



REQUEST FOR COUNCIL ACTION

Title: Water Utility Fee Review

Preferred Agenda: April 14, 2020

Submitted By: Brandon Neish, Finance Director

Reviewed By: Ray Towry, City Manager

Type of Action: Resolution X Motion _____ Roll Call _____ Other _____

Relevant Code/Policy: SHMC 13.04.050
Resolution No. 14 for 2019

Towards Council Goal: 1.2(a): Increase community awareness of infrastructure needs (Water)

Attachments: Resolution No. 7 for 2020
Water Rate Proposal
Rates by Consumption
Requested Water Budget

Purpose of this RCA:

To review the adopted 2020-2021 budget for the Water Fund and determine appropriate rates charged to users for use of City water.

Background/Context:

During the regular session City Council meeting on April 14, 2020, the City Council approved Resolution No. 7 for 2020 which included a base and commodity rate increase for the City's water user fees. The rate increase was scheduled to take effect on May 18, 2020 which would have water users paying the new rates in their bills due around July 1. However, during the City Council meeting on June 9, 2020, the City Council voted to suspend the rate increase pending a review at a future Council meeting to weight the needs of the water system in Sweet Home along with the current public health crisis which has resulted in a yet unknown economic climate. To allow time for public comment and feedback, the City Council tabled the rate discussion so that it could be included on the agenda and be brought forth before Council formally.

ORS 294.388(1) states that "each municipal corporation shall prepare estimates of expenditures and other requirements for the ensuing year or budget period. The estimates must be reconciled so that the total amount of expenditures and other requirements in each fund equals the total amount of resources in the fund for the same period." Initial expenses for the 2020-2021 fiscal year in the Water Fund total \$2.4 million while projected resources with no change to current utility rates totals \$2.3 million. Pursuant to Oregon State Statutes, the City

must choose to revise its current rate schedule to generate additional revenue or reduce approved expenses to match current revenue projections.

Complicating matters is a decrease in year over year overall consumption which requires additional rate increases to make up the difference or additional expenditure reductions. Calendar year 2019 represents the second year in a row where consumption has decreased likely due to increased utility rates (specifically wastewater). In order to make up the variance, rates must be raised, or expenses reduced to return to the original baseline. Staff and the City Council reviewed the issues during their Winter training in February 2020 and discussed the numerous capital projects that are needed to maintain or improve the integrity of the overall water distribution system. In total, \$8.0 million in projects have been identified by Public Works staff as priority projects to ensure peak efficiency of the Water Treatment Plant and the distribution system. Given the number of accounts across the City and the annual consumption, capital funding availability was a concern in the future to both staff and members of the City Council.

During a work session held on February 25, 2020, staff outlined three options to the City Council. In one scenario, operations & maintenance funds are held at requested values while not addressing the “leaking bucket” that is capital funding with no changes to the “water” going into the capital bucket. In another scenario, staff outlined what would be necessary to fund some sort of capital projects from the water fee and a third scenario demonstrated the potential cuts to the water distribution system if staff was asked to limit the overall water rate increase. Ultimately, the Council consensus was for staff to present a scenario that would allow some priority projects to move forward in the 2021 fiscal year while putting some funds away for potential capital projects in the future. To that end, staff prepared one rate scenario for the City Council to review which includes leveraging the \$207,000 in revenue from the sale of the 9th Ave property (the former Water Treatment Plant).

During the City Council meeting held March 5th, staff presented a revised proposal which would increase the water rates for the median residential consumer (44% of accounts) by \$1.71 per month. For the 600 cubic average consumer (our average) accounting for approximately 9% of the City’s residential customers, the bill would increase \$4.80/month. Consumers that use more water would see an average increase of \$14.55/month. For commercial consumers, an increase of \$3.21/month on average would be expected under this proposal. Bulk users would see an increase of \$2.64/month per 100 cubic feet of water used.

Staff also reviewed the history of the water rate in Sweet Home which demonstrated that 44% of the users will have saved \$58.56 over three years of water payments due to prior rate reductions.

On March 19, 2020, the City Council declared a public health emergency in the City of Sweet Home in response to the spread of the novel coronavirus or COVID-19. Since early March, coronavirus has ravaged employment numbers in the United States as businesses closed their doors, some temporarily and others permanently, to comply with state orders and public health officials’ guidance. While the US economy is beginning to reopen along with the state of Oregon, recovery has been slow, and much remains unknown as businesses and individuals attempt to navigate a “new normal.” Unemployment remains high and many are postponing payments until unemployment checks arrive or until their livelihoods return. It is for this reason that City Manager Towry broached the subject of reviewing the water rates to determine if, to do the most good for the most people for the longest period of time, it would be prudent to freeze the rates at their 2019 levels and revisit the rates in early-2021 as is standard practice.

