MINUTES

CITY COUNCIL WORK SESSION
COUNCIL CHAMBER, CITY HALL
OCTOBER 23, 2024
5:30 p.m.

VIA ZOOM/ IN PERSON

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, Finance Director Angie Wilson, Community Development Director Joshua Chandler

CALL TO ORDER

The meeting was called to order by Mayor Mays at 5:30 p.m.

ROLL CALL OF COUNCIL

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

PLEDGE OF ALLEGIANCE

Mayor Mays asked Councilor McGlothlin to lead the Pledge of Allegiance.

Councilor McGlothlin invited the audience to join in the Pledge of Allegiance.

APPROVAL OF AGENDA

It was moved by Richardson and seconded by Long to approve the agenda as submitted. The motion carried 5 to 0, Richardson, Long, McGlothlin, Randall, Runyon voting in favor; none opposed; none absent.

DISCUSSION ITEMS

Dave Anderson, Public Works Director said the meeting was the third of three planned work sessions focusing on the financial aspects of the Water Master Plan. He noted the presence of Brian Ginter and Emily Flock from Consor as well as Deb Galardi Consor's financial sub-consultant. He said the meeting agenda would include a brief review to refresh Council's memory on prior discussions, followed by a presentation outlining various rate scenarios. The goal was to obtain specific direction from Council on a preferred rate scenario, which would be included in the Water Master Plan for public comment and eventually brought back to City Council for a public hearing and consideration for adoption.

Mayor Mays asked if approving or adopting the Water Master Plan would automatically include an adoption of water rate increases.

Anderson said with the adoption of the plan, a resolution would be brought to the Council to implement the rate changes.

Ginter reviewed the draft Capital Improvement Plan (CIP) within the Master Plan, emphasizing its importance in discussions around rate adjustments. He reminded Council of the draft CIP's high-priority items, noting a substantial investment of nearly $165 million over the first ten years. He shared that recent discussions with the EPA about the WIFIA loan program had provided clearer structuring options, which were now reflected in the analysis. The CIP projects were phased in two groups: Phase One projects included the initial major projects such as treatment plant replacement, planning for the upper storage and recovery program, potential expansion of the Crow Creek Dam, and the ASR program. Phase Two projects would involve transmission main replacements between the Water Treatment Plant and the City, as well as improvements to distribution piping. These phased projects served as key components driving the early estimates in the CIP.

Ginter said the Master Plan's engineering analysis was conducted in current dollars. He noted Galardi's financial analysis incorporated inflation assumptions, baselining costs to today's dollars within the financial projections.

Galardi outlined the objectives as funding capital improvements and ongoing operation and maintenance in an equitable and defensible manner, ensuring both existing and future developments contribute fairly to project improvements, alongside ratepayer customers across various service types. Rate design, she explained, combines industry standards with local policy objectives, allowing flexibility in determining cost recovery. She reviewed updated figures, noting a slight decrease in cost estimates, particularly for the treatment plant, due to recent

adjustments by Ginter's team. These reductions lowered anticipated WIFIA loan amounts for the treatment projects, though capital improvements still dominated the financial plan over the next 20 years. Inflation was fully integrated into the presented figures, which reduced the number of scenarios by focusing on current economic realities. She pointed out that current rates and system development charges (SDCs) had limited funding capacity, but anticipated growth in water sales would support capital improvements. Additionally, the City had opportunities to leverage federal funding through WIFIA and local revenue sources, including Strategic Investment Program (SIP) funds.

Mayor Mays asked if dividing the $13 million per year in inflation by the total of $203 million to get 6.4% was an appropriate way to interpret the assumed rate of inflation.

Galardi responded that the assumed rate of inflation was three to three and a half percent per year, based on the sequencing of the projects. She explained that some projects were front-loaded, while others were scheduled further out in the plan.

Galardi noted that the City had been drawing down reserves to cover annual expenses. The financial analysis aimed to estimate the revenue slope, which represented a series of anticipated rate increases to fund both the projects and ongoing operation and maintenance. She provided an overview of the capital improvement plan's order of magnitude. She mentioned that refinements had been made to the capital financing plan since the last meeting, though many unknowns remained regarding the ultimate financing package the City could secure, primarily through WIFIA and other funding sources. Additionally, uncertainties surrounding industrial growth were acknowledged. Therefore, the analysis aimed for a moderate level of risk, presenting a medium case scenario rather than the worst or best case. She expressed hope that the numbers reflected this balanced approach.

Richardson asked what the likelihood was for getting access to WIFIA.

Galardi said they had verified in a meeting with a WIFIA representative that the small system eligibility and the 80% funding level were realistic. She mentioned that the City of Sandy, Oregon, had also entered into a loan with WIFIA for wastewater system improvements, securing 80% funding and utilizing the State Revolving Fund (SRF) loan program for the remaining 20%. At this point, a revenue bond was assumed, and if combined with SRF funds, the City could achieve even lower interest costs while extending the payback period. The primary framework remained centered on the 80% assumption, with no red flags raised regarding project types eligible for WIFIA funding. The representative confirmed that current interest rates were relatively high at 4.15% compared to previous lows, and the analysis assumed a rate of three and a half percent. It was anticipated that the Federal Reserve would continue to lower interest rates, which would directly affect WIFIA rates, though the pace of changes was uncertain.

Galardi said the WIFIA representative suggested assuming two separate loans and highlighted the significant flexibility in how the City could repay those funds. This process involved initial outreach, followed by a letter of interest from the City, with agreements entered into once approximately 30% of project design was completed and costs became more certain.

