

**City of Newberg
Rate Review Committee
November 17, 2021**

Meeting held electronically due to COVID-19 pandemic

Vice Chair Knight called the meeting to order at 6:32 p.m.

Members Present: Melanie Mildenerger, Jennifer Bean, Ned Knight, Wesley Clark, Ron Sinicki, Alexander Aguilar (student)

Members Absent: Brenda Morris, Sean Kelso

Staff Present: Finance Manager Kady Strode, City Engineer Kaaren Hofmann, Senior Engineer Paul Chiu, Senior Engineer Brett Musick, Administrative Assistant Zaira Robles Muniz.

Others Present: Galardi Rothstein Group, Deb Galardi

COMMITTEE BUSINESS

1. Approval of Minutes

Action: To approve the October 27, 2021 Committee Minutes
Motion: Jennifer Bean
Second: Melanie Mildenerger
Vote: 4 Yes 0 No 3 Absent [Morris, Kelso, Sinicki]

Discussion regarding meeting in person starting January 2022.

2. Wastewater Utility Presentation Continued

Deb Galardi, consultant, continued her presentation on the Wastewater Utility (Exhibit A). She discussed the rate review process, prior meeting recap, preliminary financial plan, preliminary reserve projections, cash reserve guidelines, revised projected reserves to include equipment/vehicle replacements, and revised financial plan. With continued 3.5% annual wastewater rate revenue increases, the projected combined fund balance/reserves generally met the target. She then gave a cost of service analysis and explained the current sewer rates, cost allocation process, sewer cost structure, costs by service characteristic, rate components, projected rate revenue by customer class, current and updated rates, fixed charge percentage of total revenue, and current and updated sample bills. A 3.5% overall increase would mean an increase of \$2.76 per month in 2022-23 and \$2.65 per month in 2023-24 for single family customers. Multifamily and commercial customers would have a greater increase. She reviewed the foundation for financial resiliency and rate comparison.

Discussion regarding the reserve funds, projected numbers, comparison to other cities and why Newberg's rates were the highest, comparing total cost with all rates and property taxes, how debt affected the rates and what the future rates might be when the debt was paid off, and possible ARPA funding for capital projects.

Ms. Galardi said at the next meeting she would be discussing the water system analysis including customers and water use and revenue requirements.

Discussion regarding vacancies on City Committees and completion of street projects.

The next meeting would be held on December 1, 2021.

Vice Chair Knight adjourned the meeting at 7:52 p.m.



Zaira Robles Muniz, Administrative Assistant

ATTEST:



