MINUTES

CITY COUNCIL WORK SESSION
COUNCIL CHAMBER, CITY HALL
AUGUST 19, 2024
5:30pm

PRESIDING: Mayor Richard Mays

COUNCIL PRESENT: Darcy Long, Tim McGlothlin, Rod Runyon, Scott Randall, Dan Richardson

COUNCIL ABSENT: None

STAFF PRESENT: City Manager Matthew Klebes, City Attorney Jonathan Kara, City Clerk Amie Ell, Public Works Director Dave Anderson, Community Development Director Joshua Chandler, Deputy Public Works Director Eric Hanson, Finance Manager Angie Wilson, City Engineer Dale McCabe, Police Chief Tom Worthy

CALL TO ORDER

The meeting was called to order by Mayor Mays at 5:33pm.

ROLL CALL OF COUNCIL

Roll Call was conducted by City Clerk Ell. Long, Runyon, Randall, Richardson present. McGlothlin absent.

PLEDGE OF ALLEGIANCE

Mayor Mays invited the audience to join in the Pledge of Allegiance.

APPROVAL OF AGENDA

It was moved by Richardson and seconded by Randall to approve the agenda as submitted. The motion carried 4 to 0, Richardson, Randall, Long, Runyon voting in favor; none opposed; McGlothlin absent.

DISCUSSION

Water Utility Financial Analysis Presentation and Discussion

Public Works Director Dave Anderson thanked the Mayor and members of the Council. He stated that the discussion would focus on financial plan elements of the Water Master Plan update. The project had been ongoing for over a year and emphasized the goal of creating a detailed 20-year Water Master Plan, with projections extending up to 50 years. He said since the last meeting in April the city's existing water utility infrastructure had been evaluated, and future water demands for the community were projected. A capital improvement plan was developed to ensure a reliable water system. The focus of this meeting would shift to financial aspects, including cost projections, guidance from the City Council on policy matters related to water utility funding and financing was requested.

Anderson introduced Brian Ginter from Consort Engineering, the project manager for the Water Master Plan update, and Deb Galardi of Guardian Consulting, who handled the financial analysis.

Brian Ginter of Consort Engineering provided an overview of the Water Master Plan work session. Ginter said the plan was divided into four parts: inventory of the existing system, demand forecasting, system analysis, and capital improvement development. He said the analysis included a hydraulic model, supply and treatment needs, storage, pumping, and seismic resiliency. The plan culminated in the capital improvement plan, addressing capacity, reliability, resilience, and maintenance. The financial analysis covered utility rate structures and system development charges, with the Water Master Plan requiring approval by both the City Council and the state drinking water program.

Ginter discussed the supply and treatment needs of the City's water system. He said the analysis had considered capacity, performance, and climate resilience, particularly in light of potential impacts from climate change on the City's surface water supply. He provided a historical overview of the City's water system, highlighting generational investments, including the purchase of the private water system in the 1890s, the development of the old Dog River pipeline, and the construction of the Wicks Water Treatment Plant and Crow Creek Dam. He said the City's water infrastructure had reached a stage where renewing older assets was crucial, emphasizing the importance of continuing the investment legacy of previous generations. He said the plan had recommended raising Crow Creek Dam to expand water storage, though this could be deferred until the end of the 20-year planning horizon.

Ginter said the Wicks Water Treatment Plant had reached the end of its useful life, requiring replacement and expansion, particularly for treating winter water. He also said the transmission mains between Wicks and the town, which were over 75 years old, needed replacement due to their vulnerability. He said projects within the town included new storage facilities in the Riverside area, pump station expansions, and distribution main renewals. He emphasized the importance of seismic and wildfire resilience, SCADA upgrades, and the Aquifer Storage and Recovery (ASR) program. He said maximizing ASR potential could offer a cost-effective alternative to raising the dam.

Richardson asked if the Riverside BPS storage Phase Two was part of the ASR project or not.

Ginter explained Riverside BPS Phase Two involved above-ground distribution system storage. He said the current design or construction included two reservoirs that would total two-and-a-half-million-gallons. The new phase would add with the first phase to be approximately four million gallons of storage at the site already identified for future expansion. He said this would involve building new reservoir tanks, potentially one or two, with the final decision to be made during the construction phase based on value engineering.

Richardson confirmed that the Big Three projects identified were Crow Creek Dam, the Wicks Water Treatment Plant, and the replacement of the transmission mains.

Ginter affirmed that was correct.

Mayor Mays asked if the transmission line mentioned in the April report, which identified the estimated age of the lines, was shown on the map. He inquired whether the line consisted of different sections of varying ages or if it was all built at one time.

Anderson confirmed that there were earlier transmission pipelines before the current ones, which were built in the 1970s. He said the earlier pipelines came from the old Wicks Reservoir, predating the treatment plant. Some sections of the current lines were upgraded after being damaged in the 1996 flood, but generally, the pipelines consist of two continuous sections of approximately the same age.

Ginter summarized the capital improvement plan, noting that the top priorities for the first 10 years were numerous and significant. He said the plan was front-loaded due to the age of existing infrastructure, the need to delay other major improvements, capacity issues, and efforts to increase system resilience at lower costs.

Ginter highlighted the highest priority project: The Wicks Water Treatment Plant replacement and expansion was crucial for maximizing winter water storage for Aquifer Storage and Recovery (ASR) and potentially delaying the Crow Creek Dam expansion. He said SCADA improvements were already underway. He discussed the uncertainties with ASR, including potential water quality issues and storage limitations, stressing the importance of starting this work soon to assess ASR's full potential. Ginter mentioned preliminary engineering for Crow Creek Dam expansion, emphasizing that this was a decade-long project requiring careful planning and stakeholder coordination.

Ginter said in the medium term, the focus shifted to distribution pipeline improvements, potentially additional ASR wells, booster pump station upgrades, and resilience improvements. He said while some improvements would become more manageable, there would still be a need for ongoing renewal and replacement programs. For the long term, spanning 20 to 50 years, the plan included extensive pipeline renewal and replacement, with significant projects such as the Crow Creek Dam construction or necessary spillway improvements. The total capital improvement plan exceeded $300 million. The plan involved a lot of investment condensed into a relatively short timeframe. This urgency arose as much of the City's infrastructure had reached the end of its useful life, necessitating renewal along with some capacity expansion.

