

**CITY OF NEWBERG
CITIZENS' RATE REVIEW COMMITTEE
THURSDAY, FEBRUARY 4, 2016
6:30 PM MEETING
PUBLIC SAFETY BUILDING TRAINING ROOM (401 EAST THIRD STREET)**

I. CALL MEETING TO ORDER

The meeting was called to order at 6:30 PM.

II. ROLL CALL

Members Present:	Rick Rogers, Chair	Blair Didway, Vice Chair	Holly Bradford
	Nick Morace	Bill Rourke, Secretary	Sarah Grider
	Marilynn van Grunsven		
Staff Present:	Steve Rhodes, City Manager Pro Tem	Matt Zook, Finance Director	
	Jay Harris, Public Works Director	Kaaren Hofmann, City Engineer	
Others Present:	Deb Galardi, Galardi Consulting LLC		

III. INTRODUCTIONS

Staff and Committee members introduced themselves.

IV. PRESENTATION BY STAFF AND CONSULTANT

Deb Galardi, Galardi Consulting LLC, gave a history and objectives of the Citizen Rate Review Committee. Those objectives were: revenue sufficiency, encourage efficient use of resources, equity between new and existing users, and cost recovered in proportion to use. This was a three step rate setting process, including a financial plan, cost of service analysis, and rate design. The financial plan identified cash flow projections over 5-10 year periods. She explained the financial plan drivers and current rate pressures in Newberg.

City Engineer Kaaren Hofmann discussed the system requirements and gave highlights of the water, wastewater and stormwater Capital Improvement Programs. The water system CIP included system planning, water storage, supply, and transmission/distribution projects. The wastewater system CIP included treatment, pumping, collection, and planning projects. The stormwater system CIP included a Design Manual update, drainage upgrades, and maintenance/regulatory requirement projects. The City was looking at \$10 million for wastewater projects, \$3.6 million for water projects, and \$2.9 million for stormwater projects over the next five years. She gave highlights of the system operation costs. The City was doing more with less as time went on.

Ms. Galardi explained the water system, wastewater system, and stormwater system revenue increases. The recommended annual rate revenue increase for water was 3.5%. The increase was needed for inflation to keep pace with cost increases. It was significantly lower than what had been forecasted two years ago. For the wastewater system, the recommended annual rate revenue increase was 4%. The rates were being raised to increase revenue to fund the debt service and deferred maintenance. The recommended annual rate increase for stormwater was 9% for capital improvement projects. What impacted customer bills was the overall revenue increase of the system, cost of service analysis, and rate design. The Committee recognized the fact that while 75% to 80% of the costs were fixed, the City had historically been recovering a small portion of the total revenue from fixed charges. In order to enhance revenue stability and long term rate stability, the goal had been

to increase incrementally the revenue from the fixed charges. For water rates, the recommendation was to increase revenue from fixed charges from 23% to 27%. The average residential bill for water for those that consumed 700 cubic feet of water per month would be a \$1.02 increase in the first year and \$1.47 in the second year. The charges were based on the customer classes, which was industry standard practice to charge customers based on how they used water. It was recommended to increase the revenue from fixed charges for wastewater from 32% to 33%. For wastewater, there had been some shifting of cost to the service charge as the service charge recovered significantly more of the overall revenue than volume charges. The average bill for the residential customer using 5.19 cubic feet per month would increase \$2.52 in the first year and \$2.61 in the second year. Commercial classes paid different rates due to their wastewater strength and pollutant load. The stormwater rate was a fixed charge per equivalent dwelling unit. The proposed increase was \$0.78 for the first year and \$0.85 for the second year. The combined residential monthly bill would increase \$4.32 for the first year and \$4.92 for the second year. The bills depended on the class of the user and how much they consumed or discharged. This was about a 4% increase in bills. She gave examples of commercial and industrial bills as well. Utility rates had not tended to track well with the Consumer Price Index because they were different types of goods. Nationally the increases were outpacing inflation. Newberg had significant rate increases over the last five years, but it was not out of line nationally, which was an average increase of 41% on a combined utility bill and Newberg was at 33%. She gave a comparison of communities in Oregon of similar size which showed Newberg was on the higher end. However, the cities that were lower in cost would continue to have more significant increases. There was one customer who received non-potable water for irrigation purposes and that rate was set based on a different methodology that recognized the specific cost of that system and shared the capital costs between potable and non-potable users. There were two components for the non-potable rate, operations and maintenance and capital for a total of \$3.13 per 100 cubic feet. This was a reduction from the previous \$3.52 rate. This rate was 47% of what an irrigation customer paid currently or 75% of the system average customer paid for potable water. The non-potable rate was 28% of the potable rate for monthly base charges. The non-potable system was paying their share of debt service through the volume rates and did not receive the same increases in the base charges as the potable customers. The non-potable user paid 11% of the total debt service, which was about \$70,000.

