

City of Sherwood, Or.

ORDINANCE NO. 89-902

AN ORDINANCE AMENDING ORDINANCE NO. 514, REGULATING CITY WATER SERVICE AND CHARGES, AS ORIGINALLY ADOPTED ON MAY 5, 1961, AND SUBSEQUENTLY AMENDED, AND ESTABLISHING AN EFFECTIVE DATE

WHEREAS, the City adopted Ordinance No. 514, regulating water service and charges in the City of Sherwood, on May 5, 1961, and has subsequently amended said Ordinance several times, most recently in 1987 through Ordinance No. 87-861; and

WHEREAS, Ordinance No. 87-861 embodied the principle that the cost of normal operations and maintenance of the City water system should be fully borne by local water utility charges, with other water service related revenues such as connection charges dedicated to special projects, capital improvements, and emergencies; and

WHEREAS, the fee schedule adopted by Ordinance No. 87-861 was the minimum necessary to stabilize the fiscal condition of the City water system and to shift the cost of maintenance and operations to service charge revenues; and

WHEREAS, the City Council has received and considered a two-year update to 1987's comprehensive analysis of the fiscal and operational condition of the City Water Fund and is in fact bound by Ordinance No. 87-861 to consider water rate adjustments on an annual basis; and

WHEREAS, the updated water rate study shows that the Water Fund remains in essentially good fiscal condition as a result in the changes effected in 1987, but that services charges have not been indexed to the rate of inflation, as have City personnel costs, equipment rental transfers, and interfund transfers, all of which have contributed to increased Fund costs; and

WHEREAS, indexed increases to the aforementioned budgetary line items were 3% in FY 1988-89, and 4% in FY 1989-90, which were actually less than the national cost of living index; and

WHEREAS, a further impact to Water Fund revenues will result from recent legislative changes to State statutes governing System Development Charges, whereby water system connection charges must be accounted for separately and can be used only for capital projects, not for capital, special projects, and emergencies as intended by Ordinance No. 87-861; and

WHEREAS, a water replacement reserve charge was established in 1983 for the purposes of funding the depreciation and replacement of existing City water facilities and this charge has not been increased since then, and furthermore even if the intervening six years of inflation is discounted, the reserve charge only generates about one-third of the revenue needed for a system of water lines alone that depreciates some \$47,000.00 annually; and

WHEREAS, Ordinance No. 87-861 contains a four-month summertime rate reduction that is costly and difficult to administer and bill, and is also of dubious effectiveness and contrary to City policies of water conservation.

NOW THEREFORE, THE CITY RESOLVES AS FOLLOWS:

Section 1. Water User Charges. After due consideration of the water rate study prepared and presented to the City Council, and the factors put forward in the body of this Ordinance, and in accordance with Ordinance No. 514, Section 5g, which mandates the annual consideration of water rate adjustments, the Council has determined that adjustments to basic user charges are warranted, and that a net nine percent (9%) adjustment should be sufficient to recoup the cost of inflation over the last two years and the anticipated loss of service connection revenues due to recent State legislation. This percentage shall be achieved by adjustments to "overage" charges.

Section 2. Reserve Charges. After consideration of the information providing documenting the inadequacy of the City's water system reserve charge for meeting the depreciation of said system, the Council has determined that adjustments to the reserve charge are warranted and that a twenty percent (20%) adjustment should be sufficient to recoup the cost of inflation over the last six years.

Section 3. Other Charges. After consideration of the cost and inefficiency of the City's "summertime" rate discount, and of the excessive number of years since the City's water system replacement reserve charge has been adjusted, said summertime discount, Section 5(h)(2) of Ordinance No. 87-861, is hereby repealed and the reserve charge increased to recoup the cost of inflation over the last two years.

Section 4. Amendments. The following sections of Ordinance No. 514, as amended by Ordinance No. 87-861, are hereby further amended to read:

Section 5: Rates to be charges.