Long asked whether the cost estimates were in today's dollars or if they had been adjusted for a typical inflation rate.

Ginter responded that the costs were presented in 2024 dollars for a uniform basis. He said Galardi would discuss the financial analysis, including projections in inflated future dollars.

Mayor Mays asked whether any of the top priorities for the first 10 years were a result of Google's data centers being built in the City's port area.

Ginter said the ASR planning and expansion, Riverside booster pump station, and Riverside storage were the three most significant projects. He added that potentially additional ASR wells were also crucial. He said the Wicks Water Treatment Plant replacement and expansion was necessary regardless of Google's data centers, with most costs related to replacement rather than significant expansion. Similarly, the transmission main replacements were for maintaining existing capacity, which was adequate to serve Google.

Mayor Mays asked whether Google was covering the cost of any water or infrastructure improvements in the port area.

Anderson said that Google was covering the costs for two new wells currently under construction, including the first ASR well, as well as the construction of the Riverside booster station with its initial four pumps. He noted that the booster station was expandable to accommodate up to seven pumps if additional development occurred in the port area. He said the plan anticipated needs within the urban growth boundary, including additional reservoirs and increased pump station capacity, to support future development. Google’s contributions would address the needs of the two new data centers under construction, and the infrastructure would also support other future potential industrial users.

Richardson asked whether the Riverside booster pump station and Riverside storage Phase Two were included in the list of water system improvements agreed upon with Google.

Anderson said Phase Two was not included in the agreement with Google. Phase One was built with the capability for future expansion to meet additional City needs. Google was funding the construction of Phase One, including the 1.25 million-gallon reservoirs and the two new wells, with the first well being an ASR well. The second well would be capable of future ASR conversion, but that conversion was not part of the original list of improvements agreed upon with Google.

Richardson asked whether the Phase Two storage projects were something that Google would do.

Anderson said that the Phase Two storage projects were not on Google's list. He said these projects were included in the City's capital improvement plan to address future growth in the port area and the entire 310 zone.

Richardson asked whether there was an estimate available for the cost of expanding industrial capacity, specifically in relation to the Phase Two storage projects.

Ginter said that he did not have the exact numbers readily available, but estimated the reservoirs would cost around $12 million in the capital improvement plan (CIP). The booster pump station expansion would be relatively small, likely costing about $500,000. He said these improvements were primarily for the 310 zone, serving mainly industrial customers, though they would also support some residential needs.

Deb Galardi said the financial analysis framework for the water system improvements comprised four key components. It involved developing a long-term financial plan to evaluate overall revenue needs, determining how much each customer group should pay (considering new growth and existing customers), and designing rates within those classes to cover both capital and ongoing maintenance needs. The goal was to create a plan that would equitably fund the investments while supporting community objectives like affordability and water conservation.

Galardi said detailed updates on Systems Development Charges (SDCs) would be presented later, but they would discuss how growth-related improvements might impact funding sources. She said current rates offered limited capacity for capital improvements and had led to the use of reserves in recent years. A combination of rate increases and projected industrial growth would be needed, along with potential funding from infrastructure finance innovation acts. The numbers presented were preliminary, based on the prioritization that had been laid out by Ginter. They would be refined according to project scheduling and funding availability. Cash flow projections considered current SDCs, cash reserves, private development contributions, and user rates. She said operation and maintenance costs were not expected to increase significantly due to these improvements. The capital financing strategy was critical, and the presentation aimed to provide a baseline projection of potential rate increases, factoring in current economic conditions, interest rates, and inflation. This projection was intended as a medium-case scenario, with sensitivity to specific debt terms and economic factors.

Galardi said while securing grants would be ideal, the plan was to maximize the use of flexible, low-cost loans such as those from the Water Infrastructure Finance and Innovation Act (WIFIA). WIFIA provided long-term loans with flexibility in terms of repayment, allowing terms up to 35 years and deferral of payments during construction. This flexibility could help manage rate increases and leverage industrial growth. She noted current WIFIA rates were high, over 4%, compared to less than 2% in the past. There was hope rates would decrease, making WIFIA a more attractive option. Short-term debt, like commercial paper, had currently offered lower rates and might have been advantageous for initial funding before converting to long-term debt.

Galardi highlighted the need for a local match for WIFIA funds. This match could come from user fees or potential SIP funds, helping to reduce long-term financing costs. She presented a preliminary financial plan that included inflation adjustments and broke down the capital improvement plan (CIP) into components. WIFIA loans would cover major projects like the treatment plant and transmission line, with additional debt or SIP funds required for other projects. The plan projected a mix of heavily financed large projects (75-76%) and cash-funded smaller repair and replacement projects.

Mayor Mays clarified that the total project cost, with inflation, was $263 million. He inquired about the basis for assuming a $135 million WIFIA loan. He asked if it was highly likely the City would receive the loan and asked for confirmation that a revenue bond would be issued in 2031 under the given scenario.

Galardi said the $135 million WIFIA loan amount was based on bundling eligible projects and assuming an 80% loan coverage, which is the maximum for small communities.

Ginter confirmed it was highly likely the City would qualify. He said the City met the small community definition and that there was no reason to expect otherwise. He noted the program was flexible, with the EPA having considerable latitude and a desire to loan dollars, so he did not foresee any challenges.

Galardi noted that the cash flow requirements gradually increased over the first few years, indicating that SIP funding and revenue from rates could cover initial costs while further evaluating capital financing and setting up the program. WIFIA funds would start coming in later. The SIP, providing $3 million, would cover the 20% match required by WIFIA, along with the rates. This would allow the City to delay issuing a revenue bond or another financing instrument for larger projects. She said that, under WIFIA, the City must secure 20% of the funds from other sources for each year of construction. Eventually, given the scale of the projects, a significant influx of funds or another lending instrument would be necessary.