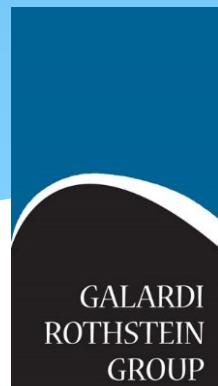
Brenda Morris, Chair



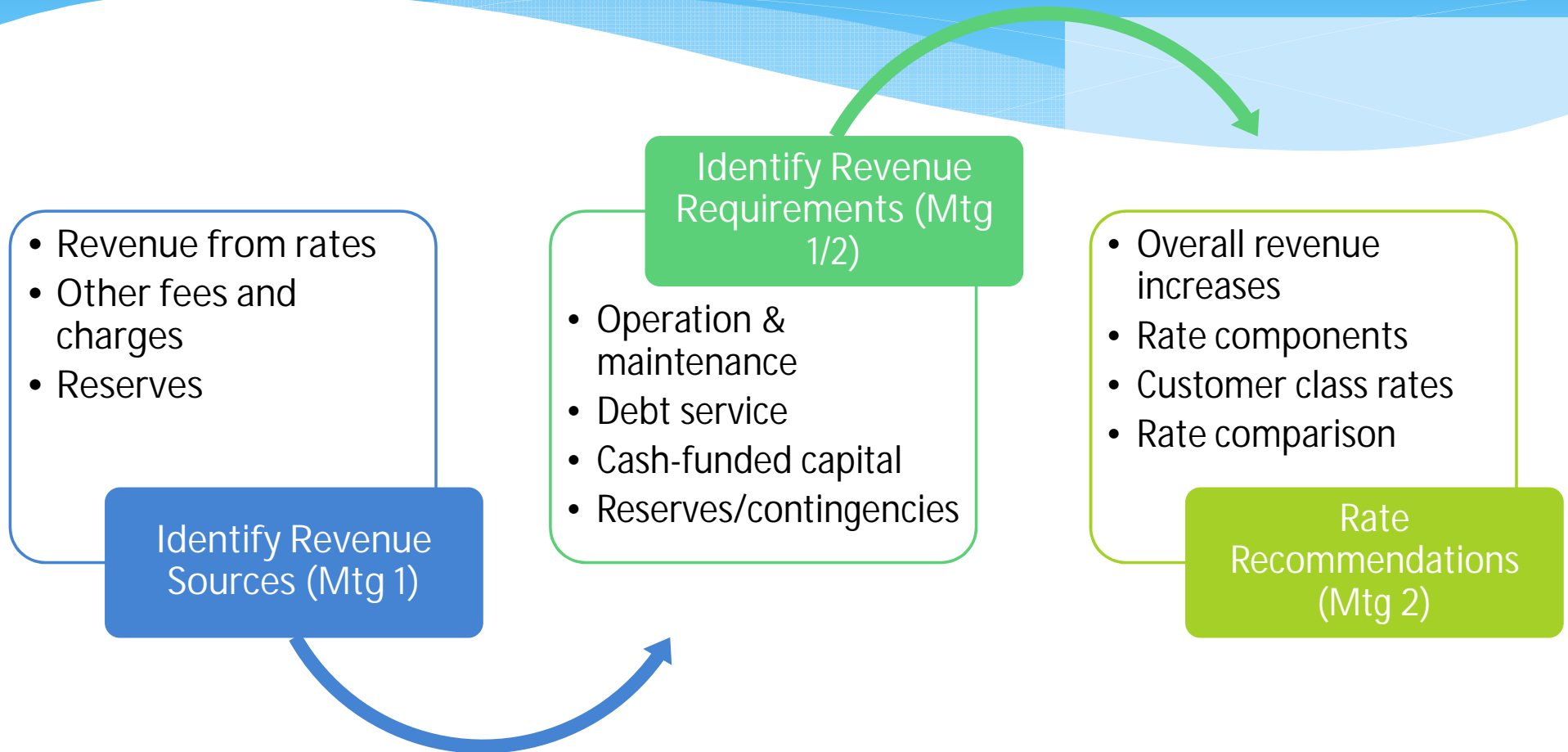
2021 Utility Rate Review

Wastewater Rate Meeting #2

November 17, 2021



Rate Review Process



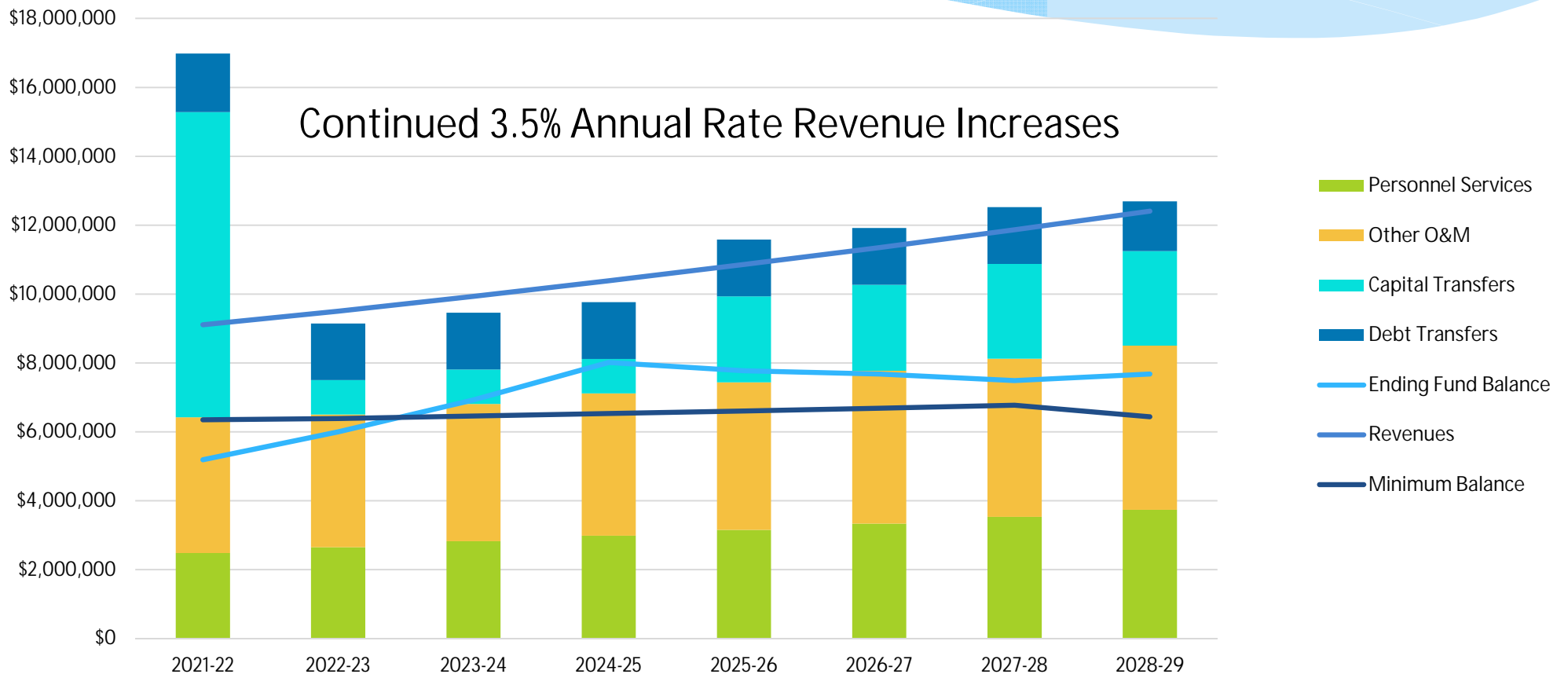
Financial Plan Review and Refinements

Prior Meeting Recap

- * Wastewater rate revenue projections consistent with prior (2020) financial plan
- * Expenses
 - * Some “savings” due to reduced activity/staff vacancies during initial phase of pandemic
 - * Projected capital improvements = \$31.5 million
- * Historical and preliminary projected rate increases = 3.5%

