

**CITY OF NEWBERG
CITIZENS' RATE REVIEW COMMITTEE
THURSDAY, OCTOBER 5, 2017
6:30 PM MEETING
PUBLIC SAFETY BUILDING TRAINING ROOM (401 EAST THIRD STREET)**

I. CALL MEETING TO ORDER

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

II. ROLL CALL

Members Present: Rick Rogers, Chair Nick Morace Marilyn Van Grunsven
Bill Rourke Holly Bradford Sarah Grider
Mayor Bob Andrews, ex-officio

Staff Present: Matt Zook, Finance Director
Jay Harris, Public Works Director
Kaaren Hofmann, City Engineer
Caleb Lippard, Assistant Finance Director
Joe Hannan, City Manager

Others Present: Deb Galardi, Galardi Consulting LLC

III. COMMITTEE BUSINESS

1. Water Capital Improvement Plan Presentation

City Engineer Kaaren Hofmann reviewed the five year Water Capital Improvement Plan which was a large factor in the rates and amount of revenue needed for the system. She gave a status update on the projects that she discussed two years ago with the Committee. The projects that had been completed included S. Springbrook Road, the Springs improvements and divestitures, North Valley reservoirs, Water Master Plan, well field pump #8 upsizing, non-potable water plan which was incorporated into the Water Master Plan, and new well #9. The projects underway were the Riverfront Master Plan and hypochlorite generator. The valves on College Street would be done next year, the College Street relocation project would be starting this year, new hydrants and valves were ongoing, fixed base radio reads would start in 2020, Water Conservation Master Plan would start next year, decommissioning wells #1 and #2 would be next year, and general piping projects had not yet started. The list of CIP projects included projects that were on last year's five year CIP list because they were still moving forward and there were some new projects that had been added through the Water Master Plan process. She described the projects in the proposed CIP including replacing the hypochlorite generator at the Water Treatment Plant, adding valves on College Street, relocating the water line on College Street, systematically replacing hydrants and valves, fixed base radio reads for water meters, updating the Water Conservation Plan, water rights reconfiguration, decommissioning wells #1 and #2, redundant supply project for emergency purposes, Bell Road East pump station, Bell Road West pump station, fire flow projects, N. College to N. Terrace pipe upsizing, Chehalem Drive waterline extension, seismic resiliency, general replacement piping projects, and multi-fund projects.

2. Water Rates Presentation

Finance Director Matt Zook introduced Deb Galardi who had been a consultant for the City for over ten years.

Ms. Galardi gave a background on the water rates which were last updated in 2015-16. Since then the Water Master Plan had been updated. It established a new Capital Improvement Plan which was a major driver for the rates. The SDCs were reviewed to make sure they were covering the projects in the new CIP and they had been reduced because water usage had decreased and there was no need for a new water treatment plant as predicted. They also considered whether there should be an SDC for non-potable water. Since it required less infrastructure, the non-potable SDC was about \$1,500 less per equivalent meter than the potable SDC. This would help recover some of the past investment the City made in those lines and some future improvements. She discussed past years where there were significant rate increases and years where there was no increase or only an inflationary increase. The non-potable rate did not change until 2017 where it was reduced. She explained the three components to the rate structure. The fixed charge included a service charge that everyone paid of \$2.18 per month per account and a meter charge of \$12.95 to \$216 per month depending on the size of the meter and if it was potable or non-potable. There was also a variable charge which was based on the volume of water that was used. The highest was \$7.20 per 100 cubic feet for irrigation during the peak season; most customers paid \$3 to \$4 per 100 cubic feet. The non-potable rate was \$2.51 per 100 cubic feet. She described what was included in each of these charges. There had been a policy decision in the past to increase the fixed charge in order to recover some of the costs to run the system, which did not change when water usage changed. The fixed charge in Newberg was about 26% of the rate. She noted having a fixed revenue recovery of 30% to 40% was desirable and best practice. It was a policy question for the CRRC whether or not they would continue to increase the fixed charge.

There was discussion regarding the increase to the fixed charge and how it would affect low income.

