusted capital improvement plan for the water system is \$32.9 million through FY 2021.

Table 3-2. Proposed Capital Improvement Program, FY 2016–FY 2021*All costs are in 2015 Dollars*

Project	FY 2015/16	FY 2016/17	FY 2017/18	FY 2018/19	FY 2019/20	FY 2020/21
Periodic Dam Safety Insp.	\$60,000			\$80,000		
W&S Utility Rate Update	\$48,000					\$50,000
Underground Fuel Tank Inspect. PW	\$10,000			\$10,000		
Annual Water Main Replacement Service District	\$500,000	\$500,000	\$500,000	\$500,000	\$500,000	\$500,000
CT Tank Painting				\$300,000	\$1,500,000	
Pillar Creek Spillway	\$100,000					
Downtown PH 2, Comprehensive Design water, sewer , storm dr.						
Monashka Pumphouse Rebuilding						
Monashka Transmission Line	\$200,000		\$12,000,000			
Aleutian Homes PH 6 Birch St Design	\$465,530	\$1,872,000				
Downtown PH 3, Center Street	\$119,000	\$1,915,000				
Downtown PH 4, Mecca to Center St. On Marine Way				\$110,000	\$2,024,000	
Aleutian Homes PH 7 Hemlock			\$100,000	\$2,207,200		
Downtown PH 5, Mecca to Rez. On Marine Way & Mall					\$100,800	\$1,904,400
Downtown PH 6, Alley north of Mall, American Legion, Sunaq Tribe						\$120,000
Downtown PH 7, Mission Rd, Marine Way to Kashevarof						
Downtown PH 8, Kashevarof, Rez to Mission Rd.						
Aleutian Homes PH 8, Carolyn & Wilson						\$2,040,000
Aleutian Homes PH 9 High Avenue, Hillcrest and Lightfoot Ave.						
Total	\$1,502,530	\$4,287,000	\$12,600,000	\$3,207,200	\$4,124,800	\$4,614,400

The projected capital improvements will be paid by a combination of current revenues, available fund balances, debt proceeds, and additional revenue generated by any rate increases that the City may implement. This analysis assumed the City would not receive state matching grants to fund any of the projects, as the City does not expect State matching funds to be available in the near future. In order to provide a conservative estimate for debt financing, it was assumed the City would issue debt through the revenue bond market which has a higher cost of capital than loans received through the ADEC.

For this analysis, it was assumed that the City would issue revenue bonds to pay for a significant portion of the planned improvements. Based on the current CIP schedule, three separate debt issuances are forecasted over the analysis period: \$14.2 million in FY 2017/18, \$4.4 million in FY 2019/20, and \$5.5 million in FY 2020/21.. Annual debt service for the water system increases from its current level of approximately \$200,000 to approximately \$1.7 million by FY 2020/21. Debt service payments are based on a 20-year term, 4.25 percent interest, 2.0 percent issuance costs, and a reserve requirement equal to one year principal and interest, which is assumed to be funded from the bond proceeds.

Figure 3-2 shows the projected debt service coverage based on the projected operating revenues and O&M expenses over the study period. In each year, debt service coverage meets the assumed minimum coverage typically required by bond covenants. This is largely because rates have been set to generate sufficient revenues to cover a significant portion of the projected capital outlays. The additional revenue generated for capital projects counts toward meeting the coverage requirements. Without increases to the water rates, the utility would not generate enough revenue under existing rates to meet the minimum debt service coverage requirement.

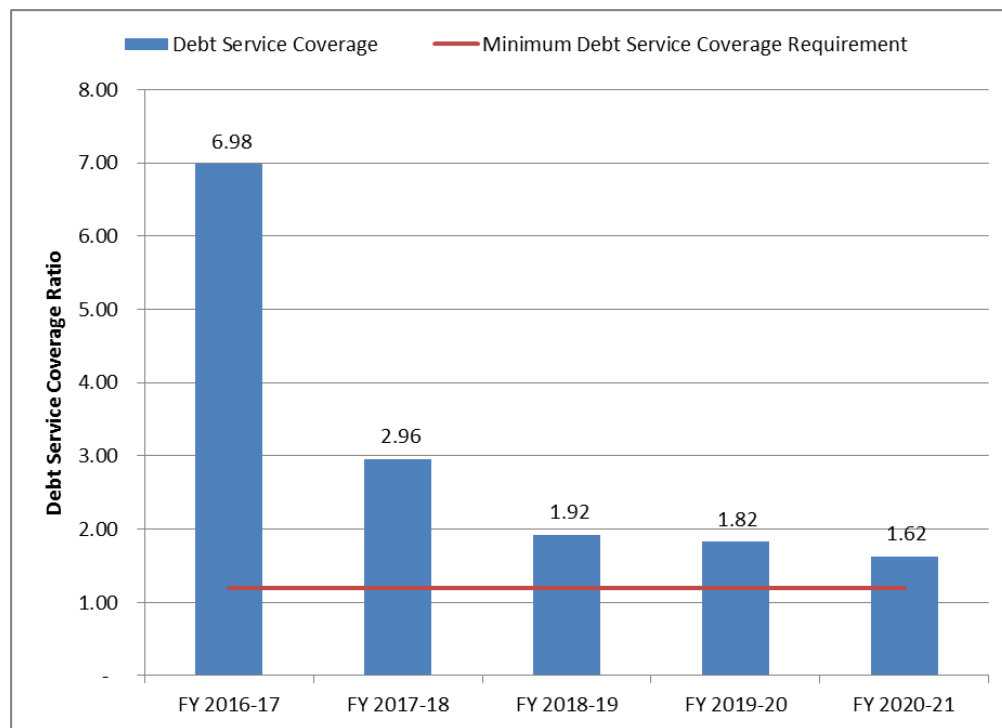


Figure 3-2. Estimated Debt Service Coverage, FY 2017-FY 2021

3.2.4 Total Revenue Requirements

Figure 3-3 presents the total water utility revenue requirements projected for FY 2017 through FY 2021. Total projected revenue requirements are expected to increase from nearly \$4.6 million in FY 2017 to approximately \$5.5 million in FY 2021.

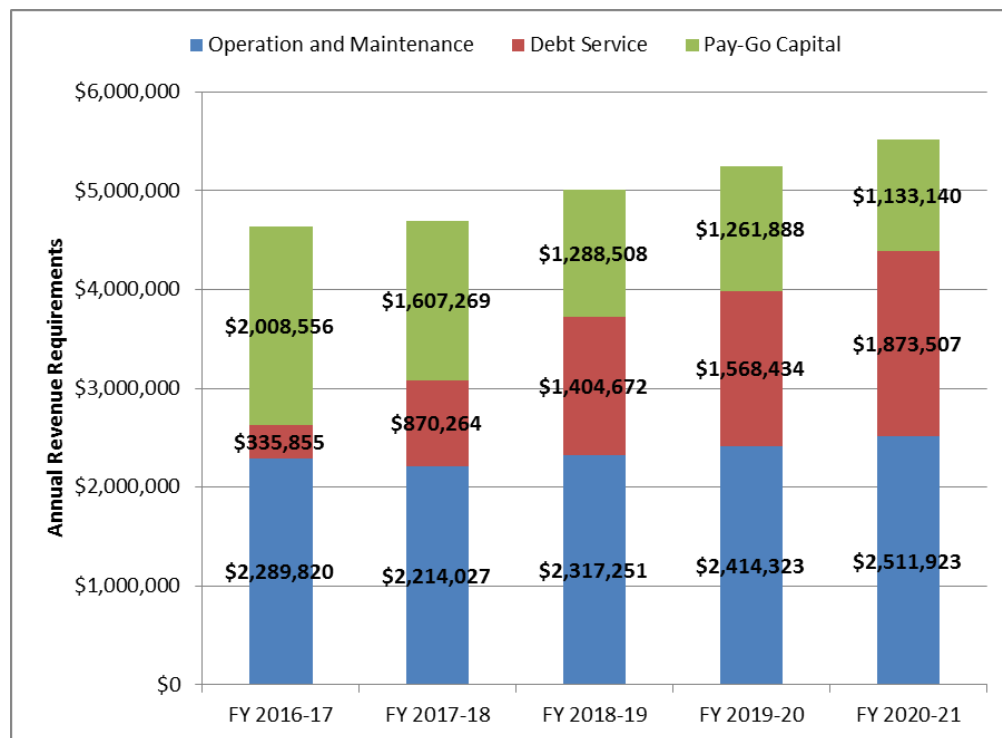


Figure 3-3. Total Revenue Requirements, FY 2017-FY 2021

3.3 Projected Rate Revenues

For this analysis, it was assumed the City would rely on a combination of water rates, including rate increases, available fund balance, and revenue bonds to fund the projected system costs for the next 5 years. Water sales revenues, based on existing rates, are projected to generate approximately \$4.4 million in FY 2016. This projection is based on the City's existing rate schedule presented in Tables 3 and 4.

Non-rate revenues, including revenue from interest income, connection fees, miscellaneous charges, and intergovernmental sources, are projected at approximately \$129,000 for the water utility in FY 2016. For this analysis, it was assumed the non-rate revenue would remain relatively stable during the study period. Non-rate revenues are projected to be approximately \$130,000 by the end of the study period.

Non-rate revenues are deducted from the System revenue requirements to determine the amount of revenue that needs to be generated through the utility rates to cover the projected system costs and other cash needs.

Figure 3-4 presents the revenue requirements for the utility over the analysis period. Revenue requirements consist of O&M expenses, debt service payments, and pay-as-you-go capital expenses. Net O&M expenses are operating and personnel expenses plus additional contingency costs less non-rate revenue. Net Capital Requirements are debt service costs plus pay-as-you-go capital and additions to reserves. As Figure 3-4 illustrates, existing rate levels will not be sufficient to cover the revenue requirements, and rate increases will be necessary.