Anderson added that during the consultative call with WIFIA, they learned that the program was no longer competitive. He explained that entities could simply apply for funding, and money would be awarded as long as the programs were available. He emphasized that this was new information, as the program had initially been competitive. He said while the chances of securing funding were favorable, WIFIA required projects to be designed to about 30% completion for cost certainty. He emphasized that the City had work to do upfront and needed to accrue funds to cover the costs associated with that 30% design work, particularly concerning the water treatment plant replacement.

Klebes suggested the City monitor Federal Reserve actions and if there were to be anticipated interest rate cuts, the City might consider waiting for those adjustments to occur before moving forward.

Ginter said there was a balance to consider regarding the timing of the WIFIA package. He noted that the program offered a one-time opportunity to renegotiate to current interest rates, providing flexibility during the loan's life. He emphasized that moving forward once ready carried minimal risk, with the primary requirement being to establish cost certainty. This was important for building appropriate contingencies, as closing on the loan would set the dollar amount for the project.

Galardi said a key advantage of the WIFIA program, as well as other federal funding options, is the deferred payment structure, where repayment begins only once the project is completed. Although interest accrues during the project, repayment remains flexible. She presented a projected spend-down chart for construction funding, highlighting significant spikes related to treatment projects and the importance of Strategic Investment Program (SIP) funding. The analysis assumed a $3 million SIP allocation, which was crucial for upfront funding to support project design. This funding was necessary to meet WIFIA's requirements for better cost estimates before finalizing agreements. Currently, there was limited capacity in the rates to cover costs beyond operations and maintenance, making SIP funding essential for financing project design, covering interest during construction, and addressing other capital improvement projects not included in the WIFIA package in the short term.

Mays said according to the financial projections, no bond sales would be necessary from fiscal year 2025 through fiscal year 2030 to meet funding requirements. He noted that revenue bonds would be issued starting in 2031 to cover anticipated costs.
Galardi stated that the ability to defer issuing a revenue bond until 2031 was advantageous, as it eliminated the need for immediate repayment. She confirmed with the WIFIA representative that the 80% match was not an annual requirement, meaning the City did not need to cover 20% of construction costs each year; instead, it could be a cumulative contribution. This structure allowed for other matching mechanisms to fund the final 20% at the project's conclusion. She noted that this approach assumed deferring other funding sources until the end of the project while utilizing SIP funding for additional master plan projects outside the WIFIA package. As rates were gradually phased in, they would help fund debt service and cover other necessary costs.

Mayor Mays indicated that sufficient revenue was anticipated in fiscal year 2031 to address the significant gap expected in fiscal year 2032.

Galardi said the strategy involved issuing debt, utilizing WIFIA proceeds along with the combination of revenue bonds and anticipated rate increases to cover additional capital improvement project costs and debt service. The SIP was assumed to remain constant at $3 million throughout the period, while the rate funding escalated over time.

Galardi indicated that the next slide presented the estimated revenue slope from the rate-funded improvements perspective under the $3 million SIP low industrial growth assumption. At that point, no increase was assumed for fiscal year 2024-25. It was noted that implementing a rate increase before the end of the fiscal year would be beneficial to avoid peak water use periods and to address some costs early. The timing for any increase was still to be determined, and feedback was requested. The slide illustrated that under the low industrial scenario, rate increases would be 7.3% per year, significantly ramping up. The turquoise bar represented the assumed contribution from rates for pay-as-you-go capital, which would fund debt service and capital projects.

Mayor Mays inquired about the next page, which displayed high industrial use, asking for clarification on the differences and how those predictions were made.

Ginter explained that they collaborated with the City's major industrial customer to project future demands, making downward adjustments to maintain a conservative estimate. This approach acknowledged potential reductions in demand while recognizing that the required improvements were primarily driven by the need for replacement or renewal rather than increased capacity. He noted that the revised demand forecast was approximately half of what had initially been projected.

Anderson indicated that nearly all the industrial use considered in the analysis stemmed from Google. He added context from previous experience, noting that discussions with Google often resulted in them providing an optimistic estimate for their operational ramp-up. However, in reality, the actual increase in water consumption sometimes occurred at a slower rate. The analysis aimed to account for this possibility in the low industrial use scenario, ensuring a rate scenario was in place to anticipate gradual increases in water consumption.

Richardson inquired about the implications of utilizing the low industrial use assumptions and the corresponding 7.3% rate increase over 13 years, especially in the event of experiencing high industrial use instead. He asked whether it would be possible to bank the difference in water rates, reduce rates accordingly, or potentially pay off obligations faster if high industrial use materialized.

Galardi suggested that until the capital financing package was finalized, there would be considerable uncertainty. She recommended that the City Council consider the projections for the initial rate increase and decide whether to pursue a five, six, or seven percent increase after determining how much of the SIP funding would be allocated to water infrastructure. Following the 30% design period for the WIFIA application, the City would need to submit updated financials reflecting final project costs, interest rates, and debt repayment structure. At that time, the Council would want to consider a multi-year rate increase, as they would have a clearer understanding of industrial demand.

Mayor Mays said according to the information presented, the City would require a 7.3% rate increase effective from fiscal year 2025 through fiscal year 2038, along with $3 million in SIP revenue, to cover the operating costs of the water system under the assumption of low industrial use. He said the proposed rate increases included a 5.3% increase, along with $3 million in SIP revenue, to cover the costs of operating the water system under the assumption of high industrial use. He asked why the rate increase decreased from 5.3% in fiscal year 2040 to 4.3% in fiscal year 2041.

