

Citizens' Rate Review Committee

AGENDA

October 7, 2009

7:00 pm

**Wastewater
Treatment Plant**

**2301 Wynooski Road
Newberg, OR 97132**

- Call to Order
- Roll Call
- Updated Calendar
- Winter Average Rate - Transferable?
- Affordable Housing Presentation
- Present Water Rates
- Public Participation
- Adjournment

Citizens' Rate Review Committee
 Meeting Schedule
 Wastewater Treatment Plant, 2301 Wyooski Road
 7:00 p.m.
 revised 10-2-09

<i>DATE</i>	<i>TOPIC</i>
September 30, 2009	Introduction Membership Renewals – No Action Approve April 23, 2008 Minutes Utility Assistance Program Follow-up – No Action Irrigation Meter Memorandum Follow-up – No Action Present Water Conservation Plan
	<i>(1 wk between)</i>
October 7, 2009	Present Water Rates
	<i>(1 wk between)</i>
October 14, 2009	Conclude Water Rates
October 28, 2009	Conclude Water Conservation Plan
November 10, 2009	<i>(Tuesday)</i> Present Wastewater Rates
November 24, 2009	<i>(Tuesday)</i> Conclude Wastewater Rates
December 9, 2009	Present Stormwater Rates
	<i>(1 wk between)</i>
December 16, 2009	Conclude Stormwater Rates
	<i>(3 wks between)</i>
January 6, 2010	Present/Conclude Stormwater Credit Program
<hr/>	
January 11, 2010	Notices must be done for:
January 13, 2010	Public Notice in Utility Bills and:
January 18, 2010	Notice mailed to all Newberg addresses
January 27, 2010	Public Hearing
February 15, 2010	Council Hearing and Rate Adoption <i>(deadline 1/29/10)</i> Rates effective July 1, 2010
March 2010	RATE PROCESS COMPLETED TO ALLOW ADEQUATE TIME TO PREPARE FISCAL YEAR 2010-11 BUDGET

*Bold indicates a date that cannot be changed.

CITIZEN RATE REVIEW COMMITTEE MEETING ROLL CALL & MOTIONS RECORDING FORM

DATE: October 7, 2009

LOCATION: Wastewater Treatment Plant

MOTIONS

/	ATTENDANCE	To keep the Winter Averaging Rate Formula the same - non-transferable						
√	Haug, Matson Chair (excused)	√ Yes						
X	Amundson, Ernie	X						
√	Gougler, Mike	√ Yes						
X	Maben, David	X						
√	Keyser, Beth	√ Yes						
√	Rourke, Tony	√ Yes						
√	Zickefoose, Charles	√ Yes						
COMMITTEE MEMBER THAT MOTIONED: (1ST & 2ND)		Rourke/ Gougler						
VOTE ON MOTION:		Passed by Voice vote						
CONDITIONS:								

STAFF PRESENT:

Janelle Nordyke, Finance Director
Howard Hamilton, Public Works Director
Dawn Karen Bevill, Recording Secretary

OTHERS CITY PERSONNEL PRESENT:

**CITIZENS' RATE REVIEW COMMITTEE
MINUTES
Wastewater Treatment Plant**

Members Present:

Matson Haug (Chair)	Tony Rourke	Beth Keyser
Charles Zickefoose	Mike Gougler	

Members Absent:

David Maben (excused)	Ernie Amundson (excused)
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Staff Present:

Howard Hamilton, Public Works Director
Janelle Nordyke, Finance Director
Barton Brierley, Planning and Building Director
David Beam, Economic Development Coordinator/Planner
Deb Galardi, Galardi Consulting
Dawn Karen Bevill, Recording Secretary

Others Present: Don Clements

1. Call to Order/Roll Call/Introduction:

Chair Haug called the meeting to order at 7:01 p.m. and asked for roll call.

2. Updated Calendar:

Howard Hamilton explained the revised CRRC Meeting Schedule dated October 2, 2009.

3. Winter Average Rate – Transferable?

Janelle Nordyke explained Dan Schutter had sent an email to the City Manager asking why he would have to establish a new winter averaging rate when transferring from one residence to another. Mr. Schutter had just moved to a much more efficient home and his winter averaging is higher than before. The formula is based on the number in a household and the rates do not transfer from one home to another.

MOTION: Rourke/Gougler moved to keep the formula intact as is. (5 Yes/0 No/2 Absent [Amundson and Maben]). Motion carried.

Chair Haug stated further discussion would take place regarding the matter when Mr. Schutter arrived at the meeting. *(Note: Mr. Schutter did not arrive for the meeting.)*

4. Affordable Housing Presentation:

David Beam began the presentation by explaining the Newberg Affordable Housing Action Plan is Phase One of a longer process to help support the development of affordable housing in Newberg. The Affordable Housing Ad Hoc Committee formed by the City Council began meeting in July 2008 and met for approximately 9 months.

To assist with the further development of the affordable housing tools described in the Plan, the City Council approved the formation of an Affordable Housing Action Committee through Resolution No. 2009-2857. One of the charges of the new Committee is to examine current development fees and make recommendations as to which fees could be reasonably reduced or waived to assist affordable housing. The City Council directed the Committee to work with the CRRC in its examination of development fees. The Council also stated that two members of a subcommittee of the full Committee will work with the CRRC in looking at the applicable development fees (e.g. SDCs.)

“Affordable Housing” is defined as when a household spends no more than 30% of its income for housing. For homeowners, housing costs include mortgage payment (principal and interest), property taxes, and insurance. For renters, housing costs would include rent and tenant paid utilities. Based on that definition, about 40% of homeowners and 37% of renters are in housing that is unaffordable, according to recent US Census data.

The Ad Hoc Committee that created the Action Plan spent considerable energy looking into the development fees issue. One of the Action Plan Committee’s main concerns had to do with revenue balance. Reductions in development fees are usually accompanied with a corresponding increase in fees somewhere else. Many of the options involve raising fees on some other specific sector. The Committee did not favor this approach. They recommended that the offset mechanism should be a burden that is shared by the entire city such as through an increase in some form of monthly fee. Their feeling was that if affordable housing is a community goal, then everyone in the community should contribute to the solution.

Development fees pertinent to the CRRC are utility system development charges (SDCs.) City staff is considering two options that would appear to meet the recommendations of the Action Plan regarding a community shared burden:

- Lower SDCs for low income housing, then raise utility rates (for all or everyone not low income); or,
- Lower utility rates for low income housing, and then raise utility rates for everyone else.