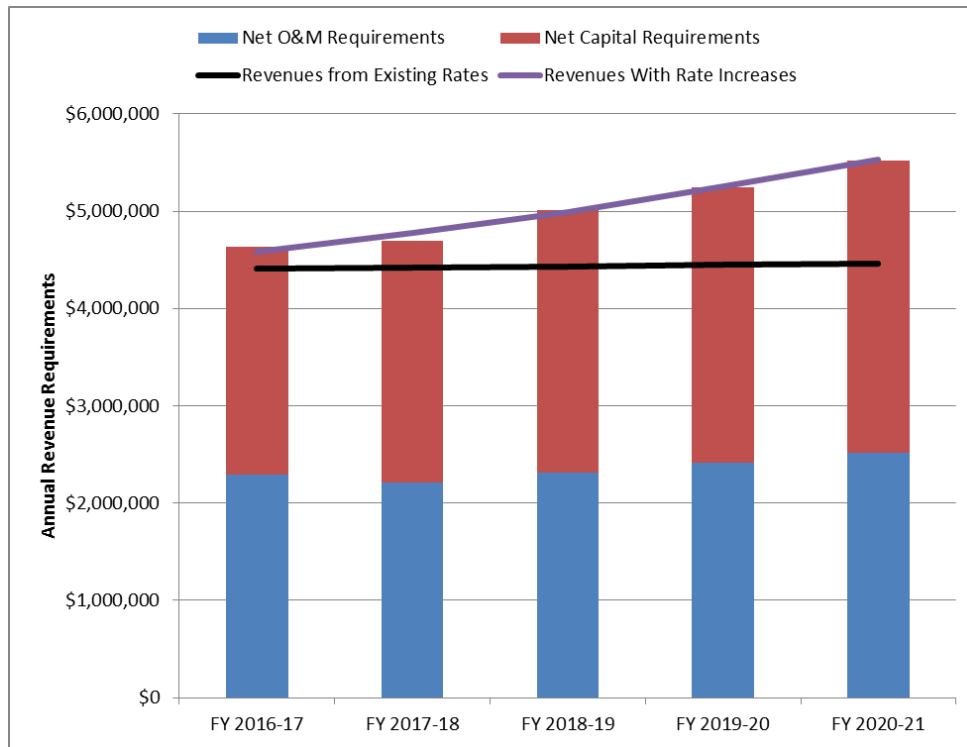


Figure 3-4. Net Revenue Requirements and Projected Revenues, FY 2017-2021

3.4 Financial Plan Results and Recommendations

As of the beginning of FY 2016, the City's has an estimated combined \$7.7 million in available reserves between the water utility fund and the water capital projects fund. As discussed previously, this analysis assumes that the City will use a combination of rate revenue, debt issuance, and existing reserves to pay for the planned projects. To repay the existing and new debt service, maintain appropriate coverage requirements, build reserves, and to pay for the additional capital and operating expenses forecast over the study period, water rate increases will be required.

For this analysis, rate increases are introduced every year beginning in FY 2017. The current rates generate sufficient revenue to fund current O&M and debt service costs. However, because the proposed CIP over the 5 year analysis period totals approximately \$32.2 million (inflation-adjusted), rate increases are required. Additionally, the utility will not meet its coverage requirements in the future without increasing its water rates.

The rate increases have been structured with increases near expected inflationary levels for FY 2017 through 2021. Table 3-3 presents the projected annual rate increases needed to meet the City's revenue requirements. The rate increases presented would be applied to both fixed and consumption charges and would impact all customer classes. Appendix A shows projected water rate revenues.

Table 3-3. Projected System-Wide Annual Rate Increases

Fiscal Year	Annual Water Increase
FY 2017	4.0%
FY 2018	4.0%
FY 2019	4.0%
FY 2020	5.0%
FY 2021	5.0%

Appendix B presents the projected sources and uses of funds for the utility. Sources of funds include beginning balance, water rate revenue, non-rate revenues, and interest. Uses of funds include O&M expenses, annual debt service, cash or reserve funded capital outlays, and contingency. As stated previously, this analysis assumed the City would issue new debt to pay for a portion of the capital improvement projects. Unused contingency is added to the ending fund balance to estimate the next year's beginning fund balance. At the end of FY 2021, the ending fund balance plus the contingency is estimated to be approximately \$4.7 million.

Table 3-4 presents an estimated water monthly bill for an unmetered residential customer and the forecast rate increases presented in Table 8 for FY 2017 through FY 2021. The existing water monthly bill is \$55.23 per month. Based on the forecast rate increases, the monthly residential water bill is expected to increase by \$13.26 to \$68.54 by FY 2021. The rates would increase by 24 percent increase over the 5 years analysis period.

Table 3-4. Sample Residential Water Monthly Bill

Scenarios	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Estimated Monthly Bill	\$55.23	\$57.44	\$59.74	\$62.13	\$65.23	\$68.49
% Annual Change		4.00%	4.00%	4.00%	5.00%	5.00%

3.5 Bill Comparison

CH2M conducted a survey of current rates in other communities for residential water customers. Monthly bill for water service for a residential customer consuming 7,000 gallons and 10,000 gallons of water per month were estimated. Table 3-5 presents the survey results, which include the most current rate structures available on each community's website and may not reflect recent or planned increases. It should be noted that direct bill comparisons between different utilities are difficult because of differing system requirements, rate structures, customer classifications, policy decisions, and usage levels for the various utilities.

Table 3-5. Estimated Residential Monthly Water Bill

Community	Sample Monthly Bill		
	7,000 gallons	10,000 gallons	Metered or Unmetered
Kodiak	\$55.23	\$55.23	unmetered
Anchorage	\$49.89	\$49.89	unmetered
Juneau - unmetered	\$29.94	\$29.94	unmetered
Juneau - metered	\$28.76	\$37.04	metered
Kenai	\$30.87	\$30.87	unmetered
Sitka	\$38.96	\$38.96	unmetered
Ketchikan	\$48.19	\$48.19	unmetered
Homer	\$90.30	\$123.00	metered
Cordova	\$29.58	\$29.58	unmetered
Fairbanks - metered	\$75.62	\$98.06	metered
Fairbanks - unmetered	\$73.10	\$73.10	unmetered
Unalaska	\$35.59	\$35.59	unmetered

Cost of Service Analysis

4.1 Introduction

A fundamental principle for developing an equitable system of user charges is to ensure that all users pay (through user charges or other fees) for their share of the total costs imposed on the system. A financial plan is used to determine annual costs and associated funding sources for a particular planning horizon (e.g., 5 to 10 years). The process of then allocating utility system costs to customer classes based on service demands is referred to as a cost of service analysis. This analysis generally includes the following steps:

- Allocate costs to system functions and service characteristics
- Analyze user characteristics
- Allocate costs to users in proportion to demands

The resulting total costs allocated to each customer class is their estimated cost of service. Rates can then be designed to generate revenues from the customers comprising each class approximately equal to their cost of service.

4.2 Cost Allocation Methodology Overview

The development of customer class cost of service water rates is a several step process. The first step involves the determination of the System revenue requirements (annual costs) and the portion of these annual costs that need to be recovered through the utility's rates. The System revenue requirements were developed for this analysis using the "Cash Basis Method". Under the cash basis method, a utility's revenue requirements consist of the utility's cash needs and other financial commitments. These typically consist of operating expenses, debt service requirements, cash funded capital outlays, and taxes or payments in lieu of taxes. The summation of the utility's annual cash needs is the utility's annual revenue requirements. The utility's revenues from sources other than rates is then deducted from the annual revenue requirements to determine the amount of revenue that needs to be recovered through the utility's rates.

Through a multi-step allocation process, costs are first allocated to general service functions, such as water treatment or distribution. Once the cost components making up the rate revenue requirements have been allocated to service functions these functional costs are then allocated to service characteristics. Service characteristics are associated with quantifiable levels of service, such as water consumption. Once costs have been allocated to service characteristics, service characteristic unit costs are developed by dividing the service characteristic costs by the total system service characteristic demands. The demands of each customer class for each service characteristic are multiplied by the respective unit costs for each of the service characteristics to determine each class's share of the costs for each service characteristic. The summation of the service characteristic costs allocated to each customer class are the customer class's cost of service.

Rates are then designed to recover the costs of providing service to each customer class from the users comprising the class. The customer class structure is designed such that each of the customer classes consists of users with similar user characteristics, while separating users with dissimilar characteristics. In this way, the resulting rates will then result in charges to users in each class that approximate the cost of providing service to that user. **Figure 4-1** graphically presents this cost allocation process.

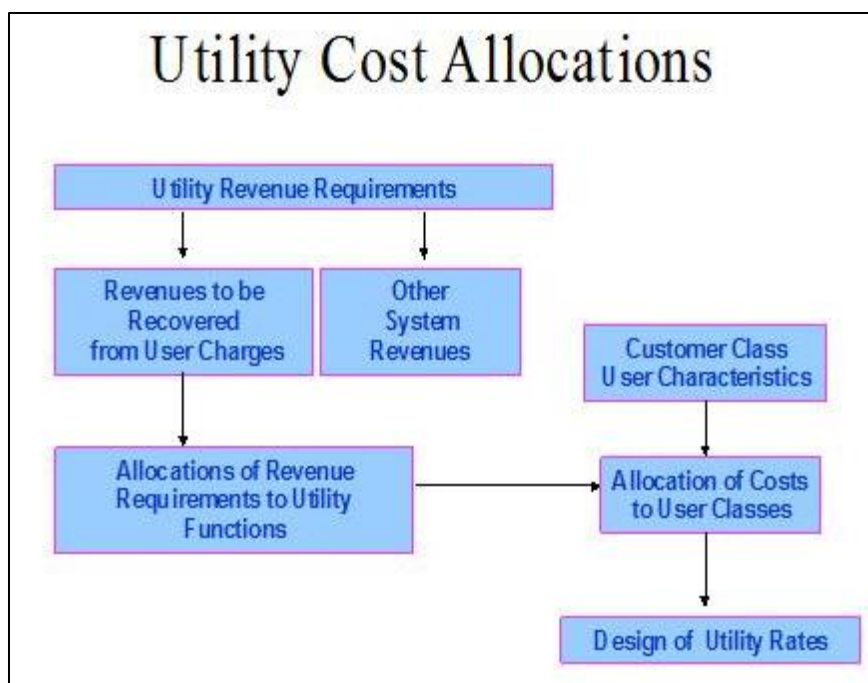


Figure 4-1. Cost Allocation Process

4.3 Water System Cost of Service Analysis

4.3.1.1 Water System Functions and Service Characteristics

The cost allocation methodology used in this study for the water system is based on American Water Works Association (AWWA) recommended principles. Under this approach, costs are allocated to the following functions and service characteristics:

Water System Functions and Classifications

FUNCTIONS	CLASSIFICATIONS
Supply, Pumping, Treatment, Transmission, Distribution,, Billing and Customer Service, and Administration	Average Demand, Peak Demands, Meters, and Billing and Customer Service

The water utility’s budget is organized by the following departments:

- Sub-Department 360: Water Distribution
- Sub-Department 365: Water Treatment

Table 4-1 presents the projected water system revenue requirements for FY 2016/17 through FY 2020/21. To determine the net amount that must be recovered from user charges, revenues offsetting operations and maintenance cost were projected and subtracted from total operating costs. These revenues include interest earnings, intergovernmental revenues, hookup fees, and miscellaneous charges. Use of reserves was also used to offset increases in revenue requirements and was subtracted from total system expenses. Revenue requirements from rates are projected to increase from \$4.6 million in FY 2017 to approximately \$5.5 million in FY 2021.

