

**CITIZENS' RATE REVIEW COMMITTEE
MINUTES**

Wastewater Treatment Plant

Members Present:

Charles Zickefoose
Tony Rourke

Mike Gougler
Mayor Bob Andrews, Ex-Officio

David Maben

Members Absent: Ernie Amundson (excused)

Beth Keyser (unexcused)

Staff Present:

Howard Hamilton, Public Works Director
Deb Galardi, Galardi Consulting

Janelle Nordyke, Finance Director
Crystal Kelley, Recording Secretary

Others Present: Richard Boyle, Helen Brown, and Thomas Barnes

1. Call to Order/Roll Call/Introduction

Chair Matson Haug called the meeting to order at 7:03 p.m. and asked for roll call.

Chair Haug introduced Thomas Barnes. Thomas Barnes shared that he realized he was paying less for the public safety fee than he thought. He was not paying the three dollar fee that other city customers are required to pay. He went on to say the dwellings that require the most public safety are not paying the full three dollars. He thinks all citizens should be paying the full fee. He is guessing the City is losing thousands of dollars per year because some customers are not being charged the full fee.

Chair Haug asked Howard Hamilton to explain the fee Mr. Barnes is referring to. Mr. Hamilton stated the Citizens' Rate Review Committee (CRRC) mission does not include utility bill riders. The Springbrook Software used by the Finance Department adds a utility bill rider that assesses the public safety fee. The three dollar fee is calculated according to the number of equivalent dwelling units (EDU) based upon the water meter size. Therefore not all residents are assessed the same.

Mr. Barnes asked if it would be possible to reprogram the system to allow for the same method to be applied to all utility bills for the City. Janelle Nordyke pointed out a call has been put in to the Springbrook Software company to see if the City can apply the same fee to all utility customers.

Howard Hamilton pointed out the fee currently brings in enough funding to cover three additional officers but will not in the future. Chair Haug reminded the CRRC that Mr. Barnes would like the committee to consider if this is a fair allocation of the fee. Ms. Nordyke reminded the CRRC staff is looking further into it. She went on to say City Council knew it was not allocating to every household equally with the plan for the fee not addressing mobile home parks and apartment complexes.

David Maben asked Deb Galardi if she has run into this type of fee before. Ms. Galardi stated the transportation utility fee is similar. She went on to say it requires a new designation in the database for equivalent dwelling units.

Chair Haug asked if actual units would be applicable to what the CRRC will have to deal with. Ms. Galardi stated local governments can charge for functional population so each household would be allocated its share. She pointed out non-residential users would still be calculated for their respective EDU.

2. Other Business:

Howard Hamilton distributed an updated schedule for the remainder of the CRRC meetings. Mayor Andrews asked what changes have been made to the schedule. Mr. Hamilton explained the public hearing has moved to the Public Safety Building. The original schedule had public notices and the utility bills scheduled to be ready on January 13, 2010.

Mr. Hamilton distributed copies of the draft flyer announcing the town hall meeting, for their review. Mayor Andrews stated he feels the flyer is too busy. It was determined by the CRRC they would look over the flyer before the December 16, 2009 meeting and discuss recommended changes at that time. Mr. Hamilton reminded the CRRC they need to finalize the flyer at that meeting. If staff is able to maintain the schedule, the public will receive the flyer approximately nine days prior to the January 13, 2010 meeting.

3. Conclude Wastewater Rates:

Mr. Hamilton presented photos (see official meeting packet for full report) of the Wastewater Treatment Plant (WWTP) so the CRRC would have a visual of the condition of the plant. He pointed out the equipment at the plant is in major need of repair.

Chair Haug asked if the condition of the equipment is due to a lack of funding or issues with maintenance staffing levels. Mr. Hamilton stated the original maintenance shop consists of one small room in the back of this administration building. He explained there was no plan in place for maintenance when the plant was built. He went on to say that staff did not do much maintenance for the first ten years of operation. In the last ten years we have been trying to keep abreast of workloads.

Chair Haug asked how old the plant is. Mr. Hamilton stated the plant was started up in 1987 putting it at 22 years old.