Galardi said the revenue bond would cover 20% of the cost for projects exceeding $100 million over three years, in accordance with WIFIA requirements. She said the financing mechanisms should work together to fully fund the program, with a focus on maximizing the use of WIFIA if it proves to be the most beneficial option. As interest rates change, the City would need to initiate the process by submitting a letter of interest and confirming the availability of funds.

Galardi said for the scenario, using SIP funds early on would help delay the issuance of long-term debt. Unlike WIFIA, which allowed interest to accrue without immediate repayment, revenue bonds or similar instruments required immediate debt service, though there were options for interest-only payments initially. WIFIA offered greater flexibility in terms of timing and matching cash flow needs, which could help moderate near-term rate increases.

Mayor Mays said according to the scenario, the total project cost was $263 million. Of this amount, $130.5 million would have been covered by the loan, $31 million by a 2031 revenue bond, and $17.5 million by a 2040 revenue bond. He highlighted that, given the uncertainty of interest rates, the annual debt service on the loan would be $6 million.

Galardi said the $6 billion figure was based on the 2024 projections and included inflation, as opposed to earlier numbers that did not account for inflation and were based on lower interest rates. While inflation estimates provided a more accurate picture of future costs, they were less useful for comparing current figures.

Mayor Mays said according to the assumptions, the annual debt service for the 2031 revenue bond was $1.5 million, and for the 2040 revenue bond, it was $700,000. Combining these amounts with the $6 million annual debt service on the loan resulted in a total debt service of $8.2 million.

Galardi confirmed that the numbers were correct but noted that other options, such as a State Revolving Fund (SRF) loan, could be considered as the project progressed. The current figures were based on basic assumptions and that further evaluation would be necessary as the project advanced.

Mayor Mays calculated that the total amount for the three sources was $183.7 million. Subtracting this from the $263 million project cost left $79.3 million to be covered, aside from the loan and the two bonds.

Galardi confirmed that the remaining $79.3 million was allocated for pipe replacement, distribution projects, and other significant improvements outlined in the 20-year plan.

Mayor Mays confirmed that the average annual amount of $4 million was calculated by dividing the $79.3 million by 20 years.

Klebes asked for confirmation that the 2031 and 2040 timelines were based on the $3 million assumption outlined on the next page, specifically in the subsidy illustrations.

Galardi explained the presented graph assumed $1 million in SIP funds. Under this assumption, a revenue bond would need to be issued by 2026 to cover the local match. She said in 2027-28, another dark blue box appeared on the graph, indicating that, with only $1 million in SIP funding, issuing additional debt would be necessary to avoid significant rate increases and provide the interim match.

Richardson requested clarification on the preliminary capital financing strategy table, specifically regarding the two sums listed: $8-10 million and $3-4 million, inflated. He asked if these amounts were additive and if the total required was $14 million per year.

Galardi confirmed the sums of $8-10 million and $3-4 million were not stacked; they represented different aspects of the financing strategy. On average these sums covered the total local funding required, with a heavier burden in the first 10 years. Revenue bonds required payments starting the year after issuance, while WIFIA loans allowed for deferral of repayment until the second decade, potentially up to five years after construction, depending on the loan terms. The funding strategy would involve a combination of rates, continued SIP funding, and revenue growth from customer increases.

Mayor Mays asked how the amounts were determined for each category, questioning why the loan was set at $130.5 million instead of a higher amount and why the revenue bonds were allocated as they were.

Galardi said there was no single method for allocating the $263 million. The team had multiple discussions to identify which projects would be most eligible for different types of funding. The $130.5 million loan amount was determined based on the criteria and potential eligibility for WIFIA funding, with the team arriving at the $169 million figure for the loan's inflated value. This amount was set to 80% of the maximum estimated funding. Revenue bonds were used to cover the remaining costs and to provide flexibility for meeting matches or funding additional projects not covered by the loan. Revenue bonds represent a higher-cost, less flexible form of debt, but they allow costs to be spread over the life of projects. The approach followed standard financial practices, balancing debt and cash funding. She said if the City had full faith and credit backing and did not need to meet certain debt service coverage requirements, it might be possible to increase the leverage and reduce the cash funding portion. She said the "Pay As You Go" component, along with the other financing pieces, involved numerous variables. The team aimed to create a medium-case capital financing plan that provided a solid foundation for discussing potential funding for the program.

Mayor Mays confirmed the total project cost of $263 million included $169 million deemed eligible for a loan. Given that the loan could only cover up to 80% of the eligible amount this would be $135.2 million.

Klebes asked for clarification on the funding split, noting that while 80% was mentioned for a smaller community, a 51.4% split was more typical. He pointed out that $135.2 million was approximately 51.4% of the $263 million total, and asked if this split was relevant in this context.

Anderson clarified that, initially, the preliminary information indicated a 49% funding level for the WIFIA program. However, they later discovered that for small communities—defined as those with populations under 25,000—the WIFIA program could provide up to 80% loan funding. This update changed the earlier assumption of a 49% funding level.

Ginter said the allocation was designed to focus on larger projects that fit within a specific timeframe. Federal loan programs, such as WIFIA, involve extensive requirements, including Buy American steel, Davis Bacon requirements, and NEPA processes, which add administrative costs. To avoid complicating smaller projects with these requirements, they concentrated on projects where the large loan program's benefits outweighed the administrative burdens.

Anderson said the requirements discussed were similar to those the City had previously adhered to for the Dog River pipeline and its funding. He stated the City had experience handling these types of requirements on larger projects.

Randall asked what factors would lead to a reduction from the $3 million SIP funding scenario to the $1 million SIP funding scenario.

Anderson said the $3 million and $1 million SIP funding scenarios were presented as alternatives for the Council to consider while deciding how to use SIP funding. He noted that the impact on user rates would be assessed for each scenario by the end of the presentation. The goal was to provide options for evaluation and receive direction from the Council on preferred options.