Table 4-1. Water System Revenue Requirements

	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21
Revenue Requirements					
Operation and Maintenance	\$2,385,223	\$2,353,212	\$2,442,462	\$2,535,726	\$2,633,222
Capital Costs					
Debt Service	335,855	870,264	1,404,672	1,568,434	1,873,507
Rate Funded Capital	4,548,078	768,360	3,643,497	781,774	450,132
Subtotal	\$4,883,934	\$1,638,624	\$5,048,169	\$2,350,208	\$2,323,639
Total Requirements	\$7,269,157	\$3,991,836	\$7,490,631	\$4,885,934	\$4,956,861
Less Nonrate Revenue:					
Intergovernmental	80,280	80,280	80,280	80,280	80,280
Taxes	27,000	27,000	27,000	27,000	27,000
Interest	12,048	3,407	5,197	2,148	2,797
Miscellaneous	5,000	5,000	5,000	5,000	5,000
Hookup	15,075	15,150	15,226	15,302	15,379
Subtotal	\$139,403	\$130,837	\$132,703	\$129,730	\$130,455
Uses of (Additions to) Contingency	-44,000	3,000	-13,000	-14,000	-15,000
Uses of (Additions to) Fund Balances	2,539,523	-838,909	2,354,989	-480,114	-683,007
Requirements from Rates	\$4,634,231	\$4,691,559	\$5,010,430	\$5,244,645	\$5,518,570

Figure 4-2 shows a summary of the allocation of O&M costs to system functions. The detailed allocation percentages that were developed based on discussions with City staff are presented in Appendix B. Personnel costs are allocated based on hours reported on timesheets and are distributed across all functions, with the exception of billing. Billing costs are included in general fund support services (under materials and services). Administration and general costs are re-allocated to the other functions based on a weighted average of the direct allocations. Figure 4-2 shows that 33.2 percent of the 5-year average O&M costs are associated with distribution, 23.5 percent are associated with pumping, and 23.3 percent of costs are associated with treatment. Supply, transmission, and customer service costs represent the remaining 20 percent of costs.

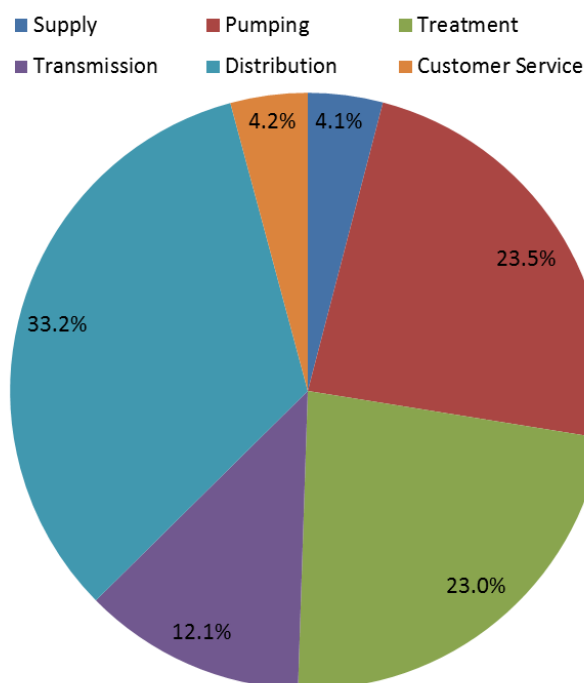


Figure 4-2. Allocation of O&M Costs to System Functions

Capital costs were allocated based on a two-step process. The estimated book value of the system assets were reviewed and grouped by system function. For those projects that have been fully depreciated, a residual value of 10 percent of initial cost was included, as these assets are presumably still in service and still have value. The water system CIP was also allocated to system functions and then added to the existing assets to estimate a total value of the water system over the analysis period. The percentage of total system value by system function was calculated. The allocation percentage was then applied to the total cost of the capital improvement program and annual debt service payments. This approach was used to reflect the cost of the entire system and not focus the cost allocation only on projects included in the near term CIP.

Table 4-2. Allocation of Capital Costs to System Functions

System Function	Fixed Asset Book Value	Total CIP
Supply	11.6%	\$3,722,443
Pumping	0.0%	\$5,086
Treatment	3.9%	\$1,257,399
Transmission	27.4%	\$8,812,043
Distribution	57.1%	\$18,394,871
Customer Service	0.0%	\$0
Total		\$32,191,842

The majority of CIP costs are allocated to the distribution system, representing nearly 57 percent of total CIP costs. Transmission projects account for 27 percent of the CIP costs. Supply and treatment functions were allocated 12 and 4 percent of capital costs, respectively.

Table 4-3 shows how costs by function are allocated to water service characteristics. Source of supply is allocated 100 percent to base demand, while treatment, pumping, and transmission functions are

allocated to base and peak demands. Distribution costs were split between average day, maximum day, and meters and services functions. A portion of distribution costs were allocated to meters and services to reflect that the distribution system is sized to meet system capacity and that there are system costs associated with providing water service to all customers when needed. These “ready to serve” costs are typically recovered through a meter charge. Billing and customer services are allocated to service characteristics of the same name.

Table 4-3. Allocation of Water System Costs to Functions

Function	Average Day	Maximum Day	Meters & Services	Billing & Cust. Serv.	Total
Supply	100%				100%
Pumping	53%	47%			100%
Treatment	53%	47%			100%
Transmission	53%	47%			100%
Distribution	55%	15%	30%		100%
Customer Service			10%	90%	100%

It should be noted that not all customers utilize all functions of the water utility. Specifically, the VFW and the Landfill connect to the water system upstream of the treatment plant and purchase raw water from the City. Under cost of service principles, these customers should not be allocated costs associated with treatment or distribution.

4.4 Water System User Characteristics

Table 15 provides a summary of estimated water system user characteristics for FY2015/16.

4.4.1.1 Customers and Equivalent Meters

Based on billing data from September 2015, the water system serves approximately 2,600 customers, 90 percent of which are single and multi-family residential. There are approximately 250 commercial customers and 26 industrial customers. For projection purposes, the number of accounts was adjusted slightly to account for unpaid bills and to match the budgeted revenues for the year. The majority of the system is unmetered. Metered customers’ meters range in size from 1” to 8”. Because certain meter and customer-related costs increase with meter size, the number of *equivalent meters* in the system is estimated. Water system user characteristics are presented in Table 4-4.

Table 4-4. Water System User Characteristics (FY 2015/16)

Function	Estimated Water Use (2015/16)	Peaking Factor	Customers (2015/16)	Equivalent Meters
Unmetered	447,015,290	2.93	2,389	2,221
Commercial-metered	43,225,340	2.06	39	121.3
Industrial	965,000,000	2.95	26	373.1
VFW/Landfill	905,333	2.57	2	8.1
Total	1,456,145,964		2,456	2,723

Notes:

1. Assume 20 percent system loss
2. Unmetered customers include inside and outside city residential and commercial accounts

Equivalent meters are the number of meters in the system (of all sizes), expressed in terms of the number of 1"-inch equivalent meters (the size of the smallest installed meter) that would result in an equivalent hydraulic capacity. Meter equivalency factors are shown in Table 4-5. Based on the number of meters of each size, the number of equivalent meters is estimated to be 2,723.

Table 4-5. Equivalent Meter Factors

Meter Size	Factor
1"	1.0
1-1/2"	2.0
2"	3.2
3"	6.0
4"	10.0
6"	20.0
8"	32.0

4.4.1.2 Annual Water Use

Historical monthly water production and usage data was provided by City staff for FY 2013-2015 and is presented in Figure 4-3. In 2014/15, total water production was 1.9 billion gallons. For this analysis, it was assumed that water system loss, or water use that does not produce revenue, equaled 20 percent of total water production. Therefore, total estimated water usage by customers for FY2014/15 was 1.5 billion gallons. Metered customers represented approximately 1.1 billion gallons. The remaining 400 million gallons were used by unmetered residential and commercial accounts. Average monthly usage per residential ESU was estimated to be approximately 10,000 gallons. Water use projections for the study period are based on historical average use per account applied to projected customer growth.

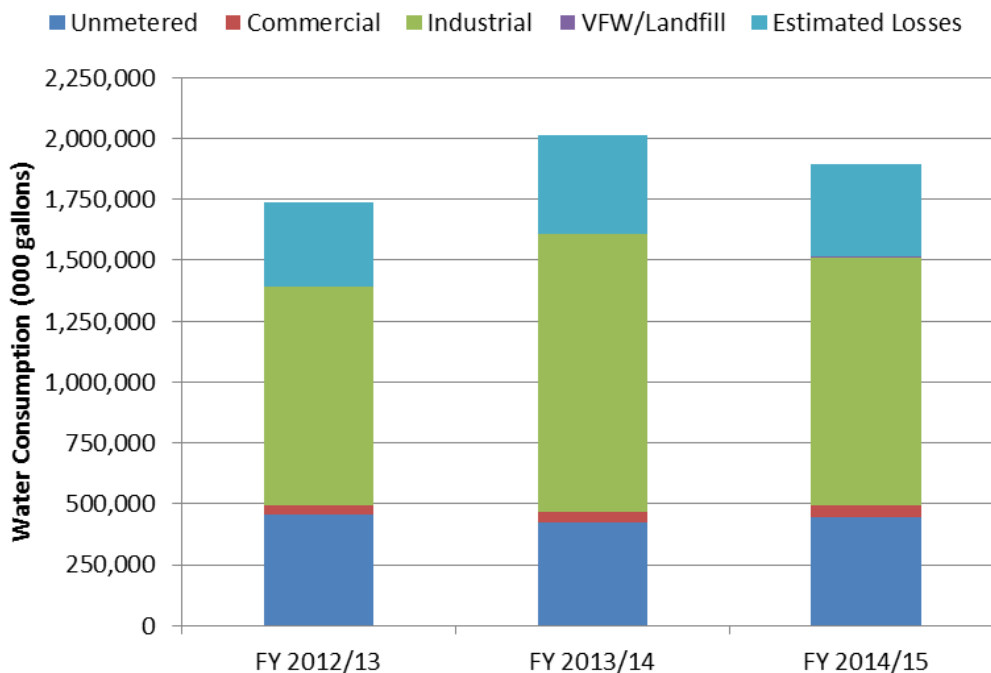


Figure 4-3. Historical Water Consumption by Customer Class

4.4.1.3 Peaking Requirements

The cost of providing water to customers depends not only on how much water they use, but also on how that use occurs over time. The maximum- peaking requirements of a water utility’s customers are an important influence on the utility’s costs. Because water utilities attempt to meet all of the water demands of their customers, water systems are sized to meet their customers’ peak requirements. Therefore, during off-peak periods there are usually significant costs associated with the unused capacity of the system. To develop cost of service rates, these costs are allocated to customers in proportion to each customer class’s contribution to the system peak. Thus, it is necessary to determine the peak rate of use relative to the average rate of use for each class. This ratio is called a peaking factor. Peaking factors are developed for maximum-day rates of use.

Calculation of peaking factors for individual classes relies on available water use information as well as professional judgment. If water meters could record both daily and hourly flow rates for each customer, more refined information could be obtained on peaking factors. Clearly, this is not feasible because the enormous cost that would be imposed on the utility to obtain such detailed information could not be justified on the basis of better results. Therefore, it is accepted practice in the water industry to develop peaking factor estimates based on a set of standard formulas.