Preliminary Financial Plan (Prior Meeting)

Continued 3.5% Annual Rate Revenue Increases



Preliminary Reserve Projections

* Future Minimum Reserve Target = \$6.5 Million*

	FY	FY
Component	2021-22	2028-29
Operating Contingency	\$1,055,311	\$1,397,263
Debt Service	\$1,859,522	\$1,438,342
Capital	\$4,744,212	\$233,143
Other	\$2,277,858	\$4,843,830
Subtotal Operating/Capital	\$9,936,904	\$7,912,577
SDC Fund Balance	\$9,101,094	\$4,180,091
Combined	\$19,037,997	\$12,092,667

*Inclusive of contingency, debt service, 5% rate revenue and annual depreciation cost

Cash Reserve Guidelines

“Cash reserve balances are a critical component to a utility’s financial resiliency and sustainability.”

- * Need for regular review and flexibility to respond to changing conditions
- * Cash reserves types
 - * Operating
 - * Capital
 - * Debt Service
 - * Rate Stabilization
 - * **Equipment Replacement**



Cash Reserve Policy Guidelines

2018 American Water Works Association (AWWA)

Projected Reserves (Revised)

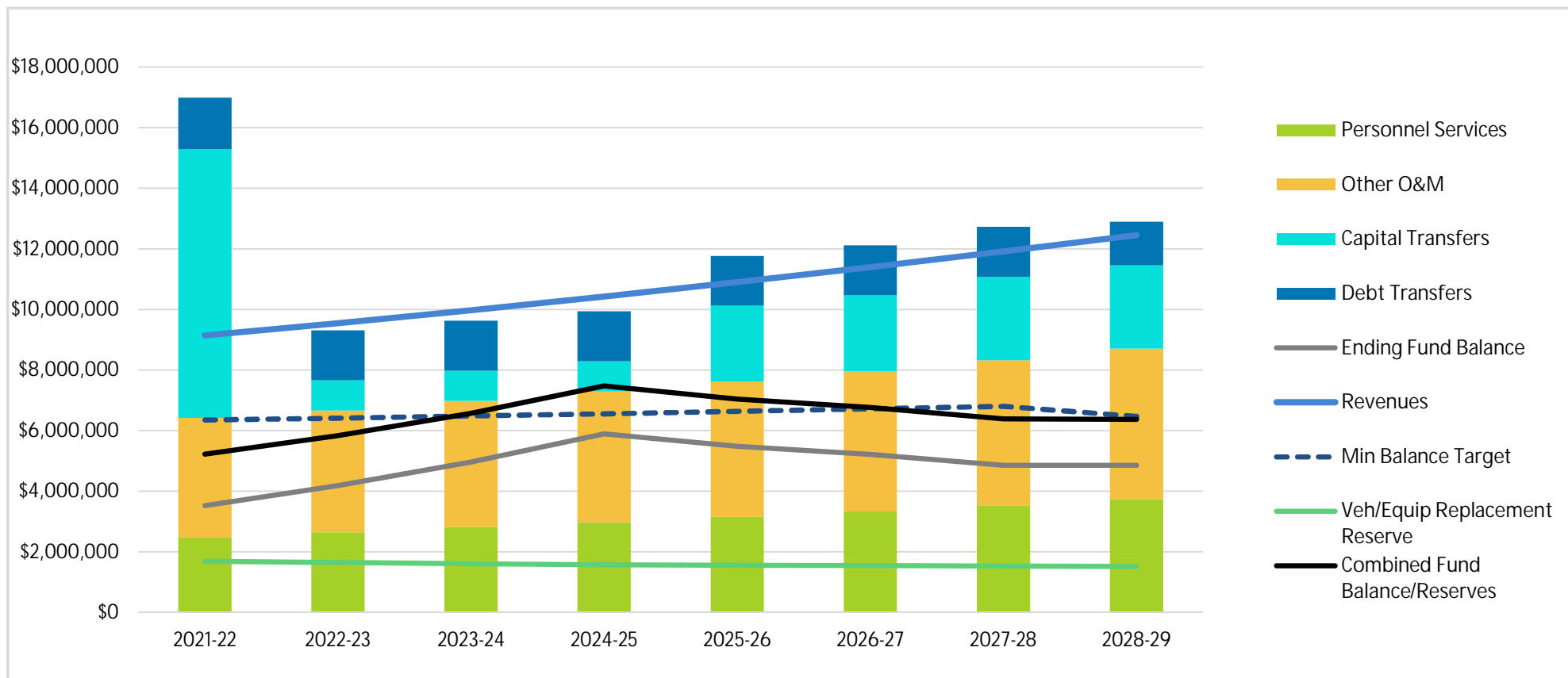
- * Equipment/vehicle replacement reserve

