

WORKSHOP MEETING MINUTES
SISTERS CITY COUNCIL
520 E. CASCADE AVENUE
JANUARY 20, 2011

MEMBERS PRESENT:

Lon Kellstrom Mayor
David Asson Council President
Sharlene Weed Councilor
Pat Thompson Councilor
Wendy Holzman Councilor

STAFF PRESENT:

Eileen Stein City Manager
Lisa Young Finance Director
Pauline Hardie Community Dev. Director
Paul Bertagna PW Project Coordinator
Kathy Nelson City Recorder

GUESTS:

Deb Galardi Galardi Consulting

The meeting was called to order by Mayor Kellstrom at 8:10 a.m.

1. Water Rate Study Follow-up

Manager Stein stated the purpose of the workshop was to allow all Council members, both new and continuing, to have a common point of reference. She introduced Deb Galardi, of Galardi Consulting, the City's water rate consultant. She stated she and Ms. Galardi would give a presentation to review the necessity of a water rate increase. She also reminded the Council of the regulatory commitment the City has to the Water Resources Department to implement water conservation measures.

Ms. Galardi began the PowerPoint presentation by discussing the rate study framework used. She explained the study was comprised of two components; a financial plan that identified a multi-year projection of costs and revenues and identifying the gap between the current rate revenue and projected needs. She stressed the importance of the financial plan for the City to ensure it would have access to future credit markets. The second component was developing a rate structure based on a fixed rate and volume charges that would serve to recover the system costs of the service. She stated there are a number of rate structures that are accepted practice depending on the policy objectives of the Council.

Ms. Galardi stated the policy objectives to consider are equity, noting that customers are paying for water they are not using. She stated water conservation is another objective and the City's high quantity allowance does not encourage conservation. She stated one goal was to reduce the fixed quantity and charge more for the volume rate as this would encourage the conservation measures outlined in the City's adopted Water Management and Conservation Plan. She stated the City needed to protect the Water Fund by utilizing a phased down approach to rates and allowance to insure adequate revenue to keep the fund stable as well as to allow water users to adjust to the new water rate structure. She added having reserves would also protect and stabilize the fund from factors the City has no control over such as the weather.

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Manager Stein summarized the reasons why additional revenue was needed, noting past investments the City had made in its water utility including social such as implementing a low-income assistance program; operational investments such as meter upgrades, telemetry improvements and a variety of fees the City had to pay associated with water rights; and capital investments including an automated meter reading system, water line upgrades, chlorination system improvements, and emergency generators for wells. She stated future project needs include Well #1 pump improvements, additional water line upgrades, Well #2 improvements, meter upgrades and water rights mitigation. She stated while some portion these projects are eligible to be paid for with system development charges (SDCs) some costs were not.

Manager Stein outlined the cost of the capital investments the City has funded or will fund from FY 05/06 through FY 10/11, noting the City has been paying for investments and improvements with cash and drawing the Water Fund balance down. She discussed the capital investments forecasted through FY 14/15 and the estimated ending fund balance, noting the extreme dip the fund will take.

Councilor Weed asked why improvements were needed for the Well #1 pump. **Interim Public Works Director Bertagna** explained the well is almost 40 years old and it is time for it to be upgraded to insure there is not a catastrophic failure that could impact public safety. He added that pushing the project out would only add to construction costs. **Councilor Weed** questioned if the upgrades could be phased and **Interim Director Bertagna** replied it would make more sense to do the entire upgrade all at once. He added he would look to see if some portions of the project could be phased.

Ms. Galardi discussed the original proposal the Council considered which would lower the consumption allowance from the current 13.37 ccf to 5 ccf over three years. **Ms. Galardi** explained that in the same three year period it was proposed the base charge would also decrease from \$19.80 to \$12.57 for a ¾" water meter and an increase in the volume charge from \$.99 to \$1.23/ccf. She discussed the equivalent changes that would occur with accounts that have larger water meters. **Ms. Galardi** then discussed the revised proposal brought to the Council that only increased revenue by 8% and used current reserves to offset capital projects. The reserves would not be replenished which is not consistent with industry standards, she stated, and added this approach would require some type of action to fund future capital projects. The rate structure was based on 10 ccf with the base rate and volume based on the cost of service. **Ms. Galardi** stated the City's quantity allowance was significantly higher when compared to other cities.