Galardi explained the proposed rate increases reflected the need to ramp up initially due to the projected timeline for debt service repayment. The slope of the rate increase needed to be steeper at first, but thereafter, the increases would be based on inflation plus additional capital needs. The assumption was that the rates would generate sufficient revenue to cover ongoing debt service and capital costs, allowing for a reduction in the rate increase.

Runyon clarified that while the discussion frequently centered on industrial use, the suggested rate increases applied to all customer categories, including residential and industrial.

Galardi indicated that the table presented assumptions regarding the $3 million in SIP funding, which was critical for covering project design, initial costs, and other ongoing capital improvement projects not included in the WIFIA package. She noted that if the $3 million did not come from SIP, it would result in a 46% rate increase, given that current revenue from rates was about $6 million, as reflected in the table. Galardi highlighted that the second set of numbers, showing a zero annual SIP general fund contribution, would necessitate significantly higher rate increases if this funding mechanism were not included in the financial package.

Richardson highlighted that if the City did not dedicate $3 million of SIP, they would have to raise rates 46%

Galardi explained without the use of SIP the rate increases would occur swiftly and be substantial. Without SIP there would have to be a projected 27.5% rate increase followed by a 10% increase and then 7.5% for several years under low industrial use assumptions. For high industrial use, the first-year rate increase would be 23%, followed by increases of 8%, 8.5%, and 5.5%.

Richardson inquired about a reasonable expectation or conservative estimate for the annual SIP funding.

Klebes reported that staff had been preparing for the upcoming SIP work session in November by examining certain assumptions related to the industrial user's data centers. It was noted that a data center's reported value is approximately $600 million, but caution was advised regarding actual values upon completion. Using this valuation, staff estimated contributions from the guaranteed annual payment component—separate from property tax and community service fees—could align with SIP formulas, considering both data centers. A certificate of occupancy had been secured for the first data center, which serves as one of the triggers for the SIP. The second data center was projected to be approximately one year behind the first, although timelines may vary.

Klebes said the community service fee was calculated as 25% of the tax savings, capped at $2.5 million. The potential Guaranteed Annual Payment (GAP) of $3 million was derived from both data centers. The property tax payment depended on the value and structure provided or dictated by the state and Business Oregon. If the value was under a billion dollars, they would pay taxes on $50 million. Using the assumption of a $600 million valuation, this would result in approximately $900,000 a year in taxes, distributed across all the different taxing districts, similar to the community service fee. He encouraged the Council to focus on the GAP, which was the basis for the $3 million estimate.

Richardson stated that the GAP was not the total amount the City or other entities would receive from Google. He clarified that the discussion was about allocating a significant portion of the SIP funds, rather than the entirety of the contributions.

Klebes said the two data centers would each contribute over 15 years, starting at different times. He said there were also initial payments, a one-time fee. He emphasized that there were several other funding mechanisms associated with the SIP agreement.

Runyon asked for clarification regarding the ongoing funding from the enterprise zone, noting the repeated reference to SIP. He inquired whether these funds were being considered in the totals discussed.

Klebes stated that the City received annual payments from the second enterprise zone agreement and the Taylor Lakes agreement. He noted that these funds were allocated in the special enterprise reserve fund and had been used for various special projects, including sidewalk and ramp programs. He mentioned that a significant portion of the Taylor Lake funds had been allocated to the Community College's Skill Center, which had been completed, but emphasized that this remained a potential revenue source for future considerations.

Runyon emphasized the importance of identifying the contributions of the funds to the community. He noted that the City was not depleting its resources through these initiatives, reinforcing the need to communicate this to the public effectively.

Klebes highlighted the ongoing efforts to develop a communication plan that would effectively convey the City's messaging to the community. He noted that one of the goals from the meeting was to gain additional guidance and consensus from the Council, which would enable staff to finalize and disseminate information promptly. He emphasized the need for the Council to provide direction on various SIP elements, including the guaranteed annual payment, community service fee, initial payment, and property tax, before the end of the year. He reiterated that the upcoming work session in November would focus on these components, stressing the importance of prioritizing core services and minimizing potential rate increases to benefit ratepayers and constituents.

Anderson reminded the Council that during the previous presentation, the focus had been on the different levels of SIP, specifically emphasizing the $3 million level. He noted that the Council expressed interest in this amount, along with the understanding that while it was reasonable to expect to receive it, there were caveats involved. He mentioned that comparisons would be made between scenarios with and without SIP, clarifying that future numbers presented would reflect either the $3 million SIP or no SIP at all.

Galardi then showed comparisons for projected rate increases based on a medium-case capital funding strategy and the current rate structure. Under high industrial growth, the estimated monthly bill would decrease with SIP funding. In contrast, without SIP funding, the bills would increase significantly, resulting in a substantial increase over the following years.

Klebes emphasized that the needs and projects discussed were necessary regardless of Google's presence, as they involved aging infrastructure requiring attention. He pointed out that utilizing Google revenue or SIP revenue could help keep rates potentially 17% to 20% lower than they would be without this funding, highlighting the direct positive impact on ratepayers in the community.

Anderson clarified that the benefits derived from industrial customers extend beyond the $3 million SIP funding. He noted that their water usage and associated sales significantly contribute to the city's revenue package, possibly doubling the revenue impact if large industrial customers were not present. While SIP funding plays a role in mitigating rate increases, the primary advantage lies in the revenue generated from water sales to these customers. He emphasized that necessary improvements, such as replacing aging water treatment plants and pipelines, would still need to be addressed, regardless of the presence of industrial customers.