Galardi said the cash flow projection focused on operating costs. The previous graphs had addressed capital costs, debt service, and construction costs, including how rates would contribute to covering these expenses. The cash flow projection, without inflation, showed flatlined operation and maintenance costs and increasing capital costs. The graph showed scenarios with $3 million SIP funding and varying factors like industrial growth and inflation. In the no-inflation scenario with $3 million SIP funding, initial costs had risen sharply but then leveled off as the projects progressed and debt service requirements became clear. The high industrial growth and inflation scenario, using an average inflation rate of 3.5% indicated that while industrial growth helped offset some inflation impacts, it did not entirely eliminate them. The required rate increase had risen from 4% to 5.5% during the initial period, though the slope of the line flattened with higher industrial growth.

Mayor Mays asked for clarification on the impact of higher industrial growth, specifically questioning how it would affect the situation.

Anderson said the effect of higher industrial growth was largely a function of how fast the facilities under construction ramped up. He gave the example that data centers might operate at a lower rate initially and then increase their usage over time. The plan had incorporated their best estimates for ramp-up rates and bracketed those estimates. The low industrial growth scenario assumed a slow, gradual ramp-up over the first 10 years, while the high industrial growth scenario assumed a faster ramp-up.

Richardson asked for clarification on which scenario was considered more likely.

Ginter said the higher industrial growth scenario was supported, as it reflected the full development amount outlined in the development agreement.

Mayor Mays asked whether the assumption for high industrial growth was entirely based on Google and did not account for any other industrial growth beyond that.

Ginter stated that the projections included all potential industrial growth, with Google being the largest contributor. Projections accounted for the possibility of further development in the industrial sector in both the low and high scenarios.

Mayor Mays said if there was an increase in water use by Google occurred, it would essentially result in Google covering a significant portion of the capital improvements due to their higher water consumption.

Ginter said as industrial growth became more significant, it would increasingly offset the total cost of the improvements, resulting in a larger portion of the cost covered by the industrial sector.

Mayor Mays said this would lessen the impact on residential and the other industrial users.

Galardi said that in the scenario with a $1 million SIP, high industrial growth, and 3.5% inflation, the rate increase slope went from 5.5% to 7.5%. This highlighted the significant impact that SIP funds had on keeping rate increases lower.

Richardson asked whether it was accurate to use the 5%, 4%, or 7.5% figures as a rough estimate of the rate increases that would be necessary for non-industrial water rates as well.

Galardi confirmed that the revenue slope and figures represented the general rate increase needed, which would apply to all customers. The presentation section just assumed a uniform increase across the board, with a future section addressing whether each customer class pays its fair share or if costs could be shifted among classes.

Richardson noted that spending a substantial amount of SIP funds could result in only a slight increase in rates, around a couple of percent per year.

Galardi said the next scenario analyzed the actual bills based on the medium-case capital funding strategy and current rate structure. It compared different scenarios including high and low industrial growth, and varying levels of SIP funding. By 2040, when the WIFIA project construction was expected to be completed, the high industrial growth and higher SIP funding would result in significantly lower bills. Specifically, high industrial growth was forecasted to reduce the bill by 18-20%, and SIP funding of $3 million versus $1 million could also decrease the bill by 15-20% in that year.

Mayor Mays said that if inflation were underestimated, for example, by using 2% instead of 3.5%, and the actual rate turned out to be 4%, the planning scenario would likely result in a shortfall of funds by 2031. Including a realistic inflation rate was crucial to avoid such financial shortfalls.

Galardi said it would become much more challenging to address financial shortfalls if inflation was underestimated and not accounted for in planning. Smoothing rates over time, rather than facing abrupt increases, helped avoid significant rate shocks, which many communities have experienced during high inflation periods. She said the importance of planning for some level of inflation and adjusting as more information becomes available. The rates projected for 2024 were included in the 2040 numbers to provide context. She compared these rates to those of other communities that had undergone major water system expansions, noting that while the increases were significant, they were not unusual compared to what other communities were currently paying.

Mayor Mays why those five communities were chosen.

Galardi said the selection of the five communities was based on identifying those undertaking significant projects, drawing from news sources and personal knowledge. She mentioned Portland's water filtration plant and Beaverton's Washington County supply line were examples of major WIFIA-funded projects. The intention was to compare with other communities engaged in similar large-scale, complex construction and financing efforts, aiming for a more relevant comparison of generational investments.

Galardi explained the sample bill showed rates at different levels of consumption, emphasizing that other communities experienced significant bill increases with higher consumption, while current rates were flat. She summarized the first subsection of the financial analysis by noting that significant rate increases would be necessary to fund the over $200 million Capital Improvement Plan (CIP) over the next 20 years and keep pace with inflation. Further evaluation of capital financing options would clarify the true rate impacts. The decision on when and how much to start rate increases was identified as a policy issue, dependent on ongoing discussions about SIP funding and other factors.

Mayor Mays asked if it was correct that the SIP revenues were not expected for two more years.

Klebes said is was dependent on when the data centers would receive their certificates of occupancy and begin functioning.

Mays confirmed this was known when the scenarios were being created.

Anderson said that a conservative approach was taken regarding the timing of SIP funds. He said the funds might arrive sooner than the conservative estimates presented.

Mayor Mays asked if the $50.34 monthly bill for a Hillsboro resident using 6,000 gallons of water was inclusive of all improvements, rate increases, and related factors.

Galardi said the Hillsboro bill was based on the most current data she had pulled. She noted that most agencies typically implemented additional rate increases over time and that the bill did not necessarily reflect all improvements or phased-in increases.
Mayor Mays said he thought rate increases and needs for significant improvements were needed across the country.

Galardi said many had undergone 7%, 8% and 9% increases in the last year.

Klebes said Hillsboro was home to Intel and asked if that played a role for their community in a way similar to Google in The Dalles.

Galardi said they had reviewed the rates for those communities and noted that Hillsborough had recently conducted a rate study. This study included increasing fixed charges for industrial customers, and these factors were likely considered in their current rates.

Anderson said he remembered speaking with the manager of Hillsboro's water utility, who indicated the city had anticipated the industrial development and addressed the System Development Charge (SDC) burden before major developments received permits and paid their SDCs. This was part of their planning conversation 10 to 15 years ago.

Richardson inquired if LOC might provide a larger rate study service if needed in the future.

Anderson said that comparing rates among utilities had limited value, as each utility had unique needs and circumstances. He noted that utilities with older infrastructure, like theirs, faced different challenges compared to those with more recent upgrades or expansions funded by federal support. It was difficult to look at comparing what other utilities were charging.