The following are two more options. However, it should be noted that the first option does not meet the Ad Hoc Committee’s recommendation to spread the cost of lowering permit fees through a citywide mechanism.

- Lower SDCs for low income housing, the raise SDCs for others; or
- Lower utility rates for low income housing, and then raise SDCs (for all or everyone not low income.)

Also, it should be noted that any of the four options that include changes to utility rates to assist low income housing are not part of Council’s specific charge to the CRRC, which is to review development fees. However, there is nothing that prevents the CRRC from making such a recommendation to the Council.

When discussing this issue with the Ad Hoc Committee, City staff prepared a list of suggested options regarding how all the City’s SDCs (not just utility SDCs) could be reduced for the construction of housing for low income households. Mr. Beam reviewed the following suggestions:

- For affordable housing projects, assess the SDCs at time of occupancy instead of time of building permit.
- Allow the City to finance the SDCs.
- Base the SDC on fixture units instead of meter size.
- The City does have a storm water credit program applicable to multi-family development which could be expanded to single family.
- The City currently allows for SDC fee waivers for two low income housing units built by a non-profit organization. This exemption could be expanded.

- The housing shortage is greatest for apartments. Fee reductions/waivers could focus on the construction of this type of housing.

Low income housing is defined as affordable housing for those at or below Newberg's annual median household income. The U.S. Housing and Urban Development Department (HUD) currently state this number to be \$70,000 annually for a family of four. The most recent American Community Survey (2005-2007 average) by the U.S. Census Bureau states that Newberg annual median household income for a family of four is \$46,066. The Planning Commission recently recommended that the limits defining low income housing be established by the City's Director of Planning and Building using the best available data.

Obviously, SDCs could be reduced or waived completely, which would affect the level of revenue that would need to be raised somewhere else to counter the revenue reduction. Some/all/or none of the fees could be charged.

5. Present Water Rates:

Deb Galardi gave the background on the Water Rate Implementation Process. On May 19, 2008 City Council adopted the rate increases based on 12.5% per year. On June 2, 2008 the Council agreed to reconsider rates. On June 16, 2008, the water rate increases were reduced from 12.5% to 6.5% for FY 2008/09 and FY 2009/10. The Council then directed the CRRC to investigate and make recommendations concerning a conservation rate structure.

Deb Galardi reviewed the 5-10 year forecast of revenues and expenses and explained the objective is to establish the overall revenue slope. All sources of funds such as cash on hand, connection fees, SDCs, utility rates themselves, expenses and operating budget for personnel and services, and the different financing methods for capital improvement including new and existing debt service and other requirements.

Ms. Galardi explained the financial plan drivers include operation and maintenance costs and capital improvement programs (CIP); operational CIP, and growth related CIP. Existing rates, what they generate, and annual cash needs determine what additional money comes from rates and charges.

Customer trends showed healthy growth for Newberg FY 2003/04 to FY 2006/07 at 5% and FY 2007/08 was 2.7%. This growth trend was almost at a standstill in FY 2008/09 at 0.5%. Factors causing the decline are due to weather and the economy. The previous financial plan projected 3% growth and the current plan's projection is 1%. The FY 2009/10 revenue estimates are 13% lower than budgeted a couple years ago.

Development related revenue reductions include reduced growth and the reduction in SDCs for some developments. Interest earning reduction includes lower fund balances and earning rates.

Constraints to the operating budget include pass-through costs, regulatory compliance, system repair and replacement, system operation, staffing and supplies. Operating cost management includes the reduction in FTE during current budget year, no new FTE planned in next year, deferred vehicle replacement, and shared equipment and staffing across utilities.

What is needed to balance the uses of reserves roughly equals the capital expenses; not much revenue is generated by current rates and cannot cover capital expenses. The rates FY 2008-09 generated are 3.9M which doesn't leave much room to finance capital projects.

One key issue the water utility is facing is running the risk of not meeting debt service requirements. Defaulting on debt is risky and expensive since it negatively impacts financing at a low interest rate. Debt service coverage is total reserves less your debt maintenance costs. The pledge is to operate and maintain the City and once that

is paid there is money remaining to pay the debt. There is quite a bit of debt from the parallel river line, reservoir, etc. There are loans from the Oregon Economic Community Development Department and there is a million dollar purchase for land needed for the future water treatment plant facility due to not being able to expand on the existing site. A plan needs to be put in place to cover the debt service. SDCs can be used to pay for debt service but lending agencies don't want you to rely on it.

Charles Zickefoose would like to see what the 12.5% rate increase would have done. Ms. Galardi stated she will calculate that for next week.

Chair Haug asked about senior lien and what that was borrowed for. Ms. Galardi replied, OECCD loans were for The Effluent Reuse Project, the Parallel River Line Crossing, Corral Creek Reservoir, and the Water Plant Upgrade.

Chair Haug asked if Ms. Galardi is suggesting an increase in SDCs. Ms. Galardi replied the SDCs are set to compensate for upsizing costs and are correctly valued. The problem is the lack of growth. Even still, the rates would need to be increased without SDCs revenue.

Chair Haug asked if the SDC charges are fairly covering the cost of the expanded infrastructure. Deb Galardi replied, yes but there are policy issues that come into play in balancing the objectives of the community. Mr. Haug stated the only way to cover SDCs is through utility rate increases.

Beth Keyser isn't sure just how much people are conserving, but there are many empty homes. What do we do if the Mill goes out of business? Of course the Allison and properties at the airport may help but there is a reduction in people living here.

Deb Galardi continued with her presentation by reviewing the preliminary revenue available to capital and the following assumptions: Rate revenues assume minimum coverage increases; loan for treatment plant land purchase, no additional financing, and revenues are net of funding for existing debt service. Other projects have already been deferred several times because the City can't afford it. Either we'll need to defer again or accrue more debt. Preliminary financing is needed to front the costs. By recommending the 12.5% rate increase, the CRRC was trying to ensure there would be money put aside for the water treatment plant since it takes 10 years to build a plant.

Chair Haug suggested the possibility of a joint meeting with the City Council to deliberate on this with them before any decisions are made on this; possibly a workshop.

Mike Gougler believes the City Council understood the need for the requested increase.

Deb Galardi concluded her presentation by reviewing the next steps as follows:

Regarding the financial plan - refine annual revenue needs FY 2010/11 and FY 2011/12; prioritize capital projects and consider financing; and a system-wide rate increase recommendation. The cost of service analysis would include allocating costs to base use, peak demand use, and customer costs and rate impacts by customer class. The rate design includes the existing rate structure, an inclining block rate structure for residential, and rate impacts within customer class.

