

**CITY OF PORT ORFORD
WORKSHOP SESSION OF THE COMMON COUNCIL
GABLE CHAMBERS
THURSDAY, MARCH 1, 2007, 6:00 P.M.**

(Water Rate Study)

Councilors present: J. Marshall , S. Abbott, C. Eskelson, M. Finch, Sr., J. Hewitt
and Mayor J. Auburn

Councilors absent: J. Campbell

Staff present: M. Murphy, City Administrator; D. Johnson, Finance; B. Manes, City
Recorder

Others present: E. Kramer, Port Orford Today, J. Stoler, Freelance Reporter

Citizens present: 25

Mayor Auburn opened the Workshop Session of the Port Orford Common Council at 6:00 p.m. on Thursday, March 1, 2007. He reported that the purpose of the meeting was to discuss the problems with the operating and maintenance charges for the Water Fund. Over the past couple of years the construction and water enterprise funds have been decimated to pay for operation and maintenance and are now in the hole. This is strictly financed by water rates. Our system needs improvements that may have to be funded by a bond measure of some sort. Mayor Auburn warned that there are several things in Port Orford that may require borrowing money and a bond to take care of; our water distribution being of primary import.

He noted that because of Port Orford's needs he feels very cautious about supporting the county's proposed bond measures. The \$4 Million bond they are proposing to make up for the loss of timber revenues, and as well, they may be trying to float another public safety bond, again. **Jay Stoler** asked the Mayor if he was cautiously supporting the county's proposed bond measures, or was he not supporting them. Mayor Auburn replied that he was not supporting them. He then turned the meeting over to Mike Murphy, City Administrator.

Mike Murphy explained that the Water Enterprise Fund is a business type fund, meaning that it has to meet its expenses, so the City has to generate the revenues to operate and maintain the system. There are a lot of different costs that are a part of that; personnel, materials, chemicals for water treatment, electricity, repairs, installation of new services, replacement of damaged meter boxes. There are a lot of pumps in the system; pump stations that lift water up the hills, and these things have a finite life and there is a continual cost to repair them.

Over the course of a long time, at least ten years, the cost of everything has increased, but our water rates have not. In 2005-2006 the water fund lost \$88,000; this year we are projected to lose \$98,000, and every year we don't adjust the rate the ink is worse and worse to the red side. The reason we have not gone to zero and below is that we had extra money in the construction fund that we rolled over into the enterprise fund and artificially

kept it alive. Five years ago the consultant for the sewer rate study stated that it was imperative that we do something with the water rates, now, or we would be in even worse shape, and nothing was done five years ago. We don't have very long now before we go into the red and that will be a violation of the law.

Paula Cracas asked why we couldn't still use the construction fund. Mike replied there is nothing left, everything has been used up.

Mayor Auburn stated that there should be money in the construction fund for replacing the plant as things wear out, but we have used all that money we had set aside for that purpose, and we need to replace it.

Paula Cracas pointed out that the City was paying for treating twice as much water as was actually being billed, due to the wearing out of the infrastructure, and if that could be fixed perhaps the rates could eventually be eased.

Jay Stoler asked if there were some statute that stated you should have so much in a reserve account for repairs, etc. Mike replied that he didn't believe so, although it would be good budgeting practice.

Tim Pogwizd asked if the City was told five years ago this was a problem, why have you waited five years to do anything about it. Mayor Auburn replied that it was because nobody wanted to raise rates.

Councilor Marshall stated it was in the hands of the previous management and city counsel. Councilor Eskelson stated that he was here and he was opposed to raising the water rates unless we did something for the rate payer to make it worthwhile to them.

Ed Beck stated that he had been a councilor during the past five years and it was more complex than just black and white when creating the budget.

Mike stated that the water leaks have been going on for a long long time and is not a new problem and everyone has done their best to find the problem. In 1996 a company did leak detection and pronounced the system in excellent shape and didn't find any leaks. Another company is going to do so again, but it may just be a lot of little tiny leaks. It doesn't take a very big leak to be the three million gallons of water a month.