Finance Director Matt Zook said the publication that went out in the paper had a scrivener's error in the wastewater rate. The service charge line was blank and he explained what should have been on the line. The rates would be republished in advance of the City Council's public hearing.

V. PUBLIC HEARING

Proponents:

Janelle Nordyke, resident of Newberg, said it was important to have reserves and have incremental increases. She noticed that what was published in the paper showed the second year of increases, and the service charge for potable water and non-potable water did not increase and she wondered why.

Ms. Galardi explained the service charge did not increase because the shift to the fixed rate happened in the first year and was maintained at the 27% the second year.

Opponents:

Branden Thompson, Chehalem Parks and Recreation District, discussed the non-potable rates. CPRD provided many programs to the community and maintained three parks owned by the City for no charge and paid the water bill to irrigate those parks. As a government agency, any fees charged that were more than reasonable unduly burdened the agency and ultimately the community it served by restricting the resources available to the district. From the beginning of the recycled water program, CPRD had been a willing participant because it was a benefit to the tax payers, environment, and City of Newberg. Using recycled water allowed the City to reduce the amount of warm water released into the river and reduced the fines paid to DEQ to dump the water. Using the golf course as a filter cleaned and cooled the water so it had less harmful effect to fish in the river. The

recycled water system had not been managed in a way that maximized potential users and allowed the City to maximize recovery of the cost. By allowing CPRD to remain the sole user, the City failed to realize the full benefit of the system. The nearest provider of recycled water was Clean Water Services in Tualatin, and the highest rate they charged for Class A water was \$1 per ccf. Currently CPRD was charged \$3.52 per ccf. He thought it was fair and equitable to reduce their rate to \$1. Anything above that was putting an unreasonable burden on CPRD.

Jim McMaster, Chehalem Parks and Recreation District, said they had 26 meters in their district, which was a \$5,800 fixed increase for water. He did not think the fixed rate gave incentive to conserve water. The water rates did go down a little bit, but were coming back up. He did an experiment at one of the parks and shut down a meter for the entire summer. There was no public reaction. If the rates continued to increase, he thought more people would shut down their meters. He wanted to bring to their attention that as rates went up, people used less, which in turn increased rates.

Don Clements, Superintendent of the Chehalem Parks and Recreation District, shared why the golf course was important to the community. The golf course added a minimum of \$50,000 per lot price increase for the City. It also was a reason people moved to Newberg. They were a business and the water rates increased their fees by \$6 which was not competitive with other golf courses. The correct fee for CPRD would be between \$1 and \$1.50.

Don Loving, Chair of the Chehalem Parks and Recreation District Board, thought the recycled water was a great advantage to the City and helped eradicate the fines the City was paying to DEQ for dumping the water into the river. It was a win win for the District and City. However the City had failed to expand the system and expected CPRD to carry the full financial load. This was something the Board had been concerned about since 2007. There was no justification for what they were being charged.

Scott Essin, resident of Newberg and City Councilor, declared a potential conflict of interest as he was a consultant for the Chehalem Parks and Recreation District. He would not be participating on this subject when it came before the Council. He helped program the water sprinkler system at the golf course and reduced their cost of water. The 2010 plan said the cost to the users for the capital improvements would be 33% and of those users the golf course would not be the only one. A fair amount for the golf course would have been 15% and they needed to find other reuse customers. He thought they could find more customers in the Greens Homeowners Association and water users to the north that could connect to the golf course line.

CE Hofmann said as part of the Water Master Plan update, they would be looking at the reuse system and potential customers.

Undecided:

Robert Soppe, resident of Newberg, would like increases to be kept at a minimum, but he recognized the reality of the need to properly fund the departments. In a 2015 report regarding inflow and infiltration, the projects were listed as needing \$300,000 to \$600,000 over the next ten years. In tonight's presentation it was listed as \$1.75 million. He was surprised on the January 4 Council agenda that the Wastewater SDC fund was in such poor state that the Water fund had to cover its expenses. There was \$4.3 million allocated to the Dayton Avenue Pump Station and the cost was being shouldered by all users, not just those who were benefitted by it. He suggested changing the approach to those who benefitted from the facility paid for the facility. There was a shift in the cost burden from volume towards fixed charges, and the justification was stability. He thought it was more appropriate to follow the policy of revenues being related to expenses. There were fixed expenses and volume related expenses and they should drive the rates, not stability. There were different classes of water because of the different types of users with different peak to average ratios. Since the water was metered each month, why not charge according to the actual usage rather than a ratio. He hoped the committee would address that in the future. In 2008, the CRRC and Council agreed the Springs users would pay 50% of a \$700,000

project. The debt had not been paid, and the Council forgave that debt. Was the Committee made aware of that decision and the impact to the water fund? When the reuse system went in, they were told repeatedly that CPRD was happy with what had been worked out as far as rates. He had learned that was not an accurate statement. Also at that time it was clear there was only going to be one customer for the foreseeable future.

