



SPECIAL CITY COUNCIL

Council Chambers, City Hall – 131 N Main St

March 25, 2021 at 5:00 PM

MINUTES

HONORABLE MAYOR MIZE AND MEMBERS OF THE COUNCIL

CALL REGULAR MEETING TO ORDER

MEMBERS PRESENT

Mayor Philip Mize called the meeting to order at 5:05 pm. Council members Jeff Albers, Kassie Gile, Ryan Graf, Greg Kampling and Greg Williams were present. Staff present were City Administrator/Clerk Danielle Young, City Attorney Austin Parker (phone), Maintenance Superintendent Brad Ewy, and Utility Clerk Angie Gassmann

DISCUSSION OF NATURAL GAS BILLING

Administrator Young explained that the meeting was to follow-up on the ongoing Natural Gas Emergency that began in mid-February. While the price of natural gas had returned to regular pricing, the City needed to determine how to bill for the unprecedented pricing. The low-interest loan from the State of Kansas was approved and the City received the funds of \$1,472,116. In return, the City paid the KMGGA invoice of \$1,535,526.89 under protest as investigations are ongoing with the State and Federal governments to determine if pricing can be adjusted.

Black Hills Energy has still not assessed estimated penalties of \$116,972. If these penalties are assessed, the City will utilize gas reserve funds to pay these penalties. In the meantime, the City must set up a revenue stream to be able to make the semi-annual payments back to the State on the low-interest loan. The loan must be paid within 10 years and interest can change January 1st of each year. It's currently set at .25%.

Young explained that cities across the State are billing at various ways, including billing out the full amount and setting up payment plans to billing out an increased adjustment over the next few months or next several years. Young added that the usage for this billing cycle, which is February 16-March 15th, drastically decreased due to conservation and warmer temperatures. Billing at a higher rate this billing cycle, will not necessarily result in a higher overall bill to the consumer. Last month the average home used 14 units of gas and this month the average was 8 units. Last month, the middle two quadrants of residential customers were between 11-16 units and this month it is between 6-10 units. Commercial users saw a decrease in average usage from 107 units to 47 units.

Young explained that a market Rate Adjustment fee could be set. In looking at the annual gas usage from 2020 and the annual loan payment amount, \$1.90/mcf is the smallest adjustment that could be

added to pay the loan off in 10 years and \$9.40/mcf would pay the loan off in 2 years. Young reviewed items to consider when making the decision:

- Gas usage will decrease over the next 5 months and will not see this usage quantity again until the January 1st billing cycle.
- If reserve funds are used to cover penalties or to cover any part of the invoice not assessed to customers, the market rate adjustment will also need to continue to repay the reserve accounts after the loan is paid off.
- Setting the market rate adjustment at the lowest amount may not ensure loan payment amounts can be met, as annual usage can fluctuate each year based on weather.
- Historically, gas rates have been low over the past few years (Young provided a historical sheet showing pricing), but looking back rates of \$15.78 were billing 2005.

Young reviewed suggested billing options and explained that if the full amount was billed out to customers the billing rate would be \$189.63/mcf. Young's options included utilizing approximately \$37,000 in reserve funds to cover part of the invoice to KMGGA that was not covered by the loan or billing out the \$37,000 to the customer in this billing cycle. Young expected the market rate adjustment would not cover the first semi-annual loan payment, since usage would be falling off during the summer months.

Councilmember Albers asked Administrator Young if there would be a shortfall for the first semi-annual loan payment, but a surplus the second half. Young explained that was correct and the City would possibly have to utilize additional reserve funds to cover the first payment.

Councilmember Kampling asked if the City had not gone with KMGGA and stayed with the other company if the City would be in this pricing situation. Councilmember Albers stated that he understood that others were also taking out loans and passing the pricing on. Councilmember Gile mentioned someone in Haysville had received a higher bill and Mayor Mize had read an article that the company the City had been with previously had much larger problems than KMGGA and had billed out the full amount that was multi-million dollars to a school district. Young stated she was unsure who Garden Plain utilized.