There was discussion about all the things that could be causing the water loss. Mike stated that he had personal experience with a two inch line with a $\frac{3}{4}$ inch hole in it that was leaking 4,000 gallons an hour, which would about cover 3 million gallons in a month. **Joyce Kinney** mentioned that she thought our water system was put in place in the 50's so the basic system is old. That was confirmed and it was also stated there may be lines in place that no one any longer knows about that are leaking. Also, so far water meter replacement has not necessarily resulted in higher billing as sometimes one will result in lower readings.

Mayor Auburn turned the meeting over to Dave Johnson, who found the study and worked up the figures to reflect our situation.

David Johnson stated that he would like to summarize what he did; he found a study he felt was very comprehensive as it walked one through why we need to go where it was taking us, and how to get there. He pointed out page 3 of the Rate Study, the “Operating Ratio”, which in last year’s budget was 65%. This means that for every 65 cents of water we sell, it costs us \$1.00 to produce it. That’s just to illustrate whether or not you need to go further with the study. Obviously, we did. This study gives lots of ways to find inaccuracies and leaks, replacing meters and gives helpful hints.

Johnson continued by stating that when you get into the core of the study it gives you four different types of structures on page 15; a plain flat rate fee, a single block rate (or uniform rate), decreasing block rate, or increasing block rate. They all have advantages and disadvantages. He noted that he was inclined toward the increasing block rate, which promotes conservation of water, since we have a limited water supply with rationing a possibility during summer drought season. He felt that this was the most appropriate for our city of the four rate structures.

On the next page the rate study took the customers’ monthly use of the water for a year period, broken down into 1,000 gallon blocks and in each block is the number of customers who used that amount of water for that month. With that information and the rate study’s analysis of it, what really surprised me, Dave mused, is that 67% of the population used 30% of the water, but paid for 50% of the cost of producing it. That didn’t seem very equitable. At the top end of the rates, the people who used 8,000 gallons or more per month were 10% of the population and used 41% of the water, but paid for only 25% of the costs of producing it.

Dave continued by stating that the study then walked him through how to set up a chart, which he had on a viewing screen. This breaks down into a fixed cost and a variable cost as shown on page 24 of the Rate Study. The figures used for the fixed and variable costs are from this year’s budget. You take the dollar amount and figure what percentage of that amount would have to be there whether or not you used any water, which would be the fixed cost. Fixed costs are items like salaries for workers to produce the water, maintain the water plant, the water lines, and debt service all of which have to be paid no matter what. The remaining percentage is where you come up with variables, and variables are where you come up with consumption rate.

So, on the spread sheet the annual budget is \$352,326, of that \$178,254 is needed for fixed expenses. There are 633 accounts in this study when you divide 178,254 by 12 months and the result by 633 you come up with \$23.47 a month for a base rate. That leaves \$177,042 to be recouped through the consumption units. For the consumption blocks, the first 2,000 gallons are free; i.e., they come with the base rate; from 2,000 to 5,000 gallons it would be \$6.00 per thousand; block 3 is 5,000 to 10,000 at \$8 per thousand; block 4 10,000 to 20,000 is \$9 per thousand, and block 5, which is anything over 20,000, is \$10 per thousand.

Per block it shows the average number of customers that use that amount of water per block, then the dollar amounts for the consumption rate and the bottom line is the \$355,301 budget amount. Dave continued stating that what he liked about this method is that in block 1, 39% of the population will be using 16% of the water and paying 20% of the cost; block 2, 36% of the population using 24% of the water will pay 24% of the cost; block 3, 18% of the population using 25% of the water will pay 21% of the cost; block 4, 5% of the population using 14% of the water will pay 14%; and block 5, 3% of the population using 21% of the water will pay 21% of the cost. This seems much more equitable, even though the dollar rate for large consumption is staggering. In a different way to look at it, if you take into account that the first 2,000 gallons are free and you use 3,000 gallons it equates to a usage rate of \$2.00 per thousand. You need to take that into consideration before taking a negative view.

