

Tuesday, 6 P.M.

February 24,

2004

**UTILITY RATE REVIEW COMMITTEE
MINUTES**

Public Safety Building

Newberg, Oregon

Members Present:

Ernie Amundson
David Maben

Blane Hansen
Lou Larson

Dan Schutter
Lon Wall (chair)

Members Absent: Matson Haug Jeff Ratcliffe

Others Present: Dan Danicic, City Engineer
Jadene Stensland, Utility Engineer
Kathy Tri, Finance Director
Mike Soderquist, CDD Director
Jim Bennett, City Manager
Debbie Galardi, Consultant

1. Call to Order

The meeting was called to order at 6:05 p.m. by Chair Lon Wall.

2. Roll Call

Roll call was noted by Kathy Tri.

3. Minutes

The minutes of the February 10, 2004 meeting were passed by those present.

4. Rate Presentation

Debbie Galardi opened the meeting by looking at the five-year capital projects forecast. Dan Danicic updated the 2003-04 construction schedule and indicated which projects will be carried over to 2004-05. They indicated that these changes smoothed the impacts of the CIP. The CIP now totals \$12.0 million versus \$12.8 million. Other assumptions changed included reducing Central Services increases from 10% to 8% and reducing actual costs of budget from 95% to 94%. She indicated that the population growth assumption of 1.8% had not been changed.

Ernie Amundson asked why the budget increases were greater than the CIP. Ms. Galardi indicated the costs increases were primarily due to payroll cost increases and power. She did not feel that increases were out of line. Lou Larson asked about the marginal cost to add a customer. Mike Soderquist responded that costs do not rise smoothly with population. Mr. Larson also questioned payroll cost increases.

INFLATION
FACTOR

Ms. Galardi indicated that 2004-05 was problematic from a cash flow standpoint due to the fact that the City has two debt payments. She pointed out that in later years the money available from old debt payment will be available for financing new bond issues which may be needed as a result of the Wastewater Master Plan update. She then reviewed the cash flow requirements for capital. She indicated that the increase in systems development charge revenue due to significant building will significantly help to offset the cost of the CIP. Even so, the City will have to sell bonds in the future to finance all capital needs. Lou Larson asked if the listed improvements were sufficient. Dan Danicic discussed the number of miles of sewer lines and the fact that the City was not depreciating enough to finance all replacements. Mike Soderquist stated that the City is staying ahead of the curve at the plant. Staff is doing a good job of maintaining the 25 year old plant. He indicated that the instrumentation and controls system is being replaced every 7 years and the mechanical system is on 10-12 year replacement schedule. He stated that the City is positioning itself to expand as needed in a unit fashion.

Ms. Galardi then moved to discuss historical winter averages. She explained that she and the staff had noticed a quirk in revenue receipts. In the past the rate projections had assumed that the City billed the winter average in the summer months. As it turns out, the City actually collects less in the summer months (April through November) than it does in the winter months (December through March). Consequently, this fact lowers the projected sales revenue. Ms. Tri explained that she and her staff had begun to investigate why this occurs. A couple of obvious reasons were related to George Fox and the school district which don't have the student populations during the summer months to match the winter usage; consequently, they are billed a lower amount. She indicated that the staff will continue to research this and will report back at the next meeting.

Ms. Galardi went on to explain that the projected rate increase is 6% as opposed to the 10% originally projected two years ago. Reasons for to continue with a rate increase include lower revenues, overlapping debt in 2004-05, and lower population growth.

Lou Larson asked about the General Fund transfer. Jim Bennett explained that since BM 50, General Fund costs have been legitimately transferred to rate payers. The City now does a better job at cost accounting. The transfer is allowed under Oregon law and imposes the full cost of operating the system. Lou Larson felt that the Committee should take a position on the transfer. He also asked what would be the effect of no rate increase. Ms. Galardi said that the debt issue and CIP are the main issues.

Lou Larson suggestion further discussion of what information committee members would like to review at the next meeting:

- ✓ Franchise fee and rate impact
- ✓ Why revenue projections are off
- ✓ Impact of benefit changes
- ✓ A more detailed breakdown of Central Services
- ✓ Rate projections with different population projections
- ✓ The cost/unit of a new customer and offsetting revenue
- ✓ A breakdown of professional services

Dan Schutter questioned the franchise payment and indicated that the budget had already absorbed its fair share. He thought the staff had done a good job on the CIP and wondered if it was possible to slip the CIP six months in the five year plan. Finally, he asked if the Community Development costs could be trimmed. Ernie Amundson also

asked to revisit the Administrative costs. Dane Hansen stated he could live with the projections. Lon Wall stated that the franchise fee is a Budget Committee issue.

The next meeting date will be March 9, 2004 in City Hall. The meeting was adjourned at approximately 7:55 p.m.

Approved by the Utility Rate Review Committee on this March 9, 2004.