Ms. Galardi stressed the importance of identifying a rate structure that would bring financial sustainability to the Water Fund and provide revenue stability over the course of the transition. She stated reducing the quantity allowance would be consistent with the City's adopted Water Conservation and Management Plan.

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Councilor Weed stated she wanted to know how customers would be impacted. **Ms. Galardi** stated it was impossible to predict how an individual customer would be impacted as it was dependent on their water use which even if analyzed, could change from month to month. She stated that in looking at water users by customer class, the reports shows that 63% of users would pay less on a given month.

Mayor Kellstrom asked why the City would cut monthly rates when it is trying to increase revenue. **Ms. Galardi** stated the base price a customer uses is based on the actual cost to provide the service. **Mayor Kellstrom** asked if the City could leave the base rate at \$19.80 and **Ms. Galardi** replied it could, but if the City was still decreasing the allowed ccf over a period of time, customers would still be paying for water they did not use. She added that would be a policy decision for the Council.

Councilor Thompson stated the rates are a result of projections on personnel costs, material and services costs and capital improvement costs for the next five years. He asked if Ms. Galardi had ever looked at different budget amounts in determining rates. He asked what the City could do to minimize the rate increase. **Ms. Galardi** replied there is a minimum amount of money needed to run the water system. She stated the recommendation on the rate structure is a separate issue from the budget. **Councilor Thompson** stated he thought that was part of the problem in that the Council never agreed on the policy for determining a rate structure. **Ms. Galardi** stated it is a Council decision to determine what policy will be used for cost recovery. **Councilor Thompson** stated he wanted a fund that is a self-sufficient while still balancing what is good for the community.

Councilor Holzman reported the most common comment she had received was that people feel they should pay for what the water they use. **Councilor Weed** asked what percentage of users the City could expect to conserve water when water rates go up. **Ms. Galardi** replied generally conservation efforts are seen more with outdoor water use and be expected to drop by 3% to 5%. She stated indoor use would not be expected to decrease by much. **Councilor Holzman** stated it was her understanding that the Water Fund could not operate at a profit or a loss. **Ms. Galardi** explained there are standards as to how much the fund should have in reserves with that being driven by the capital improvement project (CIP) list. She stated when the community begins to grow again and the additional reservoir is necessary, the City will need to show the system is financially viable, which currently it is not.

Councilor Asson asked about downloading the data in order to provide the detail for each individual account since that information was not available from the study performed so far. He stated that would allow answers to questions on individual accounts. **Manager Stein** stated so far staff had been directed to report the impact by customer types, not by the individual customer. She stated the work could be done but it would take staff between 8 and 12 hours to assemble information from the Incode utility billing software system into a format that Ms. Galardi could

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use to answer the question. She stated usage changes from month to month and year to year with each household or business and is dependent on many factors. She asked how this would help the Council make its decision.

Mayor Kellstrom stated the Council has a fiscal responsibility to maintain the strength and solvency of the Water Fund and if the Council accepts Option #3 it will need to make steeper increases in future years. **Councilor Asson** stated he felt the City should use a model that works for the next five years. **Councilor Thompson** stated with every workshop the issue of water rates gets more controversial. He stated the Council needs detailed budget forecasts with options regarding capital improvements. He stated then the Council can decide on the objective it wants to attain. **Councilor Asson** stated the City needs a model that allows different variables to be entered to see how they impact the Water Fund and the users.