The peaking factors used in this study are for coincidental peaks. This means that the estimates of maximum-day peaking factors measure the probable ratio of each class’s use during the system’s peak day to each class’s use during its average day. Thus, the peaking factors estimated in this analysis are the expected peaking factors for each customer class during the system’s maximum day. For Kodiak, the system peak day production usually occurs during July when the seafood processing industry is operating at its highest capacity. The following equation show the standard calculation of peaking factors for each class:

Maximum-Day Peaking Factor:

$$\left(\frac{\text{Class } i \text{ Consump. During System Max. Month}}{\text{Avg. Month for Class } i} \right) \times \left(\frac{\text{System Peak - Day Rate of Flow}}{\text{System Max. - Month Rate of Flow}} \right)$$

This equation provides a general approximation of peaking factors by class.

4.4.1.4 Estimated Peaking Requirements

Data on monthly water system production and water usage by customer class was available for 2012/13 through 2014/15. The water system reported an average day demand of 5.5 million gallons per day (mgd) and a peak-day demand of 10.57 mgd. Peaking factors were estimated for each of these years based on the standard formulas. The four-year average peaking factors are shown in Table 4-6.

Table 4-6. Estimated Peaking Factors by Customer Class

Customer Class	FY 2012-13	FY 2013-14	FY 2014-15	Average
Maximum Day Peaking Factor				
Unmetered	3.16	3.17	2.45	2.93
Commercial-metered	2.16	1.96	2.05	2.06
Industrial	3.10	2.80	2.94	2.95
VFW/Landfill	2.32	2.93	2.58	2.61

4.4.2 Water System Costs

Table 4-7 presents the water system costs by system function for each year of the analysis.

Table 4-7. Requirements by Service Characteristic

Service Characteristic	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21
Cost Applicable to All Customers, excluding VFW & Landfill					
Average Day	\$1,480,128	\$1,501,690	\$1,605,232	\$1,680,620	\$1,769,288
Maximum Day	\$608,018	\$609,855	\$648,725	\$678,436	\$712,315
Meters & Services	\$228,066	\$220,517	\$230,798	\$240,466	\$250,187
Cost Applicable to All Customers, including VFW & Landfill					
Average Day	\$1,130,051	\$1,147,371	\$1,226,871	\$1,284,583	\$1,352,591
Maximum Day	\$690,117	\$694,631	\$740,016	\$774,174	\$813,507
Meters & Services	\$411,485	\$433,988	\$471,387	\$495,304	\$525,939
Billing & Customer Service	\$86,366	\$83,507	\$87,401	\$91,062	\$94,743
Total Requirements	\$4,634,231	\$4,691,559	\$5,010,430	\$5,244,645	\$5,518,570

Tables 4-8 and 4-9 present the water system costs by system function, the units of service, and the unit cost for each year of the analysis. Costs associated with average day and maximum day demand represents approximately 95 percent of total system costs.

Table 4-8. Water System Unit Cost, All Customers Excluding VFW & Landfill

	Projected				
	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21
Average Day	\$1,480,128	\$1,501,690	\$1,605,232	\$1,680,620	\$1,769,288
Units of Service (Average Demand)	1,457,683	1,460,137	1,462,603	1,465,082	1,467,573
Unit Cost	\$1.02	\$1.03	\$1.10	\$1.15	\$1.21
Maximum Day	\$608,018	\$609,855	\$648,725	\$678,436	\$712,315
Units of Service (Max Day Demand)	7,650,686	7,663,157	7,675,689	7,688,285	7,700,943
Unit Cost	\$0.08	\$0.08	\$0.08	\$0.09	\$0.09
Meters & Services	\$228,066	\$220,517	\$230,798	\$240,466	\$250,187
Units of Service (Equivalent Meters)	2,727	2,739	2,750	2,762	2,774
Units of Service (Accounts)	2,466	2,479	2,491	2,504	2,516
Unit Cost	\$6.97	\$6.71	\$6.99	\$7.25	\$7.52
Total	\$2,316,212	\$2,332,062	\$2,484,755	\$2,599,523	\$2,731,790

Table 4-9. Water System Unit Cost, All Customers Including VFW & Landfill

	Projected				
	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21
Average Day	\$1,130,051	\$1,147,371	\$1,226,871	\$1,284,583	\$1,352,591
Units of Service (Average Demand)	1,458,588	1,461,042	1,463,509	1,465,987	1,468,478
Unit Cost	\$0.77	\$0.79	\$0.84	\$0.88	\$0.92
Maximum Day	\$690,117	\$694,631	\$740,016	\$774,174	\$813,507
Units of Service (Max Day Demand)	7,654,674	7,667,144	7,679,677	7,692,272	7,704,931
Unit Cost	\$0.09	\$0.09	\$0.10	\$0.10	\$0.11
Meters & Services	\$411,485	\$433,988	\$471,387	\$495,304	\$525,939
Units of Service (Equivalent Meters)	2,735	2,747	2,758	2,770	2,782
Units of Service (Accounts)	2,468	2,481	2,493	2,506	2,518
Unit Cost	\$12.54	\$13.17	\$14.24	\$14.90	\$15.75
Billing & Customer Service	\$86,366	\$83,507	\$87,401	\$91,062	\$94,743
Units of Service (Bills)	29,620	29,766	29,913	30,061	30,210
Unit Cost	\$2.92	\$2.81	\$2.92	\$3.03	\$3.14
Units of Service (Equivalent Meters)	2,735	2,747	2,758	2,770	2,782
Units of Service (Accounts)	2,468	2,481	2,493	2,506	2,518
Unit Cost	\$1.38	\$1.33	\$1.39	\$1.44	\$1.49
Total	\$2,318,019	\$2,359,497	\$2,525,675	\$2,645,122	\$2,786,780

Unit costs were used to determine water system costs by customer class, which are presented in Table 20. Costs to serve unmetered customers represent approximately 39 percent of total cost while costs to serve industrial users represent approximately 58 percent of costs. The remaining costs were allocated to metered commercial accounts.

Table 4-10. Water System Cost by Customer Class

Customer Class	Projected				
	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21
Unmetered					
Average Day	\$804,228	\$818,911	\$878,389	\$922,705	\$974,660
Maximum Day	\$402,643	\$405,974	\$433,647	\$455,112	\$479,650
Meters & Services	\$522,440	\$534,985	\$574,331	\$602,200	\$635,645
Billing & Customer Service	\$84,015	\$81,239	\$85,031	\$88,598	\$92,185
Subtotal	\$1,813,325	\$1,841,108	\$1,971,397	\$2,068,614	\$2,182,139
Commercial-metered					
Average Day	\$77,750	\$79,153	\$84,884	\$89,148	\$94,148
Maximum Day	\$21,581	\$21,754	\$23,231	\$24,374	\$25,681

Table 4-10. Water System Cost by Customer Class

Customer Class	Projected				
	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21
Meters & Services	\$28,548	\$29,243	\$31,404	\$32,939	\$34,780
Billing & Customer Service	\$1,371	\$1,326	\$1,388	\$1,446	\$1,505
Subtotal	\$129,251	\$131,476	\$140,907	\$147,907	\$156,114
Industrial-metered					
Average Day	\$1,727,499	\$1,750,287	\$1,868,071	\$1,952,557	\$2,052,237
Maximum Day	\$873,552	\$876,397	\$931,480	\$972,723	\$1,020,069
Meters & Services	\$87,344	\$88,996	\$95,066	\$99,183	\$104,171
Billing & Customer Service	\$910	\$875	\$912	\$945	\$978
Subtotal	\$2,689,305	\$2,716,556	\$2,895,529	\$3,025,408	\$3,177,456
VFW/Landfill					
Average Day	\$701	\$711	\$759	\$793	\$834
Maximum Day	\$360	\$361	\$384	\$401	\$421
Meters & Services	\$1,219	\$1,280	\$1,384	\$1,448	\$1,531
Billing & Customer Service	\$70	\$67	\$70	\$73	\$75
Subtotal	\$2,350	\$2,419	\$2,597	\$2,715	\$2,861
Total					
Average Day	\$2,610,179	\$2,649,062	\$2,832,103	\$2,965,203	\$3,121,879
Maximum Day	\$1,298,136	\$1,304,486	\$1,388,741	\$1,452,610	\$1,525,821
Meters & Services	\$639,551	\$654,505	\$702,185	\$735,770	\$776,126
Billing & Customer Service	\$86,366	\$83,507	\$87,401	\$91,062	\$94,743
Total	\$4,634,231	\$4,691,559	\$5,010,430	\$5,244,645	\$5,518,570

Total water system costs are estimated to be nearly \$4.6 million and are projected to increase to nearly \$5.4 million in FY 2020-21. Table 4-11 presents a summary of system costs by customer class.

Table 4-11. Summary of Water System Cost by Customer Class

Customer Class	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21
Unmetered	\$1,813,325	\$1,841,108	\$1,971,397	\$2,068,614	\$2,182,139
Commercial-metered	\$129,251	\$131,476	\$140,907	\$147,907	\$156,114
Industrial-metered	\$2,689,305	\$2,716,556	\$2,895,529	\$3,025,408	\$3,177,456
VFW/Landfill	\$2,350	\$2,419	\$2,597	\$2,715	\$2,861
Total	\$4,634,231	\$4,691,559	\$5,010,430	\$5,244,645	\$5,518,570

Water Rate Design

This section presents rate design options. Scenarios were developed using the City's existing rate structure which consists of a flat rate per equivalent service unit (ESU) for unmetered customers and fixed and variable charges for metered commercial and industrial customers. The scenarios presented in this section differ from the City's current rates in how they recover revenue from different customer classes and how much revenue is recovered from fixed vs. variable charges. Implementing changes to the City's rates that shift revenue recovery among customer classes is always challenging. This is particularly true in the context of projected system-wide revenue increases, as the cumulative impacts may be significant for some customers.

The specific rate scenarios developed for this analysis are as follows:

- Option 1: Across-the-board rate increases
- Option 2: Cost of service rates
- Option 3: Phased cost of service rates
- Option 4: Alternative phased cost of service rates

Each of these rate scenarios is presented in detail below. All of the options are designed to generate the same amount of revenue overall in each year – equal to the revenue requirements identified in the financial plan. The scenarios differ in how much revenue is recovered from each customer class and rate component. For each scenario, the charges per ESU for unmetered customers located inside and outside the City are presented (see Appendix 1 for ESU schedule), along with the ready to serve charge (i.e., the fixed charge per month that varies by meter size) and the volume charges for metered customers.

The scenarios presented in this section are designed to provide the City with information on rate impacts related to the implementation of cost-of-service based rates, compared with the current rate schedule. Rate equity is one of multiple evaluation criteria generally employed in rate policy discussions (affordability and economic considerations being other potential criterion).

5.1.1 Rate Design Options

Rate design often involves determining systems of charges that will generate the system-wide revenue requirements determined from the financial plan and specific costs by customer class from the cost-of-service analysis. There are a variety of rate structure options available to meet a wide range of policy objectives. In most cases, water rates include a service charge (a fixed charge per customer or meter per month), and a volume charge per unit of consumption (if service is metered). For unmetered customers, a flat rate per billing period is generally applied; this rate may vary by the type of customer (e.g., residential home versus restaurant) or be based on a specific variable (e.g., building or lot size, restaurant seats, etc.)

