



City of Grand Island

Tuesday, October 12, 2004

Council Session

Item G3

Approving Minutes of October 5, 2004 City Council Study Session

The Minutes of October 5, 2004 City Council Study Session are submitted for approval. See attached MINUTES.

Staff Contact: RaNae Edwards

OFFICIAL PROCEEDINGS

CITY OF GRAND ISLAND, NEBRASKA

MINUTES OF CITY COUNCIL STUDY SESSION

October 5, 2004

Pursuant to due call and notice thereof, a Study Session of the City Council of the City of Grand Island, Nebraska was conducted in the Council Chambers of City Hall, 100 East First Street, on October 5, 2004. Notice of the meeting was given in the Grand Island Independent on September 29, 2004.

Mayor Jay Vavricek called the meeting to order at 7:00 p.m. The following members were present: Councilmembers Meyer, Whitesides, Pielstick, Gilbert, Nickerson, Cornelius, Pauly, Hornady, Walker, and Haase. The following City Officials were present: City Administrator Gary Greer, City Clerk RaNae Edwards, Finance Director David Springer, Public Works Director Steve Riehle, and City Attorney Doug Walker

RESERVE TIME TO SPEAK ON AGENDA ITEMS: Two individuals reserved time to speak on agenda items.

MAYOR COMMUNICATION: Mayor Vavricek commented on the Harvest of Harmony Parade and complemented those people who helped put it on and the people who attended.

Update on 1/2 Cent Sales Tax Projects: Mayor Vavricek commented on meeting with the Hall County Board of Supervisor's and requesting property for the Law Enforcement Center. Mayor Vavricek stated that the County Board unanimously approved the donation of 5 acres of property located east of the city on Highway 30.

City Administrator Gary Greer reported that recently there had been a lot of discussion concerning the financing strategy of the 1/2 Percent Sales Tax Projects. As usually is the case most of the time, there was not enough money to accomplish all the projects immediately. Mentioned was the need to continually prioritize, cost contain, value engineer, justify expenses, seek other revenues, and avoid unnecessary costs.

Mr. Greer stated they were finding bid construction costs to be coming in higher due to the many projects that were in store for the community. It was the City Administration's recommendation that City Council consider Fire Station #1, the Law Enforcement Center, and the Library Expansion as top priorities. In order to assure that these facilities moved forward it appeared that the other proposed sale tax projects needed to be delayed, phased, and/or considered as pay-as-you-go projects.

Reviewed were the original 1/2 Percent Project Plan and the possible Re-Prioritization of the 1/2 Percent Sales Tax Projects as follows:

Original 1/2 Percent Project Plan

Financed Projects:

1)	Fire Station #1 Replacement	\$3,000,000
2)	Fire Training Facility (Land, Building, Burn Building, Training Tower)	\$4,000,000
3)	Police/Sheriff Law Enforcement Center	\$3,000,000
4)	Library Expansion	\$7,000,000
5)	Aquatics Projects (according to Aquatics plan)	<u>\$3,000,000</u>
Total:		\$20,000,000

The aforementioned if amortized for 20 years at 5% would create approximate annual costs of:
\$1,593,449.

Annual Cash Projects:

1)	Grand Generation Center Capital Fund	\$100,000
2)	Cornhusker Army Ammunition Recreation Development	\$125,000
3)	Hike/Bike Trail Development	\$125,000
4)	Infrastructure Emergency Funds	<u>\$ 56,551</u>
Total:		\$406,550

Annual Grand Total: \$2,000,000

Possible Re-Prioritization of 1/2 Percent Sales Tax Projects:

Financed Projects:

1)	Fire Station #1 Replacement	\$3,000,000
2)	Police/Sheriff Law Enforcement Facility	\$8,600,000
3)	Library Expansion	<u>\$7,000,000</u>
Total:		\$18,600,000

The aforementioned if amortized for 20 years at 5% would create approximate annual costs of:
\$1,492,512.

Councilmember Gilbert questioned the costs for Fire Station #1 since the Law Enforcement Center came in twice what was estimated. Mr. Greer stated he was confident that we could build a Fire Station, but it depended on a lot of other things like if we would have to buy land, the type of station, etc. Also questioned was the delay in the Fire Training Facility. Mr. Greer stated the

delays would not be significant and that we were working on the Training Facility, but that it would take some time.

Glendale Reiss, 910 North Boggs commented on concerns about putting the Fire Station on the back burner. Mr. Greer stated the Fire Station was a high priority and was one of the immediate projects. Lewis Kent, 624 East Meves asked that the Council hold off on the Law Enforcement Facility because it was going to cost twice what the City had estimated. He suggested we move forward with the Fire Station.

Update by Bill Stovall, Hall County Regional Airport for Air Service to the East: Bill Stovall, Executive Director for Central Nebraska Regional Airport updated the Mayor and City Council on air service to the east. Chairman Harold Rosenkotter and Vice President Doyle Hulme representing the Airport Authority Board were present for the meeting.