Richardson said residents would do just that. He acknowledged the complexity of the topic and expressed that it would be beneficial to anticipate or align with some of the practices of neighboring communities.

Galardi said that the team had estimated what portion of the $200 million-plus plan might be eligible for System Development Charges (SDCs). About 50% of the cost could potentially be SDC eligible, although some capacity was already claimed by current industrial customers. The update of the SDC fees would be completed and brought to the council for discussion. Galardi noted that while SDCs could provide significant funding over time, they would not have as large an impact as State Infrastructure Program (SIP) funds or industrial growth. The team would continue to consider SDCs as part of the funding strategy.

Runyon said he would have to leave early, but had some points for Council deliberations. He said the PIO would have a lot of work ahead, as the community might be confused about the current situation, especially with stories about large sums of money coming into the community. It was important to start communicating about projects like Wicks, Crow Creek, and others, emphasizing these were old and needed work. He said it was important to get this narrative out to the public instead of focusing solely on the influx of money. He had doubts about allocating significant funds to endowments with the County, given the upcoming expenses. He said the City should consider adjusting rates sooner rather than delaying it for another year. Being transparent with the public about the reasons for these adjustments was important. He said it was necessary to reevaluate rate increases by category, noting that they should not be applied uniformly.

Mayor Mays said he agreed with Councilor Runyon's comments and felt that the City should consider a rate increase sooner rather than later, as Runyon had suggested. He said after the recent joint meeting with the County Tom Peterson wrote a very good article about the results of that meeting. He said the article mentioned the need for water system improvements. He said infrastructure was listed as the second or third priority in the community survey regarding community needs and wants. He had a copy of the article available if anyone wanted to review it.

Runyon left at 6:54 pm.

Galardi said the next section addressed an issue raised about evaluating costs by category. She said the current rate structure included two customer classes: residential and commercial, with commercial including industrial customers. She explained that the rate structure had two components: a volume charge and a fixed monthly charge, with the fixed charge including a larger quantity allowance for residential customers and a lower one for others. These rates had been in effect since 2014. She said the chart showed the current revenue generated by different customer classes and their percentage of the total. The rate structure involved a base rate per customer each month, with costs recovered based on the number of customers in each class and the billable quantity under the volume rate. Industrial customers, using quantities well in excess of 5,000 gallons per month, contributed significantly to revenue, though this had less impact on smaller commercial or residential customers.

Galardi said without changes to the rate structure or unit pricing adjustments, industrial growth was projected to account for 42-50% of total revenue by 2040. While industrial customers would pay a larger share due to increased volume, general rate increases were still necessary. The cost of service analysis considered other factors beyond growing volume, such as potential pricing adjustments for customer classes. For the analysis, industrial was separated from commercial to better explore user characteristics and cost of service. She said defining industrial customers proved challenging due to the diversity in operations, so they used criteria such as location in the 310 pressure zone and water use for manufacturing or cooling to classify significant customers. She clarified that maintaining separate classes was a policy decision.

Galardi provided details on how the utility incurred costs. She said the analysis was comprehensive and specific to the City's system. Costs were categorized based on demand factors like peak hour, peak day, and fire flow needs. Significant costs were associated with pumping, storage, and the distribution system, which was largely sized for fire flows. She said the analysis accounted for private storage by customers in the 310 zone and allocated costs proportionately.

Galardi said about two-thirds of the cost was estimated to relate to average or peak demand, with peak demand being slightly higher in cost because much of the system was sized for maximum day demand. Customers requiring more capacity during peak times were allocated costs proportionately. When looking at customer class peaking requirements, industrial had the lowest peaking factor, while commercial and residential were fairly even. Commercial included government accounts, institutional parks, and schools with significant irrigation, which explained why residential had a higher peaking factor due to outdoor irrigation.

Galardi presented a slide showing graphs comparing water use among customer classes. She said industrial customers used a lot of water despite being relatively few in number, but their peak usage was lower compared to residential and commercial customers. She said the analysis considered multiple years of data to account for variations in weather and customer demand.

Galardi showed a comparison of what customers were currently paying under the existing rate structure versus what they would pay under the revised cost of service. She said residential costs declined under the current structure because more volume was anticipated to be sold to industrial customers. The cost of service analysis suggested a shift in costs away from residential customers, but not specifically to industrial customers—instead, to commercial customers. She said the commercial revenue increase was about 10%, industrial was about 4%, and residential saw a decrease of about 9%. She said this provided an opportunity to apply rate increases more heavily to non-residential customers, either by keeping them as a single class with a composite rate or by separating them into individual groups.

Anderson said initially it seemed counterintuitive that the peaking factor was much higher for residential customers compared to industrial customers. He said he realized that industrial operations use a lot of water year-round, including during the winter, with only a slight increase in the summer. In contrast, residential customers do not use much water for outdoor irrigation in the winter but significantly increase usage in the summer, by about 2.7 or 2.8 times. Anderson said this explained why the cost allocation did not shift as much toward industrial customers as he initially expected, since their peaking factor was lower than that of commercial and residential classes.

Galardi said that if the Council desired, they could present an option to keep the non-residential class as a single category without separating it. She said the intent was to explore every possibility to ensure a fair and equitable evaluation of industrial rates. Galardi mentioned that the industrial rates also reflected factors like private storage, which, although maintained by the City, was constructed by industrial customers. She noted that while this was a minor issue, it was still considered in the cost analysis.

Richardson said he was more interested in the quality of life for residents than in achieving a perfectly equitable price structure. He expressed a preference for considering quality of life issues, which he felt might be as important or more important than strictly equitable pricing.

Galardi said it was important to note that industrial customers would significantly contribute more towards system costs as their water usage increased. She said industrial customers were increasing their share of revenue, and there was potential to adjust the unit price within the cost of service framework. However, she emphasized that the cost of service was a benchmark, and the City could choose to have combined or separate customer classes based on their cost recovery goals.