Whenever in this section there is reference to a charge or fee based upon meter size, the same fee shall also apply to any service connection or service tap, made without installation of a meter, that has a flow capacity equivalent to that size meter.

(a) In-City Rates:

- (1) Generally the following monthly rates shall be charged customers for use of water supplied within the corporate limits of the City of Sherwood:

<u>Meter Size</u>	<u>Monthly Minimum</u>	<u>System Replacement Reserve Charge</u>	<u>Total Monthly Minimum</u>
5/8" - 3/4"	8.00	1.80	9.80
1"	12.80	2.88	15.68
1 1/2"	19.19	4.32	23.51
2"	35.19	7.20	42.39
3"	55.98	12.60	68.58
4"	79.97	18.00	97.97
6"	127.95	28.80	156.75
8"	175.94	39.60	215.54

Rates over 4,000 gallons: \$.70 per 1,000 gallons

(b) Out-of-City Rates:

- (2) Generally the following rates shall be charged customers for the use of water supplied without the corporate limits of the City of Sherwood.

<u>Meter Size</u>	<u>Monthly Minimum</u>	<u>System Replacement Reserve Charge</u>	<u>Total Monthly Minimum</u>
5/8" - 3/4"	16.00	4.74	20.74
1"	25.60	9.42	35.02
1 1/2"	38.38	12.96	51.34
2"	70.38	22.68	93.06

Rates over 4,000 gallons: \$1.44 per 1,000 gallons


Section 5. Effective Date. This Ordinance shall become effective on January 1, 1990 so as to be coincident with the normal City water billing cycle.

Duly passed by the City Council this 29 day of November, 1989.

Approved by the Mayor this
1 day of December 1989.


Norma Oyler

Attest:


Polly Blankenbaker, City Recorder

	AYE	NAY
Birchill	<u>✓</u>	—
Chavez	<u>✓</u>	—
Hitchcock	<u>✓</u>	—
Boyle	<u>✓</u>	—
Oyler	<u>✓</u>	—

November 1, 1989

To: Mayor and Council
From: James Rapp, City Manager
Re: Water Rate Study Update

In 1987, the City adopted a new water service rate schedule. These new charges were decided upon after review of the most extensive rate study in the City's recent history and embodied a new principle for setting rates (the exhibits from the 1987 study, updated through 1989, are attached for your information). Essentially, the Council determined that regular monthly user charges should be high enough to fully support Water Fund operations. Variable "development" revenues (such as connection fees, building permit fees, and interest) were to be treated as "extras" and budgeted as available for capital programs, special projects, and emergencies. This rate policy has now proven to be prescient, as the State's new System Development Charge (SDC) statutes will mean that water service connection fees by law can only be used for water system capital improvements. Accordingly, the FY 1990-91 budget will include a "System Reimbursement Fund" separate from the Water Fund operating budget.

As can be seen from the attached rate study exhibits, the trends we experienced in 1982-1987 are relatively unchanged over the last two years. Our strategy of funding operations out of user fees has been successful and the Fund has been healthy despite receiving only modest "development" revenues in 1988 and 1989. However, the 1987 rate increase was actually just under the minimum needed to cover all normal Fund expenses (the 1987 study indicated that \$145,651 would be generated, but that \$147,500 was needed). Therefore, regular rate adjustments become almost mandatory to protect the "fiscal philosophy" the Council adopted in 1987. In fact, the City's 1987 ordinance mandates regular rate review.

The simplest approach would be to tie rate adjustments to other cost indexes used by the City. Currently, personnel costs, interfund transfers, and equipment rental transfers are being adjusted at a percent or two below the national cost of living index (the City's adjustments were 3% in 1988-89, and 4% in 1989-90). This approach is somewhat complicated, however, by the status of water service connection fees. As noted earlier, new State legislation defines connection fees as System Development Charges. SDC's must be accounted for in a separate fund and used exclusively for capital projects. Although our 1987 "fiscal philosophy" is consistent with this legislation, the difference between local philosophy and State statute does remove some of the potential flexibility in the regular Water Fund budget. For example, 1988-89 connection fees amounted to about \$9,000. To replace this money, user charges would have to be increased by

6%. Given our "philosophy" and new budget practices, this full amount need not be replaced, nevertheless some additional factor above indexed inflationary increases is probably prudent. Please refer to Polly Blankenbaker's memorandum of October 31 (attached) for a recommendation for the actual form of this increase. Polly's recommendation translates to a net increase of 9%.