- * FY 2021-22 estimated reserve \$1.7 M includes \$285K funds transferred from Fund 32 (citywide equipment replacement)
- * Projected annual rate set-aside = \$150K, plus auto sales (average about \$80K per year), plus interest earnings
- * Projected annual expense = \$250K plus inflation

	FY	FY
Component	2021-22	2028-29
Operating Contingency	\$1,055,697	\$1,430,668
Debt Service	\$1,859,522	\$1,438,342
Capital	\$4,744,212	\$120,876
Equipment	\$1,693,262	\$1,517,775
Undesignated	\$615,399	\$1,989,190
Subtotal Operating/Capital	\$9,968,093	\$6,496,851
SDC Fund Balance	\$9,101,094	\$4,151,341
Combined	\$19,069,186	\$10,648,193

Revised Financial Plan

With continued 3.5% Annual Rate Revenue Increases, projected Combined Fund Balance/Reserves generally meets target.



Cost of Service Analysis

Current Sewer Rates

Service Charge (\$/month)	\$30.11
Multi-family per unit Charge	\$24.88

Volume Charge (\$/ccf)

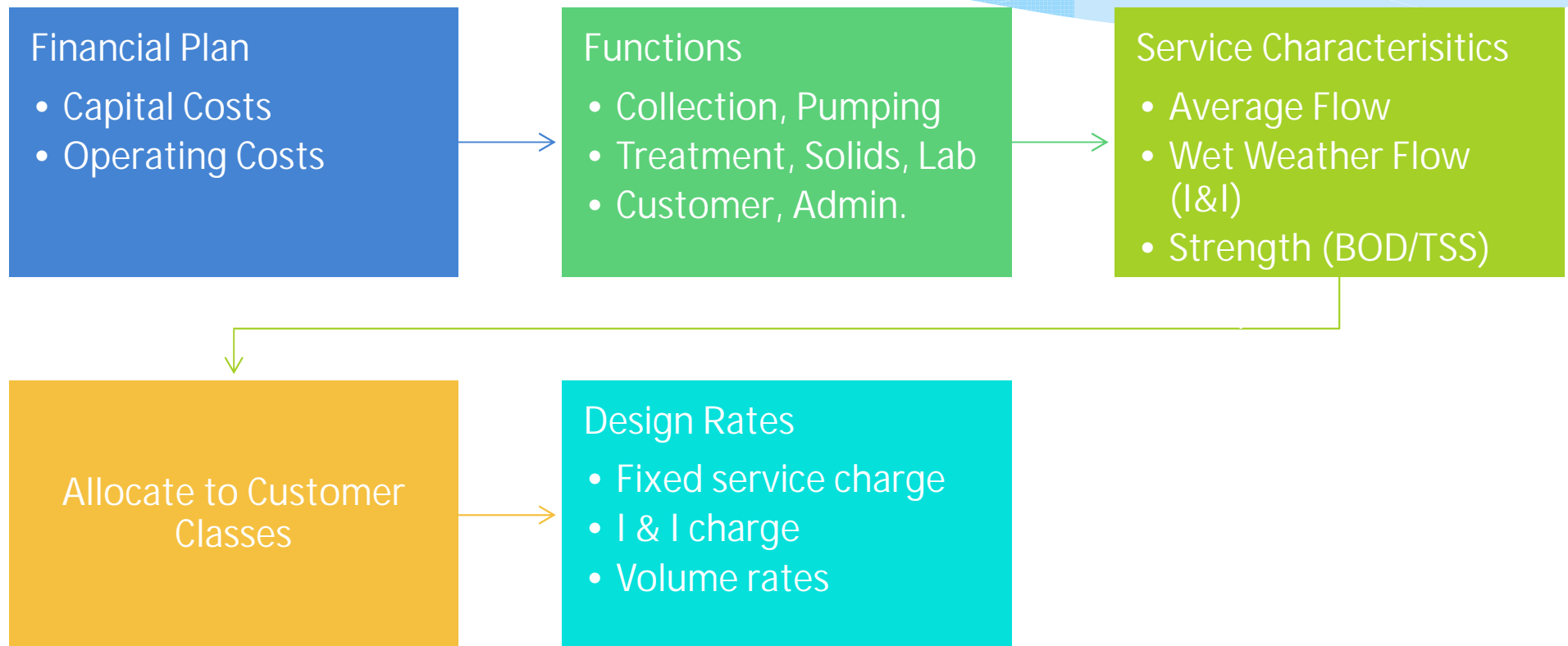
Single Family Residential	\$9.46
Multi-family Residential	\$9.46
Commercial 1	\$9.46
Commercial 2	\$12.00
Commercial 3	\$19.69
Industrial	\$12.00
Outside City	\$9.45

Commercial 1 includes general businesses, public agencies, and schools.

