

**CITY OF NEWBERG  
CITIZENS' RATE REVIEW COMMITTEE  
THURSDAY, SEPTEMBER 26, 2019  
6:30 PM MEETING**

7/2/20 Should  
indicate WWTP  
as location, but  
not corrected  
before CRRC

**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:    Bill Rourke                                    Nick Morace                                    Ned Knight  
                                 Sarah Grider                                    Adam Lundstrom                                    Ron Sinicki

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

Others Present:      Deb Galardi, Galardi Consulting LLC

**III. COMMITTEE BUSINESS**

1. Election of Chair, Vice Chair, and Secretary

Committee Member Sarah Grider was nominated for Chair. The nomination passed unanimously.

Committee Member Adam Lundstrom was nominated for Vice Chair. The nomination passed unanimously.

Committee Member Nick Morace was nominated for Secretary. The nomination passed unanimously.

2. Water Capital Improvement Plan Presentation

City Engineer Kaaren Hofmann presented the five year Water Capital Improvement Plan. She explained the projects that were included in the plan and gave the status of those projects. They were: redundant water supply, Bell Road east and west pump stations, fire flow projects, water line in N College Street/N Terrace Street, Chehalem Drive water system extension, valves on College Street, relocation of the water line on College Street, routine water line replacements, resiliency projects, fixed base radio read, Public Works maintenance yard projects, Zimri Drive extension, Water Master Plan update, non-potable water improvements, WTP filter covers, and N. Valley Reservoir driveway.

There was discussion regarding the percentage of SDCs for funding these projects, clarification and details of the projects, new equipment, acquisition of property, non-potable water use, SDC methodology, and projects that were required by the state and those needed for development.

3. Water Rates Presentation

Deb Galardi, Galardi Consulting LLC, gave an overview of the rate setting process, projected system revenue and requirements, preliminary summary water system finance plan, and next steps. The sources of funds included rates, SDCs which could support some of the costs, miscellaneous fees, interest income, and reserves. The expenses included personnel, repair and maintenance, materials and services, and utilities. They had to determine how they would pay for the capital projects, whether cash or debt funded. During the recession in 2011/2012, the City had a hard time meeting debt service requirements and the system was highly leveraged over debt and was vulnerable. At that time there was an effort to defer projects and go to a cash funded, pay as you go system. Since that time the capital funding had been cash based. She then explained fund transfers, such as for the franchise fees, and capital reserves as well as how revenues were forecasted. They had to balance the risk and make sure they were not too conservative and raised rates too high or not conservative enough and raised rates too low. The policy had been to smooth the increases as much as possible to avoid double digit increases.

Ms. Galardi stated reserves had been a significant topic at the CRRC in the past. She discussed the different reserve types and gave a history of the City's rate increases including years with no increases and those with double digit increases. She described the rate structure with a fixed charge that included service charge and meter charge and a volume charge that recovered the remaining system costs and varied by the class of customer. She noted the non-potable charges were less than the potable charges.

There was discussion regarding the difficulties of finding comparable systems to compare rates.

Ms. Galardi said since 2012, there had been a concerted effort to get to a more resilient rate structure that would withstand rate fluctuations in water usage. There had been more conservation of water recently, although most of the costs of the system were fixed and still had to be covered. Fixed charges recovering 5% to 10% would not cut it when 85% of the costs were fixed. Now the standard was 30 to 50% fixed charge recovery through methodical and incremental adjustments. The City still had more to go to get to that percentage. She explained the rate drivers and what had happened since the last time the CRRC had met. There had been a steady consumption and stronger than projected customer growth. The existing debt was being paid off and there were existing reserves that were more substantial than projected. However, the capital plan projects had increased, there still was a lot of debt, water revenue remained sensitive to weather conditions, they were selling a lot less water in the region, and there was an increase in the franchise fees. She explained the water sale volume trends and how the annual fluctuations were plus or minus 3% to 8%. It made sense that more of the money came through the fixed charge due to this revenue fluctuation. She then reviewed the prior projections and actuals for 2017-18 and 2018-19. She expected water sales would be lower for 2019-20 due to the cooler summer. They were still projecting customer growth in the next two years. Expenses were projected to be slightly higher driven primarily by the increase in franchise fees from 5% to 7% and an additional staff person in 2020-21. There were also inflationary increases. The capital plan fluctuated significantly from year to year and there were projects that did not happen in certain years. The total costs for the projects had increased from \$18 million to \$21 million and there were significant changes in the timing which impacted the reserves. The industry standard for operating contingency was a minimum 45 days of operational maintenance expenses, and many systems had up to 180 days or more. She thought a 60 day level was acceptable for Newberg and that was what was already programmed in. They needed to have a one year debt service reserve, which was cut in half from 2019-20 to 2024-25 because a lot of debt service would be dropped at the end of the plan. Both the reserve level associated with the debt service and debt payment would go down. The rest of the debt dropped off in 2028. Currently in 2019-20 there was \$8 million in reserve that could help with rate stabilization and repair/maintenance as well as capital reserve. However, due to the need for \$6 million for the capital improvements, there would be a reduced total operating capital reserve at the end of the planning period. They had a target range for the rate increase that was discussed at the last rate review