Galardi shared rate structure options and said they were the primary policy questions. She presented options for modifying the base charge, such as reducing the residential minimum quantity from 10,000 gallons to 7,500 gallons and eliminating the quantity for non-residential customers. She also discussed modifying rates to align with the cost of service. The Council would need to consider how to integrate these options with the general rate increase.

Anderson said that including up to 10,000 gallons at the base rate was highly unusual for a water utility. He highlighted this issue became evident during his work on the Dog River Project funding application, where the City's practice of including more than 7,500 gallons in the base rate complicated the application process for favorable loan terms. The City had eventually secured a 30-year loan at 1% interest due to demonstrating a commitment to fair water rates, but he could not guarantee similar success in future funding pursuits. He said customers had expressed a desire for more control over their water bills, preferring not to pay for 10,000 gallons if they were not using that amount. He suggested that reducing the base rate to 7,500 gallons could address these concerns and provide better alignment with standard practices.

Mayor Mays asked where the 7,500-gallon number came from.

Anderson said the number was the Sate and Federal assumption of what an average residential water bill was over the course of a year.

McGlothlin asked about the historical reasons for choosing the current rate structure and how long it had been in use.

Anderson said that the City began metering in 1991 and started billing based on meters in 1994. The City initially used an increasing block rate to promote conservation, but this approach raised concerns, leading to a shift to a uniform rate. At that time, the base rate included 15,000 gallons to support community aesthetics and minimal irrigation. This base rate quantity was reduced to 10,000 gallons around the time of the 2006 Water Master Plan to balance conservation goals with community needs. He said reducing the base rate from 10,000 to 7,500 gallons would result in a minimal increase of about $3.50 per month, given the current rate of $1.61 per 1,000 gallons.

Galardi said it was common to have different customer classes and charge rates accordingly. Some utilities do not differentiate between classes, while others have separate rates for residential, commercial, and industrial classes. There were also cases where irrigation was broken out separately. Many places had moved away from or significantly reduced the minimum quantity included in the base rate.

Galardi explained that when the minimum quantity was removed, the base rate must cover enough of the fixed costs to ensure system sustainability, as most costs are fixed. Although some control over bills was possible, significant reductions were limited due to the need to maintain service availability. Many communities used inclining block rates, where higher usage results in higher costs. However, she said she was not in favor of this approach for the City. Reducing the minimum quantity would be a step in the right direction for alignment with current practices.

McGlothlin said that generally, the federal government was a funding source for high-cost infrastructure projects. He said he did not see any anticipated federal matching funds included in the current proposals.

Anderson said the WIFIA program provided federal money but was a loan program rather than a grant program. Currently, there were very few, if any, grant programs available. He said the City had previously received 10% loan forgiveness through the SRF program for the Dog River project. He said if the City used WIFIA funding, it could not use another federal funding source for the match, so caution was needed. The City would continue to seek grant opportunities but was not aware of any available options close to the required funding level. He suggested the outreach team might consider seeking additional funding from Washington.

Klebes said congressionally directed spending was an option but not a guarantee. An example was the Hood River community, which had been seeking CDs and various funding sources to replace the Hood River Bridge. Despite the project's critical nature for transportation and its compelling case, there remained a significant funding gap.

Anderson said the City would continue to look for grants. While securing grants could lower the funding needs, the City could not currently identify any grants that would significantly impact the situation.

McGlothlin asked if the recommendation was to lower from 10,000-gallon base rate to 7,500 gallons. He said seniors in the community had expressed a desire for lower rates to better manage their bills. He preferred exploring ways to restructure the billing to shift some of the burden to commercial or industrial customers and minimize the impact on seniors.

Anderson said that the City offered rate assistance for low-income residents, not specifically age-based. He noted that the program provided assistance at 10% and 35% levels for those with financial need.

McGlothlin said that Councilor Runyon had talked about getting the word out through radio, television, and newspapers to prepare the community for upcoming rate increases. He emphasized the need to inform the public that while efforts were being made to structure rates in a fair and equitable manner, the costs must be covered to keep the City's systems current. He highlighted the importance of projecting for the future to protect the community.

Klebes said communication and informing the community was very much on the radar and was actively being worked on by staff. He said they wanted to be sure they did not get ahead of the Council or communicate a message without first ensuring the Council was informed and part of the conversation.

Long said approximately 70% of the residential accounts used less than 10,000 gallons, and approximately 52% used less than 7.5 gallons. Reducing the amount people pay was counterintuitive.

Galardi said it was challenging to restructure rates while also increasing them. Reducing the burden on small users could ease their transition, but it might also lead to higher bills for others due to the combined effect of the rate structure changes and general revenue increases. It was a delicate balance.

Richardson said to include that not increasing rates for ten years was a significant rate cut. Maintenance costs had risen and were not kept pace with, requiring a lot of catch-up now.

Galardi said the median use was around 7,500 gallons. Even with a reduction to 7,500 gallons, many customers used less. The option presented was intended to be revenue neutral, meaning it aimed to recover the same amount from the residential customer class as the current rates. The base rate was reduced, but additional usage would now be charged, generating some additional revenue. The volume rate would increase as a result. She compared current and revised bills at different usage levels. Most customers would see decreases in winter months and increases in summer months, with some experiencing up to a 20% increase for larger quantities of water. Few customers would see significant increases, while many would see either minor increases or decreases. When the revised cost of service was factored in, shifting more costs to non-residential classes significantly moderated the impact on residential bills.

Anderson said that this was still a revenue-neutral scenario where no rate increase had been applied.

Galardi said she was not suggesting this was the final approach, but was illustrating that the impacts of the cost of service could potentially save money for residential customers.

Anderson said people outside the city limits currently paid 1.5 times the in-city rates. This rate was reduced from twice the in-city rate to 1.7 times, and then to 1.5 times. The original rationale for this higher rate was that the city used general obligation bonds for infrastructure improvements, which were repaid through taxes collected from within the city, while no taxes were collected from outside city residents. Adjusting the rate for customers outside the city limits could be a reasonable consideration. This had not yet been discussed or included as one of the policy questions, but it would be useful to know if the council had an interest in modifying this rate.

Mayor Mays said he did not see this as a significant amount of revenue.