Discussion:

Mike Gougler reiterated the charge to the Ad Hoc Committee which is to review the development fees but not address the methods to use to offset the affordable housing costs.

Beth Keyser asked why Newberg developed an Affordable Action Plan. David Beam explained there are many practical reasons from an economical development and environmental standpoint. There is also a moral obligation to provide a stable home for all.

Mike Gougler stated there's a need to provide affordable housing to those with the least paying jobs in the City. Incentives are needed to encourage landlords to improve the efficiency of rentals without penalizing them. The part the CRRC needs to keep in mind is they won't be able to modify SDCs and meet the budget. Using SDCs as a dependable source of revenue is unwise.

Chair Haug wrote the following on the white erase board to review:

1. Lower SDCs for low income housing, then raise utility rates (for all or everyone not low income); or,
2. Lower utility rates for low income housing, and then raise utility rates for everyone else.
3. Lower utility rates for low income (not SDCs) and increase the utility rates for others.
4. Lower the utility rates for some and raise SDCs somehow.

(The Ad Hoc Committee did not recommend the last two since they want to spread the costs.)

Deb Galardi stated you can't raise SDCs unless its impact based.

Tony Rourke asked if any thought was given to making an inclining block rate structure for SDCs which is raising and lowering SDCs.

Deb Galardi stated the City of Eugene charges water rates on the size of the house. The City of Corvallis charges water rates based on fixture units; the fewer the fixtures the less SDCs.

Chair Haug said perhaps SDCs could be based in part on lot size or size of the home; spreading it out on larger homes. Deb Galardi said you would need to show they are using more water in order to have a direct link.

Beth Keyser stated the need to define what a big home is and also need to be careful in raising rates on the people who can't afford it. The City's decision regarding affordable housing was a good one but she fears that everyone won't be treated equally.

David Beam stated raising the utility rates over a large group of people would minimize the impacts on individuals.

Deb Galardi suggested expanding the Affordable Assistance Program for those in need.

Chair Haug stated the costs should be identified. The City Council should know if they lower the SDCs for certain homes, the amount lost would have to come in from a rate increase. Everyone should be treated equally.

Tony Rourke suggested giving the City Council option to choose from. The CRRC can recommend one and then give alternatives.

5. Other Business:

Janelle Nordyke gave the CRRC an update regarding the Utility Bill Assistance Program. Ms. Nordyke passed out the program description pamphlet for each in attendance to view. This brochure was not sent out in the water bill as previously stated. She would like feedback regarding the pamphlet and program from the CRRC at the next scheduled meeting on Wednesday, October 14, 2009. The public has not viewed this although the information is available on the City of Newberg website.

6. **Adjournment:** The meeting adjourned at 9:35 p.m.

Approved by the Citizens' Rate Review Committee this 28th day of October 2009.


Recording Secretary


Citizens' Rate Review Chair

**THE
FOLLOWING
PAGES WERE
DISTRIBUTED
AT THE
MEETING**

Memorandum

To: Newberg Citizen Rate Review Committee
From: David Beam, Economic Development Planner
Date: 10/07/09
Re: Affordable Housing and Consideration of Rate Reductions

Affordable Housing Action Plan

As you may know, the City of Newberg recently developed an affordable housing action plan. This plan was created in response to the City's recognition that the lack of affordable housing in our community is a serious issue.

On May 8, 2008, the Newberg City Council passed Resolution No. 2008-2781, establishing the Housing for Working Families Ad Hoc Committee. The charge of the Committee was to "... identify and recommend tools appropriate for the Newberg community this are intended to encourage the development of housing for working families." On May 4, 2009, the Committee presented the *Newberg Affordable Housing Action Plan* to the City Council (Attachment A.) At that meeting, City Council passed Resolution No. 2009-2843, stating their acceptance of the Plan.

Newberg's Affordable Housing Problem

So what is affordable housing? The generally accepted definition of affordable housing is a household that spends less than 30% of its income on housing related costs.

How big a problem is affordable housing in Newberg? According to the U.S. Census Bureau, about 40.5% of homeowners and 37.8% of renters in Newberg occupy unaffordable housing (source: American Community Survey 2005-2007.)

Residential construction in recent years shows a trend that, if continued, will do little to mitigate this problem. A graph on Page 4 of the *Action Plan* compares housing constructed between 2005-2008 to the types of housing needed. The graph clearly shows that housing that is affordable to households on lower end of the income spectrum was not being constructed to keep pace with demand. The current

recession, along with the associated housing issue, appears to have somewhat mitigated this trend (e.g. Orchards Lair development by Sportsman Airpark), the long-term prognosis of the market meeting demand remains to be seen.

City Council Charge to the CRRC

The *Newberg Affordable Housing Action Plan* is Phase One of a longer process to help bring more affordable housing to Newberg. To assist with the development and refinement of tools described in the *Plan*, the City Council approved the formation of an Affordable Housing Action Committee through Resolution No. 2009-2857. The Mayor is currently in the process of appointing the members of that Committee.

One of the charges of the new Committee is to examine current development fees and make recommendations as to which fees could be reasonably reduced or waived. This charge comes from Strategy #5 of the *Action Plan* (page 36.) The Council directed the Committee to work with the CRRC in its examination of development fees.

The Council also stated that the subcommittee organized to address the issue of potential development fee reductions shall consist of two members from the full Committee and members of the City's Rate Review Committee.

Potential Development Fee Reduction Options

The Ad Hoc Committee that created the *Action Plan* spent considerable energy looking into the development fees issue. One of the *Action Plan* Committee's main concerns had to do with revenue balance. Reductions in development fees are usually accompanied with a corresponding increase in fees somewhere else (the assumption here is that any recommended change would be revenue neutral.) Many of the options involve raising fees on some other specific sector. The Committee did not favor this approach. They recommended that the offset mechanism should be a burden that is shared by the entire city such as through an increase in some form of monthly fee. Their feeling was that if affordable housing is a community goal, then everyone in the community should contribute to the solution.

Development fees pertinent to the CRRC are utility System Development Charges (SDCs.) City staff has developed two options to consider that would appear to meet the recommendations of the *Action Plan* regarding a community shared burden:

- Lower SDCs for low income housing, then raise utility rates (for all or everyone not low income); or,
- Lower utility rates for low income housing, then raise utility rates for everyone else.

The following are two more options. However, it should be noted that the first option does not meet the Ad Hoc Committee's recommendation to spread the cost of lowering permit fees through a citywide mechanism.