Mayor Kellstrom stated he was very disappointed that the Council was considering pulling back from Option #3, the option agreed to by the Council at its December 2, 2010 workshop. He stated the Council has been discussing the matter for several months and the City is facing big increases to keep the Water Fund whole. He asked if the rate payers are not going to pay for those increases who will. **Manager Stein** stated she felt Option #3 would be a good first step. She stated if the Council adopted the 8% rate increase at the next meeting, the fund would not end the fiscal year in a deficit.

Councilor Asson stated he felt it would not take that much more work to finish the total financial package for the full five years. **Councilor Holzman** stated she felt the Council owed it to the community to have an opportunity to come and have their questions answered at a town hall meeting prior to the Council's decision. **Manager Stein** stated having Ms. Galardi at the town hall meeting would be necessary. **Councilor Weed** stated she felt it was necessary also as there were so many unanswered questions. She stated she agreed with Councilor Asson that perhaps the Council should just wait for some additional information and make its decision on the needs of the Water Fund for the next five years. She also felt there should be a public meeting. **Manager Stein** stated information presented at a community meeting would need to be based on the Council's agreement to budget and what the capital projects will be. She stated she did not feel the Council would be able to decide on those issues until the budget process and that would mean deferring the decision until then. She suggested moving forward with Option #3 as a first step. She stated it was a three year plan and refinements could be made the following two years. **Councilor Weed** stated she felt there was a need to have a community meeting even if the Council moved forward with the 8% increase. **Mayor Kellstrom** stated surrounding cities raise rates without knowing exact impacts to every customer and he felt the Council was wasting taxpayers' money by continuing to analyze the situation.

The **Council** continued their discussion and decided to wait for FY 11/12 budget assumptions to be completed along with other information prior to making a decision. **Ms. Galardi** stated the

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Council needs to agree on the parameters of the analysis, the CIP, a set of assumptions and how those cost can be adjusted in the future.

Interim Director Bertagna stated the CIP is reviewed every year and adjustments as to when projects will occur does change every year. He stated the CIP is the biggest variable that can affect rates and that pushing projects out can have consequences, both regulatory and financially. He stated projects are based on the City's master plan and are necessary. He stated staff can look to see if phasing some of the projects could be a possibility.

2. Preview January 27, 2011 Workshop and Regular Meeting

Manager Stein previewed the agendas noting there was not a topic for the workshop at present. She suggested discussion on the additional "*Whereas*" clause the Council requested be added to Ordinance No. 401, regarding the Whychus Creek Management and Restoration Plan be considered for discussion. The **Council** agreed. **Mayor Kellstrom** requested a quick presentation on the Deschutes Skyline Collaborative Charter also and **Manager Stein** replied she would also include the presentation. **Manager Stein** informed the Council a meeting to address management of the Lazy Z would also be scheduled soon.

Councilor Weed stated she had some ideas on candidates for the Economic Development Advisory Committee that Economic Development Manager Mac Hay was putting together. She stated it was important to have people from a variety of identified economic sectors. **Manager Stein** suggested she discuss the matter with Mr. Hay when he gave his monthly staff report at the January 27th meeting.

3. City Manager Update

Manager Stein reported there was some storm damage from the high water event in Whychus Creek that caused tree stumps to become caught in the Timber Creek Bridge pilings. **Interim Director Bertagna** stated staff, working under the direction of the Department of State Lands, moved the stumps. He stated the City is assessing a tree that is leaning over Whychus Creek to determine if it will need to be removed.

Manager Stein reminded the Council the goal setting session was set for February 5, 2011 and asked that Council members let her know if they had any specific expectations for the session.

Manager Stein reported two staff members and one councilor would be unable to attend the February 17th workshop and suggested cancelling the workshop. The **Council** agreed.

Manager Stein reminded the Council about the Chamber of Commerce Black and White Gala on February 11th. All the **Council** members indicated they would attend.

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Director Young reminded the Council of the three vacancies on the Budget Committee and requested they encourage interested individuals to apply.

The meeting was adjourned at 10:30 a.m.

Respectfully submitted,

Kathy Nelson, City Recorder

Lon Kellstrom, Mayor