Councilmember Albers stated that he understood that KMGGA had lowered the gas rate, but did not think they had handled the situation correctly. Kampling asked for explanation of the penalties and thought something needed to be put in place so this didn't happen again. Young and Ewy explained the Operational Flow Order and imbalances. Ewy stated policies were being reviewed and discussed to prevent any future happenings of this nature.

Councilmember Albers asked if KMGGA had any mark-up on their end. Young replied that KMGGA charges 9.5 cents per unit of gas that is sold, plus we pay a monthly fee of \$75. Albers thought the City should do their due diligence and look at other options to switch to for the City's gas supply. Ewy replied that he did not know who to switch to as someone would still need to do the nominations. It was explained that KMGGA took over the nominations after former City Administrator Oliver left. Councilmember Albers agreed that by the time the winter weather was forecasted, it would have been too late to have bought additional gas on the monthly market.

Councilmember Williams asked if the City could set up a level pay option, like electric companies. Young replied that the city's billing software does not have that option. Williams asked if there was a way to let customers know the amount, they will owe that will need to be paid back to the City

eventually. Young explained that the one thing to think about was we could set up an additional line item on the bill and let them know the total amount to pay overtime. The problem Young saw with this was as residents move out of the city, there is a possibility they could leave the City with an outstanding balance and then it would have to be determined later how to collect these unpaid amounts. Albers thought an adjustment should be made to the mark-up. Mayor Mize thought that was the only way to do it, but said it came down to determining a rate.

Councilmember Gile asked Young if there was an option to raise the price during the summer months and make it lower during the winter months to counteract the pricing. Young stated the issue with that is there are several residents who have zero usage during the summer months so a higher adjustment per unit during the summer would only hit those who use gas year-round harder. Albers asked about charging a flat rate of \$10/residential and \$50/commercial, plus a market rate at a lower amount. Albers thought that might help during the months where usage was lower. Young stated that when you assess a flat fee, it charges a higher amount on people who use less gas. Mayor Mize explained that the high school, who is a larger user, would then be paying the same amount as a lady who only has a gas hot water tank. Mize thought using a per unit charge leveled everything out.

Councilmember Kampling stated that he liked the presented option of 3A, which would set the billing rate for April 1st at \$9.10/mcf. It would utilize \$37,366.89 in reserve funds and add a market rate adjustment of \$3.15. The average residential bill would be \$74.00 Young reminded Council that this option would utilize reserve funds to cover part of the invoice and the city would again need to utilize reserve funds to cover the first loan payment and for any penalties that may be assessed. Mayor Mize asked if Option 3a would allow the City to pay off the loan earlier than 10 years. Young stated that the \$3.15 adjustment would allow the loan to payoff in about 6 years. Councilmember Albers felt we should not pay off the loan early. Albers liked option 3A, but didn't quite agree with the \$3.15 market change and thought the city should do something similar to last month. Ewy was concerned about running short of funds if a different option was used. Albers thought that by looking at the data the gas usage was trending up. Young explained that in 2011 the annual usage for the entire City was at 61,000 and then went down to 49,000. Albers thought the overall trend was upward and Young explained that was partly due to a new business opening, who utilizes a large amount of gas.

Young explained that the City of Winfield had decided to set their market rate adjustment at \$8.00/mcf over the next three months to generate additional revenue to cover their first loan payment.

Councilmember Albers stated he initially liked proposed Billing Option 2a (\$7.85/mcf) and thought about charging an additional \$2.40 adjustment on top of the City's \$2.40 existing mark-up. Albers thought the \$2.40 would pay the loan off in about 8 years. Kampling asked about paying back the city's reserve accounts. Young stated they would not be able to pay back the reserves until the loan was paid off. Albers asked if the suggested \$3.15 adjustment covered the note payment of if the City's \$2.40 mark-up was also needed to cover the loan payment? Young replied that she was not planning to touch the \$2.40, since that fee was used to cover normal expenses within the utility. Albers asked about charging \$2.40 over 8 years and Kampling asked if the interest of the loan could go up? Young explained that the interest rate is set to change January 1st of each year and will be set at 2 points below market interest rate with a minimum of .25%. Young was afraid that if interest rates increased the city would not have enough revenue at \$2.40 to pay off the loan in 10 years.