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Also, it should be noted that any of the four options that include changes to utility rates to assist low income housing are not part of Council's specific charge to the CRRC, which is to review development fees. However, there is nothing that prevents the CRRC making such a recommendation to the Council.

When discussing this issue with Ad Hoc Committee, city staff prepared a list of suggested options regarding how all the City's SDCs (not just utility SDCs) could be reduced for the construction of housing for low income households. The following is that list of suggestions.

- a. General
 - i. For affordable housing projects, assess the SDCs at time of occupancy instead of time of building permit. This means the developer doesn't have the carrying costs through the construction phase. The SDCs also could be wrapped into closing costs instead of the construction loan.
 - ii. Allow the City to finance the SDCs (we already allow this, we just don't advertise it). This could be tied to some special City loan program for low income housing.
- b. Water: Base the SDC on fixture units instead of meter size. The SDCs could be structured so that a 3 bath house would pay a little more, and an affordable 1 bath house would pay less.
- c. Transportation: Base the fees on trip generation rate that is specific to low income housing. Staff does not know if there are any studies that show that affordable housing generates fewer trips, however.
- d. Storm: We noted that the City does have a storm water credit program applicable to multi-family development. Could expand this to single family.
- e. School: Not that the school excise tax is waived for qualified low income housing projects.
- f. Parks: A suggestion would be to have CPRD charge parks SDCs for commercial projects as well as residential, then waive SDCs for low-income residential projects.

Please note that only items a, b, and d on this list apply to utility SDCs.

During that same discussion with the Ad Hoc Committee, city staff pointed out two other options to the Affordable Housing Committee for their consideration:

- The City currently allows for SDC fee waivers for two low income housing units built by a non-profit organization. This exemption could be expanded.
- The housing shortage is greatest for apartments. Fee reductions/waivers could focus on the construction of this type of housing.

Other Considerations

Low income housing is defined as affordable housing for those at or below Newberg's annual median household income. The U.S. Housing and Urban Development Department (HUD) currently states this number to be \$70,000 (for a family of four.) This number is for the entire Portland metropolitan area, which includes Newberg. The Committee that created the *Action Plan* recommended that the HUD calculations, which are updated annually, be used to define median household income for Newberg's affordable housing efforts. In contrast, the most recent American Community Survey (2005-2007 average) by the U.S. Census Bureau states that Newberg annual median household income for a family of four is \$46,066. The Planning Commission recently recommended that the limits defining low income housing be established by the City's Director of Planning and Building using the best available data.

Obviously, SDCs could be reduced or waived completely, which would affect the level of revenue that would need to be raised somewhere else to counter the revenue reduction. Some/all/or none of the fees could be changed.

Newberg Affordable Housing and Development Fees

Citizens' Rate Review Committee

October 7, 2009

Presentation Outline

- Project background
 - ◆ City action
 - ◆ Newberg's AH problem
- City Council's charge to CRRC
- Potential solutions
- CRRC direction

Project Background

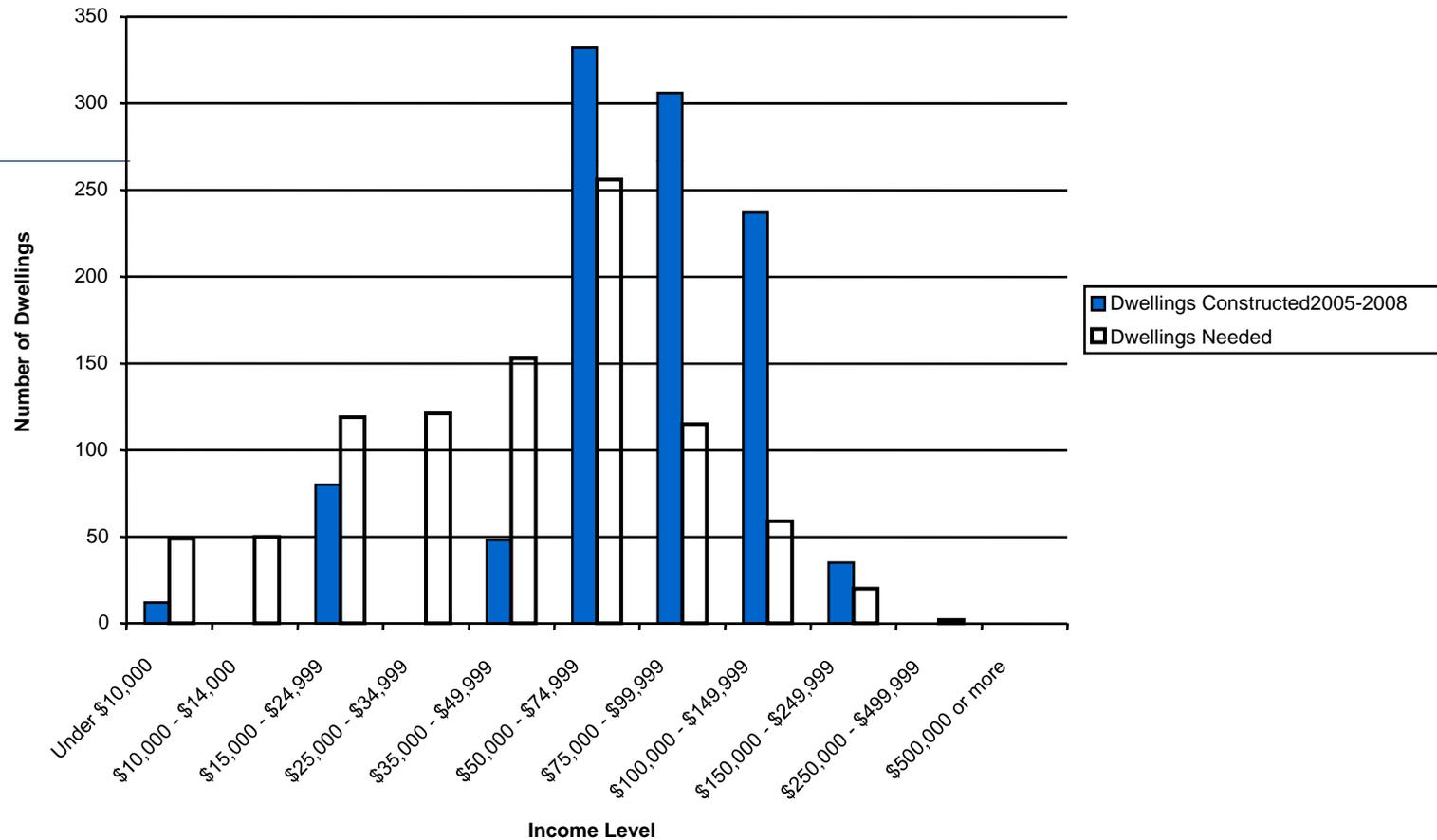
- Staff/Planning Commission efforts
- City Council direction
 - ◆ AH Ad Hoc Committee
 - ◆ AH Action Plan
- AH Action Committee

