

Tuesday, 7 P.M.

October 27, 1998

**UTILITY RATE REVIEW COMMITTEE
MINUTES**

Public Safety Building

Newberg, Oregon

Members Present:

Paula Fowler, Chair

Myrna Miller

Barry Babin

Rebecka Ratcliffe, Co-chair

Matson Haug

Kelli Highley

Members Absent:

None

Others Present:

Mike Soderquist, Community Development Director

Randy Naef, Utilities Manager

Katherine Tri, Finance Director

Bob Tomlinson, CH2M HILL Consultant

1. Call to Order

The meeting was called to order at 7 p.m. by Chair Paula Fowler.

2. Roll Call

Roll call was noted by Kathy Tri.

3. Approval of Minutes

Motion was made and seconded to approve the minutes of the ^{September} ~~October~~ 22, 1998 meeting. Motion passed unanimously.

4. Water System Development Charges (SDC's) Discussion

Randy Naef and Kathy Tri presented flow charts and graphs for review. Ms. Tri explained that currently we have two sources of water revenue; the SDC's and rates. These sources of revenue are paying for the City's water system. Specifically the water rates pay for the maintenance depreciation that is used to replace pipes, equipment, and run the daily operations of the water plant and wells. There is an \$850.00 per equivalent dwelling unit (EDU) SDC charge that pays for the existing Capital Improvement Projects (CIP) to expand the system. The current rates cover debt service of \$240,000 - \$245,000.00 a year. The rates need to cover future debt service and will depend on how much debt is sold. A person asked Ms. Tri to define the meaning of maintenance depreciation. Ms. Tri explained that a normal depreciation schedule determines the annual needs for future replacement funds. Someone asked which fund the interest was placed in. Ms. Tri stated it is City Council policy to keep interest for that fund with that fund. Someone asked if this was an umbrella fund meaning is the money that has been going into the specific fund still considered the water fund. Ms. Tri answered that in accounting terms there are three different

accounts, and those three accounts make up the "Water Fund". Ms. Tri explained the split in the CIP is 65% for new users and 35% for existing users. The existing water bond debt from 1980 has three remaining payments.

A two part question was asked: 1) What is the current monthly rate structure, what does it pay for, and what will the new rate structure pay for? 2) Is the CIP program currently included in the City program, and if so, what allocation of funds is the City making to help pay for those improvements and is the current rate for the water bill enough to pay for the plan that the City Council has come up with? Ms. Tri answered that the size of the project will determine how much debt we sell and when. The City has some funds available now to pay part of the debt from existing rates. This leaves a \$10 million CIP plan and figuring 35% of that debt goes toward existing users and the rest is debt beyond the current rate capacity. Bob Tomlinson said when the sewer SDC's were calculated staff stated that the improvement and reimbursement SDC's would be the maximum fee that the City could charge. If the City adopted lower SDC's then rates would pay for some of the growth and/or expansion of the system. The committee agreed to review SDC's first, rates second and then review the two together.

There was a concern that the SDC fees may need adjusting after reviewing the rates and they should not go to City Council until rates have been completed. It was said the SDC's will not go before the City Council until the rates are finished. A question came up that if the SDC's are changed after the rates are calculated, how will that look? Mr. Naef responded saying that is not what the committee would change. The difference would be the valuation method selected. The SDC value is changed by the methodology, not by changing the split. A question was asked regarding the chart that identifies the CIP and the split between growth and existing users and if those items could be changed if need be. Mr. Naef said it is open for more discussion and that if he understood correctly all were in agreement that development should pay for itself. With the 65/35 split it is an attempt to be fair in what is contributing to development and what is not. Mr. Naef explained a few changes that were made to the CIP since the last committee meeting. Someone asked if the items in the 1998-1999 CIP is being covered by the current SDC's. Mr. Naef answered that it is in the current CIP plan, where the money comes depends on when the project occurs. Another person asked what the current SDC's are helping to pay. Mr. Tomlinson said the items on the chart along with a percentage are items the current SDC's would help to off-set. There was general discussion about a five year program. It was asked if there would or would not be changes to the program over five years. If new items were needed, would a new program be started or the item added to the existing five year program? Mr. Naef stated that Ms. Tri's balance sheet would be a consideration on how the items should be reported. It was said that a basic plan should be put together and all new items be separate line items. A statement was made that even with the basic plan and the separate line item, the new item will still need to be funded with the money currently being collected without new funds being taken in until a meeting to change the

funds occur.

Mr. Tomlinson reviewed the handouts. A question was asked regarding what inflation cost impacts were used. Mr. Tomlinson answered that it is construction cost impacts. There was a discussion about the higher fees and that the Homeowners Association may not like such high fees. Mr. Tomlinson stated the fees could be lowered and phased in over time. Someone asked Mr. Tomlinson why the City should have lower rates and phase them in over time and did he have such a plan in mind? Mr. Tomlinson replied that due to politics, the City Council may not approve higher fees. One of the policies was to have SDC revenues pay for debt service cost.

Someone asked if there shouldn't be a yearly chart tracking the five year CIP allocated for future users. It would be a valuable tool to ask if the City is collecting enough money on a year by year basis. Mr. Tomlinson said it could be added. He also stated that typically SDC's do not fully recover the capital costs until the full life of the system. It is estimated that in the year 1999 and 2000 there will be almost \$5 million in expansion CIP costs. Ms. Highley asked if there is any way to determine what the new debt service is going to be. Mr. Tomlinson will add another line for potential debt service. It was asked how many EDU's will need to connect to the system to pay for the debt service cost? Mr. Tomlinson said that for 1998 and 1999 it is estimated that 233 new EDU's will connect but the net book value needs only 101 new EDU's. Mr. Tomlinson will add the requested information for review at the next meeting.

5. Review Water Rate Assumption Draft

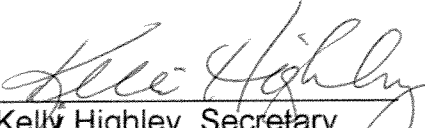
Discussion was postponed to a later meeting.

6. Adjournment

The meeting was adjourned at approximately 9:07 p.m. until the next meeting on November 17, 1998 at the Public Safety Building.

Approved by the Utility Rate Review Committee on this 9th day of December, 1998.

ATTEST:


Kelly Highley, Secretary