Albers asked if the rate could be reviewed every year to determine if things were trending up or down and make adjustments to the plan. Young stated that could be done.

Mayor Mize felt that if the City charged a higher rate this month that residents were expecting it, but was concerned what people might say if we waited 3 years and then tried to explain to residents that the City had screwed up and needed to charge more now. Mize hated for the City to drop back and minimize the cost to the residents for a period of time to see what happened with the investigations and then nothing happens to decrease the overall cost. Mayor Mize asked Administrator Young to clarify the difference between option 3 and 3A. Young stated that the additional price of option 3 (\$13.65/mcf) is to generate the \$37,000 needed to pay the current invoice due to KMGa since the loan of \$1,472,116 plus the amount we collected from billing and collateral call would leave the City short of the full invoice amount. If the \$37,000 is not billed out, the City will utilize reserve funds. Young explained further that the City needed to bill \$55,835.22 for the billing cycle of 2/16-2/28 and pricing the gas at the usual price of \$2.6281 would only generate about \$18,468.33, leaving the City short \$37,366.89. It was noted that the Gas Reserve fund had about \$250,000.

Councilmember Albers clarified that if the City adds \$1.90 on top of the existing \$2.40, the loan would pay off in 10 years. If \$3.15 is added on top of the \$2.40, then the loan would pay off in 6 years. Young clarified that by going with Option 3 (\$9.10/mcf) half of the residents would see an increase of \$15 with the middle quadrants seeing an increase of \$6.09 to \$19.95 over last month's bill. Albers asked Young what the residents would see using option 3a or 2a and Young stated they would see a decrease in their bill from last month. Albers commented that since we billed at \$7.77 last month, billing at \$9.10 would fall in line. Young stated that her recommendation was Option 3 (\$13.65). Kampling clarified that Option 3 was not utilizing reserve funds to pay the invoice. Young clarified that the options were not setting the billing rate for 10 years, but the rate would drop back down next month based on gas prices plus whatever Council determined the additional market rate adjustment at.

Councilmember Albers felt that the City should keep the billing rate at \$9.10 and utilize reserves in Option 3a. Mayor Mize stated that he felt Option 3 with the billing rate at \$13.65 was the best option. Albers felt it was best to use the City's reserves to get the billing rate to \$9.10. Gile felt that residents were expecting a higher bill. Mayor stated that looking at it from a standpoint that everyone is already thinking that they are getting an unbelievable bill this month, if the higher billing rate was used now it would put us in a better position and would be one higher bill and then a smaller adjustment overtime. Albers thought that by utilizing reserve funds, it would soften the blow to residents and the City could replenish the reserves later.

Administrator Young asked Attorney Austin Parker for any comments. Parker stated that he had been listening and hated the fact that we are having to deal with this issue, but legally the City is passing on something we have to pass on and are complying with the laws in doing so. He felt that any of the proposed options would be legally defensible, but in reality, nothing is ideal.

Mayor Mize reiterated that this is a one-time charge then next month the \$3.15 amortization to the normal billing rate could be added. Albers questioned if it would be better to charge \$13.65 for one month versus using the \$9.10 rate and as the gas prices drop maintain the spread higher. Such as analyze the gas price on a regular basis to keep the billing more level and set a minimum rate at, say \$8/month. That way if the price of gas drops to say \$1.50 then the City would be able to make more of a spread than a flat \$3.15 to repay the loan. Albers stated he was just trying to think of a way to keep the rate consistent. Ewy stated he felt gas was going to become regulated and didn't see the price of gas dropping to all-time lows.