Newberg's Affordable Housing Issue

- Definition of AH
- Housing affordability in Newberg – How big an issue?
 - ◆ Home owners – 40.5%
 - ◆ Renters - 37.8%
- Housing construction trends

Recent Trends

Newberg Housing Constructed 2005-2008 by Affordability Level
Compared to Comprehensive Plan Projected Need



CRRC Challenge

- City Council charge to AH Action Committee – Review development fees and recommend action
- Work with CRRC
 - ◆ Utility SDC fee rates

Potential Options

- **How to balance revenue?**
- **Ad Hoc Committee recommendation – citywide participation to assist low income housing**

Potential Options

- **Suggested options by staff**
 - ◆ Lower SDCs for low income housing, then raise utility rates (for all or everyone not low income); or,
 - ◆ Lower utility rates for low income housing, then raise utility rates for everyone else.

Potential Options

- **Suggested options by staff**
 - ◆ Lower SDCs for low income housing, then raise SDCs for others; or,
 - ◆ Lower utility rates for low income housing, then (1) raise SDCs (for all or everyone not low income).

NOTE: Does not meet Action Plan recommendation.

Potential Options

- - ◆ Options dealing with utility fee changes not part of City Council charge to CRRC.

Potential Options

1. General

- ◆ i. For affordable housing projects, assess the SDCs at time of occupancy instead of time of building permit. This means the developer doesn't have the carrying costs through the construction phase. The SDCs also could be wrapped into closing costs instead of the construction loan.

Potential Options

1. General (cont.):

- ◆ ii. Allow the City to finance the SDCs (we already allow this, we just don't advertise it). This could be tied to some special City loan program for low income housing.

Potential Options

2. Water: Base the SDC on fixture units instead of meter size. The SDCs could be structured so that a 3 bath house would pay a little more, and an affordable 1 bath house would pay less.
3. Storm: The City does have a storm water credit program applicable to multi-family development. Could expand this to single family.

Potential Options

4. Expand allowable SDC waivers for low income housing built by non- profits
5. Focus on fee reductions/waivers for apartments

Other considerations

- Newberg AH focus
- Newberg median family household income
 - ◆ HUD - \$70,000 annually
 - ◆ U.S. Census - \$46,066 annually
 - ◆ What number to use?
- What SDCs to recommend modification?

Next Steps

- CRRC direction to staff?

Preliminary Financial Plan Analysis

1

Citizens Rate Review Committee Meeting

October 7, 2009



Meeting Agenda

2

- **Financial Plan Development**
- **Revenues**
 - Consumption & customers
 - Trends
 - Forecast
- **Expenses**
 - Operating
 - Capital
- **Financial Performance Measures**
 - Debt service coverage
- **Next Steps**

Background

3

- **Water Rate Implementation Process**

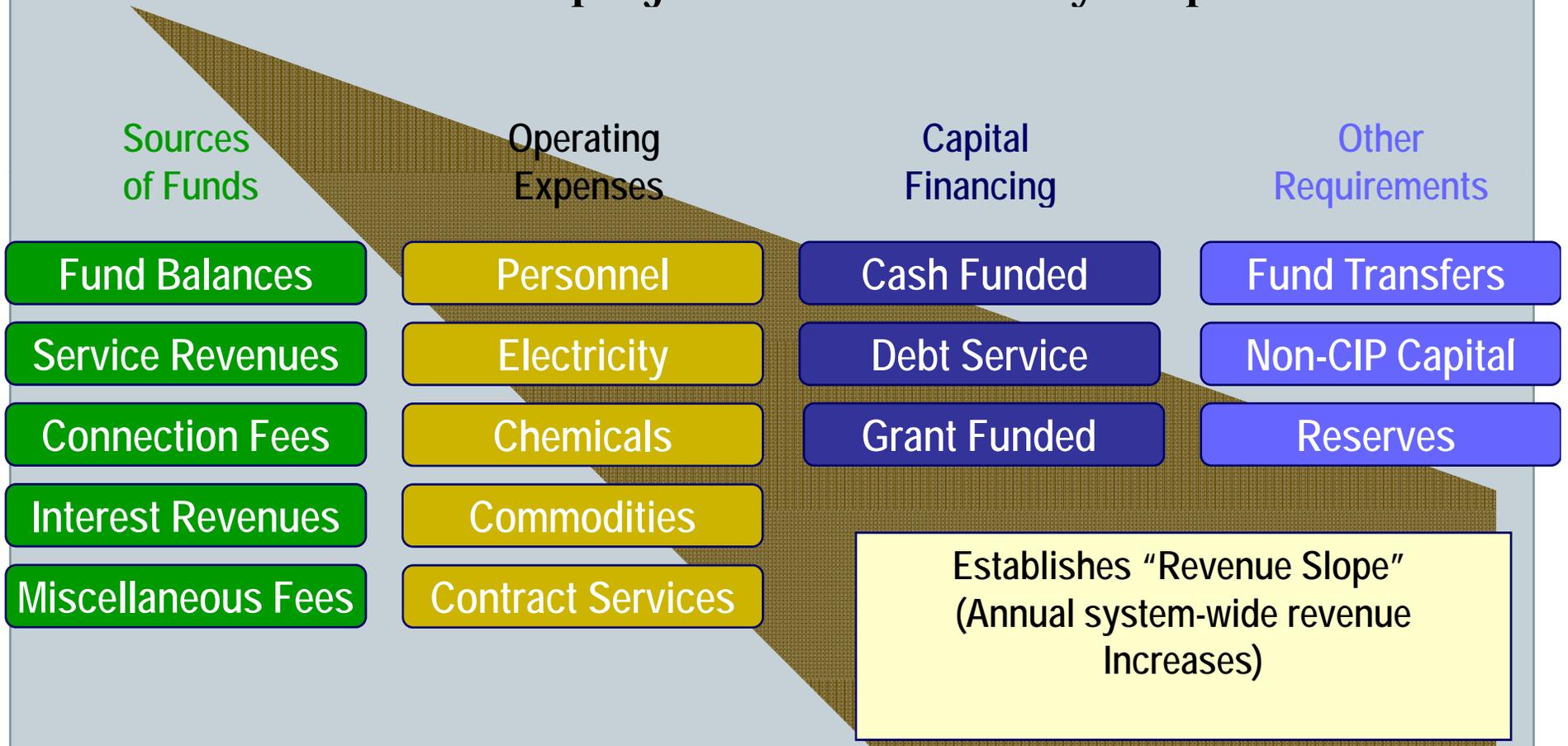
- May 19, 2008 City Council adopts rate increases based on 12.5% per year
- June 2, 2008 Council agrees to reconsider rates
- June 16, 2008 water rate increases reduced from 12.5% to 6.5% for FY2009 and FY2010
- The City Council directs the CRRC to investigate and make recommendations concerning a conservation rate structure