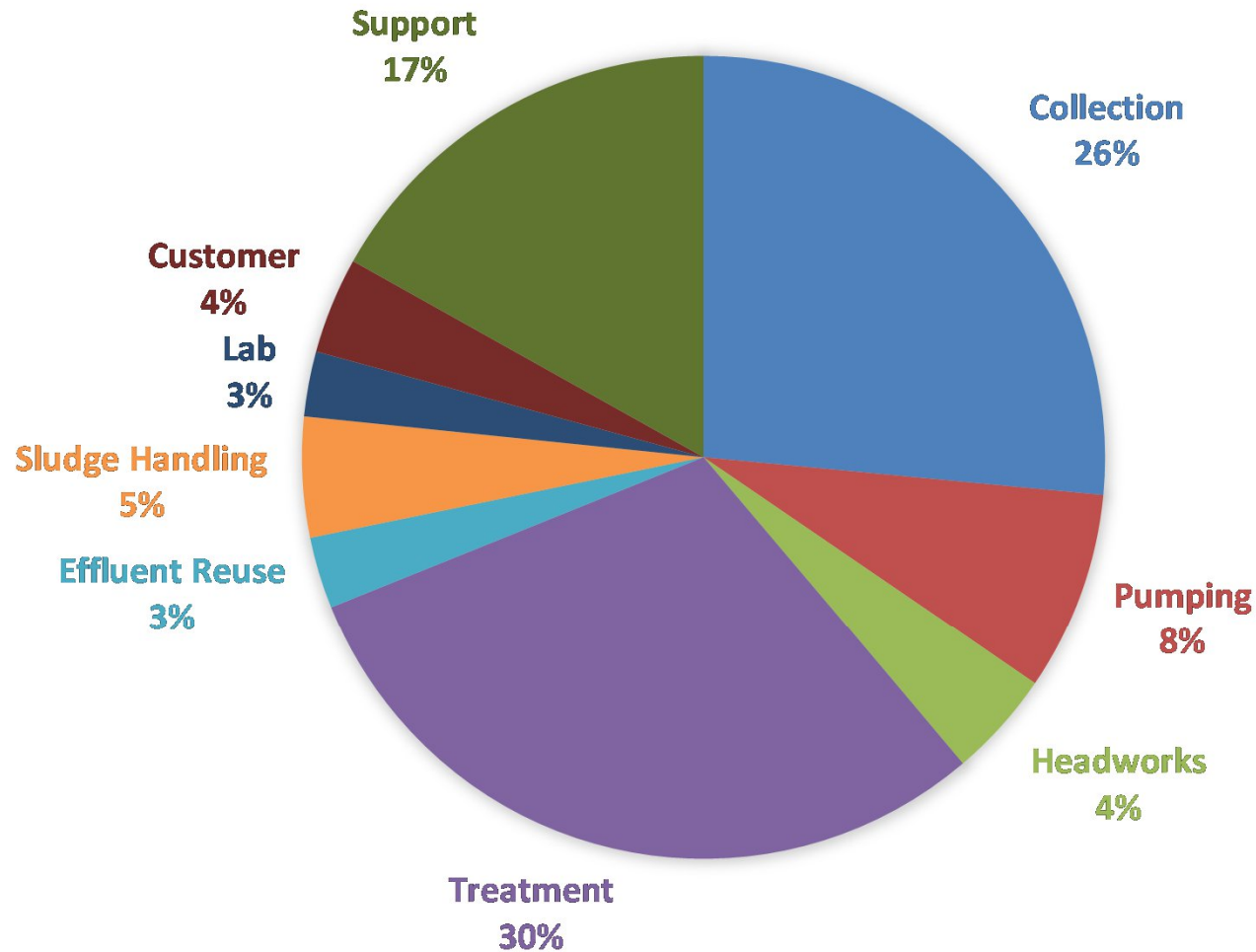
Commercial 2 includes mini-markets, car washes, mortuaries, industrial, and fast food/cafeterias.

Commercial 3 includes restaurants.