Tony Rourke asked what the average life of a treatment plant was. Mr. Hamilton stated it was about twenty years for equipment.

Mayor Andrews asked the CRRC to consider how the citizens will handle hearing that a structure needs to be replaced after only 20 years when they live in homes that are close to 120 years old. Mr. Hamilton pointed out the government has permit requirements that regulate WWTP operations and conditions. He reminded the CRRC that this type of equipment has high demands placed on it and has to be running at all times. It will require maintenance more often since it can never shut off without contingency plans in place.

Chair Haug confirmed there were no funds available in the rate plan for additional maintenance. Mr. Hamilton stated the available funds were used for keeping the machinery running, which leaves the buildings and structures neglected.

Mayor Andrews asked what the City's status is with Occupational Safety and Health Administration (OSHA). Mr. Hamilton stated they have been inspected three times in the past decade with no real issues. Mayor Andrews asked if they have taken issue with the condition of the structure. Mr. Hamilton stated no they have not. As long as safety is not a concern the condition is not an issue. He went on to explain they are required to

have a full safety program in place with MSDS sheets and emergency response plans and they are also required to document safety training. One safety item in the plant is trained on every month and the City Safety Committee inspects quarterly. They routinely inspect the plant and specific equipment such as every crane each month. The cranes are also inspected before each use and formally inspected by a crane company every year.

Helen Brown asked if the new plant will use a different disinfection plan other than chlorine. Mr. Hamilton answered chlorine is required as part of the water reuse plan so it will continue to be present in some form.

Ms. Galardi pointed out CRRC has not made a proposal for the wastewater rates yet. Part of tonight's agenda is to determine what their proposal will be. She presented a slide to the committee to remind them of the scenarios previously presented to base their proposal on.

Mr. Hamilton pointed out the Department of Environmental Quality (DEQ) has a revolving fund of \$45 million. The money is loaned out each year with a cap at \$5 million per loan. They have a 1% to 3% interest rate based on the payback time.

Howard Hamilton stated in 2010 they are only allotting up to \$4 million per loan. Half the amount would be 0% interest for construction only and half construction/design at 1% to 3% interest.

Mike Gougler asked if they would start getting charged interest before the project is completed. Mr. Hamilton stated no, the payback begins at project completion.

Motion #1: Gougler/Rourke moved to adopt the No SRF Uniform 20 year 15.9% rate with a contingency that if the SRF funding is approved and rates should be modified there will be a call back from City Council at that time. (5 Yes/No 0/2 Absent [Amundson/Keyser]). Motion carried.

Chair Haug stated he would like to review why the wastewater plant is at the current low maintenance funding level and discuss the consequences if equipment is not properly maintained. Mr. Hamilton stated that maintenance funding has increased somewhat over the years but not at a rate that would keep up with deterioration. They have an updated facilities plan that specifies a host of improvements to the system. Staff is maintaining equipment just to continue operations at the funding level they have available knowing that at some point the equipment will be replaced. So at this stage in the equipment's life they are attempting to conserve funding until that time. The City is required to forecast out 20 years to 2030. He pointed out with moderated population growth, the population numbers would double. The City saw growth at 2.2% last year and for a time saw growth of 3.8% per year. The facility plan says capital projects should be started now and putting them off will only mean that larger amounts of funding will be required for maintenance of equipment which will eventually be replaced anyway. They are looking at \$250,000.00 that has been put into the influent pump station in the last year and a half. The entire station is scheduled for major overhaul. It is at its wet weather capacity today. DEQ will implement a new sanitary sewer overflow rule January 1, 2010. An overflow fine will be assessed each time they do not meet the conditions of this rule.

Tony Rourke asked if the funding for the plant includes maintenance's ability to keep the equipment updated. Mr. Hamilton stated they would need to work on increasing the operation and maintenance (O&M) budget in the future to address more than just keeping equipment operating. Ms. Nordyke added they have enough personnel to continue the maintenance at this time.

Ms. Galardi pointed out there are no reserves being built up for future capital improvements.