Galardi summarized the discussion regarding significant rate increases, noting that while SIP funding addresses a substantial part of the need, the policy issues revolve around the timing and level of initial rate increases and the amount of revenue to commit to the water program from the SIP.

Galardi said to consider Systems Development Charges (SDCs) as another potential funding source for capital improvements, noting that existing SDCs haven't been updated since 2007 and currently generate limited revenue. She emphasized the methodology used to develop SDCs and highlighted that about 46% of total project costs are estimated to be related to growth. Recommendations included updating SDCs based on modern meter technology to better reflect actual water usage, particularly for larger meter sizes.

Anderson clarified that the current SDC charge of $2,317 does not reflect the full amount permitted by the methodology. The City decided to keep its SDCs competitive with neighboring communities, resulting in all four SDCs (water, sewer, storm, and transportation) being set below their maximum levels. The new SDCs outlined represent the maximum potential charges, though the Council has the discretion to set lower rates based on various factors.

Richardson inquired about the level of SDCs assumed in the previous analysis that had just been discussed.

Galardi noted an assumption that the Systems Development Charges (SDCs) would double but hesitated to project an immediate increase to the proposed amount of $9,300. She emphasized that SDC revenue depended on development rates, which introduced variability into financial projections. While she recognized the potential for SDCs to serve as a significant revenue source when development occurred, she indicated a conservative approach due to uncertainties regarding both the City Council's stance on SDC levels and the pace of future development.

Klebes inquired about the average revenue from water Systems Development Charges (SDCs), which was approximately $75,000 over the past three years. He asked if the modeling provided an estimate for how much that revenue would increase based on the assumptions presented. He emphasized the magnitude of the revenue source from water SDCs, noting that it is not in the billions. He expressed concern that if SDCs were set too high, they could act as a barrier to development.

Richardson asked if the updated SDCs presented reflected the proposed doubled amount compared to other communities.

Galardi confirmed that the chart used the maximum SDC amount. She noted that the City was currently the lowest among the compared communities, and while the proposed increase would move the City slightly up the scale, it would still remain below the median. She said while the meter size generally works well for typical commercial and institutional users, it does not adequately address the needs of large industrial users due to their significant impact on the water system. She recommended adopting an individualized calculation for large industrial users, similar to the practice for sewer, which would be based on a gallon-per-day estimate. This approach would involve charging large industrial users based on their projected water demand, aligning with standard practices in the industry.

Anderson provided historical context regarding the disconnect in SDC collections between large industrial customers for water and sewer. He noted that, based on the size of the meter, the City would have collected approximately $500,000 in water SDCs for recent industrial developments, while $3 million was collected on the wastewater side. He suggested adopting a volume-based approach for water SDCs, similar to the current practice for sewer, which would allow for adjustments if actual usage exceeds projections. He referenced the industrial rate for sewer of $12.94 per million gallons per day and advocated for considering a similar methodology for water SDCs.

Galardi summarized the methodology for SDCs, indicating that it establishes a ceiling for potential revenue. She noted that an annual revenue of $150,000 would equate to approximately a 2.5% rate increase. For the initial calculations, they did not assume reaching the ceiling, but they could rerun the numbers if desired. Galardi emphasized the need for Council feedback

before doing so and highlighted the statutory requirements for notifying interested parties about any changes to the methodology, which must be made available 60 days prior to the public hearing. She proposed returning to this topic after discussing the rates.

Galardi summarized the current rate structure for water services, which included a fixed base charge and minimum usage allowances for residential and commercial customers. A volume charge applied for any usage exceeding these minimums. Shae said the rate adjustment conversation was divided into two main topics: the cost of service analysis and the rate structure. The cost of service analysis evaluated how each customer class could be charged based on the services provided and the principles of cost recovery. It highlighted the need to adjust rates due to expected changes from a capital improvement program. Significant projected increases in capital costs impacted how revenue was distributed among customer classes. The analysis combined industrial and commercial customers into a single non-residential category to reflect similar needs and simplify the rate structure. This approach aimed to average out peak demands among these customers while ensuring that residential customers were not impacted. The projected growth in industrial demand shifted some of the cost burden from residential to non-residential customers. The cost of service analysis indicated that non-residential customers should contribute a greater share of costs based on their usage patterns, while residential contributions might decrease in proportion. However, this shift did not guarantee a decrease in rates for residential customers, as their overall contributions remained substantial.

Anderson noted that the current analysis combined commercial and industrial customer classes, which aligned with the existing approach, as both groups already shared the same rate distinct from residential customers. He highlighted that the last cost of service analysis was conducted in 2006 and pointed out that the revenue allocation had drifted only about 3% from the ideal equity. He interpreted the data as indicating that non-residential customers contributed 51% of revenue under the existing structure, which would increase to 54% with adjusted cost allocations.

Anderson emphasized that this was an opportune moment to implement equitable adjustments to the rate schedule, considering anticipated changes in consumption and usage patterns. He suggested that, given these changes, the cost of service analysis should be conducted more frequently than the current practice of every 20 years. He reiterated the intent to maintain the combination of industrial and commercial classes into a single non-residential user class moving forward.

Galardi emphasized that adjustments to the rates would lead to an increase in the share paid by industrial and commercial users, moving from 51% to 54% due to increased water usage and allocation of costs related to fire protection and other service requirements. She directed attention to the last three columns of the presentation, which illustrated how a proposed overall revenue increase of 7.3% would impact different customer classes. Under the updated cost of service

analysis, residential rates would rise by approximately 5.5%, while non-residential rates would increase by about 8.5% to 9.5%. This shift highlighted the necessity of aligning costs with services provided, revealing that residential customers would experience a slightly lower increase compared to non-residential customers.

