Tuesday, 6 P.M. March 23, 2004

UTILITY RATE REVIEW COMMITTEE MINUTES

Public Safety Building **Newberg, Oregon**

Members Present:

Ernie Amundson
David Maben
Jeff Ratcliffe
Blane Hansen
Lou Larson

Members Absent: Matson Haug Lon Wall (chair) Dan Schutter

Others Present:
Dan Danicic, City Engineer
Jadene Stensland, Utility Engineer
Russ Thomas, Public Works Supervisor
Mike Soderquist, CDD Director
Jim Bennett, City Manager
Kathy Tri, Finance Director
Bob Stewart, Mayor
Debbie Galardi, Consultant

1. Call to Order

The meeting was called to order at 6:10 PM by Vice Chair Lou Larson.

2. Roll Call

Roll call was noted by Kathy Tri.

3. Minutes

The minutes of the March 9, 2004 meeting were passed by those present.

4. Continued Business: Sewer Rate Review

Dan Danicic handed out a ten-year summary of expenditures and FTE for Operations and Public Works. Kathy Tri explained the difference between Administration's budget number and Central Service costs. Her memo, which was passed out at the last meeting, only covered Central Service; the remaining costs were part of Mike Soderquist's office expenses and facilities rent for City Hall debt service. Lou Larson had questions about the overall annual cost increases. Debbie Galardi explained that she used the budget as a base and inflated each line by a factor and this produced an average annual growth rate of 7.5%. The base budget was adjusted by 95% and different cost escalators were used for different line items. Blane Hansen stated that if these are reasonable costs for running the treatment plant, then he was satisfied.

Debbie Galardi reminded the committee that the original rate projection was a 10% increase. Because O & M have actually been lower than projected and the City was able to get a lower costs bond by going through the State, the projected rate increase is lower. On the down side billings have been lower than estimated.

Ernie Amundson was still interested in the impacts of no rate increase. Debbie Galardi responded that cuts would have to come in either operations and/or capital. Mike

Soderquist indicated that would take the City back to the early 1990's when the City did not have sufficient funds to maintain the plant and the City is still catching up for the lack of maintenance. Lou Larson asked if the City had a regular replacement schedule. Mike Soderquist stated that equipment is replaced when there are signs of failure.

Jeff Ratcliffe stated that he was interested in smoothing the rate and recommended a 4% annual increase. He felt 5% would be better; but felt that population and usage increases will help fill in the difference.

Blane Hansen was satisfied with the staff recommendation. David Maben was interested in waiting until the water rate review was completed before he could agree on a sewer rate increase.

Ernie Amundson recommended no rate increase. He felt staff could trim the budget more. He felt people could not handle another rate increase until the economy was better.

Lou Larson suggested deferring the rate recommendation until the water rate review was done. He was more comfortable with a 1.5% to 2% increase.

Jim Bennett stated that "you can pay me now or pay me later." The committee could recommend a small rate increase or have a significant one later. He questioned when are there a good economic times. No one wants their bill to go up. The system has fixed costs which don't change much with consumption. The only place to cut is capital. The committee may recommend whatever it wants to the Council.

Debbie Galardi added that if we pay later, rate payers will pay more. If the plant is not maintained and the staff is only reactive, the life of the facility will decrease. The committee needs to be aware that there are public health and safety issues as well as regulatory requirements that must be met. She added that staff has been stable and the City has used technology for efficiencies.

Bob Stewart noted that the committee can be heros for a day, but when something breaks, citizens get mad and he gets the phone calls. The big picture is more important.

5. New Business – Water Rates

Debbie Galardi reviewed her handout. Dan Danicic reviewed the capital projects. Blane Hansen asked about the security system. Dan Danicic responded stating that the federal homeland security money so far has gone to first responders. The third round is looking at water facilities. The City works through the County for funding.

Debbie Galardi noted that there are not sufficient reserves to fund the capital projects and the City will have to borrow. The O & M increased are 8.1%, about the same as with the sewer system. She also noted that customer growth was less than projected; however, recently there appears to have turned around. Usage is affected by rate increases, weather, economy, and conservation efforts. The current rate structure is heavily weighted to volume and volume has been less than projected. She noted that the City will have to sell debt in 2005-06 and replacement dollars are $0 in 2004-05 which will affect future projects even with using systems development revenues to offset debt.

Blane Hansen asked for more detail on O & M. Kathy Tri got him a budget document. Lou Larson asked what was being done to control personnel costs. Jim Bennett noted that the City staff is not unionized; health insurance costs will be shared more with employees; retirement costs are fixed and any new positions are considered with the budget. Lou Larson also noted that conservation can potentially raise rates. Debbie Galardi responded that while conservation does not affect current costs, it does affect the long term capital needs.

Jeff Ratcliffe stated that before the committee adjourned, he wanted to finalize the sewer rate recommendation. He recommended 4%.

MOTION: Jeff Ratcliffe/David Maben moved to increase sewer rates 4% for each of the next two fiscal years. Vote: 3 to 2.

The next meeting date will be April 6, 2004 at 7:00 PM at the Public Safety Building. The meeting will be focused on water rates.

Approved by the Utility Rate Review Committee on this April 6, 2004.