Anderson said there were a couple of hundred customers along the transmission. He believed it was fair for those living further from water sources and outside the city to pay a higher rate.

Long said their current proposed funding was not through general obligation bonds and questioned whether it would still be repaid with tax revenue. She said it was different because this funding was from Google service fees.

Mayor Mays said the revenue bond paid higher interest.

Galardi said their comparison of other communities showed that only a few, like Hood River and West Linn, included a 5,000-gallon minimum quantity in their rates. She said that using the previously illustrated rates in a revenue-neutral scenario would result in a slight shift toward the center in the comparison. She added that while the bill for a customer using 10,000 gallons would increase slightly, it wouldn’t be enough to surpass others because of the still higher quantity allowance.

Mayor Mays said that while the comparison of 20 communities was useful, they didn't know the fixed rate or fixed volume for the other 17 communities, except for the three mentioned.

Galardi said they researched and found that the other communities do not include a quantity with the base rate; any usage above the base rate is charged separately.

Anderson said the other communities either had no minimum quantity or charged a base rate with no water included. Residents paid for all water usage beyond the base rate on a per unit basis.

Galardi said the significant change for commercial customers involved eliminating the minimum quantity and potentially increasing the volume rate. This change could result in substantial bill increases for those using between zero and 5,000 gallons. She said that the cost of service approach would result in a 10% overall increase for commercial customers, raising the volume rate to $4 per 1,000 gallons. For industrial customers, eliminating the minimum quantity had minimal effect due to their high usage volumes. However, increasing base rates for industrial customers could help balance revenue recovery. Reducing the minimum quantity to 7.5 gallons would cause modest bill changes for many, with significant increases affecting a few. The cost of service rates could result in higher bills initially but would benefit residential customers overall. Shifting some revenue to commercial and industrial classes could help balance these impacts.

Ginter reviewed the current stage of the process, noting that they were at the preliminary capital improvements step. He said the team would continue working with staff over the next few weeks to finalize the capital improvement plan, making adjustments to timing as needed. He said the financial analysis, rate analysis, and system development charges would follow, leading to the final water system master plan, which they aimed to complete and have adopted by the end of the year. The next steps included finalizing the financial analysis, completing the SDC analysis, and preparing the final draft plan for City staff and Council review. He emphasized the importance of public outreach during the master plan adoption and related discussions on financial impacts.

Galardi said there were three sections to the financial plan and noted feedback on the need to plan for rate increases she noted the importance of coupling this with public outreach. The proposed rate increases were scheduled to begin in July of fiscal year 2026. She said implementing a rate increase during the peak water usage in July might not be ideal and suggested to schedule the increase over the winter. She said that while it might be difficult to make a final decision at this point, it would be helpful to have a narrower set of options for determining the rate increase and the associated public conversation.

Richardson asked if it was too early to provide a preliminary estimate or a ballpark figure for what they might be considering in terms of SIP income for the City for a conservative $600 million valuation per data center.

Klebes said staff could run that scenario and bring back for the next SIP work session.

Mayor Mays emphasized the need to distinguish between the total tax dollars generated, which go to all the taxing bodies, and the amount that will specifically come to the City. He acknowledged that he had seen numbers but did not want to put anyone on the spot. He asked if the $3 million estimate was realistic.

Richardson said they needed to have some operating assumptions before the actual tax assessment was completed, understanding that these would be based on best guesses and estimates. He noted that such assumptions were necessary for the master plan.

Klebes said many of the approaches had been conservative, aiming to avoid creating scenarios where water rate increases appeared lower or even decreased when that was not actually feasible.

Anderson said they were seeking feedback on several items to narrow down the scenarios for Council consideration. One area of interest was the amount of water included in the base rates. They had presented scenarios analyzing the impact of adjusting the residential base from 10,000 gallons to 7,500 gallons and removing the 5,000-gallon allowance for commercial and industrial use.

Mayor Mays said the three alternatives for the base water rate included keeping it the same at 10,000 gallons, reducing it to zero, or adopting a compromise option somewhere in between. He asked if any of the Councilors would like to see zero.

Long said she would like to know the break-even point if the base rate were reduced to 5,000 gallons, specifically the dollar per gallon cost compared to the cost of service. She emphasized the need to balance revenue generation with minimizing the impact on low-income users and those who use less water. She preferred a gradual increase in rates rather than a reduction followed by a subsequent increase, to allow users to adjust over time.

Anderson clarified the revenue-neutral scenarios were presented to illustrate the costs associated with changing the rate structure, without attempting to generate additional revenue. He emphasized there was a need to increase revenue. Therefore, the numbers from the scenarios should not be seen as final but rather as a way to understand cost allocation based on service and customer class. He asked if the Council wanted to continue developing two scenarios: one with a 5,000-gallon base and one with a 7,500-gallon base for residential customers. He also asked if there was support for eliminating the 5,000-gallon base rate for commercial and industrial or if they preferred to keep it or reduce it.

Richardson said he would like to see considerations for shielding parks, schools, nonprofits, or similar entities from water rate increases. He emphasized the need to raise rates gently rather than significantly passing the burden onto these entities. He suggested that it might be beneficial to handle nonprofits and government entities separately from commercial customers in the rate structure, to be more mindful of their impact.

Anderson said it was not unheard of to have a fourth class which would be government. Currently government customers were within commercial.

Galardi confirmed government entities were identified separately in the billing system and their usage, which often trended toward heavy irrigation, was tracked. Under the cost of service framework, these entities did pay more. Having them as part of a larger class helped spread the costs around. She said it would be necessary to determine who would cover the cost of this discount.

Richardson suggested considering a significant increase in rates for industrial customers, particularly the largest ones. He said that they could afford it and noted some costs in the Capital Improvement Plan (CIP) were driven by industrial customers, so he felt they should bear a substantial portion of the burden for those reasons.

McGlothlin said he preferred to avoid drastic rate increases and focus on minimal impact for senior ratepayers. He suggested planning for rate increases during the winter months as a logical approach. He requested options for a rate plan that would address future growth needs while keeping rates low. He indicated a preference for seeing several options or recommendations, including those already provided.

Richardson asked for confirmation if the plan was based on a full build out within the urban growth boundary.