- **Subsequent actions**

- SDCs 'rolled back' to 2007 levels for low-moderate income homes for limited period of time

Financial Plan Development

- Annual cash flow projections over 5-10 year periods

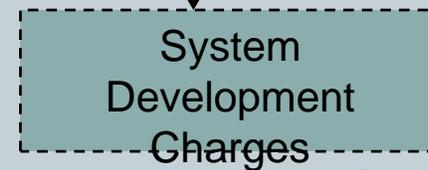
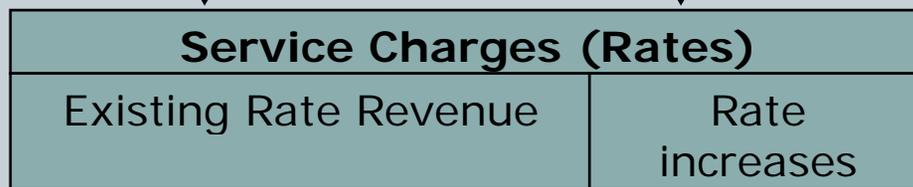
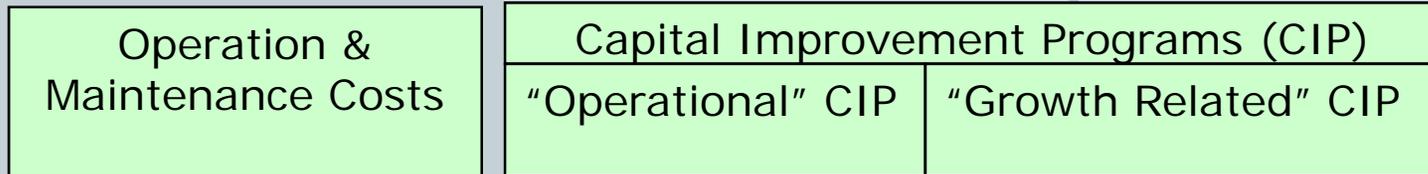


Financial Plan Drivers

City Budget Process

Economic Factors

Master Planning: Regulatory Requirements; Repair & Replacement



Customer/Consumption Trends

Rate/Reserve Policies

Growth Trends

Customer Trends

6

- **Annual customer growth**
 - FY2003/04-FY2006/07 – 5% annually
 - FY2007/08 – 2.7%
 - FY2008/09 – 0.5%
- **Projected**
 - Previous financial plan = 3%
 - Current plan = 1%

Customer Usage Trends

7

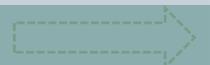
	FY2006	FY2007	FY2008	FY2009
Water Consumption (ccf)	1,096,190	1,236,856	1,118,258	1,140,302
Annual % Change	1.9%	13%	-10%	2%
Average Annual Water Meters (all custo	5,631	6,134	6,300	6,324
Annual growth	4.5%	8.9%	2.7%	0.4%
Monthly Use per Account (All customers	16.2	16.8	14.8	15.0
Residential Use per Account	9.3	8.7	8.1	8.0
		-7.0%	-6.8%	-0.4%
<i>Avg. Summer High Temp</i>	76	79	75	76
<i>Avg. Max Summer High Temp</i>	89	98	92	95
<i>Avg. Summer Monthly Rainfall (inch)</i>	1.0	0.3	1.0	0.6

Revenue

8

- **FY 2009/10 estimates significantly lower than budget**
 - Reduced use per account (-10.6% last 2 years)
 - Reduced customer growth and consumption (-3% last 2 years compared to projections)

	2008/09	2009/10
Actual or Estimated Revenue	\$3,856,828	\$3,942,191
Projected revenue from Final 2008 model	\$4,189,028	\$4,565,592
Difference	-\$332,200	-\$623,401
% Difference	-7.9%	-13.7%



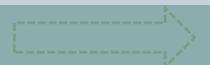
Sales Revenue Forecast

9

- **Assumptions**

- Average annual use per account = last 2 year average
- Customer growth = 1% (for most classes)
- Forecast total consumption
 - FY2009/10 = -1.7%
 - Subsequent years = customer growth

	2008/09	2009/10	2010/11	2011/12
Actual or Estimated Revenue	\$3,856,828	\$4,001,608	\$4,043,061	\$4,078,943
% Change		3.8%	1.0%	0.9%
Rate increase		6.5%	0.0%	0.0%



Other Revenue

10

- Development-related revenue reductions
 - Reduced growth
 - Reduction in SDCs for some developments
- Interest earning reductions
 - Lower fund balances and earning rates

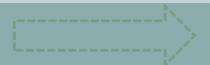
Development-Related Revenues	2006/07	2007/08	2008/09	2009/10
Dev Review & Inspection	\$33,666	\$56,204	\$3,931	\$10,000
Connections Charges	\$71,938	\$71,089	\$54,713	\$20,000
SDCs	\$550,196	\$672,468	\$505,247	\$520,310
Total	\$655,800	\$799,761	\$563,891	\$550,310