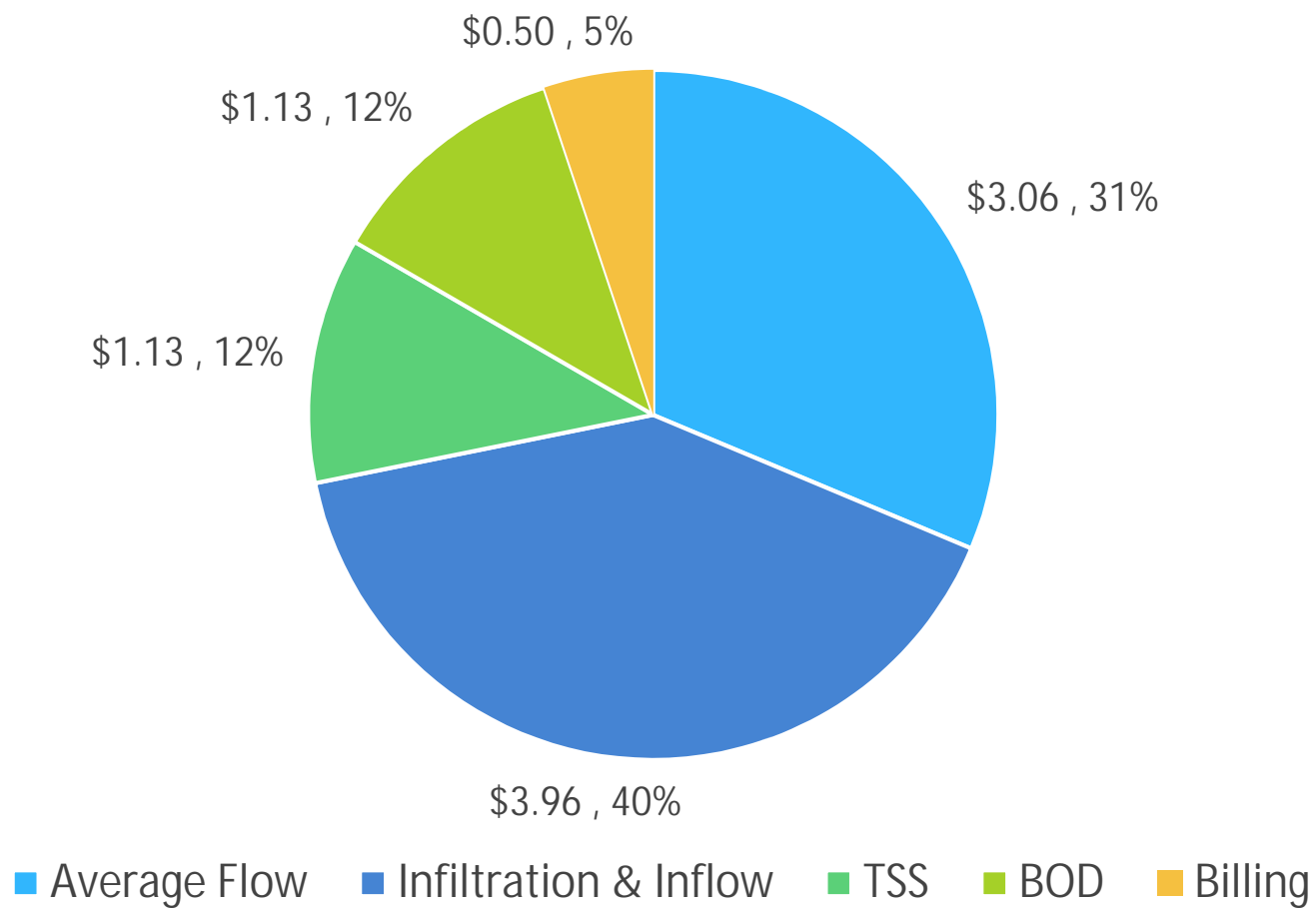
Cost Allocation Process



Sewer Cost Structure (Functions)



Costs by Service Characteristic



Rate Components

- * Infiltration & Inflow charge helps balance fixed/volume cost recovery and equity

Component	Costs Recovered
Billing Charge (Fixed)	Utility Billing & Customer Service
Infiltration & Inflow Charge (Fixed)	80% Infiltration & Inflow (I/I) costs
Volume Charge (Variable)	Wastewater plant operations, engineering & maintenance costs +capital (20% I/I portion)

Projected Rate Revenue by Customer Class

Customer Class	2021-22		2023-24	
	Revenue \$M	% Total	Revenue \$M	% Total
Single Family	\$5.29	57.9%	\$5.93	58.0%
Multifamily	\$2.35	25.7%	\$2.62	25.7%
Commercial - 1	\$0.53	5.8%	\$0.59	5.7%
Commercial - 2	\$0.73	8.0%	\$0.81	7.9%
Commercial - 3	\$0.18	1.9%	\$0.20	1.9%
Industrial	\$0.06	0.7%	\$0.07	0.6%
Outside City	\$0.01	0.1%	\$0.01	0.1%
Total	\$9.14	100.0%	\$10.21	100.0%

Current and Updated Rates

- * Reflects 3.5% annual increase overall and updated cost of service analysis.