Reviewed were the Industrial Park Development (Tech Park, Infrastructure, and Long Range Goals), Aviation Development (A&P School, Avionics, Summer Programs, Air Show, and Destination Charters), and Geographic Information System. The following projects were presented:

New Hangar 2003-2004	\$2.3 Million
AIP 25 – Runway 2004-2005	\$7.2 Million
AIP 24 – ARFF Vehicle 2005-2005	\$700,000

2004-2007

Environmental Impact Study (EIS), Engineer Selection, Design - \$1.5 Million – Total \$20 Million

AIP 26 – North Apron Reconstruction 2006	\$3.3 Million
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Presented was the proposed Mesa Airlines Routing from Denver, Grand Island, Manhattan, and Kansas City. Projects were mentioned for 1999 – 2005 with \$25 Million coming into Grand Island. The following community economic impacts were mentioned:

14 New Businesses
70+ Employees
Over 300 Employees Total
#3 in Nebraska
Annual Economic Impact \$21,139,600
Annual Payroll \$6.6 Million

Mr. Stovall commented that the total community economic impact and return on investment from 1999 – 2007 would be \$48 Million.

Presentation of the Electric Utility Economic Study: Utilities Director Gary Mader reported that the last rate increase in the Electric Department was in 1980. That was due to an unusually stable period of electric costs including steady city load growth, low inflation rates, and stable fuel prices nationally, particularly coal and natural gas. But over the last few years, that stable environment had changed.

The Electric Utility financial reports had shown a general down trend in the financial position over the last year with the department's reserves being reduced by 26% from December '02 to December '03. This was directly attributable to increased energy costs for production, fuel costs, and purchase power costs. The following indicated the state of those factors:

- Delivered coal costs had increased 14% since December '02 and were expected to firm up at that or a higher level.
- Natural gas prices were extremely volatile but on average, had approximately triple in the last two years.
- Oil prices had increased sharply and OPEC continued production limits.

As a result of the declining financial condition of the Electric Utility, an economics evaluation was begun in May, 2004. The firm of Stanley Consultants was commissioned to conduct the study working closely with Electric Department Staff. The Study concluded that it was necessary to increase Electric Department revenue to maintain that Department.

Mr. Mader introduced Mary Garrison representing Stanley Consultants, Inc. who presented the Economic Evaluation and Rate Revision Study.

Ms. Garrison presented the following Overview of Process that had taken place to determine the need for a rate increase:

1. Financial Forecast with Existing Rates:
 - a.) Project Annual Revenues
 - b.) Project Annual Expenses
 - c.) Project Annual Capital Improvements
 - d.) Project Debt Service Payments
 - e.) Compare projected Revenues & Expenses
 - f.) Determine Net Income & DSCR
 - g.) Set Guideline for Net Income
 - h.) Determine Overall System Rates Increases
2. Rate Design:
 - a.) Power Cost Adjustment Base (formerly fuel adjustment)
 - b.) Base Rate Schedules
3. Financial Forecast with Proposed Rates:
 - a.) Project revenues based on new rates
 - b.) Compare to projected expenses
 - c.) Determine net income with new rates
 - d.) Determine new debt service coverage ratios (DSCR)

Presented were number of customers & annual usage growth rates, projected Mwh sales, projected sales revenue, project system expenses, fuel costs & purchase power costs, projected expenses, projected Capital Improvements and debt service payments, and projected operating

results with current rates. By 2009 the end of year cash would be -\$17,260,749 with the current rates.

The following was presented:

<u>Set Guideline Net Income/Determine Overall Revenue Increase</u>					
	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Set Guideline Net Income	\$4,000,000	\$5,000,000	\$5,000,000	5,000,000	\$5,000000
Cumulative Req. Revenue Increase	9.65%	11.28%	11.62%	13.75%	15.01%
Option 1 Revenue Increase	11.50%	-----	-----	3.00%	-----
Option 2 Revenue Increase	5.00%	5.00%	-----	3.00%	-----

Ms. Garrison recommended that Grand Island use Option 2. Reviewed were the proposed rates. The following conclusions and recommendations were presented:

1. Both power supply & non-power supply costs were increasing
2. Net income, cash reserves, and DSCR are decreasing
3. GIED has committed to 30 MW of Nebraska City #2
4. Retail rates must be adjusted
5. Recommend phasing-in rate increases: 5% (Jan 2005), 5% (Jan 2006), 3% (Jan 2008)
6. Recommend GIED install load profile meters
7. Recommend GIED use financial forecast model as a budgeting tool and a method of monitoring GIED's financial position for a forward five year period

Discussion was held with regards to customer rates, transportation and production costs. Mr. Mader stated that once Council reviewed this information it was proposed to bring an ordinance before Council within 60 days with a rate increase.

ADJOURNMENT: The meeting was adjourned at 8:15 p.m.

Respectfully submitted,

City Clerk
RaNae Edwards