Anderson reiterated that the percentages discussed were based on a low industrial growth scenario, corresponding to the previously mentioned 7.3% revenue increase.

Galardi noted that under the high industrial growth scenario, residential rates would still increase less than non-residential rates. The relative differences between the two would remain consistent, even when recalibrated to reflect the lower overall rate increase of 5.3%.

Runyon asked if low and high industrial growth was in reference to new industries coming into the area. He did not think this would be happening as there was no land available for this.

Anderson said this also referred to the growth from the two new data centers once they ramped up their use.

Galardi highlighted the importance of balancing revenue recovery between the base charge and the volume rate in the context of the cost of service and rate design. She noted that excessive reliance on volume charges could destabilize revenue streams, especially during periods with significant debt service payments. While SIP revenue provided a steady income, it remained essential to ensure that rate revenues were appropriately allocated, with an industry standard suggesting at least 40% of revenue should come from fixed charges. Currently, the structure derived about 52% from fixed charges and 48% from volume. The proposed rate design alternatives aimed to reduce the minimum quantity included in the base charge but were crafted to maintain revenue recovery at or above 40%. Galardi stated that once the Council's preferences on base assumptions were established,

Richardson sought clarification on the status quo regarding usage, specifically asking if it included a volume charge.

Galardi clarified that there is indeed a volume charge in the current structure, with 10,000 gallons included in the residential base charge and 5,000 gallons included for non-residential customers. She said a significant portion of accounts do not exceed the minimum consumption levels, with 70% using less than 10,000 gallons monthly and 52% using under 7,500 gallons on average. Additionally, 40% of customers utilize less than 5,000 gallons, meaning many do not incur a volume charge.

Galardi explained that the rates presented were aligned with the updated cost of service and

based on the low industrial growth scenario of a 7.3% revenue increase. She noted that while she prepared models for various scenarios, the current presentation focused on this particular framework. Finally, she mentioned that the city had encountered challenges in securing funding, prompting the need for these considerations.

Anderson explained that the City's inclusion of 10,000 gallons in the residential base rate is unusually high, making funding discussions challenging. When securing funds for the Dog River pipeline project through SRF (State Revolving Fund) loans, the funding agency typically assumed a 7,500-gallon threshold. This discrepancy complicated negotiations, as SRF initially wanted to prorate the City's water rate based on a 7,500-gallon usage, affecting the loan terms. However, the City successfully argued that customers pay a flat rate for up to 10,000 gallons. He noted that lowering the base rate volume to 7,500 gallons or less would align with typical utility standards and streamline future funding negotiations. Lowering the base rate could also potentially allow the City to qualify as an economically disadvantaged community for more favorable loan terms. He added that other cities, like Sandy, have used SRF funds to meet match requirements for WIFIA loans, which could provide additional funding options.

Mayor Mays asked whether WIFIA funding had requirements similar to those of the State Revolving Loan Fund, specifically regarding rates or usage requirements. He noted uncertainty around this but suggested it was worth verifying.

Anderson clarified that WIFIA loans carried a single interest rate, without any distinctions based on rate structure or disadvantaged community status.

McGlothlin recalled a prior discussion about volume usage adjustments, initially aimed at promoting greener lawns during summer by setting a higher water allowance. He asked whether reducing this limit to 7,500 gallons or lower would increase revenue, as customers would then pay for usage exceeding the adjusted limit.

Anderson agreed that reducing the base rate allowance would indeed shift more cost onto consumption, making customers reach the consumptive rate sooner. He noted that similar discussions took place about 10-15 years ago, when the base rate included 15,000 gallons, which was subsequently reduced to 10,000. At the time, the City aimed to balance maintaining green lawns without disincentivizing watering. However, the 7,500-gallon threshold now used by funding agencies is a new factor that significantly impacts their considerations for future funding.

McGlothlin highlighted the potential advantage of adjusting the base rate to align with funding agency standards, suggesting it would make sense to address this while reviewing all rates. He recommended considering this alignment when developing the new rate components.

Anderson pointed out that including such a high volume of water in the base rate is unusual and that the City is an outlier compared to standard utility practices.

McGlothlin expressed confidence that neighbors would appreciate the argument for lowering the base rate, as it is likely to result in significant long-term savings.
Anderson acknowledged that customers have expressed concerns over the years about paying for water they do not use, highlighting that this sentiment is a valid aspect of the discussion regarding rate adjustments.

Galardi presented a table illustrating the proposed reduction in the residential base quantity from 10,000 gallons to 7,500 gallons. She highlighted that the first set of columns reflected a revenue-neutral scenario, meaning the overall revenue from all customers would remain the same. The revised cost of service indicated a lower rate for residential customers compared to the current fiscal year. She explained that this adjustment offered an opportunity to realign the rate structure while softening the impacts on larger volume users, who would face less significant rate increases due to the change. For smaller users, the adjustment could initially result in bill decreases, providing some relief in the first couple of years before future rate increases would apply.

Galardi noted that the FY 2025-26 projections assumed only one year of rate increases, with residential average increases estimated at about 6.8% to 7%. This initial adjustment would allow for some decreases in user bills. She explained that reducing the quantity allowance to 5,000 gallons would effectively cut the base allowance in half, resulting in a slightly lower base rate but a higher volume rate. Under this option, the typical user's bill would see a modest increase, significantly less than the projected 7.5% increase due to the adjustments in the cost of service. However, larger quantity users—such as those using 20,000 gallons in the summer—would face a more pronounced bill increase of approximately 10.8%. Smaller users would benefit even more from this adjustment, as the base charge would decrease by including only five units of water, providing additional financial relief.

