

WORKSHOP MEETING MINUTES
SISTERS CITY COUNCIL
520 E. CASCADE AVENUE
MARCH 03, 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 Interim PW Director
Kathy Nelson City Recorder

GUESTS:

Deb Galardi Galardi Consulting

The meeting was called to order by Mayor Kellstrom at 8:45 a.m.

1. Water Rate Study Follow-up

Manager Stein stated this was a continuation of the discussion on the city's water rates and at this second step would focus on policy related issues to the overall rate plan.

Deb Galardi, Galardi Consulting, began her PowerPoint presentation stating discussion would focus on the financial plan and rate structure overall for the water system. She stated that once the capital improvement plan (CIP) projects are identified the next step is determining which of three methods will be used to pay for the projects. The first is system development charges (SDC's) which are limited to growth related projects. She noted the CIP has maximized that option. A second method is through debt service which is limited by two factors; the life of the project and demonstration that the rate plan provides above and beyond the operating and maintenance of the fund. A third method for is through rates and fund reserves. **Councilor Weed** asked about using the General Fund to secure bonds. **Ms. Galardi** noted the General Fund could be used to secure general obligation bonds only if approved by a vote of the people and they typically were not used for enterprise funds. **Manager Stein** stated related to this would be a financing that pledged the City's full faith and credit which would require pledging the General Fund for an enterprise fund. She stated staff is contemplating a full faith and credit backed financing for an urban renewal project, however.

Ms. Galardi directed the Council to a graph illustrating the projected water system financial plan, noting there was a \$625,000 gap between projected revenue and expenditure needs when including the industry standard minimum of 30 day contingency and debt service needs. **Councilor Thompson** stated the operating and maintenance figure used for future years isn't approved yet and it is one of the largest components of the fund. **Ms. Galardi** replied that was normally the case but there had to be a starting point and adjustments were made as needed each year. She stated any financial plan is based on a certain set of assumptions and it is always a balancing act. She discussed the two revenue lines depicting two scenarios bridging a four year period of time; one showing a slight rise in revenue each year and the other showing a decrease in revenue. She

WORKSHOP MEETING MINUTES
SISTERS CITY COUNCIL
520 E. CASCADE AVENUE
MARCH 03, 2011

stated there has been an increase in the number of water users but an overall decrease in water consumption. She explained the declining use of water was based on many factors; the economy, the weather, efficiencies in new plumbing fixtures, smaller demographics and the correlation between a rate increase and consumption habits. She noted some of these factors would be temporary while others would not. She stated many communities begin implementation of a new rate structure in winter, when water use is typically at its lowest, so as to have the less impact and provide users time to adjust to the increased rates. She stated a delay does result in a higher revenue increase percentage needed in the short term. She stated the Council will need to make some decision on what assumptions they want applied for a plan to be created for the City.

Manager Stein stated the first question for the Council was whether to assume water sales will be flat or would decline in the next year. **Mayor Kellstrom** stated he felt the sales would be flat as a few new customers sign up for service but in general there is less consumption. **Councilor Weed** stated she would like to see a five trend with regard to water use and customer growth to observe how it has changed. **Councilor Holzman** stated she was uncomfortable with the assumption that the number of customers would continue to increase. **Mayor Kellstrom** suggested not looking ahead too far noting the further ones looks at the data for future years, the less accurate the assumptions. He noted there was no danger in over collecting for the Water Fund and cautioned the Council to stay focused on the short term.

Councilor Thompson stated the Council continues to discuss the worst case scenario on every front with the assumptions of increased capital expenditures, decreased revenue, and increased material and operations costs. He stated if growth doesn't occur as projected there needs to be some different alternatives. He suggested looking at the best case scenario with reduced operations and material costs, postponing CIP projects and a small rate increase. **Mayor Kellstrom** stated the CIP is not cast in stone and the rate increase the Council decides on now will not come close to providing the needed revenue for the projects, but at least it would be a start.

Councilor Holzman stated she felt the Council could agree it needs to build contingencies for the Water Fund for future projects and realize there is preventive maintenance that needs to be performed. **Councilor Asson** stated the Council doesn't have the luxury of changing assumption over and over and it was time to move forward. He stated the City needs to build reserves which require a plan to move forward. He stated expenses have already been cut and a business plan should be built on the worst case scenario when planning for the future. **Ms. Galardi** added that the fund will not end up with too much money, but the City might be able to not raise rates as much in the outgoing years.

Mayor Kellstrom stated the Council needs to give staff and Ms. Galardi some direction and summarized that it appeared the Council could agree to the assumption of a reduction in water sales with flat population growth and the need to begin to build a contingency. He stated the City would never have a revenue stream to cover expenditures without a rate increase, regardless of how much the operating and maintenance budget was cut. He stated the City was way behind in

WORKSHOP MEETING MINUTES
SISTERS CITY COUNCIL
520 E. CASCADE AVENUE
MARCH 03, 2011

maintaining the fund balance and needs to implement an increase right now and not wait any longer.