Rate Component/Customer Class	January 2022	Jan 1 '23	Jan 1 '24
Service Charge (\$/Month)			
Total Service Charge (\$/Account) ¹	\$30.11	\$31.87	\$28.11
Infiltration & Inflow (\$/additional Multifamily Dwelling Unit)	\$24.88	\$25.94	\$23.86
Volume Charge (\$/ccf)			
Single Family	\$9.46	\$9.68	\$10.02
Multifamily	\$9.46	\$9.68	\$10.02
Commercial - 1	\$9.46	\$9.68	\$10.02
Commercial - 2	\$12.00	\$12.31	\$12.73
Commercial - 3	\$19.69	\$20.07	\$20.73
Industrial	\$12.00	\$12.31	\$12.73
Outside City	\$9.45	\$9.68	\$10.02
¹ Includes billing charge and Infiltration & Inflow charge.			

Fixed Charge % of Total Revenue

Fiscal Year	% Fixed
2016	30%
2017	31%
2018	31%
2019	33%
2020	34%
2021	36%
2023/2024	37-38%

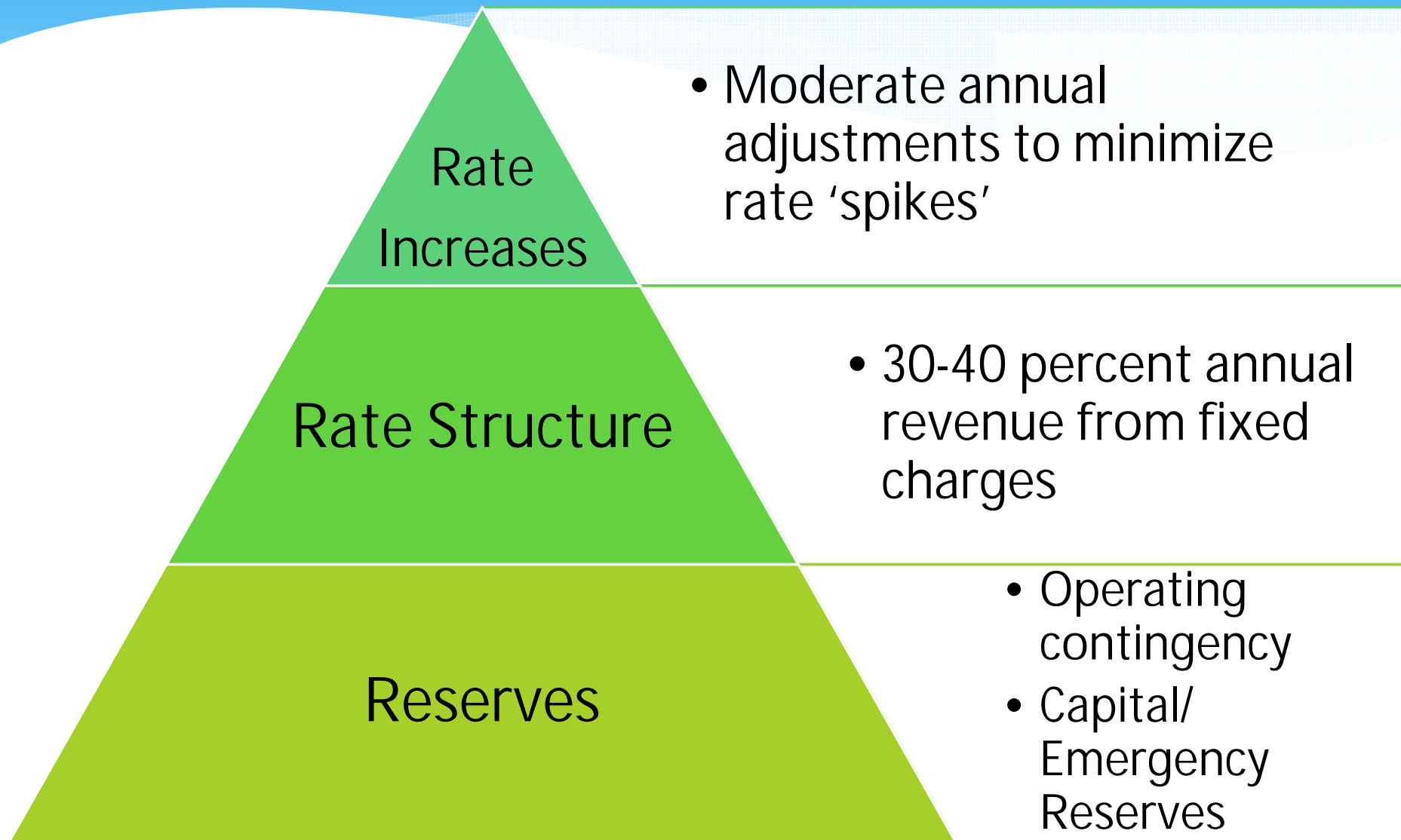
Industry standard target is 40% fixed

Current and Updated Sample Bills

- * Reflects 3.5% annual increase overall and updated cost of service analysis.