For metered customers, the portion of revenue recovery through fixed and volume rates depends on the City's specific objectives. More revenue recovered through fixed charges tends to increase the utility's revenue stability, while at the same time, reducing customer control of bills.

The rates presented in this section are designed to recover the financial requirements under conditions where the historical information on user characteristics can be expected to be predictive of future demands and where customer growth is relatively flat. Significant changes in growth rates or usage patterns may require a reassessment of the rates. In addition, the rates are calculated according to the capital financing plans and cost assumptions described in the Financial Plan section. If the utility

substantially revises its O&M budget or capital financing plan, the rates should be reviewed and may require adjustment.

5.1.1.1 Option 1: Across-the-board increases

Table 5-1 presents the existing rates with across-the-board increases presented in the financial plan (see Table 9). All customer classes would be subject to the same percentage increase in their rates beginning in FY2016/17.

In this option, overall revenue recovery increases as determined in the financial plan; however, relative rate recovery by customer class and rate component does not change compared to current rates. In other words, if industrial customers are responsible for 40 percent of revenue under existing rates, they continue to be responsible for 40 percent of future year rate revenue requirements.

Table 5-1. Option 1 Rates: Existing Rates with Across-the-Board Percentage Increase

	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21
Service Charge (\$/month)						
ESU-Inside City	\$55.23	\$57.44	\$59.74	\$62.13	\$65.23	\$68.49
ESU-Outside City	\$66.26	\$68.91	\$71.67	\$74.53	\$78.26	\$82.17
Ready to Serve Charge						
1-2"	\$68.88	\$71.64	\$74.50	\$77.48	\$81.35	\$85.42
3"	\$129.02	\$134.18	\$139.55	\$145.13	\$152.39	\$160.01
4"	\$214.83	\$223.42	\$232.36	\$241.65	\$253.74	\$266.42
6"	\$429.86	\$447.05	\$464.94	\$483.53	\$507.71	\$533.10
8"	\$688.01	\$715.53	\$744.15	\$773.92	\$812.61	\$853.24
VFW	\$181.76	\$189.03	\$196.59	\$204.46	\$214.68	\$225.41
Volume Charge						
Commercial	\$2.29	\$2.38	\$2.48	\$2.58	\$2.70	\$2.84
Industrial	\$1.75	\$1.82	\$1.89	\$1.97	\$2.07	\$2.17
VFW/Landfill	\$1.95	\$2.03	\$2.11	\$2.19	\$2.30	\$2.42

5.1.1.2 Option 2: Cost of service rates

Option 2 presents rates based on the cost-of-service analysis presented in Section 3. The cost of service analysis determines the annual cost attributable to each customer class; rates may then be designed to recover the allocated costs by class. Revenue for unmetered customers is recovered on an ESU basis. For metered customers, revenue is recovered as follows:

- Meter (Ready to Serve) charges – costs related to billing and customer service
- Volume charges – costs related to all other functions of the utility

Table 5-2 presents the rates under this option. Under Option 2 the unmetered and ready to serve charges decrease while the volume rates increase significantly. The unmetered rates reflect estimated average annual and peak water demands of unmetered customers. These estimates have been made based on system production records, metered data, and estimated system losses. The estimated monthly water use per ESU is about 10,000 gallons. The analysis of water system data indicates that

unmetered users have less seasonal variations in use than industrial customers. The reduction in the rate per ESU is reflective of these assumptions.

Another significant change resulting from Option 2 is a reduction in the ready to serve charges. As indicated above, the cost of service ready to serve charges are designed to recover the costs related to customer service and meter maintenance as well as a portion of distribution costs associated with meter capacity. Finally, while the unmetered rates and the ready to serve charges decrease, the volume charges for metered commercial and industrial increase significantly, reflecting both a shift in revenue recovery from fixed to variable charges, as well as an overall increase in cost assignment to these users based on their estimated average and peak water demands.

Finally, the VFW and Landfill would see a decrease in their volume charge as they would not be allocated any costs associated with treatment or distribution, as they take their water from the raw water supply line that runs from the reservoir to the water treatment plant, and thus do not receive water treatment or distribution services.

Table 5-2. Option 2: Cost of Service Rates

	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21
Service Charge (\$/month)						
ESU-Inside City	\$55.23	\$40.67	\$41.09	\$43.78	\$45.71	\$47.98
ESU-Outside City	\$66.26	\$48.80	\$49.31	\$52.53	\$54.85	\$57.57
Ready to Serve Charge						
1-2"	\$68.88	\$42.35	\$43.07	\$45.98	\$47.96	\$50.35
3"	\$129.02	\$118.43	\$120.60	\$128.79	\$134.36	\$141.09
4"	\$214.83	\$196.47	\$200.11	\$213.72	\$222.97	\$234.16
6"	\$429.86	\$391.56	\$398.88	\$426.06	\$444.50	\$466.83
8"	\$688.01	\$625.66	\$637.42	\$680.86	\$710.33	\$746.03
VFW	\$181.76	\$118.43	\$120.60	\$128.79	\$134.36	\$141.09
Volume Charge						
Commercial	\$2.29	\$2.29	\$2.31	\$2.47	\$2.58	\$2.71
Industrial	\$1.75	\$2.70	\$2.72	\$2.90	\$3.03	\$3.18
VFW/Landfill	\$1.95	\$1.17	\$1.18	\$1.26	\$1.32	\$1.39

5.1.1.3 Option 3: Phased Cost of service rates

This strategy would phase in rates that closer align with the cost of service analysis over the analysis period. The phased-in approach would not lower existing rates for any customer class. It would also apply different levels of rate increase to different customer classes to phase-in cost of service rates. Some customers would experience larger percentage increases when compared to other customers to reflect the shift in cost recovery from one class to another.

Table 5-3 presents the rates under this option. Under Option 3 the unmetered and ready to serve charges remain constant over the analysis period while the volume rate for industrial customers increases to approach the cost of service rates over time. While the industrial rate doesn't reach cost of service levels under this option, the higher rate shifts more of the cost recovery to the industrial users. The VFW and Landfill would see a decrease in their volume charge as they would not be allocated any costs associated with treatment or distribution.

Table 5-3. Option 3: Phased Cost of Service Rates

	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21
Service Charge (\$/month)*						
ESU-Inside City	\$55.23	\$55.23	\$55.23	\$55.23	\$55.23	\$55.23
ESU-Outside City	\$66.26	\$66.26	\$66.26	\$66.26	\$66.26	\$66.26
Ready to Serve Charge						
1-2"	\$68.88	\$68.88	\$68.88	\$68.88	\$68.88	\$68.88
3"	\$129.02	\$129.02	\$129.02	\$129.02	\$134.36	\$141.09
4"	\$214.83	\$214.83	\$214.83	\$214.83	\$222.97	\$234.16
6"	\$429.86	\$429.86	\$429.86	\$429.86	\$444.50	\$466.83
8"	\$688.01	\$688.01	\$688.01	\$688.01	\$710.33	\$746.03
VFW	\$181.76	\$181.76	\$181.76	\$181.76	\$134.36	\$134.36
Volume Charge						
Commercial	\$2.29	\$2.32	\$2.36	\$2.39	\$2.43	\$2.47
Industrial	\$1.75	\$1.94	\$2.14	\$2.37	\$2.62	\$2.90
VFW/Landfill	\$1.95	\$1.17	\$1.18	\$1.26	\$1.32	\$1.39

5.1.1.4 Option 4: Alternative phased cost of service rates

This strategy would phase in rates that closer align with the cost of service analysis over the analysis period but would lessen the overall rate impact to industrial users when compared to Option 3. Option 4 would introduce the same increases as Option 3 for the first three years. However, it would introduce a 4.5 percent increase the last two years to all customers.

Table 5-4 presents the rates under this option. Under Option 4 the unmetered remain constant over the first three years of the analysis period while the volume rate for industrial customers increases to approach the cost of service rates over time. In the last two years of the analysis, a 4.5 percent increase is applied to all customer classes. Under Option 4, the industrial rate doesn't come as close to reaching cost of service levels when compared to Option 3. This analysis would achieve revenue recovery that would be split approximately 50/50 by unmetered and metered customers. The VFW and Landfill would see a decrease in their volume charge as they would not be allocated any costs associated with treatment or distribution.

Table 5-4. Option 4: Alternative Phased Cost of Service Rates

	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21
Service Charge (\$/month)*						
ESU-Inside City	\$55.23	\$55.23	\$55.23	\$55.23	\$57.72	\$60.31
ESU-Outside City	\$66.26	\$66.26	\$66.26	\$66.26	\$69.24	\$72.36
Ready to Serve Charge						
1-2"	\$68.88	\$68.88	\$68.88	\$68.88	\$71.98	\$75.22
3"	\$129.02	\$129.02	\$129.02	\$129.02	\$134.83	\$140.89

Table 5-4. Option 4: Alternative Phased Cost of Service Rates

	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21
4"	\$214.83	\$214.83	\$214.83	\$214.83	\$224.50	\$234.60
6"	\$429.86	\$429.86	\$429.86	\$429.86	\$449.20	\$469.42
8"	\$688.01	\$688.01	\$688.01	\$688.01	\$718.97	\$751.32
VFW	\$181.76	\$181.76	\$181.76	\$181.76	\$189.94	\$198.49
Volume Charge						
Commercial	\$2.29	\$2.32	\$2.36	\$2.39	\$2.50	\$2.61
Industrial	\$1.75	\$1.94	\$2.14	\$2.39	\$2.50	\$2.61
VFW/Landfill	\$1.95	\$1.17	\$1.18	\$1.26	\$1.32	\$1.38

5.1.2 Summary of Options

Table 5-5 presents a summary of the rates under each option for FY 2016/17. Rates are designed to be “revenue-neutral” (i.e., they generate the same amount of revenue overall as existing rates). For FY 2016-17, Options 3 and 4 have the same rate schedule.

Table 5-5. Summary of Water Rate Design Options

	FY 2015-16 Existing	FY 2016-17 Option 1	FY 2016-17 Option 2	FY 2016-17 Option 3 & 4
Service Charge (\$/month)*				
ESU-Inside City	\$55.23	\$57.44	\$40.67	\$55.23
ESU-Outside City	\$66.26	\$68.93	\$48.80	\$66.26
Ready to Serve Charge				
1" to 2"	\$68.88	\$71.64	\$42.35	\$68.88
3"	\$129.02	\$134.18	\$118.43	\$129.02
4"	\$214.83	\$223.42	\$196.47	\$214.83
6"	\$429.86	\$447.05	\$391.56	\$429.86
8"	\$688.01	\$715.53	\$625.66	\$688.01
VFW	\$181.76	\$189.03	\$142.12	\$181.76
Volume Charge				
Commercial	\$2.29	\$2.38	\$2.29	\$2.32
Industrial	\$1.75	\$1.82	\$2.70	\$1.94
VFW/Landfill	\$1.95	\$2.03	\$1.17	\$1.17

Note:

Option 1: Across the board increase

Option 2: Cost of service rates

Option 3: Phased cost of service rates

Option 4: Alternative phased cost of service rates

Figure 5-10 presents the revenue recovery by customer class for existing rates and for each of the rate options. The revenue recovery for the rate options is for FY2016/17. Revenue recovery for FY 2020/21 for Option 3 is also presented to illustrate the change in revenue recovery over time by implementing the phased cost of service approach. All of the rate options are designed to generate approximately \$4.6 million in rate revenue in FY 2016/17. Depending on the rate design option, revenue recovery shifts between the rate components and customer classes. For example, revenue recovered from unmetered customers' ranges from about \$1.8 million under Option 2 to \$2.5 million under Option 1. For metered commercial and industrial customers, revenue recovery ranges from \$2.0 million under Option 1 to \$2.8 million under Option 2 (a 48% increase over existing rates).