Dave explained that this is by far the most complex for the population to understand as far as being able to figure out what your bill is. With that in mind, he did several other scenarios. The first was a \$23.47 base rate and \$5.50 consumption rate for everyone, which is what it would take to come up with our budget balance. What this did is what he expected, causing the low users to pay more for the cost of producing water; i.e., 22% of the customers using 3% of the water and paying for 12% of the cost, and it continues on down. In the next model he raised the flat rate to \$29.00 base rate and a \$4.00 consumption rate, and it resulted in the same scenario with 22% of the population using 3% of the water paying for 15% of the cost. So he tried one last one with a base rate of \$36.00 and kept the consumption rate of \$2.38, and of course that had the same effect with the lowest users paying the most for the cost of producing it. He stated that even though the first instance is more complex for the consumer to figure, he felt it was far more equitable.

Mayor Auburn thanked Dave and asked if there were any questions.

Evan Kramer asked about variable and fixed expenses. Dave replied that a fixed expense is something that will be incurred even if we sell only one gallon of water. Variable expenses are those that increase with the more water produced. A good example would be electricity, which will charge you whether or not you use any = fixed rate. The more water you produce the more electricity you use, so your expenses go up = variable rate.

Jay Stoler asked if there was one of these scenarios that the City Administrator or Dave felt was the best. Mike replied that as Dave stated the first one shown was the one they felt was the best and the fairest, and hits the people on a fixed income the least.

Mayor Auburn mentioned that he felt we should start indexing our water and sewer rates to inflation so that it keeps up with labor cost increases, chemical costs, and maintenance materials increases in order to avoid this kind of surprise in the future.

Paula Cracas asked in addition to the base rate what would we be paying; would that be added on to the \$14.00 we pay now? Dave replied that the new base rate would be \$23.47

and would replace the current base rate, and would include 2000 gallons of water. That would be added to the sewer base rate, which will increase in July as scheduled by the Revenue Bond.

Paula Cracas asked if there was going to be a yearly increase from now on to cover inflation rates. Mayor Auburn replied that there would be for both sewer and water to avoid this type of large increase.

Mike Murphy noted that this proposed rate will meet this year's budgeted amount, so if it is not indexed then next year the City will lose money again and we have no reserve left to lose. Hence, we really have no choice but to increase rates a bit each year.

Evan Kramer asked if the fact that Public Works is down two people helps in saving money. Mike replied that it seems as if it would, but that water plant continues to have problems and calls people out, as every time the power flickers it trips out one of the variable speed drives and costs us two hours overtime. Yes, we've saved some money, but not as much as you would expect due to the overtime.

In reply to a question, Mike stated that he wanted to get all the public works people certified in both water and wastewater. He noted that they had three people to interview for a public works maintenance person and would be looking for a superintendent.

Mayor Auburn asked the council if they felt there was a need for another workshop, or should we just have a public hearing at the next meeting on the rate increase. The consensus was go ahead with a public hearing.

Paula Cracas asked about having a G.O. Bond to take care of some of this. Mayor Auburn replied that a G.O. Bond cannot be used for operating expenses, but it can be used to replace all the water pipes, and we probably are going to have some bond measures for replacing things on the sewer system and the water system. The city is going to have to upgrade and replace several high dollar items, and Mayor Auburn stated that is one reason why he is against supporting the county bonds as the city is going to have some coming up.

Jay Stoler asked if the Mayor was considering more than one bond. Mayor Auburn felt there could be.

Mayor Auburn asked if we should have a separate hearing on the water rates or just start the regular council meeting a half hour early. Council agreed that a half hour before the meeting should be adequate. Councilor Abbott suggested that the indexing of the rates be included in that hearing. Dave Johnson stated that any consumable portion of the operating costs he would index with the Portland CPI and anything to do with construction would be indexed with the construction price index off McGraw Hill. A lot of times the replacement costs have a lot greater increase than consumables, so you want your equipment to be indexed with the construction index.

Mayor Auburn stated that we need a Resolution indexing water and sewer rates for the next meeting. He thanked everyone for coming. The next council meeting will begin at 6:30 p.m. to allow for the Public Hearing on water rates.

Mayor Auburn closed the workshop session at 7:00 p.m.

Jim Auburn, Mayor

ATTEST:

Beverley Manes, Recorder