process that they wanted to be somewhere in the middle of the typical range. This would help with asset value and depreciation and replacing the system to avoid a huge backlog plus for rate fluctuations and stabilization.

Ms. Galardi showed a graph on projected expenses and revenues. For the years where expenses exceeded revenues there was a decline in the reserve, and they wanted to make sure they did not decline over a certain line for the minimum target reserve. She would be coming back to the next meeting with more rate structure information and a recommendation on the rate schedule.

#### 4. Committee Discussion

There was discussion regarding the non-potable water rate analysis and future users. Public Works Director Harris explained there was only one user currently, the golf course, and discussed the possible future users. Ms. Galardi said since there was only one user, the rate was set as a cost per unit of capacity. There was a lot more capacity than what the one user was using. PWD Harris explained the capacity in the non-potable system.

A member of the audience asked about the capital improvement project for redundant water supply. CE Hofmann replied they did not know exactly what the supply would be yet. At first they had thought it would be putting in another well on the north side of the river. The Council had been discussing the need for 2 to 8 million gallons per day of redundant water supply. They would be looking at the alternatives and bringing them back to Council in March. Currently if something happened to the City's wellfield they had no other source of water. The idea was to come up with another supply option.

## IV. PUBLIC COMMENTS

Chair Grider read the email sent by Jeanna Burgin on September 12 about the burden the municipal bill was on her family.

Robert Soppe, Newberg resident, questioned the allocation between the different sources of revenue. The revenue from developers directly contributing by constructing improvements was missing in the list of sources. He thought every project that was contributing to rates should have a percentage that would be funded by rates, by SDCs, and by the developer. Some of the capital projects supplied services to a limited area, and he did not think it should be paid for only by SDCs or rates. Some of the facts presented had concerned him, such as decommissioning the wells that would be funded by rates and SDCs but in the document it had 0% coming from SDCs. He encouraged the Committee to trust, but verify the facts. There were other projects that had 0% SDC funds and they should question whether all of the projects would really be paid by rates. They needed good numbers to make good decisions. He thought they should bill water rates by season, as there were some seasons that cost more than others to provide water. Regarding non-potable water, it was not cheaper to produce than potable water and the rates should pay for the whole cost. To get additional customers for the non-potable water would be expensive. He suggested they look into waivers of remonstrance for the College Street water line to help fund it.

Finance Director Matt Zook reported that Marilyn van Grunsven had resigned from the Committee on Wednesday due to time constraints with her business. He had provided a calendar of meetings for the Committee. He explained the other documents that had been included in the packet, especially information about public meetings law. He explained the recruitment process for a new Committee member.

The Committee wanted historical information on the non-potable water system forwarded to them.

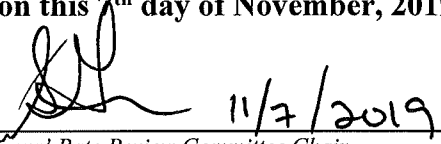
The next meeting would be held on October 10, 2019.

**V. ADJOURNMENT**

The meeting was adjourned at 8:44 PM.

**Approved by the Citizen's Rate Review Committee on this 7<sup>th</sup> day of November, 2019.**

  
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*Citizens' Rate Review Committee Recording Secretary*

  
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*Citizens' Rate Review Committee Chair*