It should be noted that the revenue recovery by customer class will vary from year to year as revenue requirements change.

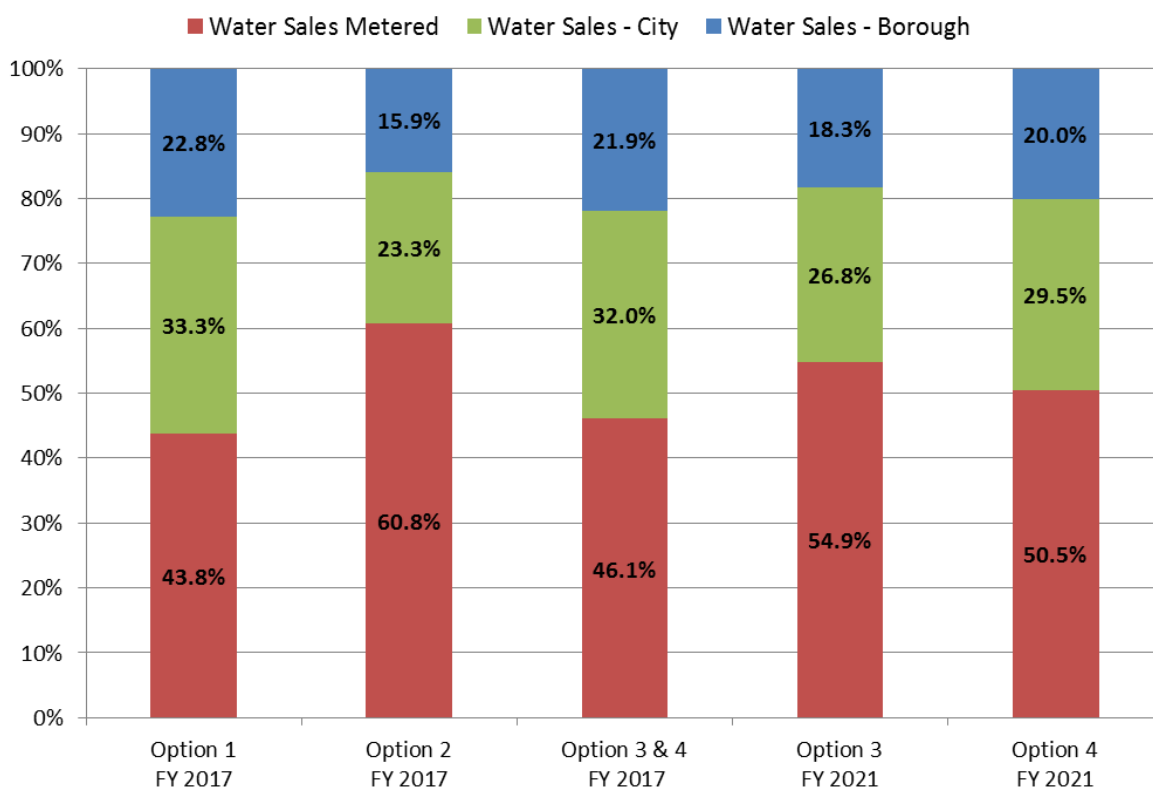


Figure 5-1. Revenue Recovery by Customer Class

5.1.3 Sample Water Bills

Sample bills under current rates and the three options are shown in Table 5-6 for FY 2016/17. The first rate increase is scheduled for FY 2016/17. Option 1 represents customer bills under a uniform rate increase scenario. Under the cost of service option (Option 2), bills for unmetered customers decrease dramatically while metered industrial customers experience very large increases. Bills for large users increase under each option because of the higher volume rates. Under the phased approach (Option 3 & 4), rates remain unchanged for unmetered customers and commercial metered accounts. Industrial customers would experience an increase of approximately 10 percent.

Table 5-6. Sample Water Bills

Customer Type	Monthly Water Consumption (000 gallons)	Existing Rate	Option 1	FY 2016/17 Option 2	Option 3 & 4
Sample Monthly Bill					
Residential-Inside City		\$55.23	\$57.44	\$40.67	\$55.23
Residential-Outside City		\$66.26	\$68.93	\$48.80	\$66.26
Commercial 2"	15	\$103.23	\$107.36	\$76.66	\$103.74
Commercial 4"	30	\$283.53	\$294.87	\$265.08	\$284.55
Industrial 6"	1,000	\$2,179.86	\$2,267.05	\$3,086.95	\$2,366.03
Industrial 8"	5,000	\$9,438.01	\$9,815.53	\$14,102.61	\$10,368.84
Percent Change from Existing					
Residential-Inside City			4%	-26%	0%
Residential-Outside City			4%	-26%	0%
Commercial 2"	15		4%	-26%	0%
Commercial 4"	30		4%	-7%	0%
Industrial 6"	1,000		4%	42%	9%
Industrial 8"	5,000		4%	49%	10%

5.1.4 Summary

Table 5-7 presents a summary of each option with the advantages/disadvantages of each rate option.

Table 5-7. Summary of Design Options

Rate Design	Description	Advantage	Disadvantage
Option 1	Across the board increases	Easy to implement/explain; greater revenue stability	Equity; cost of service analysis supports a change in revenue recovery among customer classes
Option 2	Cost of service rates	Rate equity—recovers revenue in proportion to estimated system demands	Shifts revenue recovery to volume charge; less revenue stability; harder to explain; significant bill impacts to some users
Option 3	Phased cost of service rates	Phases in potentially significant impacts to some users; provides greater revenue stability than Option 2	Shifts more revenue recovery to volume charge; unmetered customers continue to subsidize metered customers
Option 4	Alternative Phased cost of service rates	Phases in potentially significant impacts to some users; provides greater revenue stability than Option 2 & 3	Shifts more revenue recovery to volume charge; unmetered customers continue to subsidize industrial customers; does not provide as much rate equity as Option 3

Recommendations

Based on the study findings summarized in previous sections, the following recommendations are presented for the City's consideration:

- Implement rate increases presented in Section 5, Option 3 (phased cost of service) in the current fiscal year (FY2016/17) and for the remainder of the forecast period, so that the rates in FY 2020/21 approach each classes' cost of service. Option 3 was the scenario selected by the City Council during the April 26, 2016 work session.
- A proposed rate structure and projected rate increases under Option 3 for Inside City customers and Outside City customers are presented in Appendix C.
- Increase rates as needed in future years to meet the financial needs of the systems. The projected rate increases shown in Section 4, Option 3, are based on the best available data and assumptions developed by the City and CH2M HILL as of April 2016. CH2M HILL has no control over market conditions or bidding procedures and cannot warrant that actual financial results for the water utility will not vary from projections presented herein.
- Review financial plan regularly to ensure actual revenues and expenditures are tracking with the projections developed in this analysis. The City should review the financial plan annually and adjust the rates as needed to reflect current construction schedules and costs, conditions and assumptions.

Appendix A

Financial Projections

Attachment 1. Projected Water Revenues

	Budget FY 2016	Projected FY 2017	Projected FY 2018	Projected FY 2019	Projected FY 2020	Projected FY 2021	
Water Sales Revenue from Existing Rates (with growth)	4,400,000	\$4,407,189	\$4,420,751	\$4,434,381	\$4,448,080	\$4,461,846	
Annual % Rate Increase							
FY 2017		4.0%	\$176,288	\$176,830	\$177,375	\$177,923	\$178,474
FY 2018			4.0%	\$183,903	\$184,470	\$185,040	\$185,613
FY 2019				4.0%	\$191,849	\$192,442	\$193,037
FY 2020					5.0%	\$250,174	\$250,949
FY 2021						5.0%	\$263,496
Revenue from Rate Increases		\$176,288	\$360,733	\$553,695	\$805,579	\$1,071,568	
Total Water Rate Revenue After Increases	\$4,400,000	\$4,583,477	\$4,781,485	\$4,988,076	\$5,253,659	\$5,533,415	
Debt Svc Coverage		6.98	2.96	1.92	1.82	1.62	

Attachment 2: Sources and Uses of Funds

Item	Budget FY 2015-16	Projected				
		FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21
Water Utility Fund						
Sources of Funds						
Beginning Balance	\$4,276,744	\$4,819,301	\$1,362,754	\$2,078,800	\$859,146	\$1,118,682
Intergovernmental	80,280	80,280	80,280	80,280	80,280	80,280
Taxes	27,000	27,000	27,000	27,000	27,000	27,000
Interest	2,000	12,048	3,407	5,197	2,148	2,797
Miscellaneous	5,000	5,000	5,000	5,000	5,000	5,000
Hookup	15,000	15,075	15,150	15,226	15,302	15,379
Water Sales Revenue	4,400,000	4,583,477	4,781,485	4,988,076	5,253,659	5,533,415
Miscellaneous	0	0	0	0	0	0
Bond Proceeds (funded reserve)	0	0	1,067,625	0	328,500	410,625
Appropriation	-1,191,234	0	0	0	0	0
Total Sources of Funds	\$7,614,790	\$9,542,180	\$7,342,701	\$7,199,579	\$6,571,035	\$7,193,177
Uses of Funds						
Personnel Services	\$392,340	\$504,110	\$519,234	\$534,811	\$550,855	\$567,380
Support Goods and Services	\$265,689	276,692	288,242	300,370	313,111	326,504
Professional Services	\$53,400	55,209	57,079	59,012	61,011	63,077
Public Utility Services	\$477,250	493,414	510,126	527,404	545,268	563,736
Personnel Benefits	\$383,890	455,102	481,639	509,912	540,046	572,171
Interfund Charges	\$709,372	853,256	758,577	787,649	822,873	859,774
Capital Outlay	\$172,425	177,598	182,926	188,413	194,066	199,888
Bond Expense	\$28,190	28,190	28,190	28,190	28,190	28,190
Transfers Out						0
Water Improvements Fund	-	5,000,000	500,000	2,000,000	500,000	600,000
Sewer Improvement Fund	-	0	0	0	0	0
Street Improvement Fund	110,000	0	0	0	0	0
Bond Reserve Fund						
Debt Service	202,934	335,855	870,264	1,404,672	1,568,434	1,873,507
Ending Fund Balance	4,538,301	1,037,754	1,756,800	524,146	769,682	764,325
Contingency	281,000	325,000	322,000	335,000	349,000	364,000
Reserves	0	0	0	0	0	0
Total Uses of Funds	\$7,614,790	\$9,542,180	\$7,342,701	\$7,199,579	\$6,571,035	\$7,193,177
Water Improvements Fund						
Sources of Funds						
Beginning Balance	\$3,470,331	\$2,701,831	\$3,618,855	\$3,741,718	\$2,606,383	\$2,826,961
Grants	0	0	0	0	0	0
10% Water Sales	440,000	458,348	478,148	498,808	525,366	553,341
Interests	0	6,755	9,047	9,354	6,516	7,067
Proceeds from Loan	0	0	13,167,375	0	4,051,500	5,064,375
Transfers From						
Water Utility Fund	0	5,000,000	500,000	2,000,000	500,000	600,000
Sewer Utility Fund	0	0	0	0	0	0
Street Utility Fund	0	0	0	0	0	0
Total Sources of Funds	\$4,249,437	\$8,166,934	\$17,773,426	\$6,249,880	\$7,689,765	\$9,051,745
Uses of Funds						
Capital Improvements	\$0	\$4,548,078	\$13,768,360	\$3,643,497	\$4,781,774	\$5,450,132
Debt Issuance	0	0	263,348	0	81,030	101,288
Ending Fund Balance	2,701,831	3,618,855	3,741,718	2,606,383	2,826,961	3,500,325
Total Uses of Funds	\$4,249,437	\$8,166,934	\$17,773,426	\$6,249,880	\$7,689,765	\$9,051,745