In 1987, the Council added a "summertime" rate discount to encourage an attractive community appearance. This discount has proven to be time consuming and costly in terms of reprogramming our billing system twice a year, reduces somewhat Fund revenues, is contrary to our water conservation practices, and perhaps most importantly probably has no real impact on community appearance. Repeal is recommended.

Finally, we come to perhaps the most significant issue identified by our 1989 re-look at water rates. In 1983, the City established a Water System Replacement Reserve. This reserve is placed in a set-aside fund and is used to replace the existing systems (waterlines, reservoirs, wells, telemetry, etc) as it ages. Over the years, only small amounts have been spent for replacement of old waterlines. The 1989-90 Fund balance now stands at about \$85,000. Several problems make themselves evident:

1. Even assuming that the rates set in 1983 were proper for the time, six years of inflation must erode the effectiveness of the Fund (doubly so when the Fund's purpose is to meet the costs of future improvements).
2. When compared to the cost of replacing wells and reservoirs the dollars generated (about \$17,000 annually) are insignificant.
3. Most dramatically, the annual depreciation on City waterlines alone is \$48,000. Furthermore, this is based on the cost at the time of installation. Thus a 300% increase would be needed just to keep pace with waterline depreciation (to say nothing of reservoirs, wells, etc).

This situation is quite obviously a daunting one, and one that practically speaking can't be solved by some massive one-time rate increase. I would recommend, however, that the rate at least be brought up to date with respect to 6 years of inflation. The only local barometer we have for this is the 21% in total COLA's granted from July 1, 1984 to July 1, 1989. The Council may wish to consider whether a comprehensive depreciation study developing a long term strategy for infrastructure replacement might be a good goal for 1990. This could be combined with the rate study for SDC's which we will have to produce in 1990.

Recommendation: That the Council select basic rate increase percentages and formulas for water user fees and reserve charges, and direct staff to prepare an ordinance for public hearing and consideration on November 29, 1989.

October 30, 1989

To: Jim Rapp, City Manager

From: Polly Blankenbaker, Director Finance & Administrative
Services *Polly*

Subject: Water Rate Increase

In compiling the information for the comparative rate schedule (Exhibit E), it became apparent that an increasing number of water districts are charging a base rate that does not entitle the customer to a set number of gallons and that the customer is being billed for all the water metered.

In keeping with this practice, I recommend that the City's base rate remain the same (\$8.00/month for 4,000 gallons) and that the over 4,000 gallon charge be increased from \$.60/1,000 gallons to \$.70/1,000 gallons.

This scenario is set forth as option No. ⁷/~~8~~ on Exhibit B. Even though this will generate the highest revenue return, many of our lower use customers, especially those on fixed income and retail establishments with only bathroom facilities, will not experience any increase.

Please note that the attached exhibits assume that the City's reserve charge will remain the same. This monthly charge of \$1.50 to our basic rate payer is now added to the \$8.00 minimum plus per gallonage usage charges as noted in the City Manager's cover memo, this reserve charge falls woefully short of generating the capital to depreciate and replace our water system. Any changes to the reserve will of course increase the overall bill of our City water customers.

I also recommend that the four month, \$1.00 reduction in the base rate be eliminated.