Anderson confirmed that was correct within the next 20 years.

Mayor Mays agreed with the philosophy of maintaining the community's appearance, which might preclude going to a zero or 5,000-gallon base rate. He suggested that 7,500 gallons might be a more suitable option but noted that reviewing both scenarios would be beneficial. He acknowledged that there was a lot of information to absorb, especially since it was received that night. He requested an opportunity to review the details further and potentially return with additional questions or a Q&A session in the future.

Long said that usually they receive packets ahead of time, but this time the information was provided at the meeting itself.

Anderson explained that the packet was completed only on the day of the meeting, which was somewhat intentional. He said the aim was to facilitate a conversation without pre-existing opinions potentially influencing the discussion or leading to misunderstandings. He noted that, based on the current discussion, providing another packet in advance of a future workshop would be useful and understandable.

Long suggested having the packet in advance would have allowed for a more efficient discussion and clarification of assumptions, as is typically done with packets.

Anderson sought to confirm the direction for commercial and industrial rates, asking if there was a preference to keep the 5,000-gallon base, reduce it to zero, or if it was considered a non-issue for industrial customers. For industrial customers, the focus was more on volume pricing rather than base rates.

Randall suggested keeping the 5,000-gallon base rate for commercial and industrial customers, similar to the residential base rate, to support beautification efforts. He noted that maintaining small lawns or garden areas could be important for the appearance of their premises.

McGlothlin said he was considering whether to apply the 5,000-gallon base rate to both residential and commercial/industrial customers or just one of these categories. He suggested recombining the commercial and industrial groups, as they were previously. He needed more time to review the information before deciding whether to support dropping or maintaining the base rate. He wanted to assess the impact on commercial rates thoroughly. He also reiterated that the tables showing costs of service did not yet include rate increases and were revenue-neutral. He cautioned against misinterpreting the current stage of the process and the extent of progress made.

Mayor Mays suggested that staff develop a public relations program to address the issues and the three major projects, without focusing on specific numbers. He noted that there was no current appetite for rate increases and that it might be better to wait until winter to discuss any potential rate adjustments.

Anderson recommended targeting a January 1 implementation date for rate changes, aligning with the time when people are using their base rates rather than during peak consumption periods.

Richardson noted that it was unlikely they would be ready to make a rate decision before the rainy, cold season began.

McGlothlin said that in conjunction with a public relations campaign, it was important to lay out a plan for residents so they would be aware of and accept the costs associated with infrastructure improvements.
Mayor Mays questioned whether they should wait until January for a rate increase and asked what kind of increase might be anticipated. He viewed it as a necessary step or "down payment" and sought to understand what could be realistically achieved.

Anderson said the process for implementing a rate increase would require a City Council meeting, a public hearing, and adoption of a resolution, with a notice period of two weeks. The next council meetings were in September, October, November, and December. It could be ready to be effective in the November or December timeframe.

Richardson said he did not see the benefit of implementing a rate increase before completing the plan. He preferred to discuss rate increases in conjunction with the plan to avoid a situation where rates might need to be adjusted further after an initial increase.

Klebes said they could implement a rate increase by January 1, with preparation starting in November and December. The community communication and public relations efforts would be aligned with this timeline. If the City Council preferred to delay rate increases until winter of the following year, the public outreach would be adjusted accordingly, incorporating results from the Water Master Plan and potentially more specific information from the SIP program. Feedback from the City Council would guide the prioritization of these efforts.

Anderson expressed concern that waiting until January 2026 for a rate increase might not be viable due to inflation impacting existing revenue streams. He acknowledged that a new data center would help but might not fully address the issue. He recommended targeting an initial rate increase for the upcoming winter, even if it were delayed until February or March, rather than waiting another year.

Mayor Mays acknowledged the consensus on aiming for a rate increase between January 1 and March 1. He said they would evaluate scenarios for base water rates at 5,000 or 7,500 gallons. He directed staff to develop a public education plan and to provide assumptions on the revenue expected from Google's SIP program, while recognizing that revenue from Taylor Lake was already known.

Anderson proposed maintaining the 5,000-gallon base rate for commercial accounts while reducing the base rate to zero for industrial accounts.

McGlothlin asked about the County's role and responsibilities in the process. He asked if they would commit as the City was the majority of the county and increased revenues could be dispersed.

Mayor Mays suggested this be brought to the next joint meeting with the County Commissioners. Klebes said there was an upcoming SIP work session in September and initial feedback from the City Council on the use of SIP dollars would be valuable.

Anderson asked whether the City Council wanted to continue developing the $3 million SIP scenario or if that should be the primary focus moving forward.

Mayor Mays indicated the need for staff to provide a realistic and conservative estimate of potential SIP revenue before making further decisions.

Galardi said finishing up the System Development Charges (SDCs) and rate design options was feasible. Further adjustments to the financial plan would depend on receiving updated revenue estimates.

Klebes asked whether the City Council would prefer to allocate the entire SIP payment to the water master plan if the SIP dollars amounted to $3 million. He also inquired if the allocation preference would change if the SIP payment were $5 million or $6 million. He noted that staff could generate scenarios based on these figures for further discussion.

Mayor Mays indicated that he would prefer to allocate the SIP payment to the water master plan.

Anderson said the SIP money was a 15-year revenue stream, while the debt terms considered were 30 to 35 years. Once SIP payments end, properties would be on the general tax rolls, and a similar level of contribution from the general fund would continue to support the debt. He emphasized that this assumption was crucial to avoid adjusting utility rates later to cover what SIP was funding.

Mayor Mays emphasized the importance of understanding expectations for property taxes, community service fees, and the gap payment, even though there might be no intention to use property taxes or community service fees.

Klebes acknowledged the Mayor's point and appreciated the addition. He noted the importance of considering the needs of other City departments and highlighted that the discussion was focused on one of four master plans.

ADJOURNMENT
Being no further business, the meeting adjourned at 8:19 pm

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Submitted by/ Amie Ell, City Clerk

SIGNED: ______________________________
Richard A. Mays, Mayor

ATTEST: Amie Ell

Amie Ell, City Clerk