Councilor Thompson stated he felt the Council needed to re-visit the CIP as the timing of projects should be based on growth. He stated he would support a small rate increase of ten percent or so across the board to build a contingency. He stated he wanted to use a realistic scenario not a worst case scenario. He stated the Council has a responsibility to reduce costs and noted the personnel costs in the Water Fund had increased. **Mayor Kellstrom** replied that was due to the amount of time staff has had to take working on the water rate issue and was in direct correlation to the actual time staff has spent on the issue.

Councilor Holzman stated she would agree to an increase but didn't want to see rates skyrocket. **Mayor Kellstrom** recommended starting with a small ten percent increase and re-assessing the fund in January 2013. He noted a ten percent increase wouldn't even begin to pay for the CIP projects but it would be a start. He stated the budget session would be the appropriate time to look at the operating and maintenance related costs. **Manager Stein** agreed a ten percent rate increase was a revenue strategy that could be implemented now with the target for an additional rate increase in January 2013. **Councilor Thompson** stated he didn't want to put 100 percent of the burden on the backs of the rate payers. **Councilor Holzman** stated the City still needs to address the equity issue and **Councilor Weed** stated she wanted to cut costs and give Ms. Galardi real numbers to work with.

Manager Stein stated if the Council could agree to a certain percentage at least it would begin to bring in some revenue into the Water Fund and the Council could postpone the rate structure discussion until after the FY 11/12 budget was in place. She stated that conversation could target the issue of equity and who should pay for water. **Councilor Asson** pointed out an across the board percentage increase would raise the rates of low income customers without providing any additional services. **Councilor Holzman** agreed that paying for what a customer uses has been an important issue when she's discussed the matter with citizens and added she would like to see the City reduce the base consumption allowance. **Councilor Weed** suggested looking at the Water Fund budget for FY 2011/12 now. **Finance Director Young** explained there were specific state budget laws pertaining to the matter and the fund could not be discussed in detail without the full Budget Committee's input.

Councilor Thompson stated this would still be using the assumption that the Well #1 improvements costs would occur in FY 12/13 and stated he didn't feel there was a growth related need yet. **Public Works Director Bertagna** explained that some of the CIP projects were not related to growth but rather maintenance projects, citing the improvements to Well # 1 and pipe upgrades in downtown for fire flow as examples.

Ms. Galardi stated she could come back with examples of different rate increases and expenses to illustrate how accounts would be affected. **Mayor Kellstrom** stated a percentage increase across

WORKSHOP MEETING MINUTES
SISTERS CITY COUNCIL
520 E. CASCADE AVENUE
MARCH 03, 2011

the board could be refined later. **Councilor Weed** stated she was not in favor of a blanket increase and **Councilor Holzman** stated she was not either. **Councilor Thompson** stated he did not want a rate increase that would fall solely on businesses. **Director Bertagna** reminded the Council that maintenance projects are considered each year to determine if they are necessary. **Councilor Holzman** added that cities across the state are dealing with this same issue and **Director Young** noted that Sisters was one of the last cities to deal with the issue of water conservation.

Councilor Asson suggested the following plan for Ms. Galardi and staff to use:

- Use the current CIP
- Assume a flat line for growth and consumption
- Quantity allowance decreasing using 1,000 CCF, 800 CCF and 600 CCF
- Determine a five year program
- Implement the rate increase May 1st and have it run to Jan 1, 2013
- Assume a 20 year five percent interest loan for underfunded operational projects

Councilor Weed stated she also wanted to see the impact to each customer. **Manager Stein** stated staff could provide that information but it would require many hours to compile the data for Ms. Galardi to analyze. She stated the City could also inquire if a customized program to determine what Councilor Weed was asking for could be designed by Tyler Industries for the InCode program where the information is housed. **Mayor Kellstrom** directed staff to use Councilor Asson plan and provide some alternatives. He requested staff to find out a cost for a customized program to analyze each account from Tyler Industries.

2. Preview March 10, 2011 Workshop and Regular Meeting

Manager Stein provided a brief preview of the workshop and the regular meeting. **Councilor Weed** stated she would be unable to attend the workshop or meeting. It was decided to cancel the workshop since it was not time sensitive and the topic of the Jefferson Street multi-use path was of particular interest to Councilor Weed.

4. City Manager Update

Due to the time, there was no City Manager update.

The meeting was adjourned at 10:43 a.m.

Respectfully submitted,

Kathy Nelson, City Recorder

Lon Kellstrom, Mayor