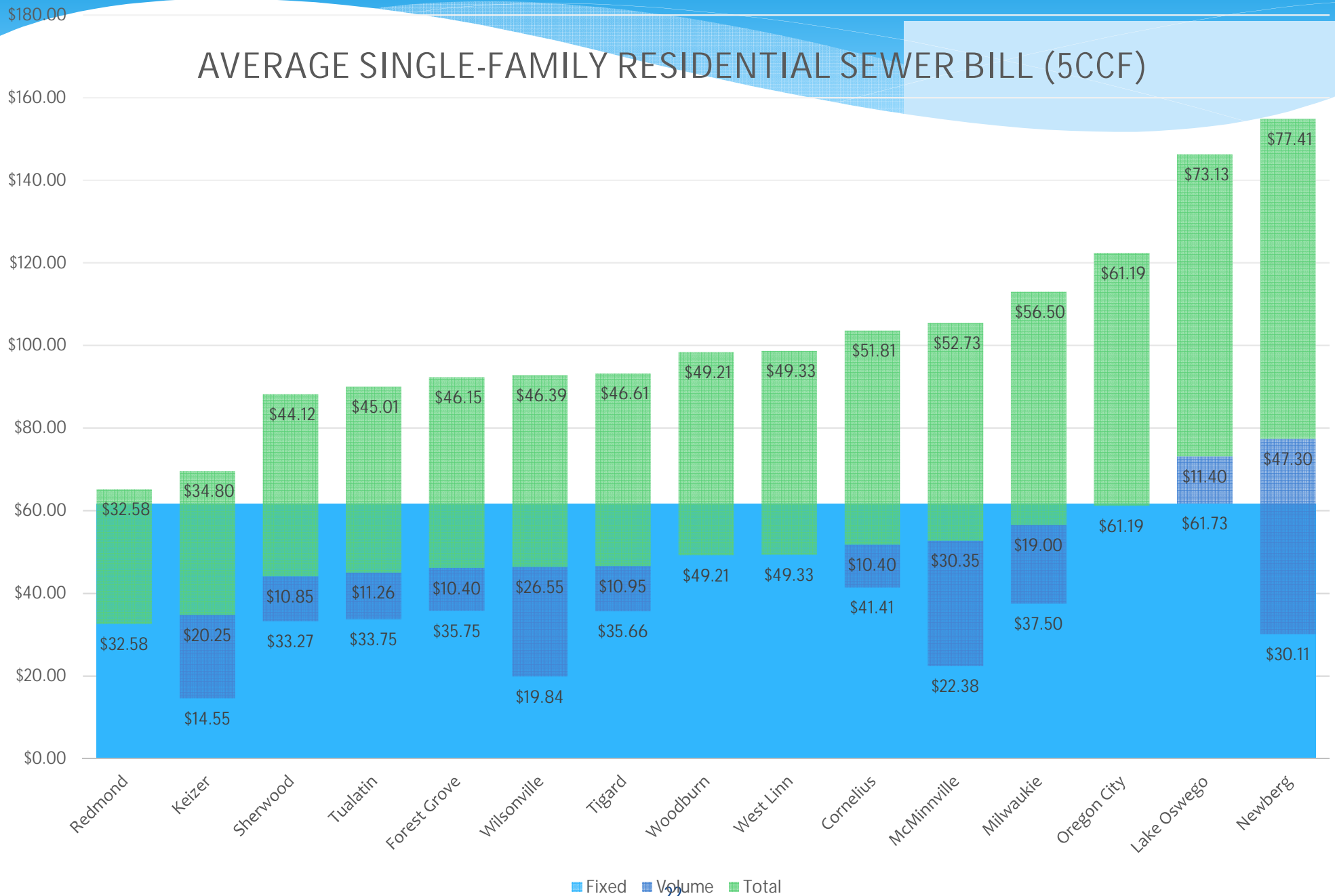
CUSTOMER CLASS	Monthly Use (ccf)	Adopted Jan. 1 2022	Proposed		\$ Increase	
			2022-23	2023-24	2022-23	2023-24
Single Family	4.5	\$72.68	\$75.44	\$78.09	\$2.76	\$2.65
Multifamily	40.8	\$714.93	\$738.51	\$764.58	\$23.58	\$26.07
Commercial - 1	9.7	\$121.67	\$125.58	\$129.96	\$3.91	\$4.38
Commercial - 2/Industrial	70.6	\$877.21	\$900.62	\$931.35	\$23.41	\$30.73
Commercial - 3	31.1	\$641.53	\$654.96	\$676.87	\$13.43	\$21.91
			Percent Change			
Single Family			3.8%	3.5%		
Multifamily			3.3%	3.5%		
Commercial - 1			3.2%	3.5%		
Commercial - 2			2.7%	3.4%		
Commercial - 3			2.1%	3.3%		
System-wide rate increase			3.50%	3.50%		

Foundation for Financial Resiliency



Rate Comparison

AVERAGE SINGLE-FAMILY RESIDENTIAL SEWER BILL (5CCF)



Next Steps

- * Water System Analysis
 - * Customers and water use
 - * Revenue requirements
- * Review findings with CRRC December 1, 2021

Questions