EXHIBIT A

WATER FUND COMPARATIVE ANALYSIS - FY 85-86 TO FY 89-90

	ACTUAL 1985-86	% INC/ DEC.	ACTUAL 1986-87	% INC/ DEC.	ACTUAL 1987-88	% INC/ DEC.	ACTUAL 1988-89	% INC/ DEC.	ESTIMATED 1989-90	89-90 AS COMPARED TO 85-86
LOCAL UTILITY CHARGES	115,152	+ 6.8	123,008	+22.5	150,668	- 5.0	143,103	+ 4.8	150,000	+30.3
FINANCE CHARGE	0		0		1,079		1,033		1,050	
SERVICE CONNECTIONS	14,930		7,953		12,270		8,460		8,064	-46.0
DISCONNECT FEE	698		1,002		781		749		765	+ 9.6
BLDG. PERMITS/ENG. PLAN CK	3,820		853		3,079		1,068		1,000	-73.8
INTEREST EARNED	906		388		1,845		5,028		6,000	+562.3
SERVICE REIMB/INS. CLAIM	2,328		1,783		1,347		501		500	-78.5
TRANSF. WATER REPL. RESERVE			15,000		2,578		2,817		22,000	
PAYBACK AGREEMENTS					6,298					
REVENUE SUBTOTAL	137,834	+ 8.8	149,987	+20.0	179,945	- 9.6	162,759	+16.4	189,379	+37.4
BEGINNING FUND BALANCE	3,568	+212.2	11,142	-35.2	7,216	+587.7	49,625	+14.6	56,885	+1494.3
TOTAL RESOURCES	141,402	+14.0	161,129	+16.2	187,161	+13.5	212,384	+15.6	246,264	+74.2
PERSONAL SERVICES	50,165	+ 3.0	51,660	- 4.9	49,106	+28.4	63,069	+10.3	69,552	+38.6
MATERIALS & SERVICES	35,745	+33.3	47,645	+ 8.3	51,607	-21.2	40,675	+ 7.7	43,796	+22.5
CAPITAL OUTLAY	2,883		8,643		181		3,815		59,678	+1970.0
TRANSFERS										
EQUIPMENT RENTAL FUND	11,826		13,467		10,650		18,667		20,000	+69.1
OPERATING EXPENSES SUBTOTAL	100,619	+20.7	121,415	- 8.1	111,544	+13.2	126,226	+52.9	193,026	+91.8
TRANSFER TO GENERAL FUND	29,641	+ 9.6	32,498	-20.0	25,993	+12.6	29,273	- 3.0	28,379	- 4.2
CONTINGENCY/END. FUND BAL	11,142		7,216		49,625		56,885		24,859	+123.1
TOTAL EXPENDITURES	141,402	+14.0	161,129	+16.2	187,162	+13.5	212,384	+16.0	246,264	+74.2
ELECTRICITY, WELLS*	25,046		24,064		25,822		25,145		25,900	

*included in Materials and Services, broken out for illustration purposes

EXHIBIT B

REVENUES GENERATED BY VARYING RATE CHANGES

OPTION NO.	MINIMUM RATE	% INCREASE	GALLONS ALLOWED	INCOME MINIMUMS	/1,000 GALLONS	% INCREASE	OVERAGE INCOME	90% OF REVENUE	13,000 GAL. 2 MO. RESID.
Current	8.00		4,000	\$81,120	\$.60		\$ 92,930	\$156,645	\$19.00
1	8.25	3.1	4,000	83,655	.60	.0	92,930	158,927	19.50
2	8.25	3.1	4,000	83,655	.65	8.3	100,675	165,897	19.75
3	8.50	6.25	4,000	86,190	.60	.0	92,930	161,208	20.00
4	8.50	6.25	4,000	86,190	.65	8.3	100,675	168,179	20.25
5	8.50	6.25	4,000	86,190	.70	17.0	108,418	175,147	20.50
6	8.00	.0	4,000	81,120	.80	33.3	137,677	196,917	20.00
/ 7	8.00	.0	4,000	81,120	.70	17.0	108,418	170,584	19.50