Ms. Galardi continued on to discuss water use trends. There had been a decline of usage in the last several years due to high efficiency appliances and low flow fixtures and normal fluctuations due to weather. There had not been the amount of growth that was anticipated. There were also reductions in industrial and non-potable usage. She then reviewed the water sales revenue and compared what was projected two years ago and what was being projected now. Overall they were tracking well and there was no reason to significantly change what was projected for the future. The updated projections included a recommendation for a 3.5% rate increase for each year over the next two years. There had been an increase in the number of projects and she noted the key additions. Those projects were built into the forecast through 2022-23. The numbers had also been adjusted for inflation starting in 2019 using 3%.

There was discussion regarding funding from SDCs and what it could be used for.

Ms. Galardi moved on to capital funding. The funding included grants, SDCs, and operating transfers which included current reserves. Looking at the operating costs, there were some increases in administrative support services, vehicle equipment replacement, and personnel cost escalation. She explained the components of the revenue requirements that the rates needed to recover. These included operation and maintenance, capital costs which included debt service, and capital improvement transfers. Every year they were drawing down on the reserves in order to fund a portion of the requirements, namely the capital improvement transfers. She then reviewed the graphs that showed the revenues and expenditures. Something for the CRRC to consider was that they were utilizing reserves to keep rate increases down and how that would affect the future. The forecasts were based on assumptions, which were being kept mostly the same from last time. She reviewed the assumptions for customer growth, water usage, operating costs, inflation, personnel costs, and franchise fees. The next

steps would be bringing back any information that would help with evaluating the proposed rate and rate structure, such as usage by class or certain scenarios.

Discussion ensued regarding income based rates and expansion of the non-potable system.

Chair Rogers wanted to see what the 40% fixed charge would look like and intervals from where they currently were to the 40%.

3. Non-Potable Rate Reduction Request

City Manager Joe Hannan gave a background on the non-potable water system. Currently the only user of the system was CPRD for the golf course. The City Council reduced the non-potable rate beginning January 2017 to \$2.51. They also directed staff to look into reducing the rate to \$2. The Council was committed to the use of reuse water both in the short term and long term. They wanted to find more customers, but did not want to put in more money up front to extend the lines. In the master plan for Springbrook there was a requirement for putting in purple pipe as development occurred. There were also industrial uses, such as Berry Noir, who wanted to expand and use the purple pipe and they would pay for the pipe to their facility. However Berry Noir was outside the City limits and there was a current policy that the only way to allow extensions outside of City limits was based on a hardship. There was another company, Cal Portland, that would like to use the reuse water, but the challenge was the temperature of the water coming out of the reuse facility for the cement. They would need thermodynamic technology to make it work as well as extending the purple pipe to their site. The City was asking for the governor's help to pay OSU or George Fox to find an innovative solution. Another potential for customers was the waterfront development. The request of the City Council to the CRRC was to look at reducing the reuse water rate to \$2. Staff was actively selling the concept of reuse water and he expected that there would be more customers in the future.

4. Committee Discussion

Chair Rogers would like to know the impact of reducing the rate. He clarified this would be \$2 for any user of the reuse system, public or private.

There was discussion regarding where the purple pipe was planned to be installed, funding for the system, and potential customers.

Ms. Galardi said the amount of reuse water that was used varied from year to year. This had been a low water year and the annual revenue was \$30,000. If the rate was reduced by 20%, going from \$2.51 to \$2, it was about a \$35,000 reduction over a six year period and was not material.

Chair Rogers clarified it was material to the relationship between CPRD and the City.

There was discussion regarding whether or not the new rate would be the same for all users and when it should be implemented. CM Hannan recommended making the new rate effective January 1, 2018.

Chair Rogers wanted to make sure it was clear to CPRD that by reducing the rate to \$2, the City was subsidizing the system further.

There was consensus for Ms. Galardi to come back with some comparisons of other jurisdiction's rates and examples of other communities who decided to do that subsidy to promote the service.

IV. PUBLIC COMMENT

Gary Tolman, Newberg resident, thought reducing the non-potable rate to \$2 was a good idea and that the City would make it up on the other end with new customers. Housing development in Newberg was ramping up and he thought it would be wise to increase the fixed charge to have money in the bank in case there was a problem. He thought 40% was high, but starting at the 26% and gradually going up from there was a good plan.

Chair Rogers said the next CRRC meeting would be held on October 26.

V. ADJOURNMENT

The meeting adjourned at 8:42 PM.

Approved by the Citizen's Rate Review Committee on this 7th day of December, 2017.



Citizens' Rate Review Committee Recording Secretary



Citizens' Rate Review Committee Chair