Richardson clarified that under both scenarios, the total dollar amount collected would remain approximately the same, while the method of collection would change slightly. He asked if The Public Works Director or City Manager preferred the base amount being 5,000 or 7,500 gallons. Anderson expressed that his primary focus was on facilitating better financing options for the city. He supported the transition from a 10,000-gallon allowance to 7,500 gallons, suggesting that this adjustment would gradually help the community acclimate to a lower baseline. He noted that 7,500 gallons is closer to the typical usage of 4,000 to 5,000 gallons per month, which captures around 70% of water customers. This change could lead to reductions in monthly bills for many residential customers. He said the rates could be reevaluated every three to six years, allowing for potential future adjustments from 7,500 to 5,000 gallons if necessary.

Klebes concurred with Anderson, expressing difficulty in finding a compelling reason to reduce the allowance to 5,000 gallons.

Anderson noted that even with the proposed adjustment to 7,500 gallons, it would still be considered unusual for communities to include that much water in their base rate.

Galardi noted that Hood River's rate was set at 5,000 gallons, and in their rate comparison, only one other community, West Linn, included a base quantity of around 3,000 gallons. This trend indicated that larger allowances in base rates were becoming less common. However, she emphasized that transitioning to a lower base quantity did not need to happen all at once and could be phased in over time.

Klebes emphasized the importance of considering various decision points and adjustments based on future revenue source assumptions. He acknowledged that implementing any changes would require time to manage public perception and acceptance. Therefore, he suggested minimizing the impact of each change, advocating for a careful approach while reviewing the overall package of adjustments.

Anderson noted that assumptions had been made regarding water conservation as a result of the new consumptive rates. It was expected that as customers began to pay these rates, it might incentivize some to use less water, potentially impacting revenue. He mentioned that the analysis accounted for a 5% reduction in water usage, estimating a decrease of half a percent per year due to these adjustments.

Galardi noted the significance of understanding account distributions under varying rate scenarios, indicating that reducing the base quantity to 5,000 gallons would lead to a larger number of accounts facing increases, with greater peak increases compared to a base of 7,500 gallons. Both scenarios would result in a mix of increases and decreases. She explained the complexities of non-residential billing due to differing meter sizes and usage levels, providing examples for three representative meters. For the three-quarter inch meter, charges would rise from $44.56 to $47.16, with larger meters seeing even greater increases due to recalibrated rates. The smallest non-residential bills would experience approximately a 6.8% increase, while medium and large accounts would face higher percentage increases. She emphasized that it is uncommon for non-residential customers to have any volume included in their base rate, as they typically pay only for usage. Initial increases for small customers would be more significant, but future increases would be more consistent across all customers, with expectations of 7% to 8% overall.

Anderson said that for commercial billing, he preferred maintaining the base quantity at 5,000

gallons. He believed that the smallest businesses, particularly those without irrigation use, would benefit most, as their monthly usage would likely fall within the 2,000 to 3,000-gallon range. He indicated that these businesses could maintain lower monthly bills, potentially as low as $47 if their usage remained under 5,000 gallons, even after the proposed realignment.
Galardi presented a comparison of residential water bills under the proposed rate adjustments for the first year for a 10,000-gallon-per-month user. She noted that the transition towards a higher volume-based charge will increase bills for high-usage customers, moving them up in the comparative ranking. The presentation highlighted the impact of a projected 7% rate increase, assuming a $3 million SIP with low industrial usage, and compared this revised bill to current rates in other communities. She highlighted that under the proposed structure, a 10,000-gallon user would see a relative rank increase due to the reduced base charge, whereas a 5,000-gallon user would see a decrease in their bill for the same reason. This structure, she noted, clearly benefits lower-usage customers by lowering their overall costs.

Mayor Mays clarified that, under the 10,000-gallon-per-month scenario, 84% of residential revenue would derive from the fixed charge, while 16% would come from the variable charge. He confirmed that this breakdown includes rate increases needed to fund all planned infrastructure improvements.

Galardi explained that while rates are set to increase, other communities' rates will likely rise as well, though the extent is uncertain. She noted that a 10,000-gallon-per-month user would see a rank increase due to the reduction in the base charge, while a 5,000-gallon user would experience a bill decrease, positioning them below the average. These changes illustrate that the proposed rate structure adjustments would primarily benefit lower-usage customers.

Mayor Mays reviewed the 84% fixed, 16% variable rate scenario, noting that with a 7.3% initial increase, the City would rank 11th out of 25 communities in terms of average water bill size. For a 5,000-gallon-per-month user, where 100% of the charge would be fixed and no variable charge applied, the City would rank 13th out of 25 communities.

Galardi noted that The Dalles' base charge includes a 5,000-gallon allowance, which is uncommon among peer communities, except for Hood River and West Linn. She explained that this structure benefits smaller users by better aligning their costs with those of larger users, as currently, larger users pay comparatively less relative to smaller users and rates in other communities. The proposed adjustments would significantly improve this alignment.

Richardson pointed out that rates have been subsidized by drawing on reserves rather than fully covering costs, noting that this approach has not kept up with expenses.