EXHIBIT C

RATE CLASS	DESC./ SIZE	CURRENT	PROPOSED
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1	3/4"	8.00	
2	1"	12.80	
3	1 1/2"	19.19	
4	2"	35.19	
5	3"	55.98	
6	4"	79.97	
7	6"	127.95	
8	8"	175.94	

6" LINE FOR SPRINKLER = \$10

9	3/4" W/6"SP	18.00	
10	1" W/6"SP	22.80	
11	1 1/2" W/6"SP	29.19	
12	2" W/6"SP	45.19	
13	3" W/6"SP	65.98	
14	4" W/6"SP	89.97	
15	6" W/6"SP	137.95	
16	8" W/6"SP	185.94	

8" LINE FOR SPRINKLER = \$15

17	3/4" W/8"SP	23.00	
18	1" W/8"SP	27.80	
19	1 1/2" W/8"SP	34.19	
20	2" W/8"SP	50.19	
21	3" W/8"SP	70.98	
22	4" W/8"SP	94.97	
23	6" W/8"SP	142.95	
24	8" W/8"SP	190.94	
25	SR/CTZN DSCNT	7.00	

OUT OF CITY RATES

26	3/4" OUT/CTY	16.00	
38	SR/CTZN DSCNT O/C	15.00	

41	IN-RATE PER 1,000 GAL	.60	.80 .70
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42	OUT-RATE PER 1,000 GAL	1.20	1.60 1.40
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RESERVE RATES

IN CITY

1	3/4"	1.50	
2	1"	2.40	
3	1 1/2"	3.60	
4	2"	6.00	
5	3"	10.50	
6	4"	15.00	
7	6"	24.00	
8	8"	33.00	

OUT OF CITY

9	3/4"	3.95	
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EXHIBIT D

EFFECTS ON EXAMPLE WATER BILLS OF OPTION ⁷/₆, EXHIBIT B

<u>ACCOUNT</u>	<u>GALLONS</u>	<u>CURRENT</u>	<u>PROPOSED</u>	<u>2 MO. INCREASE</u>	<u>% INCREASE</u>
RAPP	17,600	24.76	25.72	\$.96	3.8%
BLANKENBAKER	20,900	26.74	28.03	1.29	4.8
MILBURN	13,000	22.00	22.50	.50	2.2
OYLER (Senior Citizen)	14,500	20.90	21.55	.65	3.1
CHAVEZ	15,400	23.44	24.18	.74	3.2
SMITH FARMS ESTATES 57 Units, 4" Meter	1,012,400	792.58	893.02	100.44 (\$.76/month/unit increase)	12.7
SHERWOOD PARK APTS. 44 Units, 3" Meter	151,300	218.94	233.27	14.33 (\$.16/month/unit increase)	6.5

EXHIBIT E

COMPARAIVE BI-MONTHLY BILLS FOR A RESIDENTIAL (13,000 GALLONS)
CUSTOMER (includes \$1.50/mo depreciation charge)

MONTHLY MINIMUM	GALLONS PURCHASED	PER 1,000 GAL.	BI-MONTHLY BILLING	CITY/DIST.
\$ 2.80	0	\$.74	\$ 15.22	Portland
\$ 4.10	0	.61	16.13	Sandy
\$ 5.00	2,968	1.28	19.04	Tigard Water
\$ 3.75	0	.94	19.72	Wilsonville
\$10.00	2,226	.095	20.81	North Plains
\$ 5.95	1,484	.97	21.63	Hillsboro
\$ 9.50	4,000	.60	22.00	Current Sherwood
\$ 6.50	2,968	1.28	22.04	Metzger Water
\$ 2.55	0	1.33	22.39	Forest Grove
\$10.00	3,710	.445	22.48	Newberg
\$ 9.50	4,000	.70	22.50	Proposed Sherwood
\$ 8.70	0	.54	24.42	Lake Oswego
\$ 7.00	0	.81	24.53	Beaverton
\$ 6.90	0	1.28	30.44	Tualatin
\$ 8.64	0	1.20	32.88	Wolf Creek