Councilmember Graf stated that if we're looking to keep things the same, then Option 1 would be best if you consider the cost of gas and then adding on the additional \$3.15/mcf. Williams responded stating that Option 1 did not generate any revenue for the loan payment. Graf suggest billing at the \$10.50 rate this month and then do the level rate thereafter. Albers stated that he thought we needed to get back to a somewhat normal rate and he was still in favor of 3a and utilizing reserve funds and billing at a rate of \$9.10. Graf asked if Option 3a generated money for the loan payment. Young stated that it did. Kampling and Albers discussed the differences between Option 3 and 3a. Young mentioned that the City needed to think about the resources that are available

right now for higher bills to residents, where if a higher amount is billed out later, that financial help may not be available to residents. Albers thought with Option 3a, the City could pay off the loan in 3 years.

Kamplung asked Young which option she felt was best. Young stated that she felt that Option 3 was the best option as it was important to bill at a slightly higher rate while it was still fresh on people's minds. Mayor Mize agreed with Option 3. Albers stated he was still in favor of option 3a, as he felt it gave a better rate for the residents and kept it in line with last month's billing.

Kamplung said maybe the full amount should be billed out and Albers thought that would create a nightmare. Graf asked when the loan payment was due. Young calculated the semi-annual payment to be due in September, but some cities think it is due in July. It was discussed that other cities were billing out the full amount and setting up payment plans.

Young stated that this month they could charge double the billing rate of last month's \$7.77 because customers' usage was down about half of what it was the prior month and they would not see much of an increase in their bill.

Mayor Mize stated it was time to make a decision and asked if anyone wanted to present a motion. Albers stated that he would, but felt he was a minority. Kamplung stated that he liked option 3a, utilizing the reserve funds. Albers agreed that the City needed to use the reserve funds. Graf felt that maybe we would need to use the reserve funds to help make the bi-annual payment instead. Albers thought that the City would be able to generate enough funds by then.

Motion: Councilmember Albers moved to approve Billing Rate Option 3a (\$9.10/mcf).

Councilmember Kamplung seconded the motion.

Voting Yea: Councilmember Kamplung, Councilmember Albers, Councilmember Graf, Councilmember Williams.

Voting No: Councilmember Gile

Mayor Mize then asked about the \$3.15 market adjustment. All Councilmembers agreed to the Market Adjustment rate. Mayor Mize thought if we could pay the loan off sooner, then we would all be happier. Albers agreed and stated that the sooner we pay it off, the sooner we will be able to lose the additional \$3.15 and go back to just our cost of \$2.40. Administrator Young clarified that we are going with the billing rate of \$9.10 and the ongoing market adjustment of \$3.15/mcf.

Albers then brought back up the lack of communication from KMGGA being of concern. Administrator Young informed the Council that she sends them all the communication that she receives from KMGGA regarding the issue. Albers thought KMGGA needed to do a better job of keeping the cities in the loop. Kamplung asked if all cities could go together to file a consumer protection lawsuit to get something done. Councilmember Williams stated that he had spoke to Attorney General Schmidt's office and their office thought litigation would be going on 3 months from now. Young reviewed the options that KMGGA had looked at before sending out the full invoice to the City. Kamplung asked what would happen if the City only paid half of the invoice. Young explained that KMGGA is only a pass through and if we didn't pay KMGGA, the gas supplier would come directly to the City and it would be hard to switch gas suppliers with an outstanding invoice with another supplier.

ADJOURN

Motion to adjourn at 6:25 pm.

Motion made by Councilmember Albers, Seconded by Councilmember Williams.

Voting Yea: Councilmember Kamplung, Councilmember Albers, Councilmember Gile, Councilmember Graf, Councilmember Williams



A handwritten signature in blue ink that reads 'Philip Mize'. The signature is written in a cursive style with a large initial 'P'.

Philip Mize, Mayor

Attest:

A handwritten signature in black ink that reads 'Danielle Young'. The signature is written in a cursive style.

Danielle Young, City Clerk