Galardi presented a comparison of non-residential rates, noting several complexities due to

variations in meter sizes, volumes, and customer classifications across cities. She highlighted that while current base meter charges for small meters are similar to other cities, larger meters are notably underpriced. Both proposed rate structures recalibrate these charges to align with current standards. Galardi noted that other agencies typically don't include a quantity allowance in their base charge, and while practices differ, The Dalles' rates remain generally lower than those in comparable cities. The proposed "zero base" option would result in larger bill increases for high-volume users. A cost-of-service rate structure would reduce projected rate increases for residential users and yield modest bill reductions for small-volume customers. Initial bill increases would be limited, particularly under options with quantity allowances of 7,500 or 5,000 gallons. Non-residential users would bear a greater share of costs under cost-of-service rates, particularly large users, while the reduction in the quantity allowance would support lower rates for small-volume customers.

Mayor Mays reviewed the preferred scenario with a 7.5% increase, correcting his earlier statement to indicate that 92% of revenue would come from the fixed charge, while 8% would derive from the variable charge. Under this scenario, the City would rank 13th out of 24 communities based on bill size.

McGlothlin asked how many large meters were in the City. He expressed the need to better understand the definition of non-residential customers, which he recognized encompassed various businesses and factors.

Anderson mentioned that a definition of industrial customers had been developed to differentiate between industrial and commercial classifications within the non-residential customer base. However, further analysis indicated that it was more beneficial to consolidate these categories again, especially for considerations involving parks.

McGlothlin explained that his inquiry aimed to address fairness in assigning rights to recover operational costs and future capital projects. He emphasized the importance of avoiding the overburdening of any particular class of ratepayers while shifting rate increases. He noted the challenge of effectively communicating any increases or changes to the public, stating that it would require significant effort from the communication department.

Anderson stated that while it was not mentioned in the presentation, the Council might recall that the City had not adjusted water rates for ten years. The last adjustment in 2014 was a 5% reduction. He pointed out that inflation had caught up with the City over the past two years, leading to less money available for reserve funds.

Mayor Mays inquired about the small, medium, and large quantity bills, specifically asking about the assumption that a large bill would exceed 2 million gallons per month. He requested

information on how many customers used more than 2 million gallons.

Anderson noted that there was one customer approaching 2 million gallons per month, with multiple facilities contributing to this total across various accounts.
Anderson expressed that he was interested in the Council's policy direction regarding assumptions for industrial use. He asked whether the Council preferred a conservative approach with low industrial use, a middle-ground approach, or a more optimistic assumption with high industrial use. He emphasized that this decision would reflect the Council's comfort level concerning the anticipated revenues needed to fund the capital improvement plan and operational costs.

Galardi said there was also the need to determine the timing and specifics of the first rate increase, suggesting it could occur in the first quarter of 2025. She highlighted the importance of choosing rate structure options for both residential and non-residential customers for the Master Plan report. Galardi raised questions about using the $3 million SIP and whether to adopt low, medium, or high industrial usage assumptions. She advised maintaining fixed charge revenue recovery above 40%, ideally around 50%, and noted that while achieving a 52% recovery rate may be challenging as large industrial users increase their consumption, it could lead to a stable revenue stream once those users are fully operational.

Richardson asked for clarification regarding a previous statement about maintaining a 52% revenue recovery rate. He acknowledged some confusion and sought further explanation on the challenges associated with achieving this rate, particularly in the context of Google's ramp-up in usage.

Galardi explained that in evaluating the rate structure, it is important to consider various objectives such as revenue stability, adequacy, and equity. She noted that as a large user like Google increases its consumption, it significantly impacts the volume side of the financial ledger, which could shift the overall balance of the revenue structure. She clarified that it would be challenging to reduce the portion of revenue coming from base charges due to Google's significant impact on the system and revenue recovery. She emphasized that this impact is not necessarily negative, as it is expected that revenue from Google will remain a relatively stable source, despite being categorized as variable charge revenue.

Runyon stated that he did not care whether the rate was a base of 5,000 or 7,500 gallons and would support whichever the City Manager did. He reiterated that the necessary upgrades to the Wicks Reservoir and Crow Creek Dam were independent of Google's influence and mentioned that he had addressed this issue in the Columbia Connection news. He then inquired about the status of the well that Google had offered from their property.

Anderson stated that Google was drilling two new wells for the City on property that they would give to the City. He clarified that this was not merely a transfer but a direct provision of resources. Additionally, he mentioned that Google had transferred some of the water rights associated with the original aluminum plant to the City.
Runyon remarked that with the transfer of the wells to the City, it effectively allowed for the possibility of selling the water from those wells back to Google. He said in addition to the transfer of the wells, Google would be contributing SIP and enterprise funds to the community, which warranted effective communication to the public. He inquired whether there had been any estimates regarding how much of Google's water needs would be met by the additional wells from Google's property.

Anderson said that the capacity of the two new wells exceeded the amount of water requested for the two new data centers.

Runyon emphasized the importance of highlighting Google's contributions to water infrastructure improvements that would benefit their facility. He suggested that this point should be consistently included in all communications.

Anderson said Google was covering all the costs associated with infrastructure improvements, including two new wells, two new reservoirs, a booster pump station, and necessary water main enhancements to support the two new data centers. He clarified this funding did not require repayment and was part of an infrastructure agreement valued at an estimated $28.5 million at the time it was established, which also included a new sewer pump station.

Runyon expressed the necessity of informing the public about key factors related to water infrastructure improvements. He highlighted the importance of developing a clear bullet point list that demonstrates the complexity of the situation and clarifies that it is not solely anyone's fault. Runyon noted that, despite discussions over the years, issues like the Dog River pipeline had only recently gained attention. He raised concerns about why these matters were not addressed earlier, anticipating that this question would arise in public discussions and media coverage.