Appendix B

O&M Cost Allocation to System Functions

	Supply	Pumping	Treatment	Trans	Dist	Customer Service	Admin & General
Personnel Services							
Salaries and Wages	5.0%	10.0%	41.0%	3.0%	40.0%	1.0%	
Temp Salaries and Wages	5.0%	10.0%	41.0%	3.0%	40.0%	1.0%	
Overtime	5.0%	10.0%	41.0%	3.0%	40.0%	1.0%	
Holiday Pay	5.0%	10.0%	41.0%	3.0%	40.0%	1.0%	
Annual Leave	5.0%	10.0%	41.0%	3.0%	40.0%	1.0%	
Sick Leave	5.0%	10.0%	41.0%	3.0%	40.0%	1.0%	
Subtotal							
Support Goods and Services							
Insurance and Bonding			0.0%				100.0%
Telephone		20.0%	20.0%	20.0%	20.0%		20.0%
Advertising			75.0%		25.0%		
Dues and Subscriptions			100.0%		0.0%		
Training and Travel			81.8%		18.2%		
Supplies		15.0%	0.0%	5.0%	80.0%		
Health & Safety Supplies			0.0%		100.0%		
Office Supplies			100.0%				
Vehicle Fuel	5.0%	15.0%	23.0%	5.0%	52.0%		
Chemicals			100.0%				
Repair & Maintenance		55.0%	9.1%		35.9%		
R&M Vehicle		55.0%	0.0%		45.0%		
Equipment Rental		55.0%	0.0%		45.0%		
Subtotal							
Professional Services							
Professional Services	20.0%	5.0%	55.0%	5.0%	5.0%		10.0%
Bankcard Services						90.0%	10.0%
Subtotal							
Public Utility Services							
Public Utility Services		86.0%	14.0%				
Utilities - Fuel		100.0%					
Personnel Benefits							
Health Insurance	5.0%	10.0%	41.0%	3.0%	40.0%	1.0%	
Social Security	5.0%	10.0%	41.0%	3.0%	40.0%	1.0%	
Retirement Contribution	5.0%	10.0%	41.0%	3.0%	40.0%	1.0%	
PERS Obligation Enterpr	5.0%	10.0%	41.0%	3.0%	40.0%	1.0%	

APPENDIX B O&M COST ALLOCATION TO SYSTEM FUNCTIONS

	Supply	Pumping	Treatment	Trans	Dist	Customer Service	Admin & General
Uniforms	5.0%	10.0%	41.0%	3.0%	40.0%	1.0%	
Unemployment Compensation	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Workmens Compensation	5.0%	10.0%	41.0%	3.0%	40.0%	1.0%	
Subtotal							
Interfund Charges							
Administrative Services							100.0%
Financial Services						100.0%	
Public Works Services							100.0%
Engineering Services	7%	0%	0%	41%	53%	0%	0%
Water Sales Fee	7%	0%	0%	41%	53%	0%	0%
Subtotal							
Capital Outlay							
Bldg Improv < \$5000	7%	0%	0%	41%	53%	0%	0%
Bldg Improv > \$5000	7%	0%	0%	41%	53%	0%	0%
Improv Other < \$5000	7%	0%	0%	41%	53%	0%	0%
Mach&Equip < \$5000	7%	0%	0%	41%	53%	0%	0%
Mach&Equip > \$5000	7%	0%	0%	41%	53%	0%	0%
Vehicle Replace 550	7%	0%	0%	41%	53%	0%	0%
Subtotal							
Bond Expense							
Interest Expense							100.0%
Amortization of Bond Exp							
Subtotal							
Contingency							
Operating Contingencies							100.0%
Subtotal							
Total O&M Costs							
Direct Allocation Percentages	4.1%	23.7%	23.3%	12.1%	33.4%	3.5%	0.0%

Appendix C

Rate Schedule by Scenario

Option 1: Across the Board Increases

	Existing	Projected				
	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21
Service Charge - Inside City						
Single Family, Vacant	\$27.62	\$28.72	\$29.87	\$31.07	\$32.62	\$34.25
Single Family, senior citizen	\$27.62	\$28.72	\$29.87	\$31.07	\$32.62	\$34.25
Single Family	\$55.23	\$57.44	\$59.74	\$62.13	\$65.23	\$68.49
Multi-family, Vacant	\$24.89	\$25.89	\$26.92	\$28.00	\$29.40	\$30.87
Multi-family	\$49.78	\$51.77	\$53.84	\$56.00	\$58.80	\$61.74
Business, Vacant	\$27.62	\$28.72	\$29.87	\$31.07	\$32.62	\$34.25
Business 1	\$55.23	\$57.44	\$59.74	\$62.13	\$65.23	\$68.49
Business 2	\$200.41	\$208.43	\$216.76	\$225.43	\$236.71	\$248.54
Business 3	\$345.38	\$359.20	\$373.56	\$388.51	\$407.93	\$428.33
Service Charge - Outside City						
Single Family, Vacant	\$33.14	\$34.47	\$35.84	\$37.28	\$39.14	\$41.10
Single Family, senior citizen	\$33.14	\$34.47	\$35.84	\$37.28	\$39.14	\$41.10
Single Family	\$66.26	\$68.91	\$71.67	\$74.53	\$78.26	\$82.17
Multi-family, Vacant	\$29.92	\$31.12	\$32.36	\$33.66	\$35.34	\$37.11
Multi-family	\$59.83	\$62.22	\$64.71	\$67.30	\$70.67	\$74.20
Business, Vacant	\$33.14	\$34.47	\$35.84	\$37.28	\$39.14	\$41.10
Business 1	\$66.26	\$68.91	\$71.67	\$74.53	\$78.26	\$82.17
Business 2	\$240.36	\$249.97	\$259.97	\$270.37	\$283.89	\$298.09
Business 3	\$414.47	\$431.05	\$448.29	\$466.22	\$489.53	\$514.01
Meter Charge - Inside City						
1-2"	\$68.88	\$68.88	\$71.64	\$74.50	\$77.48	\$81.35
3"	\$129.02	\$129.02	\$134.18	\$139.55	\$145.13	\$152.39
4"	\$214.83	\$214.83	\$223.42	\$232.36	\$241.65	\$253.74
6"	\$429.86	\$429.86	\$447.05	\$464.94	\$483.53	\$507.71
8"	\$688.01	\$688.01	\$715.53	\$744.15	\$773.92	\$812.61
Meter Charge - Outside City						
1-2"	\$82.62	\$82.62	\$85.92	\$89.36	\$92.94	\$96.65
VFW	\$181.76	\$181.76	\$189.03	\$196.59	\$204.46	\$212.63
Volume Charge						
Commercial	\$2.29	\$2.38	\$2.48	\$2.58	\$2.70	\$2.84
Industrial	\$1.75	\$1.82	\$1.89	\$1.97	\$2.07	\$2.17
VFW/Landfill	\$1.95	\$2.03	\$2.11	\$2.19	\$2.30	\$2.42

Option 2: Cost of Service

	Existing	Projected				
	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21
<i>Service Charge - Inside City</i>						
Single Family, Vacant	\$27.62	\$20.34	\$20.55	\$21.89	\$22.86	\$23.99
Single Family, senior citizen	\$27.62	\$20.34	\$20.55	\$21.89	\$22.86	\$23.99
Single Family	\$55.23	\$40.67	\$41.09	\$43.78	\$45.71	\$47.98
Multi-family, Vacant	\$24.89	\$18.33	\$18.52	\$19.73	\$20.60	\$21.62
Multi-family	\$49.78	\$36.66	\$37.03	\$39.46	\$41.20	\$43.24
Business, Vacant	\$27.62	\$20.34	\$20.55	\$21.89	\$22.86	\$23.99
Business 1	\$55.23	\$40.67	\$41.09	\$43.78	\$45.71	\$47.98
Business 2	\$200.41	\$147.58	\$149.09	\$158.85	\$165.85	\$174.08
Business 3	\$345.38	\$254.33	\$256.94	\$273.75	\$285.83	\$300.01
<i>Service Charge - Outside City</i>						
Single Family, Vacant	\$33.14	\$24.41	\$24.66	\$26.27	\$27.43	\$28.79
Single Family, senior citizen	\$33.14	\$24.41	\$24.66	\$26.27	\$27.43	\$28.79
Single Family	\$66.26	\$48.80	\$49.31	\$52.53	\$54.85	\$57.57
Multi-family, Vacant	\$29.92	\$21.99	\$22.22	\$23.67	\$24.72	\$25.94
Multi-family	\$59.83	\$43.99	\$44.44	\$47.35	\$49.44	\$51.89
Business, Vacant	\$33.14	\$24.41	\$24.66	\$26.27	\$27.43	\$28.79
Business 1	\$66.26	\$48.80	\$49.31	\$52.53	\$54.85	\$57.57
Business 2	\$240.36	\$177.09	\$178.91	\$190.62	\$199.02	\$208.90
Business 3	\$414.47	\$305.19	\$308.33	\$328.51	\$342.99	\$360.01
<i>Meter Charge - Inside City</i>						
1-2"	\$68.88	\$42.35	\$43.07	\$45.98	\$47.96	\$50.35
3"	\$129.02	\$118.43	\$120.60	\$128.79	\$134.36	\$141.09
4"	\$214.83	\$196.47	\$200.11	\$213.72	\$222.97	\$234.16
6"	\$429.86	\$391.56	\$398.88	\$426.06	\$444.50	\$466.83
8"	\$688.01	\$625.66	\$637.42	\$680.86	\$710.33	\$746.03
<i>Meter Charge - Outside City</i>						
1-2"	\$82.62	\$50.82	\$51.69	\$55.17	\$57.55	\$60.42
VFW	\$181.76	\$142.12	\$144.72	\$154.54	\$161.23	\$169.31
<i>Volume Charge</i>						
Commercial	\$2.29	\$2.29	\$2.31	\$2.47	\$2.58	\$2.71
Industrial	\$1.75	\$2.70	\$2.72	\$2.90	\$3.03	\$3.18
VFW/Landfill	\$1.95	\$1.17	\$1.18	\$1.26	\$1.32	\$1.39