Mr. Hamilton stated they have maintenance staff that can keep things going, but not for improvements to the overall condition. He went on to say they often pull together funds at the end of the budget year and hire a contractor to come in and address some issues that are outside of staff's expertise.

Chair Haug recommended including a program allowing for maintenance. Mr. Hamilton shared with the CRRRC the facility plan will require adding maintenance staff once the project has moved forward.

Chair Haug asked how much more money will be needed to keep up the new equipment. Mr. Hamilton replied that it is not so much additional funding but they will need more staff to perform the work or the repairs will need to be contracted out and funding allotted accordingly. Ms. Galardi pointed out once the facilities are constructed they will need additional staff.

4. Present Stormwater Rates:

Ms. Galardi presented the staff report (see official meeting packet for full report).

Mr. Hamilton pointed out that DEQ required Newberg to develop a stormwater Total Maximum Daily Load (TMDL) Program by March 2008. He went on to share they have to report each year how they are meeting the program goals. The City initiated the stormwater program during the last budgeting cycle. They put in additional budget money for staff, meeting program goals, and maintenance of the storm system.

Ms. Galardi presented a pie chart that shows the operating budget for 2009-2010. She explained the budget for fiscal year 2009-2010 expenditure total was \$658,000.00.

Mayor Andrews asked staff what the vehicle is under the vehicle/computer replacement section of the pie chart. Mr. Hamilton stated the new stormwater maintenance staff has a vehicle. Mayor Andrews confirmed the vehicle is dedicated to their operations. Mayor Andrews asked if anything is being used for street cleaning. Mr. Hamilton stated yes, there are some shared costs with other equipment such as the backhoe and dump truck.

Ms. Galardi said historically only 93% of the budget is used. There is a capital improvement plan in place.

Mr. Hamilton pointed out the Springbrook Road Project will have a stormwater component. They have to be prepared to do the infrastructure under the street in preparation for the road work. They are saying fiscal year 2012-2013 will be projected for the transportation part of the project, which is driven by the Springbrook Development.

Chair Haug asked why they are only at 25% if the Springbrook Road Project is driven by the development. Mr. Hamilton stated staff evaluates what it would cost for upsizing the storm system and uses that to determine percentage split for System Development Charges (SDC) and rates. Replacement of the current infrastructure is a larger part of the project.

Mr. Rourke asked if the Springbrook Project was not happening would they still replace what is there today. Mr. Hamilton said not this early because the current condition is still satisfactory, but when you upsize it then it has to be replaced. Mr. Hamilton continued saying the rest of the capital improvement projects are smaller areas that have stormwater related issues.

Mrs. Galardi reported the total capital improvement plan (CIP) is \$2,500,000.00. They are looking at over \$1,000,000.00 per year. In the past they assumed you would pay for storm water as you go. If the other

projects go as planned they will not be able to pay as they go without tripling the rates. In order to get \$2,000,000.00 worth of funding they will have to get some debt financing.

Mayor Andrews asked where the area around Ninth Street and College Street drains to. Mr. Hamilton answered into Chehalem Creek. He went on to say the TMDL incorporates a number of load concepts such as mercury, bacteria and temperature. A best management practice example is stormwater can be made cooler by providing shade. The City is supposed to find ways to divert the water to allow natural geology and biology to filter and adding trees also accomplishes this.

Mayor Andrews asked where the area between Newberg and Dundee drains. Mr. Hamilton answered it drains into the canyon near the filbert processor and feeds into Chehalem Creek. He pointed out that the Yamhill Basin Council does some background stream testing but DEQ is not enforcing standards.

Richard Boyle stated the City will need to get more stringent about developing codes for engineering standards with multi levels. Mr. Hamilton stated the City will be held to a higher standard when the next DEQ TMDL Phase is implemented so Newberg proactively developed the program to meet that standard. There is currently no regulatory compliance mechanism for Newberg. We only have to report how we are meeting the goals.