Previous SDC Forecast

\$1,000,000

\$1,500,000

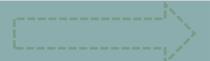
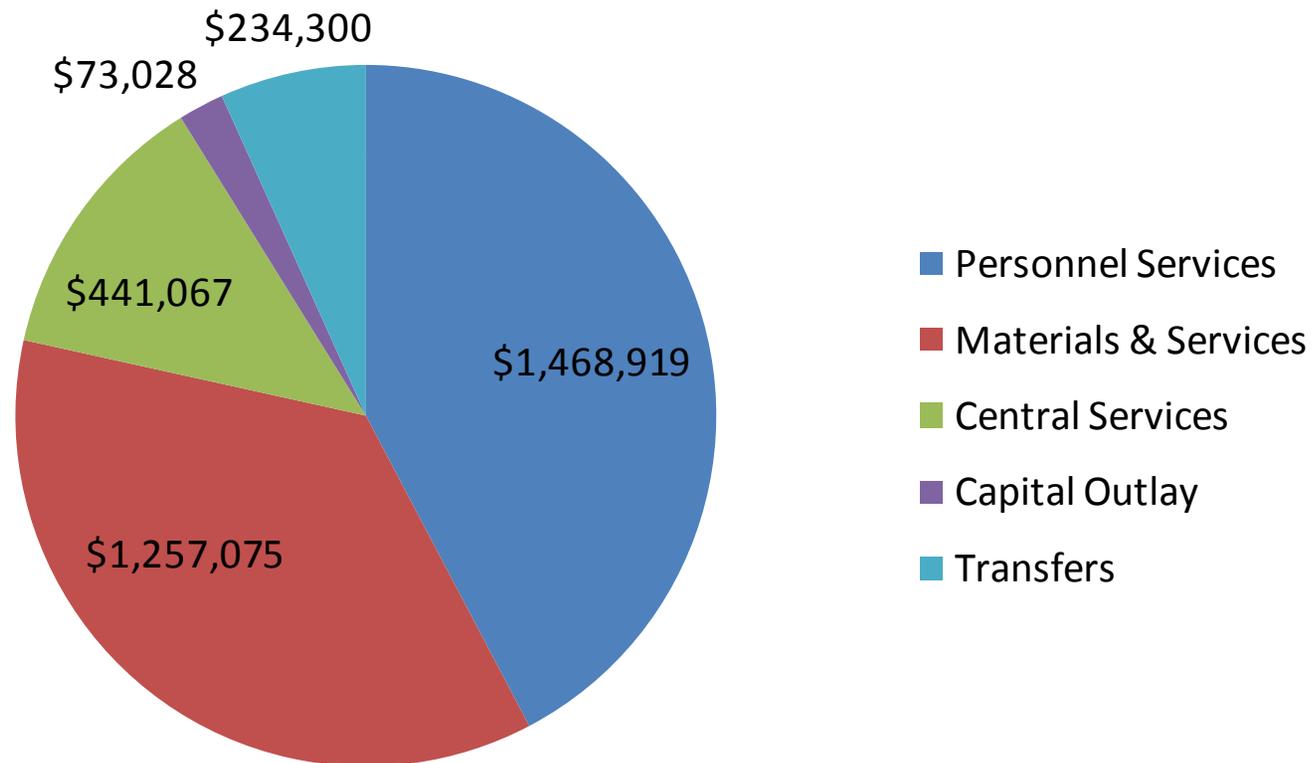
\$1,500,000



Operating Budget

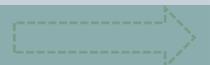
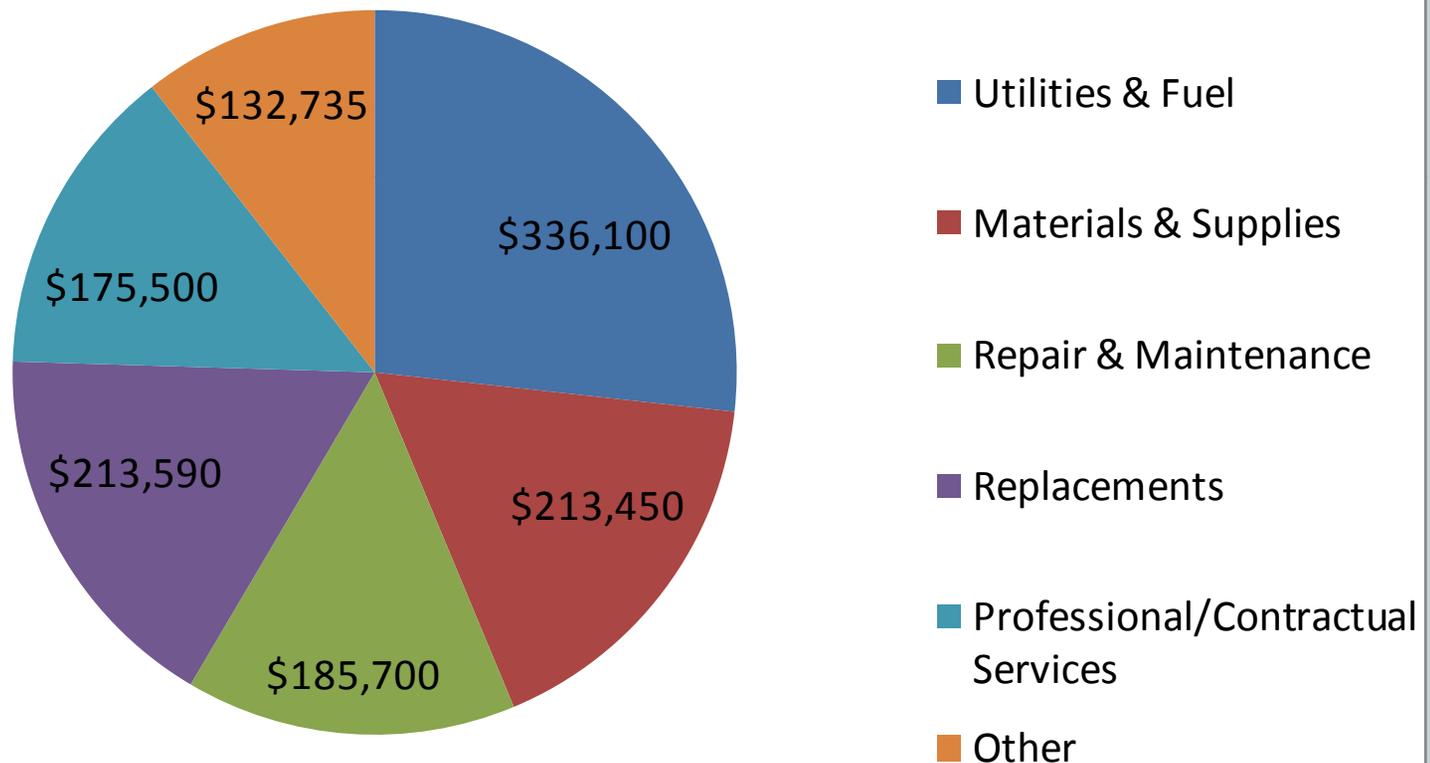
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Total Estimated FY2009/10 Expenses = \$3.5 million