The Challenge/Problem:

How do we approach utility rates in a way that addresses operational needs in alignment with Council goals while ensuring that users are not priced out of the system?

Stakeholders:

- City of Sweet Home residents and businesses – Residents and commercial businesses are the sole users of water and therefore pay for the distribution and usage. All water users expect that the City is using resources appropriately and accurately billing them for necessary expenditures that will deliver clean, consistent water when they need it. Given the current economic climate, residents and businesses are also being asked to do more with less and a revision to the water rates may adversely impact their ability to consume water.
- City of Sweet Home City Council – Council members are the voice of the citizens we serve. Each member of this group is interested in providing the best service possible for the best possible price. They must balance leadership with representation.
- Sweet Home Public Works staff – Public Works staff ensures utilities are maintained in a manner which benefits all in the city. Appropriate rates provide necessary resources used to maintain a level of service expected by utility users.
- Jacobs – Jacobs (CH2M) is our contract water plant operators. Their fees are calculated into our expenses and utilized to determine the budget and rates.
- Sweet Home Community & Economic Development – Regular review of expenditures within utility funds and, subsequently, utility rates ensure that Sweet Home is comparable to other cities of similar size which can attract new rate payers to the system. New citizens or businesses affect the community in a positive manner and affects livability within the city.

Issues and Financial Impacts:

1. Increasing utility rates – Citizens have many utility bills to pay including the city's utilities. Increases to utility rates can have a negative impact on citizens even though the city must operate with enough resources to back necessary expenditures. Under the previously approved rate scenario, the bulk of the City's residential customers would see an average increase of \$1.71/month. No increases are being proposed for the Wastewater or storm utility rates. It is up to the elected officials to determine what is best for the citizenry of Sweet Home.
2. Oregon Revised Statutes – As previously explained, the ORS require that the City maintain a zero or positive fund balance at the end of a given fiscal year. This requires the City and the Council to act accordingly. The decision then becomes one of raising rates or reducing expenses. When managing a fund in which nearly 62% of its resources come from the user fees generated, options are limited in decision-making.
3. Division resources – When Public Works/Jacobs is left with diminishing resources, tough decisions must be made regarding service offerings to customers. Stability in these fees provides the Department and Divisions the ability to plan and attempt to mitigate other factors that contribute to the increasing expenses such as fixing leaking pipes and inspecting reservoirs.

Elements of a Stable Solution:

Reviewing the rates annually and making revisions at the time rather than shelving rate adjustments for another year ensures overall stability of the Water Fund and ensures rate payers are not saddled with significant increases at one time. Alternatively, rate increases that users cannot afford results in lost revenue to the City which reduces available funds to meet current service levels.

Options:

1. Move to reimpose Resolution No. 7 for 2020. Water rates for 2020-2021 would increase based on meter size and overall consumption. These increases were previously adopted by the City Council during their meeting on April 14, 2020.

2. Rates would remain the same with a base rate (paid by all customers regardless of consumption and based on meter size) and a commodity rate applied per 100 cubic feet of water used over 300 cubic feet. This results in a projected fund balance of \$45,462 which would reduce the availability of funds in the Water fund should reserves be necessary. Reducing budgeted expenditures to ensure adequate reserves would impact services delivered to customers.
3. Move to strike Resolution No. 7 for 2020 and return the water rates to the 2019 figures. Rates would return to the “current” structure based on the Council’s adoption of Resolution No. 14 for 2019. Water customers would see no changes to their bill due on or around August 1st. This results in a projected fund balance of \$45,462 which would reduce the availability of funds in the Water fund should reserves be necessary. Reducing budgeted expenditures to ensure adequate reserves would impact services delivered to customers.
4. Recommend an alternate scenario based on revised methodology or total budget. The City Council could request to see additional scenarios that would impact the calculation of the water utility rate. Staff would run the additional scenario(s) and return at a future meeting to set the new rates. Resolution No. 7 for 2020 would remain suspended until the Council chooses to act.

Recommendation:

Staff has no recommendation currently. Staff is aware of the unique situation we all face regarding COVID-19 and the ensuing economic recession that the United States entered in the first quarter of 2020. However, alternatively, staff is also aware that previous attempts to freeze a utility rate has resulted in higher increases in a future fiscal year to mitigate expenditure reductions and/or service cuts. Striking Resolution No. 7 for 2020 would also delay projects deemed important by Public Works to maintain and preserve the City’s water distribution system. The impact of this decision is unmeasurable given the multiple factors that cannot be predicted.