Ms. Galardi presented the revenue requirements from rates (see official meeting packet for full report). They are not covering the O&M cost. One scenario for consideration over the next 2 years would be to minimize the rate increase to cover O&M. They will be looking at 8.9% increase, which will only cover the O&M costs. This scenario will not build any reserves for the future. The 15% would be required with debt service, which means the City would have to assume some sort of financing. If they wanted to go with the smooth rate for a minimum approach of 8.9% it would translate to \$10.98 per year increase.

Chair Haug asked for clarification that this rate does not provide for any reserves. Ms. Galardi confirmed he is correct. With this scenario, by 2013 they will have used all the reserves.

Chair Haug asked what it would take to prevent debt service. Ms. Galardi stated every 10% rate increase generates another \$57,000.00. They could try to get to a point where they are starting to build back funds.

Charles Zickefoose asked where they would be if they had implemented the recommended rates for last year. Ms. Galardi stated they would be keeping pace with O&M but not building much for capital projects.

Chair Haug asked for recommended alternate scenarios the committee could consider. Mr. Rourke agreed he would like to see something that does not completely deplete the reserves. Chair Haug asked Mr. Rourke how he would feel if they made a recommendation to try and keep it at \$300,000.00 for the reserves. Mr. Rourke stated ideally on a reserve you would want a small percentage of potential expenses set aside.

Ms. Galardi pointed out if you know how much you want the reserves to grow each year for a project you can have a contingency fund for unexpected projects. She asked if they want it to be at a certain level to fund potential projects later. Chair Haug stated for future capital projects they would like to reduce or eliminate debt service.

Ms. Galardi presented survey data from Salem as a comparison for the CRRC. Mr. Hamilton pointed out the City of Portland's rate is highest since the wastewater system and stormwater systems are combined and they are spending a lot of money to separate. Chair Haug asked about McMinnville. Ms. Galardi reminded the CRRC they will bring more numbers next week which will look at some like-city comparisons. She pointed out

her survey tonight is from larger cities. Mayor Andrews pointed out Forest Grove may be a reasonable city to look at for Newberg comparisons.

Ms. Galardi stated the City Council asked the CRRC to look at a possible credit program for residential customers. Staff will look at cities that have a credit program and make a proposal at the next meeting.

Chair Haug reminded the CRRC the most important question is how much reserve is appropriate. He pointed out they thought about \$300,000.00. He suggested discussing what the goal should be for the reserve fund.

David Maben stated they should build the reserve to eliminate debt service totally. Mr. Gougler pointed out debt service is better than not having sufficient money now. The ability to meet the goal established by the agency will depend on staff. They also need to have a rate sufficient to cover debt. I do not want a stormwater program they are not able to maintain.

Mr. Rourke said reserving is a bigger discussion beyond stormwater because the funds are in different areas and needs discussed on all projects. Chair Haug pointed out they did discuss it and realized the rates would be too high if they worked on building reserves. Mr. Rourke stated he would like to consider throwing in a percentage to allow them to build some reserves. It would be a good philosophy to avoid debt in the future.

5. Public Participation:

Mr. Gougler shared he would like to present a worksheet during the public meeting. This will provide a clear picture of consequences of noncompliance. It will give the citizens an idea of what will happen if we do not meet requirements. They will know who the City has to report to what consequences they would have (i.e. fines). They have to address the consequences so the public can see a spreadsheet for each rate with its own scenario. Chair Haug requested Mr. Gougler put something together for the next meeting.

Mr. Rourke suggested they take a look at the other two utilities and determine an appropriate amount for them as well. The Committee came to a consensus that 1% was an appropriate amount.

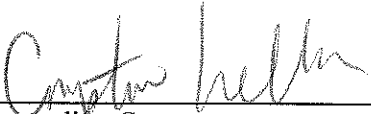
Ms. Galardi agreed she will bring to the next meeting what would be generated with a 1% increase for reserves. Mr. Rourke also requested to see what the optimal amount would be for reserves and what the numbers are for today.

The next scheduled CRRC meeting will be December 16, 2009, at 7:00 p.m.

6. Adjournment:

The meeting adjourned at 9:05 p.m.

Approved by the Citizens' Rate Review Committee this 16th day of December 2009.



Recording Secretary



Citizens' Rate Review Committee Chair