Materials & Services

12



Operating Budget Issues

13

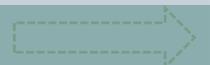
- **Constraints**
 - Pass-through costs (electricity & other utilities; insurance)
 - Regulatory compliance
 - System repair & replacement (e.g., Pump station & line failures)
 - System operation staff and supplies
- **Operating cost management**
 - Reduction in FTE during current budget year
 - No new FTE planned in next 2 years
 - Deferred vehicle replacement
 - Shared equipment and staffing across utilities



Actual & Estimated Requirements from Rates

14

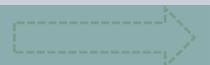
Item	2008/09	2009/10
Revenue Requirements:		
O&M Costs	\$2,931,074	\$3,474,390
Transfers -- Debt Service	\$411,044	\$462,117
Transfers -- Water Replacement	\$0	\$1,500,000
Transfers -- Capital Projects	\$0	\$1,275,000
Total Revenue Requirements	\$3,342,118	\$6,711,507
Less:		
Nonrate Revenues	(\$637,576)	\$158,793
Uses of / (Additions to Reserve)	123,000	2,551,106
Revenue Requirements from Rates	\$3,856,694	\$4,001,608
<i>Projected Rate Increase</i>		6.5%
Ending Fund Balances		
Water Fund		\$504,672



Projected Operating Results

15

Fund/Description	2009/10	2010/11	2011/12	2012/13	2013/14
Water Sales Revenue (existing rates)	\$4,001,608	\$4,043,061	\$4,078,943	\$4,114,861	\$4,151,123
Subtotal Additional Revenue from rate increase	\$0	\$545,813	\$772,878	\$1,014,622	\$1,271,948
Total Sales Revenue	\$4,001,608	\$4,588,874	\$4,851,821	\$5,129,483	\$5,423,071
<i>Assumed Rate Increase</i>		13.5%	4.8%	4.8%	4.8%
Other Revenue					
Other fees and charges	\$91,000	\$101,000	\$131,000	\$151,000	\$161,000
Interest Income	\$89,167	\$117,570	\$63,127	\$19,934	\$17,621
Reimbursements	\$21,564	\$21,564	\$21,564	\$21,564	\$21,564
SDCs	\$520,310	\$500,000	\$600,000	\$750,000	\$750,000
Total Resources	\$4,723,649	\$5,329,009	\$5,667,512	\$6,071,980	\$6,373,256
Revenue Requirements					
Operation & Maintenance	\$3,304,390	\$3,503,712	\$3,746,883	\$4,008,705	\$4,290,728
Net Revenue Avail. For Debt Service	\$1,419,259	\$1,825,297	\$1,920,629	\$2,063,276	\$2,082,528
Debt Service					
Senior Lien	\$1,257,085	\$1,259,121	\$1,256,364	\$1,257,792	\$1,258,038
Subordinate	\$62,261	\$124,522	\$124,522	\$124,522	\$124,522
Debt Service	\$1,319,346	\$1,383,642	\$1,380,886	\$1,382,313	\$1,382,560
Coverage With SDCs					
Senior Lien Debt Service Coverage	1.1	1.4	1.5	1.6	1.7
Effluent Reuse (1.2)	8.1	10.5	11.0	11.8	11.9
Other OECCD Debt (1.1)	1.0	1.3	1.4	1.5	1.5
Total Coverage	1.1	1.3	1.4	1.5	1.5
Coverage without SDCs					
Senior Lien Debt Service Coverage (1.00 min)	0.7	1.0	1.0	1.0	1.1



Preliminary Revenue Available for Capital

16

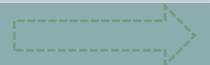
• Assumptions

- Rate revenues assume 'minimum coverage' increases
- Loan for treatment plant land purchase
- No additional financing
- Revenues are net of funding for existing debt service

	5-Year Total
Existing Reserves	
Water Fund	\$2,602,692
Water Replacement Fund	\$1,815,125
SDCs	\$2,344,676
Subtotal	\$6,762,493
Other Sources	
Rates	\$2,400,000
SDCs	\$926,857
Loan	\$1,000,000
Total	\$11,089,349

Inflation-Adjusted CIP

\$14,095,455

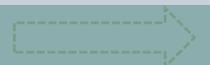


Preliminary 5-year CIP

17

PROJECT	2009/10	2010/11	2011/12	2012/13	2013/14	5-Year TOTAL
Water Line Replacement 707519		\$100,000	\$900,000			\$1,000,000
Spring Improvements 707555	\$592,696					\$592,696
North Valley Rd. Reservoir Upgrades	\$125,000	\$250,000				\$375,000
WTP Expansion/ Land Purchase 707577	\$1,000,000					\$1,000,000
Mainline Valves Insertion Project 707582	\$25,000		\$50,000			\$75,000
Springbrook 24" Mainline Upsizing Design		\$500,000				\$500,000
Springbrook 24" Mainline Upsizing Ph 2 & 3 Construction				\$1,500,000	\$1,500,000	\$3,000,000
Springbrook 24" Mainline Upsizing Ph 4 Construction			\$1,000,000	\$1,000,000		\$2,000,000
Remove Springs From System	\$18,782					\$18,782
Potable Zone 1 Reservoir Study & Land	\$100,000	\$700,000				\$800,000
Well #8 Pump Upsizing		\$60,000				\$60,000
Total Water System Master Plan Update					\$800,000	\$800,000
WTP Design						\$0
WTP Construction						\$0
Well Field Improvements	\$90,000	\$90,000				\$180,000
Well #9	\$0	\$0		\$500,000		\$500,000
PW Facilities Design & construction	\$182,000	\$819,000	\$819,000			\$1,820,000
Crestview Drive	\$230,000					\$230,000
WTP Backwash Pond Liner		\$50,000				\$50,000
Total Water CIP	\$2,363,478	\$2,569,000	\$2,769,000	\$3,000,000	\$2,300,000	\$13,001,478

FY2014/15 begin design of WTP (\$2 million)
 FY2014/16 begin construction of WTP (\$20 million)



Next Steps

18

- **Financial plan**
 - Refine annual revenue needs FY2011 and FY2012
 - Prioritize capital projects and consider financing
 - System-wide rate increase recommendations
- **Cost of service analysis**
 - Allocate costs to base use, peak demand use and customer costs
 - Rate impacts by customer class
- **Rate design**
 - Existing rate structure
 - Inclining block rate structure for residential
 - Rate impacts within customer class