Option 3: Phased Cost of Service

	Existing	Projected				
	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21
Service Charge - Inside City						
Single Family, Vacant	\$27.62	\$27.62	\$27.62	\$27.62	\$27.62	\$27.62
Single Family, senior citizen	\$27.62	\$27.62	\$27.62	\$27.62	\$27.62	\$27.62
Single Family	\$55.23	\$55.23	\$55.23	\$55.23	\$55.23	\$55.23
Multi-family, Vacant	\$24.89	\$24.89	\$24.89	\$24.89	\$24.89	\$24.89
Multi-family	\$49.78	\$49.78	\$49.78	\$49.78	\$49.78	\$49.78
Business, Vacant	\$27.62	\$27.62	\$27.62	\$27.62	\$27.62	\$27.62
Business 1	\$55.23	\$55.23	\$55.23	\$55.23	\$55.23	\$55.23
Business 2	\$200.41	\$200.41	\$200.41	\$200.41	\$200.41	\$200.41
Business 3	\$345.38	\$345.38	\$345.38	\$345.38	\$345.38	\$345.38
Service Charge - Outside City						
Single Family, Vacant	\$33.14	\$33.14	\$33.14	\$33.14	\$33.14	\$33.14
Single Family, senior citizen	\$33.14	\$33.14	\$33.14	\$33.14	\$33.14	\$33.14
Single Family	\$66.26	\$66.26	\$66.26	\$66.26	\$66.26	\$66.26
Multi-family, Vacant	\$29.92	\$29.92	\$29.92	\$29.92	\$29.92	\$29.92
Multi-family	\$59.83	\$59.83	\$59.83	\$59.83	\$59.83	\$59.83
Business, Vacant	\$33.14	\$33.14	\$33.14	\$33.14	\$33.14	\$33.14
Business 1	\$66.26	\$66.26	\$66.26	\$66.26	\$66.26	\$66.26
Business 2	\$240.36	\$240.36	\$240.36	\$240.36	\$240.36	\$240.36
Business 3	\$414.47	\$414.47	\$414.47	\$414.47	\$414.47	\$414.47
Meter Charge - Inside City						
1-2"	\$68.88	\$68.88	\$68.88	\$68.88	\$68.88	\$68.88
3"	\$129.02	\$129.02	\$129.02	\$129.02	\$134.36	\$141.09
4"	\$214.83	\$214.83	\$214.83	\$214.83	\$222.97	\$234.16
6"	\$429.86	\$429.86	\$429.86	\$429.86	\$444.50	\$466.83
8"	\$688.01	\$688.01	\$688.01	\$688.01	\$710.33	\$746.03
Meter Charge - Outside City						
1-2"	\$82.62	\$82.62	\$82.62	\$82.62	\$82.62	\$82.62
VFW	\$181.76	\$181.76	\$181.76	\$181.76	\$181.76	\$181.76
Volume Charge						
Commercial	\$2.29	\$2.32	\$2.36	\$2.39	\$2.43	\$2.47
Industrial	\$1.75	\$1.94	\$2.14	\$2.37	\$2.62	\$2.90
VFW/Landfill	\$1.95	\$1.17	\$1.18	\$1.26	\$1.32	\$1.39

Option 4: Alternative Phased Cost of Service

	Existing	Projected				
	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21
<i>Service Charge - Inside City</i>						
Single Family, Vacant	\$27.62	\$27.62	\$27.62	\$27.62	\$28.86	\$30.16
Single Family, senior citizen	\$27.62	\$27.62	\$27.62	\$27.62	\$28.86	\$30.16
Single Family	\$55.23	\$55.23	\$55.23	\$55.23	\$57.72	\$60.31
Multi-family, Vacant	\$24.89	\$24.89	\$24.89	\$24.89	\$26.01	\$27.18
Multi-family	\$49.78	\$49.78	\$49.78	\$49.78	\$52.02	\$54.36
Business, Vacant	\$27.62	\$27.62	\$27.62	\$27.62	\$28.86	\$30.16
Business 1	\$55.23	\$55.23	\$55.23	\$55.23	\$57.72	\$60.31
Business 2	\$200.41	\$200.41	\$200.41	\$200.41	\$209.43	\$218.85
Business 3	\$345.38	\$345.38	\$345.38	\$345.38	\$360.92	\$377.16
<i>Service Charge - Outside City</i>						
Single Family, Vacant	\$33.14	\$33.14	\$33.14	\$33.14	\$34.63	\$36.19
Single Family, senior citizen	\$33.14	\$33.14	\$33.14	\$33.14	\$34.63	\$36.19
Single Family	\$66.26	\$66.26	\$66.26	\$66.26	\$69.24	\$72.36
Multi-family, Vacant	\$29.92	\$29.92	\$29.92	\$29.92	\$31.27	\$32.67
Multi-family	\$59.83	\$59.83	\$59.83	\$59.83	\$62.52	\$65.34
Business, Vacant	\$33.14	\$33.14	\$33.14	\$33.14	\$34.63	\$36.19
Business 1	\$66.26	\$66.26	\$66.26	\$66.26	\$69.24	\$72.36
Business 2	\$240.36	\$240.36	\$240.36	\$240.36	\$251.18	\$262.48
Business 3	\$414.47	\$414.47	\$414.47	\$414.47	\$433.12	\$452.61
<i>Meter Charge - Inside City</i>						
1-2"	\$68.88	\$68.88	\$68.88	\$68.88	\$71.98	\$75.22
3"	\$129.02	\$129.02	\$129.02	\$129.02	\$134.83	\$140.89
4"	\$214.83	\$214.83	\$214.83	\$214.83	\$224.50	\$234.60
6"	\$429.86	\$429.86	\$429.86	\$429.86	\$449.20	\$469.42
8"	\$688.01	\$688.01	\$688.01	\$688.01	\$718.97	\$751.32
<i>Meter Charge - Outside City</i>						
1-2"	\$82.62	\$82.62	\$82.62	\$82.62	\$86.34	\$90.22
VFW	\$181.76	\$181.76	\$181.76	\$181.76	\$189.94	\$198.49
<i>Volume Charge</i>						
Commercial	\$2.29	\$2.32	\$2.36	\$2.39	\$2.50	\$2.61
Industrial	\$1.75	\$1.94	\$2.14	\$2.39	\$2.50	\$2.61
VFW/Landfill	\$1.95	\$1.17	\$1.18	\$1.26	\$1.32	\$1.38

Appendix D

Estimated Value of System Assets

Estimated Fixed Asset Value

ASSET TYPE	DESCRIPTION	ACQUISITION DATE	ACQUISITION COST	Book Value	Residual Value	Total Value	System Function
B	BUILDING - PILLAR CREEK PUMP HOUSE	1965	14,741	0	1,474	1,474	Pumping
B	BUILDING - MONASHKA PUMP HOUSE	1973	23,747	3,087	0	3,087	Pumping
B	BUILDING - OLD PUMP HOUSE	1980	11,035	2,979	0	2,979	Pumping
B	BUILDING - WATER PLANT	1995	3,250,000	1,852,500	0	1,852,500	Treatment
					0	0	
Buildings		550.163.190	3,299,523				
					0	0	
					0	0	
I	Water Treatment Fence (CIP)	6/30/2008	13,896	9,032	0	9,032	Treatment
					0	0	
Improvements other than buildings		550.164.191	13,896				
					0	0	
F	Double Drum Compactor	2001	34,335	0	3,433	3,434	Admin
F	Ripper Bucket	2001	6,280	0	628	628	Admin
F	BTI Breaker to fit Cat 312BL	9/14/2001	24,500	0	2,450	2,450	Admin
F	2002 430D BACKHOE LOADER	10/31/2002	71,550	0	7,155	7,155	Admin
F	Forklift	4/12/2004	18,461	0	1,846	1,846	Admin
F	580 Super M loader/backhoe	7/27/2005	32,283	0	3,228	3,228	Admin
F	Cat Trac Hoe 312 BL	4/25/2000	108,000	0	10,800	10,800	Admin
F	Wacker Compactor (Water & Sewer Fund)	8/7/2007	5,998	650	0	650	Admin
F	2008 Trail King Trailer	5/2/2005	2,000	367	0	367	Admin
F	Snorkel ATB-50 Manlift	4/17/2009	9,000	2,475	0	2,475	Admin
F	10/17/2008 22,950 11,220	0	11,220	Admin			
F	Grundfos Chlorine solution pump	6/30/2010	6,641	2,656	0	2,656	Treatment
F	Big40 Miller Welder CC/CV Deluxe	5/6/2011	14,800	7,277	0	7,277	Admin
					0	0	
Machinery and equipment		550.165.280	356,797				
					0	0	
V	TRUCK - PICKUP - 1/2-TON - 2001	2001	20,638	0	2,064	2,064	Admin
V	2004 FORD F250	11/17/2003	24,690	0	2,469	2,469	Admin
V	2005 F150	11/29/2005	19,815	0	1,981	1,982	Admin
V	2006 Ford F150	2/7/2006	20,082	0	2,008	2,008	Admin
V	2009 Ford F150	12/16/2008	21,180	0	2,118	2,118	Admin
V	2010 Ford F150	6/18/2010	21,850	3,121	0	3,121	Admin
V	2010 Ford F150	6/15/2012	12,866	5,514	0	5,514	Admin
V	2015 Ford F150	8/7/2015	23,300	20,526	0	20,526	Admin
V	2016 Ford F250	11/6/2015	30,012	27,511	0	27,511	Admin
					0	0	
Vehicles		550.166.390	194,432				
					0	0	
S	RESERVOIR - 72,000,000-GALLON	1965	5,257,373	0	525,737	525,737	Supply
S	RESERVOIR - UPPER - 22,000,000-GALLON	1965	1,606,419	0	160,642	160,642	Supply
S	RESERVOIR - 489,000,000-GALLON	1966	1,400,000	0	140,000	140,000	Supply
S	WATER MAIN - 32 MILES	1992	11,653,131	4,515,588	0	4,515,588	Dist
S	PILLAR CREEK MIDDLE DAM	2001	85,060	51,035	0	51,035	Supply
S	WATER MAIN ADDITIONS - 2001	2001	83,060	49,835	0	49,835	Trans
S	MONASHKA DAM UPGRADE	6/30/2004	3,435,837	2,490,982	0	2,490,982	Supply
S	Willow Street Water Improvement	6/30/2007	2,725,360	2,112,154	0	2,112,154	Dist
S	Aleutian Homes Water Improvement	6/30/2011	4,409,122	3,857,981	0	3,857,981	Dist
Infrastructure		550.162.121	30,655,361	13,077,576	826,379	13,903,955	
Total			34,520,010	13,077,576	826,379	13,903,955	