Anderson explained that the last update of the water master plan occurred in 2006. Although several projects were identified and completed from that plan, including improvements to the water treatment plant and the construction of Vista reservoir and its supporting pump station, the current assessment reflects changing community needs over the next 20 years. He emphasized the importance of updating master plans every 10 years to prevent significant projects from arising unexpectedly. The focus had previously been on the water treatment plant, but a recent thorough condition assessment revealed that existing facilities are nearing the end of their life, making replacement more cost-effective than rehabilitation. He acknowledged that the need for $200 million in new projects might seem sudden but is based on comprehensive evaluations of

the infrastructure.

Runyon emphasized the importance of effectively communicating the key points regarding water infrastructure improvements to the public. He noted that as a former radio broadcaster, he understood the significance of presenting clear information and numbers to citizens. Runyon acknowledged the city's past reservoir improvements but expressed that the current situation would likely be perceived as new and possibly lead to misplaced blame. He reiterated that Google's contributions, including infrastructure support and additional water capacity from new wells, should be highlighted, especially since the city has not raised water rates in ten years and has seen reductions in service sizes. He expressed appreciation for having these details available for public discussions.

The Council discussed and reached a consensus on recommendations to present to help the Council make decisions and approve the Water Master Plan. The proposed direction for staff included assuming $3 million in SIP funding, utilizing a low growth industrial use model, and reallocating rates based on the cost of service. This involved lowering the residential base rate to 7,500 gallons per month while keeping the non-residential base rate at 5,000 gallons. Additionally, implementing a rate increase in the first quarter of 2025. It was noted that the overall revenue increase of 7.3% would not uniformly affect all users, as some may see a reduction in their rates.

Randall raised concerns about the industrial use aspect. He noted that while the initial demand from data centers would likely be significant, there might be long-term reductions in water usage as these facilities implement conservation measures. He inquired whether such efforts to minimize water consumption could impact the projections for long-term industrial water usage.

Anderson confirmed that as data centers become operational, they indeed tend to look for ways to optimize their water usage. He indicated that many of these facilities are increasingly focused on sustainability and efficiency, which can lead to reduced water demands over time. Anderson explained that while the initial consumption may be high, the potential for long-term conservation practices could positively influence the overall projections for industrial water usage. He emphasized the importance of continually monitoring these trends to ensure that the water master plan remains adaptable to changing circumstances.

Long expressed that while rates going up is undesirable, high water usage is also a concern. She noted that it may not be negative if industrial users reduce their water consumption over time, especially during a drought. This reduction could provide an opportunity to gradually adjust technology and rates.

Anderson noted the need for direction on System Development Charges (SDCs). He mentioned

that the current SDC was $2,317, while the method could allow for charges exceeding $9,000. He inquired if there was interest in potentially doubling the current rate, emphasizing that the City's SDCs were low compared to other communities, even when accounting for parks, which had a larger SDC than the city's combined charges.
Mayor Mays stated that, assuming the increase could stifle development, there might be a perception of that consequence. He noted that raising SDCs would likely generate minimal revenue, if any, or potentially zero impact on the discussions that had been held.

Klebes added that the city was completing a housing production strategies effort and noted that there had been comments regarding different tiers for SDCs that might be worth considering for inclusion in the discussion at some point.

Anderson agreed with the previous point and suggested that further discussion might be warranted. He said there was an option to leave SDCs unchanged for now. He highlighted that the plan identified all lands within the urban growth area, not just the City limits, indicating more opportunities than might be assumed. He referred to the housing production strategy and state legislation allowing two houses on a single lot, which could facilitate infill and increase SDC collection for the city.

Mayor Mays asked Council how they felt about SDCs.

Councilors agreed they would like to leave it alone and wait to decide based on the housing production strategy.

Anderson suggested bringing back a rate structure that adjusted the factors used to calculate SDCs. He sought confirmation on whether there was consensus to proceed with this adjustment. He noted that the residential size was already quite close to where it should be and would have actually decreased for larger residential developments.

Council confirmed they agreed with the suggestion.

Anderson noted that the heavy lifting for the last three presentations had been completed. He indicated that, based on the direction received that night, staff would incorporate the feedback into a financial plan as part of the larger master plan. He anticipated having a draft available for public review in November and planned to present the plan to the City Council during a public hearing on December 9. Anderson stated that the Council would have the option to adopt the plan that night if they chose to do so; otherwise, they could reschedule the adoption for January, depending on their direction.

Mayor Mays inquired about the public relations aspect of the plan, asking how it would fit into

the overall strategy regarding timing and substance.

Klebes noted that a cross-functional team, including staff from Public Works, was working on incorporating feedback from the meeting into their communications strategy. They planned to focus on three main areas: the enterprise zone and SIP, educational content regarding the existing water system and its needs, and the integration of revenue usage in relation to rate discussions. He emphasized that the educational components of the water master plan would be rolled out in conjunction with details about SIP and enterprise zone agreements, ensuring a comprehensive approach as they finalized the rate information.

Anderson stated that the talking points mentioned by Councilor Runyon were precisely what the team was working on and crafting as part of their communication strategy.

ADJOURNMENT

Being no further business, the meeting adjourned at 8:31 p.m.

Submitted by/
Amie Ell, City Clerk

SIGNED: Richard A Mays
Richard A. Mays, Mayor

ATTEST: Amie Ell
Amie Ell, City Clerk