CE Hofmann said regarding the difference between the inflow and infiltration 2015 report and the amount of money needed in the plan currently, it was because staff came back with different scenarios for different rates as the CRRC thought staff's original rate increase was too high. They ended up with a 4% rate which did not have the amount of money in every fiscal year because they had to reduce capital projects to fit in with the rate. Regarding debt service being paid through SDCs, SDCs had not been coming in as they had been forecasted in the past. However there was existing debt service that had to be paid regardless. For the last couple of years money had been transferred from the water rates fund to the water SDC fund to pay the debt service that was attributed to growth. Regarding the Dayton Avenue Pump Station, the pump station served a large portion of the southern and western area of the City. It was a policy decision whether or not to only have citizens who benefitted pay for it. Regarding the Springs, it was not addressed specifically that the debt had been forgiven. It was a smaller revenue amount moving forward.

VI. COMMITTEE DISCUSSION

Mr. Rourke said some capital improvement projects were being put off because the rates had been reduced and he asked for a summary of the projects that were being put off.

Ms. van Grunsven sympathized with the non-potable water issue. The fixed costs had to be paid and she hoped that a solution could be found.

Mr. Didway clarified not all of the capital improvement projects in the future were being rolled into graphs.

CE Hofmann said the projects she discussed that night would be done in the next five years, and the rates were only for the next two years. It was a projection of what they would need, but as they moved through the budget process, the numbers and projects could be moved around as well. The Water Conservation Plan was another master plan that was required by the State to do every ten years. The next one was due in 2017.

Ms. Grider had seen CPRD's frustration, but Clean Water Services was able to provide a more corporatized rate than what Newberg could provide. She was not comfortable with readjusting the rates to increase them to help the golf course, especially for a service that not very many people were able to access.

Ms. Bradford agreed regarding the non-potable water. She would like to see more options for more users so CPRD's rates would go down. They provided a great service to the community and they should try to help them as best as they could.

Mr. Morace agreed something needed to be done for the non-potable water, but he was not sure what.

Mr. Rourke was concerned about the capital improvement projects that had been taken out as it committed a future CRRC and Council to extra increases. It was an example of poor planning. He supported higher rate increases. Regarding the non-potable water, there was a plan seven years ago to have more than one customer but they never pulled it off. Because of their failure to implement that plan, it resulted in an unfair burden for the one customer to cover all the cost. He did not like the idea of the water bill going up, but it seemed fairer than imposing the full cost on CPRD. Did the CIPs include reuse pipe?

CE Hofmann said no, that was what would come out of the Water Master Plan update. She then listed the projects that had been deferred.

Public Works Director Jay Harris discussed the possibility of extending the reuse pipe from the CPRD pond and pipes. He thought a reservoir would need to be constructed for that. The idea would be considered in the Water Master Plan update work. It had to be planned out well where new customers and pipe should go. The master plan for the reuse system in 2005 was only conceptual and the goal was to get the golf course built and meet DEQ requirements. What they needed most was year round users.

There was discussion regarding the possibility of bringing the reuse pipes to the Greens neighborhood.

Mr. Didway thought there should be an alternative plan if they did not get more customers. He asked if the reuse water was meeting the treatment requirements for what they were using it for. He thought they were losing a lot of water in the pond due to evaporation. Staffing levels had gone down, and he asked if it was in the best interest of the management of the system.

Chair Rogers said the non-potable water rate was a decrease of 11%, from \$3.52 to \$3.13.

PWSD Harris said there was evaporation from ponds. The reuse system did not run 24 hours a day, and they filled up the pond and then piped the water from there. The golf course chose to have the pond instead of use a tank source. The maintenance of the system would be analyzed in the master plan update. A stormwater FTE was added in the last rate review process. With approval of the proposed rates, some of the deteriorating pipes would be replaced. The equipment and materials had improved so they did not need as many employees. The water met the treatment requirements, but it was restricted to specific uses.

CE Hofmann said they produced Class A water, which was the highest level of effluent reuse.

Chair Rogers asked about the impact on rates if the non-potable capital costs were taken out. Ms. Galardi said it would be a 1.4% increase in the potable water rates, which would make them go from 3.5% to 4.9% for one year.

Chair Rogers hoped staff would look closely at ways to make the reuse system work and add more reuse pipe where possible. He would like to know what portion of the revenue from rates was the total City budget. He also wanted to know the possible increase in the City budget for the next fiscal year.

VII. NEXT STEPS IN PROCESS

The next CRRC meeting would be held on February 18. The Committee would be making a recommendation to the City Council at that meeting.

VIII. ADJOURNMENT

The meeting adjourned at 8:30 PM.

Approved by the Citizen's Rate Review Committee on this 18th day of February, 2016.

 2-18-16
Citizens' Rate Review Committee Recording Secretary

 2-18-16
Citizens' Rate Review Committee Chair

